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

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Welcome everyone to the 2009 Dairy Forum. What a difference a year makes!

Just when you get comfortable with your life, your business, your family and think you have things all figured out – they change. Your kids go off to college or get married or have your first grandchild. You lose friends and family. There's a big shake up in your company. And we all go on a wild, unexpected, white-knuckle roller coaster ride with the financial markets.

So much for comfort zones.

What was that famous Bette Davis line from the movie, All About Eve?

“Fasten your seat belts . . . it’s going to be a bumpy night!”

A bumpy night, we know, for the economy, for banks, for homebuilders and homeowners, automakers, airlines, retailers, consumers, and, of course, for dairy – a $110 billion industry facing world-class challenges around the corner and around the world.

But as they say, anything that doesn’t kill you makes you stronger.

We’re an adaptable bunch – and we have to be, with all the changes coming at us as if they were shot from a fire hose.

Of course, the biggest change will take place at 1600 Pennsylvania Avenue.

Next week, Barack Obama will be sworn in as the 44th President of the United States.

Expectations are high, fueled in part by Obama’s campaign stump speeches which ended with: “We will change this country and we will change the world.”

And one of the best things our President-Elect has shared with us so far is a genuine sense of urgency about the nation’s future. He says his team is “ready to hit the ground running.”

Well, we too have to be ready to hit the ground running . . . and at IDFA we will.

Now, I was thinking the other day that if “change” was the keyword in the 2008 Presidential Election . . . if the promise of a “better tomorrow” spoke so compellingly to the American people . . . then what better standard can there be for our own industry?

Change for a better tomorrow.

Voters are also consumers – let’s not forget that – and many of the messages they sent to Washington on November 4th are the same ones they’re sending our industry today.

They want a cleaner and healthier environment. They want safe, healthy, good tasting and affordable food. They want accountability by their government and business leaders.

Yes…change for a better tomorrow.

But it must be real and meaningful change – not just the appearance of change. Let me give you an example.

Shortly after a very talented young basketball player learned he had been drafted by the Dallas Mavericks, he called a press conference. With what I’m sure were the best of intentions, he grabbed the microphone, beamed at the crowd, and proclaimed these immortal words: "We're going to turn this team around . . . 360 degrees."

Let’s chalk it up to nerves or enthusiasm, but 360 degrees leaves you right back where you began.

In 2009, the dairy industry must move forward. Not toward “more of the same.” Not toward “let’s wait and see.”

So it’s time to take a good, hard look at the challenges coming our way and how we get in front of them, starting with some of those “around the corner” changes we'll be discussing here at the Dairy Forum. . .then, touching on new faces and ideas in Washington . . .and ending with a few thoughts about dairy’s future “around the world.”

Last fall, around the same time America elected a new President, Ketchum’s Global Food & Nutrition Practice released an interesting and important survey called “Food 2020: The Consumer as CEO.”

The survey examined consumer expectations and attitudes about food, not just in the US, but in the UK, Germany, Argentina and China.

The goal was to alert the food industry to trends and preferences as we look toward the year 2020.

There were some differences among the countries, particularly between the more and less developed ones, but for the most part, this study confirmed some things we already know – like consumers increasingly want a say in how their food is produced and what's in it.

They want good taste and availability of healthier foods. Interestingly, they want as few component ingredients as possible, and they have a pronounced aversion to "processed," although they can't articulate what that is.

Consumers also said they want local food, but they still care about the cost in terms of dollars or taste.

Only 17% – a number to remember – said they didn't care where their food comes from.

In fact, we're already seeing retailers from Wal-Mart to Whole Foods devoting more shelf space to "locally grown" products, trying to tap into that consumer nostalgia for the roadside stand and desire for fresh and safe products that support small, local farmers and help the environment.

Now, don't get me wrong. The point is not that "small" and "local" may take over the market, but that their inclusion signals a greater market mix.

It also means that large scale producers – smart businesspeople who use the latest technology to farm efficiently, to lessen environmental impact, and to maximize production as a way to feed an ever-growing global population – will have to live with a new and growing consumer appetite for food delivered by alternative "boutique" or "niche" producers.

Consumers also want food companies to help solve societal issues related to food and nutrition – and this expectation, this expanded "mission" for food producers, is something we want to pay close attention to.

Globally, more than 40% of consumers said they would be likely to pay more for food if it would improve the quality of water and food and bring medicines to those in need.

Clearly, companies committed to "doing good" – in addition to "doing well" economically – can gain an edge.

More "mission creep," in a sense, but consumers also expect food companies to be responsible for their health and well-being – whether it's taking away the temptations that lead to obesity or simply making sure the food is safe.

For example, 56% said they would like to see the food industry come up with easier ways to identify healthy foods on restaurant menus.

This survey offers some important, if not surprising insights.

So the big question now is how should we respond to the tectonic changes we've witnessed in the political, economic and consumer landscapes?

Winston Churchill was a leader who did his best work in crisis situations, and he understood that when the pressure is on, it's good to figure out where you're going early in the game. "There's nothing wrong with change," said Churchill, "if it's in the right direction."

Amen, Sir Winston.

Before the nation stepped onto the economic equivalent of Mr. Toad's Wild Ride, the dairy industry had quite a jolt of its own, with milk prices soaring to record highs.

In 2007, the Class I price hit an all-time high with an annual average of nearly $21. Class III prices also hit their peak – over $21 in July of 2007, and averaging above $18 for the year.

This year milk prices have come down, but we all know that's only one side of the equation – fuel and feed prices have gyrated up and down. And, in many cases, our regulatory pricing system has left product manufacturers spinning, trapped in unprofitable situations with nowhere to turn.

This kind of volatility has led to all kinds of chaos, but the aftershocks of unpredictable price fluctuations have reverberated through the entire chain – from markets to final product sales.

And a lagging economy sure hasn't helped. Food shoppers have tightened their belts and begun to make pocketbook choices.

And that's not all. Factor in the industry's need to meet new store and shopper demands that I mentioned a moment ago, and you've got a situation that cries out for some fundamental change – change for a better tomorrow.

Let's look at the marketplace for a minute – and one particular change we cannot and should not ignore.

It starts with a happy enough beginning. Mozzarella cheese for pizzas. What could be happier than that?

For years, cheeses – Italian types in particular – have accounted for most of the growth in our US dairy markets. Per capita consumption of Italian cheese rose from just a little over 2 lbs in 1970 to nearly 14 lbs in 2006, and overall natural cheese consumption is over 32 lbs. per person. I call that a win-win situation.

But in 2008, those numbers have been sliding. As cheese costs soared, many pizza chains chose to cut back on cheese, or on the overall size of their offering to keep their product affordable.

On the surface this may not look like much, but do the math and it’s downright scary.

The top 10 pizza chains use 30% of all of the mozzarella we produce. Cutting back just one ounce of cheese on pizzas sold in these major chains equals a total drop of about 250 million pounds.

So this is a big deal and what it means is that we must do a far better job of promoting that cheese represents real “value added” in terms of taste and nutrition – and not just for pizzas, but wherever you find dairy.

However, we can’t go that extra distance unless we rethink our own inflexible pricing systems. They get in the way of managing wildly fluctuating prices and can make our customers scrimp on our products. They also leave cheese manufacturers caught between the proverbial rock and a hard place.

For years, the industry has struggled with government-mandated minimum prices that must be paid to farmers.

The problem is that the formulas and dairy product prices used to calculate those minimum prices are, by design, “average” – but, as we all know, no individual manufacturing plant is average in plant size, input costs, or even output prices. One size never fits all.

Manufacturers who have spent the last nine years struggling to make these formulas work have learned an unhappy lesson – government-mandated minimum prices don’t allow them to adapt quickly enough to meet changing market conditions.

We need to find a common voice for change that will allow all segments of the industry to be profitable. Fluid milk prices have also been driven to record highs with our formula pricing system.

It factors in prices of dairy components popular in export markets and then piles Class I differentials on top. Now, given a continuing decline over many years in per capita consumption, what sense does it make to keep forcing higher costs on our fluid industry?

Even worse, these same record prices have, in turn, driven remaining fluid milk sales down – not a positive outcome for our industry or for the health and wellness of consumers.

We need a more flexible system that allows milk to move to its highest value use and doesn't trap manufacturers on costs – this can be a win, win for the entire industry.

We must have the courage to fix these fundamentals. We also need to encourage innovation to meet constantly changing markets.

Look at yogurt for example. There's an array of new product introductions playing straight to the issue of health and wellness.

Once associated in its infancy with beards, beatniks and Birkenstocks, yogurt is now mainstream and per capita consumption continues to rise steadily each year, now approaching 12 pounds per person per year.

But there's lots of room yet to grow -- in Europe, the most well developed yogurt market, per capita consumption ranges from 30 pounds per person to a high of 62 pounds in Switzerland.

So what would help fuel greater product innovation as we have with yogurt?

For starters, experience and common sense tells us that more flexibility in product standards of identity would help. We must find ways to work in this direction rather than stand pat opposing any changes to dairy food standards.

And with many products taking a hit in this tough economy, we have to come together to find new tools to manage volatility and get rid of the regulatory hurdles that are impeding innovation and flexibility to meet market demands and trends.

Of course, not all the clouds are dark in this unstable economy. There are some rays of sunlight peaking through. Let's look at the ultimate "indulgence food" – ice cream.

There's something about "comfort foods" like ice cream that keeps people coming back: travel is down, we're staying home more, and we want something that makes us feel better about it all—and ice cream, thankfully, fits the bill.

With some frozen dessert products moving down the shopping list as budgets get tighter, some ice cream companies are moving to smaller, less expensive package sizes – but this can lead to fewer gallons sold overall, so let's be careful.

And that brings us to another change we have to keep our eye on. We sell about 40% of our products through restaurants and food service, but fewer families can afford to go out to eat, and restaurants are also feeling the pain.

Nina and Tim Zagat, co-founders of the Zagat Survey that rates restaurants, surveyed 45,000 restaurant-goers nationwide. One-third said they were eating out less; 28% said they're visiting less expensive places, and roughly 20% said they are cutting back on appetizers and dessert.

The Zagat Survey, however, remains optimistic – "Gotta Eat," of course, is their rationale, and roughly 50% of all meals consumed in the U.S. are still prepared outside the home. Zagat's points to what it calls BATH restaurants – Better Alternative to Home – which are casual, modestly priced eateries, as well as family dining chains. And we must ensure these BATHs understand how dairy adds value to the meals their customers want – just as we must do with the pizza chains.

Now, what about the marketing front? The MilkPEP campaign recently recruited financial advisor Suze Orman as a celebrity spokesperson – a clever way of promoting milk as a dollars and cents value on the shopping list.

Orman's goal is to help families understand that investing in their health is just as important – if not the same thing – as investing in their financial future.

Milk is the real bargain for the smart, nutrition-wise shopper.
At about 25 cents per 8 ounce glass, milk offers more nutrients per penny than almost any other beverage option in the supermarket – providing key vitamins and minerals like calcium and vitamin D.

That's information, smartly packaged and delivered, that consumers can take to the bank.

And last on my list, management options have grown slightly with a new USDA margin insurance program, and now the opportunity for Class II, III and IV dairy buyers and sellers to forward contract.

But as different as these many dairy success stories and trends may seem, all of them have one thing in common. It's about riding the wave of change and managing the risk associated with it in pursuit of a better tomorrow.

Of course, price discovery, transparency, and the ability to rely on competitive prices should be part of our risk management toolbox – although dairy's seems a little empty now compared to other commodities.

However, first of all, we need to take a collective deep breath. Uncertainty and change do not mean we have to head for the bunkers. We have producers and processors who want or need to expand their operations in spite of news that this is one of the worst recessions ever. And while we want to manage risk, we don't want to be dominated by fear.

Dr. Gregory Burns from Emery University wrote in The New York Times last month that no good decision making can come from fear. Pointing to the current economy that has so many going into survival mode, he added: “Fear prompts retreat…just when we need new ideas most.”

I couldn’t agree more. Fortunately this is not a timid industry. We’re always looking for new roadmap opportunities – even in tough times.

For example, dairy processors and their suppliers will come together next fall for Worldwide Food Expo in Chicago. Added features will include pavilions focused on sustainability, ingredients, new innovations, and business services that focus on rapidly changing market demands. Dairy buyers and suppliers should plan to be there to take advantage of the many opportunities and ideas that will all be available under one roof at McCormick Center in Chicago.

But that’s months away, I know you want to hear more about changes that are right around the corner.

So let’s turn to our nation’s capital.

First the obvious – along the lines of the late comedian George Carlin’s Hippy-Dippy weatherman who predicted, “Tonight, dark. Turning light by morning.” We know with similar certainty that there’s a new world order in Washington and the forecast is for significant change over the next four years.

Yes, back to change.

I don’t know about you but it all became quite clear to me on the Monday before the election when my clock radio came on at 5:30 am with these words from Barrack Obama: “The wind is at our back, change is coming.” Yep. That was my wake-up call.

It’s high time for some profound change in Washington. But what form will it take?

Now, there are lots of people talking about what will happen in the first hundred days of this new Administration. They certainly will have their hands full with all the economic and financial market issues.

But I’m going to cut to the chase and focus on the 111th Congress and what it could mean to your businesses.

President-elect Obama, with his savvy chief of staff Rahm Emmanuel, will look for issues where they can forge agreements across the aisle and get important proposals signed into law.

After dealing with an additional economic stimulus package, the smart money is betting on health care, energy and the environment as the dominant issues for 2009.

In his rousing convention speech, Senator Kennedy called health-care reform "the cause of my life." And former Senator Tom Daschle – Obama's pick to head Health and Human Services – will be right there at the table with him.

It will be a huge task to enact meaningful healthcare reform given a down economy and rising budget deficits. However, some are now saying that economic recovery depends on fixing our broken and expensive health care system.

There's an equally passionate commitment to energy independence and the environment, as we heard from President-elect Obama throughout his campaign. Carbon emissions will be a big part of this discussion and whether you call it "cap and trade", "cap and tax" or simply a carbon tax, there is little question that President-elect Obama and the new Congress believe that climate change is a problem and they are going to do something about it. When they do, the dairy industry will be forced to develop innovative ways to adjust to higher energy costs just like everyone else.

Of course, these are huge issues that affect all of us and will weigh on everyone's bottom line one way or another, so stay tuned.

Prior to the elections, we saw Senator Clinton introduce mandatory country-of-origin labeling for dairy products. After a six-year delay, and a lot of pushing and pulling between consumer groups, USDA and industry, country-of-origin labeling was implemented last fall for meats, fish, produce and peanuts. In the end, national consumer groups prevailed.

Now that the primary agriculture commodities are covered, the push will be on getting processed foods labeled – and that push may start with dairy products.

As an industry, we're all for providing consumers with the information they want on labels. Indeed, we're still working overtime to defend labeling rights for rbST production claims. However, when it comes to labeling by country of origin, we think the current labeling regulations already work.

Consumers already know where their imported cheese or yogurt comes from, because the government already requires the labeling of imported dairy products. But dairy ingredients and processed foods are a different story, and the effort to assign labels of origin in these cases is far more complicated than assigning the same labels to agricultural commodities like meat and produce.

Just imagine having to track different batches of dairy ingredients and label them according to source – whether U.S. or from another country. What a nightmare.

And speaking of nightmares, just imagine the price tag for dairy. In a word, "staggering." And it would certainly diminish our industry's ability to compete against ingredients for which labeling is not a requirement.

Clearly we have to act. We're working closely with Congress to educate them on current labeling requirements and to explain the realities of manufacturing products with multiple ingredients. We will also reach out to consumer groups. But, here again, we may be facing an uphill battle and the battlefield is constantly changing.

Melamine and other food safety scares are also generating lots of legislative proposals to "fix" the Food and Drug Administration. The old quip, "If it ain't broke, don't fix it" comes to mind.

These bills all aim to protect consumers, and we appreciate those good intentions – even if the road to "you-know-where" may be paved with them.

But what many proponents of this proposed legislation fail to recognize is that food safety is already a number one priority in this industry, and the current inspection system just isn't broken as some apparently believe.

Absolutely, there are areas where the efficiency of food inspection can be improved, and we're trying to get Congress to recognize and address these areas. Unfortunately, many of the legislative proposals simply add layers of redundant inspections and check points, with mandatory recall authority and user fees and a bunch of other bells and whistles the industry is expected to pay for.

Again, more costs and more government involvement in your business – not necessarily with commensurate return on investment.

Also reauthorization of the Child Nutrition Act will loom large for the dairy industry. This may be pushed back on the agenda by the economy and these overarching issues. But that doesn't mean we can rest easy because this is extremely important to the dairy industry.

The Child Nutrition Act includes school feeding and WIC programs. Together, they reach some of our most important and at-risk consumers, providing young mothers, infants and children with critical nutrition and good eating habits. 30 million students a day participate in the school lunch program, and 8 million women and children receive nutrition education and retail vouchers for milk and cheese.

We need to keep dairy products front and center in these programs.

As you know, we face critical attacks from some public health advocates who want to categorize all foods by caloric profile or fat content as a way to combat childhood obesity. As someone once said, "For every problem, there's always a solution that is simple, obvious and wrong."

We're all for getting junk food and junk beverages out of our schools, but milk and dairy don't fall into those categories. What we want to stress is the nutritional value of dairy products and the strides your companies are making to provide nutrition AND healthy products.

Price is also an issue for tight program budgets, so we're working to ensure that schools and WIC have adequate funding. We want them to be able to buy milk and dairy products – not cheaper substitutions.

This is just one area where the dairy industry is united in its efforts, and there are many others.

We welcome the strong partnership that we have forged with National Milk Producers Federation. And IDFA is working hand in hand with National Milk, DMI and MilkPEP to make sure we maximize research, information, and ideas to present a single, strong story to legislators and regulators as well as to consumers.

And we cannot overlook the importance of global thinking too.

Yes, these are uncertain times but as General Douglas MacArthur once said, "There is no security on this earth; there is only opportunity"

Fortunately, we know that dairy has been getting its passport stamped across the world. However, dairy prices have been ricocheting wildly. The only difference is that changes in exchange rates between currencies can make the ups higher and the drops more dramatic. Years of a weakening dollar, combined with growing dairy demand internationally, led to long lines of overseas consumers at our doorstep, demanding our products.

But then the global wheel of fortune turned again. As the financial crisis metastasized, spreading into Europe, Russia and beyond, a number of overseas investors have resumed their romance with the U.S. dollar. Unfortunately, the subsequent strengthening of our currency in the past few months has dampened the exchange rate advantage we enjoyed for so long.

But it's not all bad news. For instance, according to the U.S. Dairy Export Council, U.S. restaurant chains are proliferating around the globe.

Yum! Brands reports that Pizza Hut is in 50 cities in China and KFC is in 450. Domino's Pizza has 47 restaurants in Malaysia where it reportedly sells 180,000 pizzas per month. And Papa John's International opened its 500th outlet this fall in Istanbul. So the foodservice market is expanding and there seems to be plenty of room for more growth for cheese.

Food retailers are going international as well. A recent Global Retail Outlook survey indicates that 77 percent of food industry leaders predict that future global growth will come from emerging markets, especially the top five – China, India, Russia, Brazil and Turkey.

The good news is that as more people around the world move up the income ladder, they can afford a greater variety of foods, and they head straight for the dairy aisle because of taste and nutrition.

Clearly, it's important for us to pursue greater market access through new trade agreements. Yes, we're in a good position to compete for these new consumers and new markets, but other countries are also competing aggressively for these same markets via bilateral and multilateral agreements.

So, one of the biggest tests for the new administration and Congress will be to keep the United States front and center on the world trade stage, and this may pan out better than it seemed during the campaign.

Obama has put lots of people on his economic team who appreciate markets and understand their importance for our growth. Their work – and our work – is cut out.

The plain fact is that we must find better ways of moving forward with trade policies that benefit exporters – the world is our market, and if we want to survive and grow, our place is on the frontiers, where people are still discovering dairy, making it part of their core menus, and part of their cultures.

There are those who see fair trade and free trade as antithetical processes, and who claim that current trade policies must be reformed in ways that benefit workers as opposed to exporters.

I say they're wrong – foreign trade doesn't have to be a question of "us versus them" – a false choice of "either-or" – or pitting producer against worker.

Free trade is about beating poverty, creating jobs and expanding economic opportunity, and our task is to help legislators join the debate about globalization in ways that separate myth from fact.

Together, all of the policies I discussed today – from pricing programs to free trade – point to the need for fundamental changes in dairy policy – changes for a better tomorrow.

I spoke earlier about our industry's need for risk management, the courage to reinvent internal processes and regulations that are stagnant and self-defeating in this new world.

Our challenge today is not to preserve policies that have only served to benefit the few, but to invent breakthrough strategies designed to benefit us all – the industry, markets everywhere, and the billions of men, women and children who are, or will soon be our customers.

That is my vision. Not more rules and regulations. Not more stringent product standards.

Not more federal milk marketing order regulations or a continuing relationship with our government as the buyer of last resort.

I'm heartened by the fact that there are leaders heading many of our companies and our cooperatives who share this bright vision for a brighter tomorrow for dairy markets – leaders who aren't afraid to explore the unknowns of market potential.

It's leaders like Tom Gallagher, who dared to establish an Innovation Center for Dairy to try to bring leaders across the industry together to find solutions for greater dairy markets in the future. Tom, I salute you.
As an industry, we have both the power and the potential to shape our own future, to guide policymakers as they work to allocate all the resources the federal government puts toward dairy, and to help our own leaders decide how to use industry resources to improve and promote our products.

But as many times as I repeat this message of urgency, and as many times as you so graciously chose to hear it, the truth is that there is no substitute for action. There's no substitute for the people who stayed late, got up early, and argued "out with the old and in with the new," even when it didn't earn them an extra penny.

They're the people T. Boone Pickens was thinking about when he said, "Be willing to make decisions. That's the most important quality in a good leader. Don't fall victim to what I call the 'ready-aim-aim-aim-aim syndrome.' You must be ready to fire."

So, it's only fitting that now I make my annual pitch for political involvement.

Most people are either cynics or skeptics when it comes to lobbying and the political process – and certainly there are many things that have lent legitimacy to that negative outlook. But it's especially important to remember that petitioning your government, expressing your views, is a basic First Amendment right for Americans under the Constitution of the United States – and that we are so fortunate to have that right.

Lobbying or advocacy is simply the right of free speech on something you passionately believe in. This is going to be extremely important with the sweeping change of people in the administration and Congress that is about to occur. It's important to make connections, to provide factual information on how issues affect your business, what it means to your employees and your customers.

Now is the time to get more involved – not less. Now is not the time to think there's someone better equipped or better prepared to protect dairy's interests.

Major issues await – health care, climate change, food safety, and pay-backs for labor unions. These will affect all of us and it is our privilege and our right to be engaged and involved.

I leave you this morning with a story that President Kennedy liked to relate when it came to great dreams and challenges.

The great Irish author Frank O'Connor said that as a boy, he and his friends would make their way across the countryside and when they came across an orchard wall that seemed too high or difficult to cross, they took off their hats and tossed them over it. They had no choice but to follow them.

And I say to you today, let's muster the collective will and courage to surmount our obstacles and divisions, and make our industry's vision for change for a better tomorrow a reality. Together, let's toss our hats over the wall and follow them. Looking out at this room today, I know we can.

Thank you and enjoy the rest of the Dairy Forum.

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