



TOM CAMERLO EXPORTER OF THE YEAR AWARD

With a new plant, Dairy Farmers of America shows its commitment to exporting

DFA built the \$85 million whole milk powder facility in Nevada to meet the specific demands of dairy customers in China and other countries. That's one reason the dairy cooperative has been named the Tom Camerlo Exporter of the Year.

By Mark O'Keefe, contributing editor

The white tent erected in front of Dairy Farmers of America's new milk powder manufacturing facility in Fallon, Nev., protected dignitaries and other attendees from the bright desert sun on Sept. 10. DFA executives, board members, local farmers, governmental officials and other invited guests sat at festive tables adorned with tablecloths and take-home gift boxes celebrating the occasion.

DFA has 32 other processing plants, many of them larger than the 90,000-square-foot facility in this little town of 8,500. But everyone in attendance knew the grand opening meant something unique (perhaps even historic), with significance far beyond the borders of Nevada and even the United States.

That's because the \$85 million Fallon facility was built from the ground up to meet the specific demands of global dairy customers in China and other countries. That, DFA executives said, marks an important shift toward a more customer-centric approach to exports. It is one more way the national cooperative, based in Kansas City, Mo., brings value to its 15,000 members.

"DFA's farmer leaders have been working to increase their participation in global markets for some time," said John Wilson, the co-op's senior vice president and chief fluid marketing officer. "By moving more product globally, we are able to help our members grow."

For this reason and others, *Dairy Foods* selected Dairy Farmers of America as the 2014 recipient of the Tom Camerlo Exporter of the Year award. In selecting DFA for the honor, the magazine also cites the co-op's:

- long-time championing of U.S. dairy industry exports.
- variety of export products, including whole and skim milk powder, whey, cheese, butter and dairy beverages.

- growth in export sales, especially a 43% increase from 2012 to 2013.
- active industry leadership, starting with charter membership in USDEC and participation on its trade policy committee work.
- participation in USDA's Dairy Industry Advisory Committee.

The award, sponsored by the U.S. Dairy Export Council, honors companies that demonstrate leadership in driving global dairy demand and U.S. dairy exports. It is named for the late Tom Camerlo, a champion of exports who served as chairman of both USDEC and DFA's board of directors.

At the ribbon-cutting, DFA President and Chief Executive Officer Rick Smith said, "It's not an exaggeration to say Fallon, Nevada is known worldwide, and that's only going to grow. That is very exciting."

Smith said the new plant may be a "door opener" not only for DFA but the U.S. dairy industry as a whole. With its four silver silos rising from the desert like shiny monuments to exports, the plant is a tangible sign that the U.S. dairy industry is serious about becoming a long-term and consistent supplier of products and ingredients that meet the unique and often stringent specifications of global customers.

At the grand opening, on a long table piled with food sat a canister that dispensed milk created with whole milk powder from the plant. The refreshing beverage was full-flavored and slightly sweet.

The plant, which operates 20 hours a day, was built with a focus on product safety, traceability and supply chain integrity. At capacity, plant employees can process 2 million pounds of

■ At the Nevada powder plant, four silver silos rise from the desert like shiny monuments to exports. The 90,000-square-foot facility opened in 2014.

raw milk into 250,000 pounds of whole milk powder daily. They can process six 25-kilogram, oxygen-free bags of powder every minute, place them on pallets with a robotic arm and have them trucked 274 miles west to the Port of Oakland. There container ships take the powder to Asia, Latin America and the Middle East, where it is used in infant formula, drinking milk, baked goods, yogurt and other products. In part because it has a shelf life of up to two years, WMP has been called the global dairy currency. Until now, DFA had difficulty creating enough of it.

“The Fallon plant sends the message that we are committed to global markets and customers overseas,” said Jay Waldvogel, DFA’s senior vice president, strategy and international development. “We’re not trying to refit an older DFA plant not truly designed for exports. We’re not hopping in when the market is high and hopping out when the market is low. We’re building relationships for the long term.”

Connecting 13,000 dairy producers in 48 states, DFA has been exporting since the organization’s formation in 1998. In 2013, DFA exported 222 million pounds of products to customers in 42 countries, totaling \$355 million in sales, a 43% jump from the previous year. In April, the first cases of California Gold, DFA’s ultra-high temperature (UHT), shelf-stable milk were shipped to China.

“Year after year, exports have always been part of the DFA business mix, but progress has come slowly,” said Tom Suber, president of the U.S. Dairy Export Council, the trade group which leads the industry’s overseas market development and is funded primarily by the dairy farmer checkoff. “Persistence is now paying off. Throughout it all, DFA has never lost sight of the global vision Camerlo saw.”

Filling a global ‘demand gap’

As groups of five and six prepared to tour the Fallon plant, they entered a locker room to slip rubber booties over their shoes and white ankle-to-neck gowns over their clothes. The strict emphasis on sterility is just one way the plant emphasizes product safety.

In 2009, the same year Camerlo passed away at age 75, the Innovation Center for U.S. Dairy issued a groundbreaking report by Bain & Co. forecasting a global “demand gap” that the U.S. dairy industry could help fill if it moved more assertively on exports. The report confirmed with data what the DFA board had already been urging. DFA made globalization a focus in its 2009 strategic plan.

“We were already moving stuff here and there but exports really weren’t a focus,” said Glenn Wallace, the chief operating officer of the ingredients division of DFA’s global dairy products group. “We started to ask ourselves, ‘What do we need to do to be more successful at this?’”

Waldvogel spent more than a decade overseas with Campina in Europe and Fonterra in New Zealand. He used to wonder at times how committed to exports DFA really was until he saw a



■ The plant operates 20 hours a day. It is capable of processing 2 million pounds of raw milk into 250,000 pounds of whole milk powder daily.

survey showing more than 90% of DFA’s producers rated exports important or very important. Among the perceived benefits: increased global demand for U.S. dairy had the potential to positively impact U.S. milk prices for all DFA members.

“That was a turning point in my mind,” Waldvogel said. “You knew the field was clear. Our members understood the importance of global markets. It wasn’t a situation in which we had to convince them.”

As he made numerous trips overseas, Waldvogel’s main pitch to global customers was they were over-reliant on their existing



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■ Employees at DFA's new milk powder plant in Fallon, Nev., can fill six 25-kilogram, oxygen-free bags of powder every minute. These are trucked to Oakland, Calif., and loaded on container ships bound for China and other countries.

suppliers. Buying from the U.S. would diversify their supply and reduce their risk. It was a tough sell.

"If you went to a Chinese customer and said, 'Listen, we can be a competitive supplier and you can grow with us long term,' they would say to me, 'Now, you listen. You don't make whole milk powder. You don't have the highest-quality products. You don't meet our specifications and you aren't committed. You might be here today but gone tomorrow. And, oh yeah, your prices are too high. This is an interesting idea you have, but you're crazy.'"

That was then. Waldvogel said when construction plans became known to global customers "we could have sold out our Fallon plant multiple times."

But to manage its risk, DFA is starting relatively small. "If we want to go bigger, we will," Waldvogel said. "We're not betting the farm on this, so to speak."

If the WMP market becomes weak, the Fallon plant has the flexibility to make other products, such as nonfat dry milk and skim milk powder for both global and domestic customers.

Slaking China's thirst for UHT milk

Demand scenarios conducted by USDEC suggest China's appetite for imported UHT milk could more than quadruple from 150,000 tons in 2013 to at least 600,000 tons by 2020. That presents another export opportunity for DFA. But competition is keen. No less than seven major new plant projects are in the works by other dairy businesses — in Australia, New Zealand, Ireland and Germany — focused on manufacturing UHT milk for export. Still, their combined output is insufficient to meet demand projections in China.

Waldvogel recalled a 2013 visit to the Shanghai office of Yihaodian, the Chinese online grocery business partially owned by Walmart, the Arkansas-based multinational retailer. He said it felt as if he were in the middle of a giant video arcade, with more than 20 high-definition screens displaying nearly up-to-the-minute data tracking the company's sales, deliveries and other metrics. None of Yihaodian's executives called Waldvogel crazy that day.

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"They really, really wanted branded U.S. milk because their consumers viewed it as being high-quality. Their response was, 'Can you send it to us tomorrow?'"

Most consumers in the central, urban areas of China have no cars to make trips to the grocery store. If they have a refrigerator, it's probably small, like those found in dorm rooms in American colleges. What they do have is increasing amounts of expendable income and computers.

"They place their order in the morning and our product shows up a couple of hours later," Waldvogel said. It is sold at a price roughly double what consumers could pay for Chinese UHT milk. The 2008 melamine milk crisis has not been forgotten.

Not everyone in China buys UHT milk online, however. DFA's California Gold brand UHT milk is also distributed at Walmart and Sam's Club stores. According to USDEC, the United States has about 3% of the UHT milk market in China. USDEC sees an opportunity for continued growth for all U.S. suppliers.

"We still have hundreds of millions of people a year moving into the middle class," Waldvogel said. "Up until now they were survivors and now they are consumers. If you are a parent, what you think about when you have some money is nutrition, and usually for your kids. That's why the first thing a mom wants to buy in China is a glass of milk for her kid. The place in the world best positioned to supply her that glass of milk is the United States if we commit to making the investments."

In Nevada, a farmer thrives

The investment in Fallon was made with those Chinese mothers and their children in mind. The plant has enabled nearby milk supplier Perazzo Brothers Dairy to expand its Nevada milking facility from 500 to 1,600 cows. Construction is well underway, bringing new hope and optimism to Daniel Perazzo, 31, whose grandfather started the farm in 1947 with six cows.

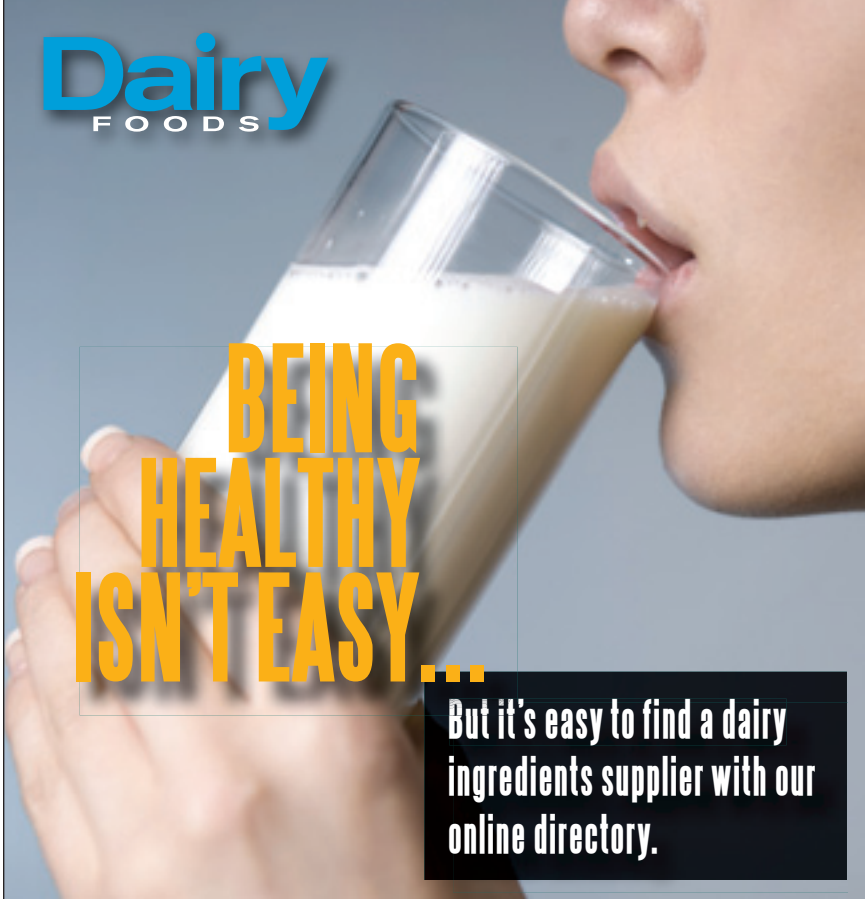
"Having this export market open up means I can pursue my dream," said Perazzo, who works the farm with his father and uncle. "I have four little girls right now and one is still on formula. Knowing our cows are helping little kids in China is a good feeling."

It's also a good feeling for Fallon Mayor Ken Tedford Jr. He said plant construction, which began in 2012, provided 300 jobs for two years. Now that the high-tech facility is up and running, 45 people have permanent jobs.

"This is something a small community like ours has never seen before," said Tedford, speaking at the grand opening.

"And those people in China now have something they didn't have before: a reliable source of milk that's safe for their children. We're giving them a better product and a better life." ■

Mark O'Keefe is vice president of editorial services at the U.S. Dairy Export Council.




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