Good morning and welcome to Dairy Forum 2015.

Let me begin with the obvious. We live in a complex and often confusing world. A world that can be chaotic and even frightening.

Here in the United States, our Congress has a miserable 14% approval rating, yet more than 90% of incumbents handily won reelection last November. This apparent paradox reminds me of the old joke set in a restaurant where one diner throws down his knife and fork and says, “The food here is just terrible,” and his companion laments, “And such small portions too.”

From Capitol Hill political hijinks to global unrest and tragedy, we are reminded how important it is to conduct ourselves and our businesses with integrity, to try to always do what’s right, and to be thankful for our freedom to do so.

It’s enough to make you throw your hands up in frustration as many of these issues are beyond our control. But you and I know this industry. We believe to our core what GE’s Jack Welch once said, “Control your own destiny or someone else will.” We believe in choices, not chances . . . and actions, not accidents.

So, I believe there are many challenges, opportunities and issues that we as an industry – and yes, even the U.S. Congress and Obama Administration – can come together, address, and solve. Think immigration reform, regulatory reform, and international trade treaties, to name a few. More on these later.
Let me tee up this discussion by taking a quick look at the future global landscape for our industry. What does the future hold both in the short and long term? And most importantly, by working together, what can we leverage to work in our favor?

Now, I consider myself a realist and don’t go in for crystal-ball gazing and the like. However, last month, I listened to a very serious and insightful talk by General Michael Hayden, four-star general and former head of the CIA and NSA, in which he set forth some predictions that are worthy of our industry’s attention. Let me share a few of them with you.

- By 2020, economic power will be in the hands of many nations, instead of a few.
- Between now and then, we’re likely to see $20 trillion in global GDP growth and a billion new members of the global middle class, providing a real economic power burst of spending.
- We’ll see global urbanization with 70 million more people moving into cities each year.
- We’ll witness shifting demographics with 66% of the world’s elderly living in the developed world by 2020. And, an eye-popping 80% of the population under 18 will be living in Africa and Asia.
- We’ll see a rise of what General Hayden and others have dubbed, the “SHEconomy,” with women controlling $12 to $18 trillion of global buying power.
- And there will be a continued rise of individual technology, empowering billions of people.

He summed up his talk by saying, “It’s now and increasingly the consumers’ world, and we just work here.” That gives us a lot to think about as we contemplate our future in a global dairy industry.

I believe that we can’t really see ahead without remembering our past; where we came from . . . what our roots are. Always on point, Sir Winston Churchill said, “The farther backward you can look, the farther forward you are likely to see.”

Our dairy industry has a long, rich culture of values and a deep pool of character, principles, and customs fostered by hard-working people who made lots of rules to build and protect product integrity as well as to create a fair market for dairy producers. This is part of our industry’s DNA that to this very day is woven into our products and practices.

But missing from dairy’s early days were competitive, aggressive innovators and marketers, out-of-the-box thinkers, and risk takers. Albert Einstein observed that, “A ship is always safe at the shore – but that
is not what it is built for.” Let me add, that’s not what our great industry was built for. Not to hug the shore, but to take chances, discover new territories and identify and develop far-flung markets.

Indeed, risk-taking was a whole different animal in the 1930s than it is today. Many would not even consider it risk-taking by today’s standards. But getting a safe and affordable product to market was the major risk then and a challenge to be met.

And today, safety and quality are the given entry points, with layers of other product differences to give consumers the choices they want. But it’s far more complicated than that. Our dairy forbears would have been left scratching their heads if they knew what helps influence a consumer’s purchase today.

When we think of traditional dairy – wholesome, good-for-you, most perfect food, does-a-body-good, reliable, affordable, and tasty – all come to mind.

But today’s consumers hunger and thirst for more than foods and beverages and the qualities I just described. They crave information. Our dairy products may be physically opaque, but consumers want transparency about what’s in them and how they are made. And increasingly, they want specifics . . . lots of specifics . . . before they reach out for that yogurt, smoothie, or package of cheese and put it in their shopping carts.

They have a growing inventory of questions they want answered. For example, were the cows cared for humanely? Was it a large farm or small farm? What were the cows fed? Was the farm environmentally responsible? How far was the milk transported from the farm to processing? And how long from farm to store? Did the processing facility employ sustainable practices for precious resources like energy and water? Is the packaging recyclable? All of these are potential factors that can make or break a consumer’s purchase.

The new consumers’ world can also be influenced by ramped-up activist communities espousing everything from anti-animal products, anti-GMOs, and anti-other technologies, proclaiming the dangers of food addictions, and exhorting outsized myths about salt, fat, and sugar. The list goes on and on. But managing all of the issues and learning to deal with these evolving tactics is a new and real test for the industry.
U.S. dairy processor and producer leaders have come together under the auspices of the Innovation Center for Dairy to tackle some of these challenges and animal care is a great example. A new committee pulls together processor and farmer co-op leaders to ensure the concerns from farm to customer are considered. It’s just not good enough anymore to deal with issues in organizational silos, we must collaborate, and speak with one voice.

So, let’s take a look at a little video clip that gives you an inkling into what one consumer segment - the millennials - is thinking about. [http://www.hulu.com/watch/208808](http://www.hulu.com/watch/208808)

So, whether it’s the environment, food security, rising income inequality, or personal and community well-being, the considerations that go into decisions about what to eat are vastly different than what most of us grew up thinking.

If General Hayden’s consumers’ world premise is true . . . and I believe he’s right . . . then, engagement of the consumer is a must-have and a major business driver. So what’s the take-away for our industry?

The good news for dairy is that we’ve become a food industry pioneer, innovator and leader in many ways. Organic dairy continues to grow and new global markets hold great promise. And while there remain pockets of problems with meeting our customers’ evolving wants and needs, we can’t let up.

A decade ago, the Council on Competitiveness introduced the National Innovation Initiative which defined innovation “as the intersection of invention and insight, leading to the creation of social and economic value.” We need to make sure we get this translated right for dairy.

We offer innovative products that are new, exciting, healthy, and draw consumers in. Think Greek yogurt . . . spicy and savory new flavors . . . authenticity . . . food high in protein and fiber, low in sugar and calories, natural and good for the gut.

All of these attributes attract a breed of high-value consumer, described as “sticky” in a 2012 study published in the Harvard Business Review. And no, that’s not because they got a yogurt inclusion on their hands. Sticky means that these consumers are likely to follow through on a purchase, buy the
product repeatedly, and recommend it to others. We love our “sticky” customers and want to grow their ranks.

But we have some sticky problems of the other kind that are hard to wash off.

Along with a proud tradition and solid pedigree of integrity and honesty, we inherit impediments, obstructions, and hurdles, many of which the industry itself put in place to build consumer trust. Good then . . . not so good now.

Over the years, some of these traditions have lost their luster. Now, they just look like rules, rules, and more tarnished rules piled upon each other. They’re dragging us down and keeping us from reaching our full potential as great innovators and marketers. They’re keeping us from delivering on that changing consumer proposition.

Whether they are milk pricing regulations, product standards of identity or restrictive labeling requirements, they all add up to a straightjacket on innovation and marketing which we can ill afford in today’s dynamic global marketplace.

Regulation of commerce, services, and transportation increases costs and heaps on inefficiencies. On the other hand, deregulation spawns greater competition, innovation, and consumer choice.

I take these as facts . . . simple truths we cannot ignore. The evidence is overwhelming. The tired objections to liberalizing markets lack genuine merit. Yet, at the same time, moving away from decades-old regulations that are entrenched in how we do business as an industry requires thoughtful consideration. What is the best way to ease the transition?

Yes, we got some things right . . . very right . . . in the Farm Bill enacted last year that can help guide us in the future. No longer do we have the government standing ready to purchase dairy products through a dairy price support program . . . the tail wagging the dog that drove industry decisions around government actions rather than market opportunities.
And earlier this month, the U.S. Department of Agriculture announced that more than half of all dairy farms had enrolled in the new safety-net program created by the 2014 Farm Bill known as the Margin Protection Program. This voluntary program provides financial assistance to participating farmers when the margin – the difference between the price of milk and feed costs – falls below the coverage level selected by the farmer.

Such policy changes are a good start in positioning our industry to focus more on markets. But additional steps need to be taken . . . and we need to take them in unison.

So, where do we go from here? What have we learned . . . what has changed . . . and how do we make this industry the best it can be?

For starters, having a growing global marketplace for dairy has been the proverbial sea change. And we’ve known this for quite some time. As Bain & Company predicted back in 2009, globalization has impacted and will continue to impact domestic and export markets. And pursuing a strategy of becoming a consistent exporter will create growth and profit opportunities in both internal and external markets.

We’ve seen enormous growth in export demand for U.S. products and expanded trade opportunities that stretch into the future. These are opportunities to feed a growing world with greater resources and an appetite for higher protein products. Even with the strengthening dollar, through November of last year, US dairy exports were up 2% in volume and 8% in value compared to the record levels set during the same period in 2013. New and emerging markets are an engine of economic growth stoked by increased availability and a greater number of consumers able to afford higher value products.

To give you an idea of the size of the challenge – and the opportunity – the United Nations Food and Agriculture Organization issued a report last fall that estimated that about 805 million people worldwide are chronically malnourished or undernourished. That’s down more than 100 million over the last decade, but it shows how far we still have to go. But malnourished – “mal” meaning badly – has a dual meaning. We’re also in the midst of an obesity epidemic that affects 30% of the worldwide population.

These are both challenges and opportunities that the dairy industry can play a key role in addressing.
Both conditions may lead us to design customized foods and diets. Many companies have stepped up to the plate by reformulating and offering new products, often with special focus on nutrition and affordability for developing countries where the need is great and the budgets are small.

And there are other companies that are partnering with food and dairy companies to design ingredients for specific functions in foods. All of this and more must continue if we are to meet the growing needs of our global economy.

This belief was extolled in a recent webinar of leaders involved in the Global Dairy Platform, and I quote, “There is an urgency to speak with one voice (as an industry); the world has changed and we must change and position dairy to lead on nutritional security, sustainability and leveraging technology to feed the world.”

We’re not the only ones who see this. Remember the World’s Fair? Although it goes by a different name now, the 2015 Milan Expo theme is “Feeding the Planet, Energy for Life.” This summer, it will be the largest conversation on food among international players. It embraces technology, innovation, culture, traditions, and creativity, and will examine how they relate to food and diet.

However, global demand has also increased volatility in dairy markets. We must recognize that lack of action to reform our domestic pricing system has had chilling effects on some sectors of the domestic industry as input costs soar while consumption declines.

This alters market dynamics with exports driving growth in demand for farm milk while our domestic pricing system uses these higher values for pricing products largely marketed here in the U.S., like fluid milk and ice cream. While US farm milk production has grown by 36 billion pounds since 2003, nearly 70% of that additional farm milk has headed overseas.

Policy changes for dairy are needed right now if our industry is to reach its greatest potential. Now is the time to move away from our domestic pricing system. And now is the time to allow milk to flow to its highest value use dictated by market forces . . . not regulations.

But this is a major shift from what everyone in the industry has come to know and rely on. What would change look like? Would I be better off or worse without price regulation? Sort of the devil you know versus the one you don’t. However, there are some things we know with certainty.
We know that major milk producing countries that have eliminated domestic pricing schemes are best able to compete in global markets and manage their price fluctuations. Since “going free market” in 1994, New Zealand has seen its number of dairy cows grow by over 70% to about 6.5 million. As the leaders in world dairy trade, New Zealand cooperative Fonterra started the GlobalDairyTrade platform in 2008; in less than six years, it has grown from one firm offering to sell dairy products to eight global dairy giants doing so. And volume for the most recent 12-month period is up nearly 500% compared to the first 12 months of GDT trading.

In fact, the U.S. and Canada are the last of a dying breed to use complex milk pricing regulations. Even the regulation-loving European Union has abandoned quotas and is seeing new approaches to dairy farming thrive in many areas.

Our boards of directors have taken a first step in adopting policy to promote market-based pricing rather than regulated pricing. This is a big step . . . an important step . . . but it will take much more for the industry to embrace and work toward that goal. There will be a session later this morning with industry leaders to begin that important dialogue with the goal of securing lasting and meaningful change.

Indeed, we want to be forward-looking, building on our industry’s legacy by enhancing culture and quality, lessening impediments, and embracing the new world order for dairy that begins right here and now.

And speaking of new, at Dairy Forum we have a tradition of recognizing farms that are progressive and innovative with our Innovative Farmer of the year awards. By highlighting better use of resources, investments in technology and sustainable processes, and the aforementioned quality animal care – basically moving farms forward for the future – we hope this year’s examples will inspire others and spur more innovation.

We also celebrate processors and suppliers who are making a difference for dairy with innovation in plant operations, technology, packaging, and transportation that bring products to market that are more beneficial for both consumers and the environment.
Now, here’s a great example of just the type of innovation we need. As Business Week quipped, “Coca-Cola wants to buy the world a milk.” But it’s no joke. The icon of icons of the global beverage industry has entered into a joint venture with the Select Milk Producers co-op to produce a new value-added milk product that is already on grocery shelves. Called “Fairlife,” it has been formulated to enhance protein and reduce lactose – 50% more protein and zero lactose.

We need to convince the Food & Drug Administration to allow other better-for-you dairy product innovations to fit within various dairy standards of identity. For example, we believe there should be a broader spectrum for innovations using new processing techniques and dairy ingredients. That would allow dairy companies to come up with more creative products that meet consumers’ increasing demands for things like higher protein and less sugar, but can still be called milk.

We all know that First Lady Michelle Obama has put a major focus on combatting childhood obesity and healthier eating, so we are urging the White House and FDA to take another look at how standards are interpreted, in hopes of getting the greater flexibility it takes to offer milks to meet varying needs.

A change in this area could be a significant breakthrough for milk and other dairy product standards.

And discussing these types of tailored products brings me to an exciting demographic . . . and not the ad industry’s coveted 18-49 age group. Rather it’s those 50 and older. And for dairy, we see this sea of gray as a great opportunity.

According to a group call Enrich Life Over 50, the latest Census Bureau figures say that there are 106 million people in the U.S. who are 50 and older – one-third of the total population. This segment owns or controls a staggering 70% of the total accumulated private wealth in America and accounts for 50% of the total annual consumer spending.

Enrich Life Over 50 has been formed in the belief that this large and growing population segment needs to be better recognized, better appreciated, and better served. Their first project is the development of a national campaign to attract ideas for completely new products and services that will enhance the quality of life for people 50+, with awards up to $50,000 for ideas that have the maximum marketability potential.
But near the other end of the age spectrum, we look at the millennials who present a completely different proposition.

Millennials – people born between 1977 and 1994 – will outnumber Baby Boomers by 10 million in 2020. But their spending priorities are different. With ice cream, for instance, Millennials spend only $27 a year compared to the Greatest Generation’s $42, the Boomers’ $40, and the GenXers’ $38. And they want deals, prefer fresh food, shop less frequently, but buy more at one time.

This is what the future portends – identify an audience, then develop products that they will want and need. Or as Steve Jobs said, “Innovation distinguishes between a leader and a follower.” No guesswork as to who we are. As always, we will lead.

But what about the longer sightline? In 20 short years, how will the U.S. dairy industry operate and where will it fit in? What are the challenges? What are the opportunities? What are the pressure points?

Some predict we’re headed for a new era in agriculture with the use of technology – data aggregated with higher speed computers, sensors, and satellite guidance systems helping to manage water, animals, crops, and other resources. These are all potential breakthroughs to insure our food security in the face of climate change and the need to feed more hungry mouths.

In the next 20 years, we’ll be able to put all of our technology and knowledge to work to create a virtual nexus of nutrition, health, and agriculture, producing more sophisticated products with specific qualities and at affordable prices. There will likely be more production where there is a competitive advantage to produce because of land, resources, infrastructure, technology, and policies that allow markets to work with a minimum of friction.

Water availability and climate change, transportation and infrastructure, increased productivity, labor, and trade protectionism are all critical factors we must effectively manage. And we must act together to address them if we are to help feed the world’s estimated population of 9.6 billion people by 2050. That’s an increase of 2.3 billion people.

Let’s take the issues one by one.
First, the World Economic Forum’s 2014 Global Risk Report lists water crises, failure of climate change mitigation, and extreme weather as three of the top ten global risks of highest concern. And they are directly related to another major risk on the list. I’m sure you guessed it: food crises.

Water efficiency is more important in agriculture and more expensive – current water use globally is 69% for agriculture, 13% for commercial use, and only 18% individual use. Competition has become fierce, pitting farmers against residents. Moreover, we are losing an astonishing amount of good farmland to urbanization and sprawl.

Climate change and extreme weather will affect what we grow, how we grow it, and where we grow it – just look at our own water crisis in California, as an example. Or year after year of drought in Australia that has greatly affected their dairy production.

Second, 80% of those 9.6 billion people are projected to live in urban areas so the food needs to be moved – which puts a strain and focus on aging infrastructure and transportation. Upgraded railways, dedicated roadways for larger trucks, and customized urban delivery systems will be a must have. This is a huge challenge.

Third, increased productivity is the only way to grow the food supply from the projected resource base. And it will take time, new investors, new innovations, new technologies in the agriculture, and food processing space to develop. Many companies represented at this meeting are on the leading edge of these issues and I salute and encourage them.

We also need policy changes that favor production of crops for food over production for fuel – changes like repeal and reform of ethanol and biodiesel mandates in the renewable fuel standard that would make more corn available and less costly for food uses. We need to feed people, not cars.

Fourth, we need labor and immigration reform. Our dairy farmers rely on migrant workers and our food production is dependent on them. President Obama’s executive order for immigration reform helped to alleviate some of that uncertainty. But it’s clear that legislation to better address the broader issues is needed . . . issues like border control, a program for guest workers, and allowing highly-skilled students to remain and work in the U.S. when they graduate from our colleges and universities. All these issues must be addressed to keep our country strong and prosperous.

And fifth, we’ve seen an alarming rise of protectionism in some countries with more controls to limit market access and more concern about self-sufficiency and independence. This highlights the
tremendous importance of getting trade agreements on the books to improve market access and help fend off made-up trade barriers that are the bane of free markets.

Currently, two major trade agreements involving the United States are being negotiated. The first is the ambitious Trans-Pacific Partnership that involves eleven other nations, including Japan and Canada, where the U.S. dairy industry could seize significant opportunities. The second is an agreement between the United States and European Union, which has the potential to balance our trade with Europe, long tilted in Europe’s favor.

Reaching final agreement on both trade agreements will require congressional passage of Trade Promotion Authority legislation – a mechanism that enables the House and Senate to give the go-ahead, but only on an up-or-down vote. As you can imagine, no one wants to negotiate with us if they think our Congress is going to unravel everything, so passage of this legislation is key in the 114th Congress.

If you want to hear more specifics about these agreements, be sure to attend the session on Tuesday morning, “The State of International Trade” – where you can hear directly from Ambassador Vetter who is one of our government’s top agriculture negotiators.

The bottom line on trade and the other issues I’ve talked about is that we have to earn our future. Earn people’s reason to believe in our products. Earn their loyalty and trust.

It’s actually a fairly simple proposition. Where we are in 2020 depends on our actions today and over the next five years. We can’t afford to wait to see what happens. I’m a firm believer in what Microsoft co-founder Paul Allen said, “I’ve tried to anticipate what’s coming over the horizon, to hasten its arrival, and to apply it to people’s lives in a meaningful way.”

We need to be proactive on changing our policies and regulations to create products for our changing markets and increasingly sophisticated, demanding, and engaged consumers. We have the legacy of our strong culture and commitment to back us up and we have the technology and opportunity to get it right. Whether it’s milk pricing policy, standards of identity, immigration reform, infrastructure improvements, or any other issue, it’s time to push the envelope . . . it’s time to take advantage of our opportunities . . . and it’s time to surmount our challenges, and be the best that we can be.

It will take collaboration and cooperation, and also entrepreneurship and innovation. But I am confident we will succeed if we take steps together. As the ancient Roman maxim goes, “Where there is unity, there is always victory.”
I hope this Dairy Forum will be a catalyst for each of you to find new ways to work together with others in this great industry toward our 2020 vision. Thank you and enjoy the Dairy Forum.