



Department of Justice-United States Department of Agriculture Workshop on Competition and Regulatory Issues

Comments Submitted by Dean Foods

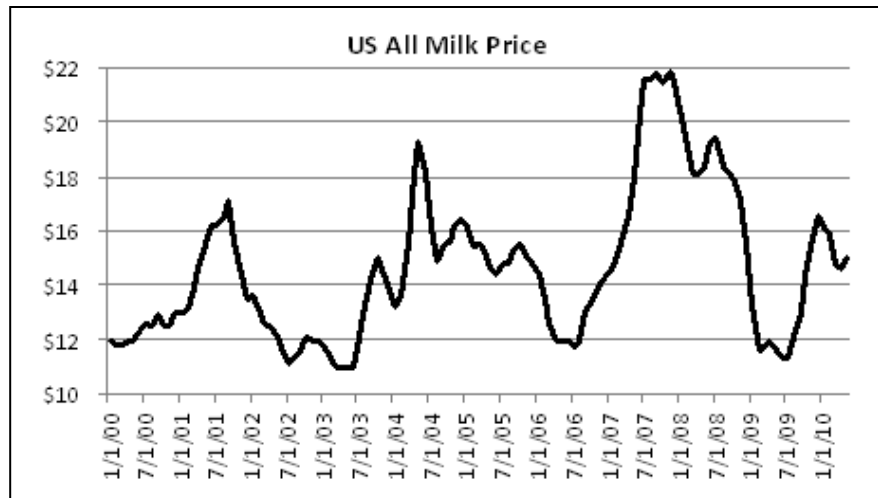
June 22, 2010

Dean Foods welcomes the opportunity to submit comments in conjunction with the Department of Justice (DOJ) and the United States Department of Agriculture (USDA) workshop on competition and regulatory issues in the dairy industry. We believe that the workshop, scheduled for June 25 in Madison, Wis., has the potential to be an important step in achieving real dairy policy reform and, ultimately, creating a stronger and more competitive U.S. dairy industry. This is imperative if we expect dairy to compete favorably with other food and beverage segments for market share and with other international dairy producers for growth opportunities in an evolving global economy.

Market Volatility Impacts Everyone

As a company that depends on dairy farm businesses, we recognize many farmers are hurting because of today's challenging economic conditions. We depend on these farmers for the raw milk we process for consumers, and we have long-standing relationships with many of them. We are concerned about the future and economic well-being of the entire U.S. dairy industry. The dairy sector must be healthy over the long term to ensure a consistent and high quality milk supply for consumers and to contribute to the health of the U.S. economy.

We share dairy farmers' frustration with the increasing volatility in milk prices. In recent years, both Dean Foods and the farmers who supply us milk have been dramatically affected by this volatility. The industry experienced record high raw milk prices in 2007, followed closely by record lows in 2009. The current U.S. dairy system makes it difficult for industry participants to manage volatility risk to their individual tolerance and ability. While we cannot eliminate price volatility, the industry clearly needs better tools to manage it. The system is broken, and all of us—farmers, processors, and retailers alike—are paying the price in one way or another.



Source: USDA National Agricultural Statistics Service

Root Cause is the Regulated Pricing System, Not Consolidation

Some have suggested that processor concentration and consolidation are the root causes of the most recent economic downturn in dairy. We believe this is fundamentally untrue.

Here's why:

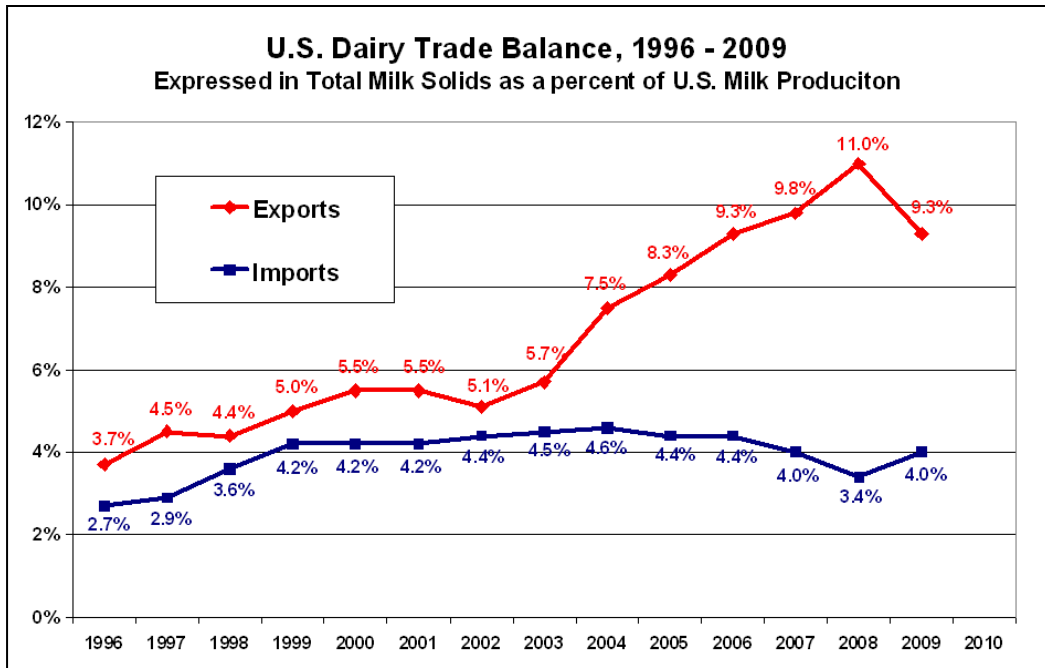
First, drinking milk processors like Dean Foods don't set the prices for raw milk. We pay a regulated price that is set by the U.S. government, plus premiums over the regulated price. The current system bases the regulated minimum raw milk price on the survey price for non-fat dry milk, cheese, butter, and whey.

Using a set of formulas, the survey prices for these products are then used to establish the regulated minimum price for raw milk. As a result, when commodity prices increase, milk prices increase as well. However, when commodity prices fall, as occurred last year due to the global recession and lost exports, they take milk prices down with them. In the end, Dean Foods is one of many processors, and processors are only one part of a complex system that includes independent producers, cooperatives, retailers, and government agencies—all playing a role in the price ultimately received by farmers.

Second, milk processors, regardless of size, don't "control" the milk supply. In fact, although we are the largest U.S. processor, Dean Foods buys less than 15 percent of the nation's raw milk supply. We purchase milk from approximately 12,000 of the 58,000 U.S. dairy farmers.

There is no correlation, let alone causation, between "bigness" and market price. As evidence of that, from 2007 to 2009, when raw milk prices were at their most volatile, Dean Foods remained roughly the same size. In addition, Dean Foods does not produce or trade, with the exception of some butter, in the commodities used in milk pricing formulas and thus has no influence over dairy price inputs.

The real cause of the dairy industry's collective challenges has been the worst global recession in 75 years combined with over-production and falling global demand. The U.S. industry participated in and grew with the global dairy market from 2000 onwards, growing from approximately 6 percent of U.S. milk being exported in 2000 to just over 11 percent being exported in 2008. As world demand reacted to high dairy prices in 2008, compounded by the recession of 2009, this demand "disappeared" overnight. At the same time, the U.S. milk supply continued to grow. This resulted in a significant milk oversupply in the U.S., which dramatically depressed prices.



Source: U.S. Dairy Export Council

As Jerry Kozak, president and CEO of the National Milk Producers Federation, stated, "A worldwide decline in dairy demand, owing to the worst economic downturn in 75 years, is at the heart of the price crunch on the farm." These global economic forces were exacerbated by an antiquated U.S. pricing system built in the 1930s that was not designed to deal with the complexity of modern global markets and therefore no longer serves the needs of U.S. dairy farmers.

We must fix this system if we expect the dairy industry to have the tools to grow profitably and manage the kind of volatility that has plagued the industry in recent years. This is key to remaining competitive with other dairy producers around the world and with other food and beverage segments vying to provide nutritious, affordable products to families.

Dean Foods is Committed to Being Part of the Solution

Dean Foods shares a common interest with farmers in creating a stronger dairy market that better serves the interests of farmers, processors, retailers, and consumers. Dean Foods did not create the problems that have been affecting dairy farmers. However, we do intend to be part of the solution. That means doing a lot more than putting milk in jugs. It means utilizing our resources to create new products that stimulate market demand, improve efficiency, and help achieve needed industry reforms.

First and foremost, we are continually investing in technology and innovative new products—such as lower-calorie flavored milk, convenient packaging for moms and kids on the go, and specialty products like organic milk—to satisfy dynamic consumer demand.

Just as dairy farmers have heard for years about the need for efficiency, we also must be efficient. We continue to transform our own company into the most efficient processing and distribution system in the industry so that we can get milk from farm to retail at the lowest possible cost. This is the only way that we will survive and thrive in an industry increasingly pressured to drive down costs.

Both of these objectives—meeting demand and improving efficiency—are critical to ensuring that the century-old milk business can compete with ultra-modern consumer packaged goods companies. In fact, the real battle here cannot be about farmers versus processors, but rather about a united dairy industry competing effectively against other food and beverage categories. It is these competitors that are going to eat our lunch, so to speak, if we can't figure out how to modernize a 100-year old industry and make dairy products more relevant to today's world. We know that milk is a popular choice for parents who purchase for their young children, but as soon as kids start making their own food and beverage decisions, they often move away from milk to soda and sports drinks—and they don't return to the fold as consumers until they are moms and dads themselves.

We need to unite as an industry to continue finding new ways of creating consumer excitement and retailer value. That also means working together to reform the current pricing system so we can better compete as an industry with other food and beverage categories that are attracting consumers with relevant, convenient products.

The current pricing system was developed 80 years ago in a country with half of today's population, recovering from two world wars, and isolated from world trade. According to a March 25, 2010 Congressional Research Service report on "Previewing Dairy Policy Options for the Next Farm Bill," the system was designed to incentivize the production of milk for a growing U.S. population and market. This is not our world today—everything about the industry has changed. There are fewer dairy farms, which are significantly larger and produce more milk

per cow. Milk is consumed differently and now competes with a much wider range of other food and beverage options available to consumers. In addition, the U.S. actively participates in the global marketplace.

Staying competitive in both the U.S. and world markets will be vital for the long-term growth of the U.S. dairy industry. Current dairy policies are failing on both fronts. U.S. producers and processors can be among the most productive in the world, but this is not translating into farmer profits or sustained growth. Adopting a national dairy policy that relies on the laws of supply and demand, and gives farmers the tools they need to manage risk would allow all segments of the industry to grow and prosper.

Dean Foods supports a new and improved dairy policy that not only ensures fresh, high quality, nutritious, and affordable milk for consumers but also promotes category growth and provides opportunities for American dairy farmers to grow and prosper over the long term.

We believe any new dairy policy should reflect the following important principles:

- Be national in scope and regionally neutral;
- Encourage the use of risk management and insurance tools;
- Encourage growth and expansion into global markets;
- Promote competition at all points along the value chain, thus encouraging efficiency and innovation; and
- Be transparent and based on milk's market value, not on an artificial classification system.

The dairy industry is not the first to wrestle with these challenges. Other U.S. commodity groups, such as peanuts and tobacco, also have traveled down the path of reform in recent years.

As government supports were eliminated in those sectors, producers adopted forward contracting as a way to reduce price volatility in their businesses. Further, countries such as Australia and New Zealand have specifically tackled dairy industry reform. All of these examples differ in significant ways from the U.S. dairy industry. Nonetheless, the experiences of others should be considered and studied as the U.S. dairy industry begins its own journey toward meaningful reform.

We look forward to working side-by-side with farmers, retailers, regulatory agencies, and elected officials in exploring the best way forward, in pursuit of an improved dairy pricing system in the months ahead. If we are really serious about fixing a broken system, we will stop pointing fingers, and we will start talking and listening. Only through collaboration will we achieve a new system that continues to ensure nutritious, affordable dairy products for consumers and a fair profit for farmers, processors, and retailers.

Shared Interests for the Dairy Industry

Can reform work? We believe that the experiences of other countries and commodity groups show that the answer is, “Yes.” Around the world, there is evidence that market-based reforms can promote efficient increases in farm milk output and lower packaged milk prices for the consumer.

A new and improved system also could help the U.S. dairy industry seize growth opportunities for dairy consumption around the world. As emerging economies develop, consumption of dairy products increases. The U.S. is positioned to capture dairy demand in those markets if we adopt the correct policies. Opening up markets and encouraging milk pricing practices that meet international standards will allow the U.S. to expand into compatible markets. Milk powder and concentrates are products capable of being exported in large amounts. With the correct policy approach, all stakeholders in the U.S. dairy industry—from farmers to processors—can have a growing and prosperous future.

An Industry Positioned for the Future

As the leading dairy processor in the U.S., we intend to be part of the solution in creating a stronger industry that is better able to compete with other food and beverage industries in the growing global economy. We do not control any market or set the price for raw milk. But we are driving demand for dairy products, creating efficient processing and distribution systems, and advocating for positive policy change. We understand farmers’ frustration with the current system and share a common interest in building a better safety net for farmers and providing the industry with the tools needed to thrive. Together, we can transform this storied industry into a world leader, resulting in positive benefits for farmers, processors, retailers, and consumers.