

PROGRESSIVE DAIRYMAN

**CMN's annual round table:
Is dairy policy debate taking too
much time? Panelists sound off**

December 30, 2011

MADISON, Wis. — Welcome to part two of Cheese Market News' annual round table, our year-end discussion of pressing industry issues.

Each year, the CMN staff asks dairy executives throughout the nation to participate by providing their written responses to several questions we pose regarding issues affecting the industry. We then run a selection of those responses in a two-part series.

CMN thanks each of our round table participants for taking time in the midst of busy schedules to provide responses. Following are this year's panelists:

- Scott Brown, agricultural economist, Department of Agricultural and Applied Economics , University of Missouri, Columbia, Mo.
- Dermot Carey, senior vice president, ingredients division, Danisco Inc., Seattle
- Jon Davis, chief operating officer, Davigo Foods, Le Sueur, Minn.
- Rachel Kaldor, executive director, Dairy Institute of California, Sacramento, Calif.
- John Lucey, director, Wisconsin Center for Dairy Research, Madison, Wis.
- Harold Strunk, president and CEO, Tillamook County Creamery Association, Tillamook, Ore.
- Jim Sullivan, principal, J.E. Sullivan Enterprise LLC, St. Louis
- John Umhoefer, executive director, Wisconsin Cheese Makers Association, Madison, Wis.
- Bob Wills, president, Cedar Grove Cheese Inc., Plain, Wis., and Clock Shadow Creamery LLC, Milwaukee

This week's questions pertain to marketing and policy issues including raw milk, sodium and one that greatly divides the industry — is too much time being spent on dairy policy to the detriment of other important industry issues? If you missed it, please visit our website at www.cheesemarketnews.com to see the first part of the round table and our participants' responses to questions on pricing, international trade and dairy policy.

The debate on the legality of raw milk sales to consumers continues, with different states enforcing various laws. What is your opinion on the sale of raw milk in the marketplace? What rules, if any, do you think should be in place regarding the sale

of raw milk to consumers?

Brown: The sale of raw milk to consumers remains a difficult debate. Although there appears to be a small group of consumers demanding raw milk, there are many issues that can arise that will affect the entire dairy product spectrum if consumers become sick as a result of consuming raw milk. The health risks posed by the consumption of raw milk make it difficult to support development of raw milk sales. The industry needs to work on a consistent set of rules regarding raw milk across states. Further education is needed to ensure that the general public understands the risks/rewards of raw milk consumption.

Kaldor: Here in California, retail sale of raw milk is allowed, but the processor must comply with a maximum cell count and place a large warning label on the product. When the cell count requirement was put into law, the devotees of raw milk joined very vocal raw milk processors seeking repeal. They were unsuccessful. Raw milk remains the most contentious dairy food safety issue in our state. Raw milk poses a public safety risk, as evidenced by a recent illness outbreak in young children who had consumed the product. Safety and labeling requirements, along with very limited retail opportunities, should be the law if raw milk sales are allowed. Many other states strictly prohibit such sales, and their citizens are well served by that policy.

Lucey: The concern is that raw milk can potentially harm the consumer as cows can have infections and the milking process is not a sterile environment. It is our job as an industry to provide consumers with a safe product. Through pasteurization, we have a technology that can destroy these pathogens and has been proven safe and effective for decades.

Illness (or deaths) as a result of raw milk consumption would affect the entire industry. We could lose the trust of the consumers and our ultimate goal should be to provide them with a high-quality, safe and nutritious dairy product. Pasteurization helps to accomplish this goal. Additionally, there is little science to show that raw milk has any nutritional benefits that would outweigh its risks.

Strunk: We believe the food safety risk of raw fluid milk consumption outweighs any benefits and should not be allowed.

Umhoefer: Our members are very concerned about the safety of raw milk being packaged and sold on farms to consumers. The practice is illegal in Wisconsin, with the exception of "incidental sales," an ill-defined term in state law. Raw milk has caused seven disease outbreaks in Wisconsin since 1998, according to state health officials quoted in the Milwaukee Journal Sentinel in June. These outbreaks sickened at least 277 people; 28 were hospitalized. The dairy industry's well-earned reputation for safe, wholesome foods is threatened by the needless sale of unpasteurized milk. The health risk to families, and the dairy industry, far outweighs

any benefits.

Wills: I believe that each batch of any product that may harbor pathogens should be tested to indicate that appropriate safety-related procedures have been effective. Companies selling raw milk products should be required to follow good manufacturing practices and a hazard analysis-based program to control sources of contamination. Since milk and milking animals are potential sources of pathogens, adequate assurance of safety must be based on scientific analytics. I am sympathetic to arguments that individuals should be able to assume risk. However, too often individuals who consume potentially hazardous foods are uninformed or not competent to evaluate the degree of risk or potential consequences of their choice. In other areas, our laws assume minors are incapable of informed consent. In contrast, many states' raw milk laws enable children to consume products that can cause death or life-long incapacitation. Alternatives to pasteurization, including biological treatment, pressure treatment, ultraviolet light, or other methods, should be further developed to provide safety without the disadvantages and energy use of heating.

More companies and organizations are engaging more with consumers through interactive electronic media such as Facebook, Twitter and QR codes. Do you believe these outlets are useful for marketing and informational purposes as well as consumer feedback? Have you utilized any of these in your own company/organization, and what value, if any, do you feel that they bring to the industry?

Carey: We believe electronic media is a very useful consumer interaction and marketing tool. We use Facebook as a tool and many of our consumer/retail product customers use it to interact and provide feedback on Darigold products they have enjoyed, community involvement experiences they have enjoyed and even product suggestions.

Davis: We are in our infant stages of getting on board with social media. We have assigned that role to our whey marketing folks, and they are diving head first into utilizing it as a tool to sell product, educate consumers and enlighten the public as to the benefits of dairy. With the reality of social media being here to stay, the dairy industry will have no choice but to engage into all of the various social media tools.

Kaldor: Social media will only expand its sphere of influence on marketing and consumer purchasing. Many companies have skillfully found effective ways to utilize these platforms to their advantage.

Organizations like ours are taking our cues from our membership as we decide whether to proceed down this path.

Strunk: Yes, we use social media. Since the launch of our Facebook fan page in 2008, we've developed an extensive social media program which has provided us

value for almost two years. We have found it very beneficial in providing consumers the facts about our products and what differentiates us from other similar products on the market. We are able to respond immediately to consumer questions, promote products or events. Having one-on-one conversations with our fans helps create an emotional attachment to the brand resulting in very loyal customers.

Umhoefer: Social media provides a cost-effective conduit directly to consumers. WCMA is using Facebook to release information regarding the World Championship Cheese Contest and answer questions directly from cheese lovers. No other form of media delivers personal contact with customers like these electronic outlets. Social media should be a part of any cheese manufacturer's brand marketing.

What innovations in dairy processing and/or dairy products have you seen in the past couple of years that you believe could have long-term benefits or success in the dairy industry?

Davis: The continuing pioneering of whey proteins and their effects on weight management, satiety, sleep deprivation and numerous other health benefits. We truly believe that the magical product that begins as milk from a cow will continue to yield truly remarkable benefits to human health, and that we are just now on the cusp of that development. What has been accomplished to this point has been fantastic, but what is yet to come will revolutionize our industry.

The emergence of probiotics is another exciting segment of dairy products that has — and appears will continue — to help in furthering the use of dairy products in benefitting human health.

Lucey: Greek yogurt is really an amazing success story. As a product, it fulfills many of the drivers the consumer is looking at when purchasing a dairy product. The yogurt is a high protein product, leaving the consumer satiated and therefore making Greek yogurt a partial meal replacement option. Yogurt also offers many different flavors, textures and varieties. Specialty cheeses continue to grow in popularity as they offer the consumer unique flavors, textures and packaging. These options seem to meet the consumer's long-term desires for more variety.

Over the last eight years, the dairy industry has invested in innovations to produce domestic milk protein concentrates (MPCs) and this area continues to grow as we attempt to meet the consumer's demand for high protein milk powders, such as those used in energy bars and beverages. The positive impact is that the United States now has eight plants manufacturing MPCs which are displacing imported MPCs.

Strunk: I believe the milk fractionation technology that has been developed has

opened up a tremendous amount of opportunities to sell milk proteins globally. New products that use milk proteins are being formulated on a daily basis, which is one of the big reasons for the new demand for milk globally. The ability to break milk down to its components will create many new products that could create entirely new categories of high protein products to feed the world.

Sullivan: It is encouraging to see the growth in value-added new dairy products that move dairy away from commodity status. I have been impressed by the continued growth in the development, marketing and commercial success of live culture yogurt type products. The U.S. consumer continues to be more health conscious and the development of new dairy products focused on providing health benefits bodes well for dairy products. The dairy industry has built up a tremendous knowledge base about the health benefits of whey proteins and this can serve as a template for additional research into potential health benefits of other biologically active components of dairy products.

Wills: The most recent big development has been local markets. Growth of local markets will improve food security. Local markets improve the ability of consumers to know the choices and practices of their suppliers. Local customers let farmers and processors know what they want to buy and are more capable of providing product diversity: Processors avoid serving the lowest common denominator. A system of local markets is less susceptible to supply interruptions because transportation is limited and production is dispersed.

Sodium levels continue to be a concern among consumers, government and health officials. What do you believe are the best ways for the dairy industry to address the sodium “issue” from both a product formulation standpoint as well as a marketing standpoint?

Brown: Given much of the recent information regarding further reduction in sodium intake, it appears the industry must continue to focus on alternative production formulations that reduce the level of sodium in many dairy products. This is an issue that will likely only continue to be more important for the industry in the years ahead as recommended levels of sodium intake continue to come under scrutiny. Making consumers aware of the array of low-sodium dairy products already available remains important.

Carey: The dairy ingredient industry is addressing the sodium issue by developing sodium reduced versions of products such as cheese. To ignore this issue would be very harmful to the industry. As our population ages we are becoming more aware of diet, health and nutrition, and dairy products play a key role in maintaining health as we age — from bone density to weight management.

Davis: We can't let our industry, be swayed and, ultimately regulations be developed, by extremists from the public or government. Science needs to carry the day, and determine where we go with the latest initiatives from the anti-sodium

lobby. Salt is a very necessary ingredient in cheese, both from a flavor and food safety standpoint, and regulating its use out of the production of cheese (or significantly reducing its use) will be very bad for cheese consumption, and will hurt, not help, consumers from a health standpoint.

Kaldor: As a recent article in Cheese Market News outlined, the issue of lowering sodium levels in foods because of the implications for human health is very complicated. The dairy industry appears to be an active participant in the regulatory arena, which is an important starting point.

Balancing the flavor, safety and functionality of our products under any future restrictions will be easier if the public health community is receptive to accurate nutritional information about dairy products and their role in healthy diets.

Lucey: Dairy contributes approximately 8 percent of total sodium to our diets. Salt in a product like cheese fulfills many functions such as flavor, moisture control and contributes to food safety. The dairy industry needs to make consumers aware that cheeses such as fresh Mozzarella and Swiss are already naturally low in sodium and are options for sodium-conscious consumers. It is also important to point out that dairy products, such as cheese, offer a complete package of nutrients including protein, calcium, phosphorus and vitamin A; salt is just a small part of that package.

Sullivan: It has been encouraging to see the promotion of the utilization of less salt in some food items by the inclusion of dried permeate. I feel that the dairy industry should continue R & D efforts to develop proof that salt levels can be reduced when certain dairy products are used in the formula.

Do all of the buzzwords and features available to the industry — rbST-free, reduced-fat, low sodium, grass fed, artisan and probiotics to name a few — give companies an important opportunity to differentiate their products, or does it lead to an increasingly fragmented industry? Looking at the industry in its entirety, does the differentiation help or does it potentially hurt the image of “conventional” products?

Brown: It is important to develop products that increase overall demand for dairy products. Creating value-added products that consumers want and are willing to pay for is important for the long-term growth of the industry. In some cases, it is not clear that differentiation of these products has been driven by consumer demand. The development of products such as rbST-free that take technology away from the industry when it poses no health risks remains a questionable long-run strategy.

Carey: Some of these buzzwords and features are more marketing tools than others, while some are consumer driven. Reduced fat, probiotics and low sodium are health and wellness driven features which companies can choose to respond to

or not, and while initially they may offer a point of differentiation eventually they become mainstream offerings. rbST, non-GMO and similar aspects of dairy products are more politically sensitive arenas, some of which may be scientifically grounded and ultimately tend to be consumer driven. In the United States these have offered a point of differentiation. I don't believe these aspects lead to fragmentation within the industry — they allow the suppliers to offer a variety of products meeting those consumer needs, and that should offer more opportunities for dairy consumption. While during the early phase of introduction of some of these product features the conventional vs. better-for-you arguments emerged, they have largely dropped off or died off. Ultimately consumers will make their own product choices and if we as an industry don't offer products to meet those choices we miss out on consumption opportunities.

Kaldor: Differentiation to meet consumer demand will drive dairy industry growth. Opportunities to differentiate dairy products have not been easy to come by, and their arrival is timely. Conventional products will likely always have a place with customers. A growing market will have room for both. The key to maintaining fair competition and consumer confidence across all dairy products is accurate and truthful product labeling.

Lucey: The industry needs to be careful in terms of drawing attention to certain components in a product. Yes, there is an opportunity for niche categories, but ultimately, the industry should focus on taste, quality and performance.

Sullivan: I do not believe that the use of these “buzzwords” is good for the dairy industry and that this practice can potentially harm the long-standing powerful wholesome and healthful status of traditional dairy products. I can, however, understand that companies want to differentiate their products from those offered by competitors but it seems to me important to maintain a science-based and truthful marketing approach.

Umhoefer: Look to the example of Coca-Cola and Pepsi. Differentiation can be openly competitive, but these brands never disparage the category. Coke does not accuse Pepsi of having more sugar or causing a higher incident of tooth decay. The best marketing is competitive yet positive, emphasizing the desirable attributes of a product. And remember, every dairy food has inherent nutritional advantages over other food categories. Dairy can claim superiority over soy and other “would be” milk products.

Wills: Anyone producing “conventional” products is foolish. These are not traditional products, they are just inferior ones. Naturally, improvements in quality, nutrition, environmental impacts, or other characteristics reflecting the values of consumers will make the inferior products look bad. That is why most large conventional suppliers either have to sell cheap or eventually imitate the higher-value products. Consumers are not all alike.

Some are indifferent to characteristics that others hold sacred. We aren't all kosher or vegan. Fragmentation is a demonstration of a degree of success serving the needs of a diverse populace.

Is the amount of time and energy the industry is putting into dairy policy and the 2012 Farm Bill taking focus away from other areas that need attention? If so, on what additional issues should the industry be focusing?

Brown: The effort in changing federal dairy policy has roots back to the financial disaster the industry faced in 2009 when large amounts of producer equity were lost and to date have been slow to return. Many producers who faced these unprecedented losses made choices regarding their operation that appeared correct at the time they were made but in some cases turned out to be the worst choices possible. The volatility was equally difficult for many of the other market segments. The 2012 Farm Bill has been the first vehicle available to debate and choose alternative dairy policy. Spending time and energy to understand what policy alternatives might provide some help in reducing margin volatility is worthwhile, as a strong producer base remains important to the entire industry. Of course, many other issues important to the dairy industry remain, as the demand for dairy products ultimately drives the size of the U.S. industry. Growing both domestic and international demand for U.S. dairy products is vital for the U.S. dairy industry.

Carey: The 2012 Farm Bill and dairy policy discussions are critical points for U.S. dairy relative to how it is going to be able to compete for the global dairy demand opportunities that exist, without which the U.S. dairy industry will have a very difficult time prospering. Milk pricing mechanisms and the health of producer income/margins are critical issues in order to provide sustainability for the U.S. dairy industry.

Davis: Absolutely!!!! We focus so much of our very talented roster into things that have no positive impact on selling more dairy products, pioneering new dairy products and getting our message about how good dairy is for humans out to the public. We continue to battle about the same issues we have for years, the same issues that will never sell more dairy products, or develop innovative products that the consuming public is screaming for. That reality is not only frustrating, but expensive, as our collective focus on issues that shouldn't matter takes away from our energy being directed on issues that could bring real economic advancement to all of us in the industry.

Strunk: No, dairy policy is the most important issue the industry faces today. Get it right and it opens up the global market to the U.S. dairy industry. Get it wrong and we will limit the industry to only the consumption of dairy products in the United States and whatever else we can dump on the world markets when our prices get low enough. Volatility is the issue that we are all trying to address. By definition, volatility exists in any commodity market that is driven by supply and demand.

Instead of focusing on the supply side of the equation, we need to focus on the demand side. How do we better understand the dairy and dairy protein products global customers are looking for and adjust our manufacturing capabilities to meet their needs? This can be facilitated by good dairy policy or inhibited by poor ones.

Sullivan: I am concerned about any distraction that keeps us from not focusing on important challenges and threats to the dairy industry. The issue of flavored milk in the school hot lunch program is a huge concern. If children do not consume milk but rather some sugar/water beverage it is a huge step backward and a serious health concern.

Umhoefer: The dairy industry should devote overwhelming resources to export and trade. There are diplomatic issues involving free trade agreements, trade disputes and national labeling and standards, as well as product formulation and development challenges. Product sales, distribution, warehousing, delivery, and sampling require time and effort as well as international advertising and marketing. American dairy processors should rethink federal dairy policy and our national dairy institutions with a goal of becoming the dominant force in world dairy trade.

Wills: We should be putting much more emphasis on environmental impacts. This work is being done, but it has taken a back seat to the scavenging over Farm Bill spoils. We should be anticipating potential disasters relating to genetic engineering. We should eliminate Johnes.

We should be preparing to minimize impacts of terrorism or social breakdowns. And we should be putting enormous pressure on our representatives to reform immigration policy to enable talented, motivated workers and their families to become productive and secure members of our community, regardless of their — totally arbitrary — place of birth.