Report to Congress

on the

National Dairy Promotion and Research Program

and the

National Fluid Milk Processor Promotion Program

2008 Program Activities

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Appendices can be found online at www.ams.usda.gov/dairy.

Executive Summary

The enabling legislation of the dairy producer and fluid milk processor promotion programs requires the U.S. Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry. The producer and processor programs are conducted under the Dairy Production and Stabilization Act of 1983 (7 U.S.C. 4501 *et seq.*) (Dairy Act); the Dairy Promotion and Research Order (7 CFR § 1150) (Dairy Order); the Fluid Milk Promotion Act of 1990 (7 U.S.C. 6401 *et seq.*) (Fluid Milk Act); and the Fluid Milk Promotion Order (7CFR § 1160) (Fluid Milk Order), respectively. This report includes summaries of the activities for the National Dairy Promotion and Research Program and the National Fluid Milk Processor Promotion Program, including an accounting of funds collected and spent; USDA activities; and an independent analysis of the effectiveness of the advertising campaigns of the two programs. Unless otherwise noted, this report addresses program activities for the fiscal period January 1 through December 31, 2008, of the producer and processor programs. Additionally, all appendices associated with the report can be found at online at www.ams.usda.gov/dairy.

Producer Dairy Promotion and Research Program

Mandatory assessments collected under the Dairy Act totaled $284.5 million in 2008. The National Dairy Promotion and Research Board (Dairy Board) portion of the revenue from the 15-cent per hundredweight producer assessment was $95.5 million for 2008, and Qualified Programs revenue from the producer assessment was $189.0 million. Expenditures by the Dairy Board and many of the Qualified Programs are integrated through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The Dairy Board continued to develop and implement programs to expand the human consumption of dairy products by focusing on partnerships and innovation, product positioning with consumers, and new places for dairy product consumption. One such endeavor was accomplished through continuing to integrate single-serve plastic bottled milk into the menus of quick-serve restaurants such as Burger King®, Wendy's®, and Subway®. The Dairy Board also continued to promote its 3-A-Day™ of Dairy for Stronger Bones, a nutrition–based marketing and education program developed to help solve the Nation's calcium crisis and increase consumption of milk, cheese, and yogurt; as well as its "New Look of School Milk" campaign which includes efforts to improve the school milk experience for the Nation's children through improvements in packaging, flavors, and availability. Details of the 2008 activities of the National Dairy Promotion and Research Program are presented in the National Dairy Promotion and Research Board section in Chapter 1 of this report.

National Fluid Milk Processor Promotion Program

The National Fluid Milk Processor Promotion Board (Fluid Milk Board) continued to administer a generic fluid milk promotion and consumer education program funded by America's fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase milk consumption, and maintain and expand markets and uses for fluid milk products in the 48 contiguous States and the District of Columbia. During 2008, the Fluid Milk Board evolved its messaging to use the role of calcium-rich fluid milk products in successful weight

maintenance for moms and refueling after exercise for teens as central themes and focal points for its activities. In its promotion programs such as "Campaign for a Healthy Weight" and "Make a Splash with Curves," the Fluid Milk Board encouraged moms to choose milk to help maintain a healthy weight. For teens, the 2008 integrated Body By Milk^{SM} campaign, combining advertising, promotion, and public relations components, stressed the importance of maintaining a healthy weight through a healthy diet, and keeping fit and strong by drinking three glasses a day of lowfat or fat–free milk to help muscle recovery after exercise. Assessments generated $107.2 million in 2008. The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California Milk Processor Board. The amount returned to California from the 2008 assessments was $10.4 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities, which include the *got milk?*® advertising campaign. The fluid milk marketing programs are research based and message focused. Activities of the National Fluid Milk Processor Promotion Program for 2008 are presented in the Fluid Milk Board section in Chapter 1.

USDA Oversight

USDA has oversight responsibility for the dairy and fluid milk promotion programs. The oversight objectives ensure that the Boards and Qualified Programs properly account for all program funds and that they administer the programs in accordance with the respective Acts and Orders. All advertising, promotion, research, and education materials are developed under established guidelines. All Board budgets, contracts, and advertising materials are reviewed and approved by USDA. USDA employees attend all Board and Committee meetings, monitor all Board activities, and have responsibility for obtaining an independent evaluation of the programs. Additional USDA responsibilities relate to nominating and appointing Board members, amending the Orders, conducting referenda, assisting with noncompliance cases, and conducting periodic program reviews. The Boards reimburse the Secretary of Agriculture, as required by the Acts, for all of USDA's costs of program oversight and for the independent analysis. In 2008, the Secretary of Agriculture appointed 13 members to the Dairy Board and 10 members to the Fluid Milk Board. Approximately 863 dairy producers were granted organic exemptions from paying producer assessments in 2008, representing approximately 1.2 billion pounds of production. Compliance for both Boards continues in a timely manner and at a high rate. Chapter 2 details USDA's oversight activities.

Independent Analysis and Fluid Milk Market and Program Assessment

Chapter 3 presents the results of the independent econometric analysis, conducted by Cornell University (Cornell), of the effectiveness of the dairy and fluid milk promotion programs. It is estimated that generic fluid milk marketing efforts sponsored by fluid milk processors and dairy farmers have helped mitigate the decline of fluid milk consumption. The generic fluid milk marketing activities increased fluid milk consumption by 6.87 billion pounds per year, on average, from 1995 to 2008. Had there not been generic fluid milk marketing conducted by the two National Programs, fluid milk consumption would have been 9.9 percent lower. Cornell concluded that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Details of Cornell's independent evaluation are presented in Chapter 3.

Chapter 1
The Dairy and Fluid Milk Promotion Programs

The Dairy Board and the Fluid Milk Board continued to develop and implement programs to expand the human consumption of fluid milk and dairy products. Each promotion program had many unique activities. The Dairy Board continued its focus on partnerships and innovation to provide consumers with dairy products "how they want them, when they want them, and where they want them." The Fluid Milk Board used the role of calcium–rich fluid milk products in successful weight maintenance for moms and refueling after exercise for teens as central themes and focal points for its activities.

National Dairy Promotion and Research Board

The mission of the Dairy Board is to coordinate a promotion and research program that maintains and expands domestic and foreign markets for fluid milk and dairy products produced in the United States. The Dairy Board is responsible for administering the Dairy Order, developing plans and programs, and approving budgets. Its dairy farmer board of directors administers these plans and monitors the results of the programs.

The Secretary of Agriculture appoints 36 dairy farmers to administer the Dairy Order. The appointments are made from nominations submitted by producer organizations, general farm organizations, qualified State or regional dairy products promotion, research or nutrition education programs (Qualified Programs), and by other means as determined by the Secretary of Agriculture (7 CFR §1150.133(a)). Dairy Board members serve 3–year terms and represent 1 of 13 regions in the contiguous 48 States. Dairy Board members elect four officers: Chair, Vice Chair, Treasurer, and Secretary. Current Dairy Board members are listed in Appendix A–1, which can be found online at www.ams.usda.gov/dairy. A map of the contiguous 48 States depicting the 13 geographic regions can be found online in Appendix H–1 at www.ams.usda.gov/dairy.

Total Dairy Board actual revenue for 2008 was $95.5 million (including assessments and interest). This amount was less than the Dairy Board budget of $104.7 million for that period. The Dairy Board amended its budget to $125.9 million by incorporating program development funds not budgeted previously and an $11.1 million carry–forward from their 2007 budget. The Dairy Board budget for 2009 projects total revenue of $101.2 million from domestic assessments and interest. The Dairy Board administrative budget continued to be within the five–percent–of–revenue limitation required by the Dairy Order. A list of actual income and expenses for 2007–2008 is provided online in Appendix B at www.ams.usda.gov/dairy. USDA's oversight and evaluation expenses for 2007 and 2008 as well as the Dairy Board's approved budget for 2009 can also be found in Appendix B at www.ams.usda.gov/dairy. An Independent auditor's report for 2008 is provided online at www.ams.usda.gov/dairy in Appendix C–1.

The Dairy Board has two standing committees: the Finance and Administration (F&A) Committee and the Executive Committee. The F&A Committee is made up of the Dairy Board officers and appointees named by the Dairy Board Chair. The Dairy Board Treasurer is the Chair of the F&A Committee, and the full Dairy Board serves as the Executive Committee.

The remaining committees for the Dairy Board are joint program committees with the United Dairy Industry Association (UDIA).

In March 1994, the Dairy Board approved the creation of Dairy Management Inc. (DMI), a management and staffing corporation. DMI is a joint undertaking between the Dairy Board and UDIA. UDIA is a federation of 18 of the 59 Qualified Programs under the direction of a board of directors. DMI merged the staffs of the Dairy Board and UDIA to manage the Dairy Board programs as well as those of the American Dairy Association® and National Dairy Council® throughout the contiguous 48 States. DMI serves both boards and is structured into product platform and mission areas. These platform and mission areas include: Platforms, Partners, Sales and Marketing; Export, International Marketing, and Ingredients; Research, Regulatory and Scientific Affairs; Strategic Planning, Business Development and Information Management; Child Nutrition and Fitness Initiative, Nutrition Leadership, and Integrated Marketing Communications; Image and Industry Relations; and Finance and Administration, Human Resources, Strategic Operations. During 2008, DMI successfully implemented a national staffing structure which utilizes personnel throughout DMI and the UDIA federation to plan and execute the national programs.

Since January 1, 1995, the Dairy Board and UDIA have developed their marketing plans and programs through DMI. DMI facilitates the integration of producer promotion funds through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The mission of DMI is to drive increased sales of and demand for U.S. dairy products and ingredients, on behalf of U.S. dairy farmers. DMI works proactively, and in partnership with leaders and innovators, to increase and apply knowledge that leverages opportunities to expand dairy markets.

DMI funds 1–to 3–year research projects that support marketing efforts. Six Dairy Foods Research Centers and one Nutrition Institute provide much of the research. Their locations and the research objectives can be found online in Appendix E–1 at www.ams.usda.gov/dairy. Additionally, lists of DMI's dairy foods and nutrition projects can be found online at www.ams.usda.gov/dairy in Appendices E–2 and E–3, respectively. Universities and other industry researchers throughout the United States compete for these research contracts.

At its inception, the DMI Board of Directors consisted of 12 dairy farmers from the Dairy Board and 12 dairy farmers from the UDIA Board. An amendment to the articles of incorporation of DMI to expand the DMI Board size took effect January 1, 2001, and the expanded DMI Board (77) now comprises all Dairy Board (36) and all UDIA (41) members. Voting is equalized between the Dairy Board and UDIA.

The committees for program activities are comprised of board members from the Dairy Board and UDIA. The Dairy Board and UDIA separately must approve the DMI budget and annual plan before they can be implemented. In October 2007, both boards approved the 2008 unified dairy promotion plan budget and national implementation programs. Similar to previous plans, the 2008 unified dairy promotion plan continued to support the underlying theme of investing dollars where the consumers are — not where dairy cows are. The unified dairy promotion plan was consistently implemented in the top 150 demand–building consumer markets nationwide.

DMI, through Qualified Programs, hosted dairy director regional planning forums across the country to review and create marketing strategies for development of the unified dairy promotion plan. These forums are designed to create one unified dairy promotion plan and allow opportunity for Qualified Program board members to ask questions, raise concerns, and offer their thinking on the plan's direction and development.

At the 2008 forums, dairy directors across the country reviewed and endorsed a unified marketing plan that continued to focus on (1) 3–A–Day of Dairy™ for Stronger Bones, a nutrition–based marketing and education program developed to help solve the Nation's calcium crisis and increase consumption of milk, cheese, and yogurt; (2) "New Look of School Milk" which includes efforts to improve the school milk experience for the Nation's children through improvements in packaging, flavors, and availability; (3) Foodservice, where funds are invested to help promote the expansion of flavors and the range of packaging for milk in foodservice and restaurants, as well as other dairy product offerings; (4) Partnerships and innovation, which include efforts to help provide consumers dairy products when, where, and how they want them; and (5) Dairy Image and Confidence, which aims to protect and enhance consumer confidence in dairy products and the dairy industry through correcting misinformation and inaccurate claims against dairy. The success of the unified marketing plan relies heavily upon DMI's ability to expand partnerships with processors, retailers, schools, health professional organizations, and manufacturers.

The joint Dairy Board and UDIA Board committee structure provides the framework for DMI program activities. The Dairy Board and UDIA Board Chairs assign their respective board members to the following joint program committees: Products and Relationships; Producer and Industry Relations; Industry Priorities; and Export, Ingredients and Science. Each committee elects a Chair and Vice–Chair. The joint committees and the DMI staff are responsible for setting program priorities, planning activities and projects, and evaluating results. The Joint Evaluation Committee continued to operate in 2008. During 2008, the Dairy Board and UDIA Board met jointly six times.

The following information describes Dairy Board and UDIA program activities along with new programs and initiatives implemented in 2008.

National Dairy Council®/School Marketing

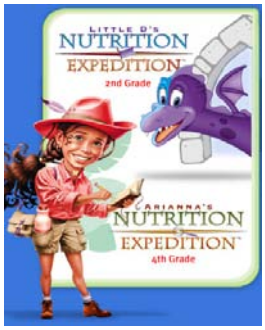
The National Dairy Council® www.nationaldairycouncil.org (NDC), the nutrition marketing arm of DMI, has been the leader in dairy nutrition research, education, and communication since 1915. NDC provides timely, scientifically sound nutrition information to the media, physicians, dieticians, nurses, educators, consumers, and other health professionals. NDC continues to work closely with school foodservice professionals and milk processors vis–à–vis the benefits of offering an enhanced milk product in the school cafeteria. The foundation of these efforts is comprised of the results of a year–long School Milk Pilot Test conducted in 2002. Currently, more than 55 processors now offer milk in single–serve plastic resealable containers on the school meal line and supply 10,700 schools representing nearly 6.3 million students nationwide. This number grows each

year as DMI continues to implement its "New Look of School Milk" initiative and represents over 160 million pounds of additional milk sold each year. DMI–funded market research shows that improving students' school milk experience can help recapture school milk consumption of up to 400 million gallons lost since 1993.

NDC also continued its active support and participation in the Action For Healthy Kids® (AFHK) initiative. AFHK (www.actionforhealthykids.org) was created in response to the Healthy Schools Summit in 2002, and its mission is to inform, motivate, and mobilize schools, school districts, and States to chart a healthier course for the Nation's children and adolescents. AFHK is comprised of 51 State teams (including all 50 States and the District of Columbia) and a partnership of more than 40 national organizations and Government agencies spanning education, health, fitness, and nutrition arenas. AFHK, in partnership with the National Football League, continued to promote ReCharge! Energizing After–school,™ the first nationally distributed after–school program that fully integrates nutrition and physical activity through teamwork–based strategies for youth in grades 3–6.

National Dairy Council®/Nutrient Rich Foods Coalition

The activities of the Nutrient Rich Foods Coalition (Coalition) continued in 2008, with the NDC and other Coalition members from all food groups dedicated to working with scientific researchers to develop an approach to address the complete nutrient package of a food and how to maximize nutrients from the calories they consume. Through research and education, the Coalition aims to shift the way people choose foods and beverages, from focusing on single "nutrients to avoid" to understanding the complete nutrient package as a way to build better diets and improve diet quality. On the science front, the Coalition worked in 2008 to present its current findings on a scientifically sound and validated definition of nutrient density, which was called for by the advisory committee of the 2005 Dietary Guidelines for Americans. The Coalition also developed tools to help health professionals and media spread the word about the importance and ease of choosing nutrient–rich foods first. The Coalition published additional studies in 2008 on nutrient–rich foods in academic journals and garnered the support of prominent nutrition thought–leaders, with its scientific advisory panel of third–party experts continuing to guide the science.



In addition to reaching kids through the classroom with "Pyramid Cafè" and "Pyramid Explorations™," NDC continued its distribution of "Little D's Nutrition Expedition" and "Arianna's Nutrition Expedition" as the primary focus of nutrition education activities in 2008. Similar to "Pyramid Cafè" and "Pyramid Explorations™," these two programs also are targeted to second and fourth grades and reach millions of students with messages that low fat and fat–free milk and dairy products are a key

part of a healthy diet. Survey results continue to show a high utilization rate for these programs. These programs and other resources are available for teachers, school foodservice professionals, and consumers at: www.nutritionexplorations.org.

Research

In 2008, milk and dairy–related nutrition and product research was continued in the following areas:

1. The role of milk and milk products in the prevention of colon cancer and reduction of blood pressure.
2. Establishing the genetic basis for the activity of probiotic cultures.
3. Demonstration of milk consumption by teens to meet their calcium needs without adversely affecting weight.
4. The contribution of dairy's nutrient package in the development and maintenance of strong bones.
5. Investigation of the added value of fortification through the use of probiotics, nutraceuticals, nutrient delivery, and flavor enhancement.
6. The impact of differing milk options and experiences in schools on childhood fluid milk consumption behavior and attitudes.
7. The role of dairy as part of a heart–healthy diet.
8. The role of calcium–rich dairy products in weight loss and maintenance.

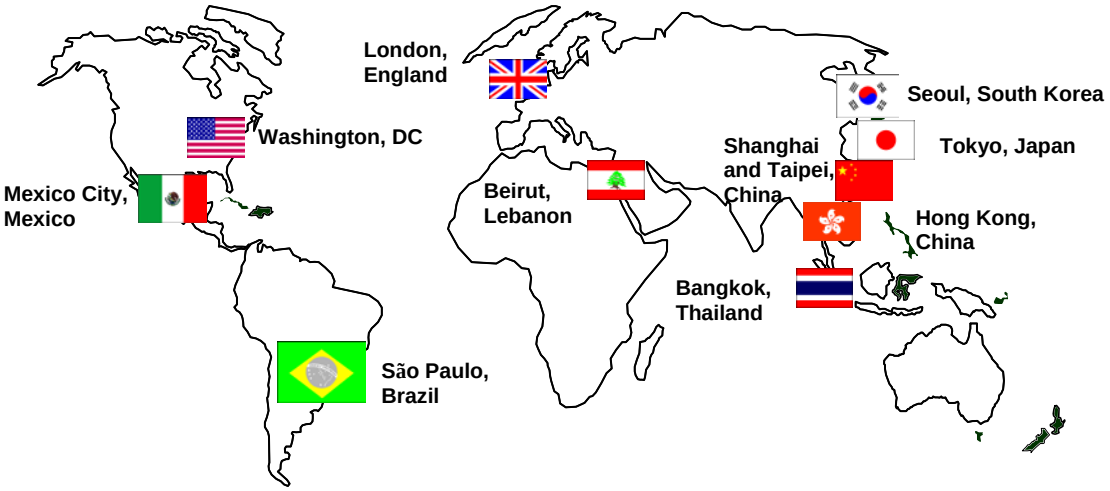
Export and Dry Ingredients

DMI's export enhancement program is implemented by the U.S. Dairy Export Council (USDEC). USDEC receives primary funding from three sources: DMI, USDA's Foreign Agricultural Service (FAS), and membership dues from dairy cooperatives, processors, exporters, and suppliers. In 2008, USDEC received $11.8 million from DMI; $5.8 million from USDA's Market Access Program, Foreign Market Development Program, and other FAS programs that support commodity groups in promotion of their commodities in foreign markets; $829,000 from membership dues; and $1.4 million from other sources. USDEC began its 13th year of operation in 2008, and its total budget was $19.98 million.

USDEC has offices in Washington, D.C.; Mexico City, Mexico; Tokyo, Japan; Seoul, South Korea; Hong Kong, Taipei, and Shanghai, China; Bangkok, Thailand; Beirut, Lebanon; London, England; and São Paulo, Brazil (Figure 1–1). In 2008, strong global demand in the first half of the year for dairy protein led to another record year for dairy exports. Export shipments gradually weakened as the year progressed, and U.S. suppliers finished 2008 with the first negative quarter (-29 percent) since 2006. Softened demand, the global economic crisis, and increasing milk production in Oceana and South America all contributed to the downturn in exports.

Export data confirm that U.S. dairy product export value reached $3.8 billion while volume reached 2.5 billion pounds in 2008 (Figure 1–2). In 2008, 10.8 percent of total U.S. milk solids

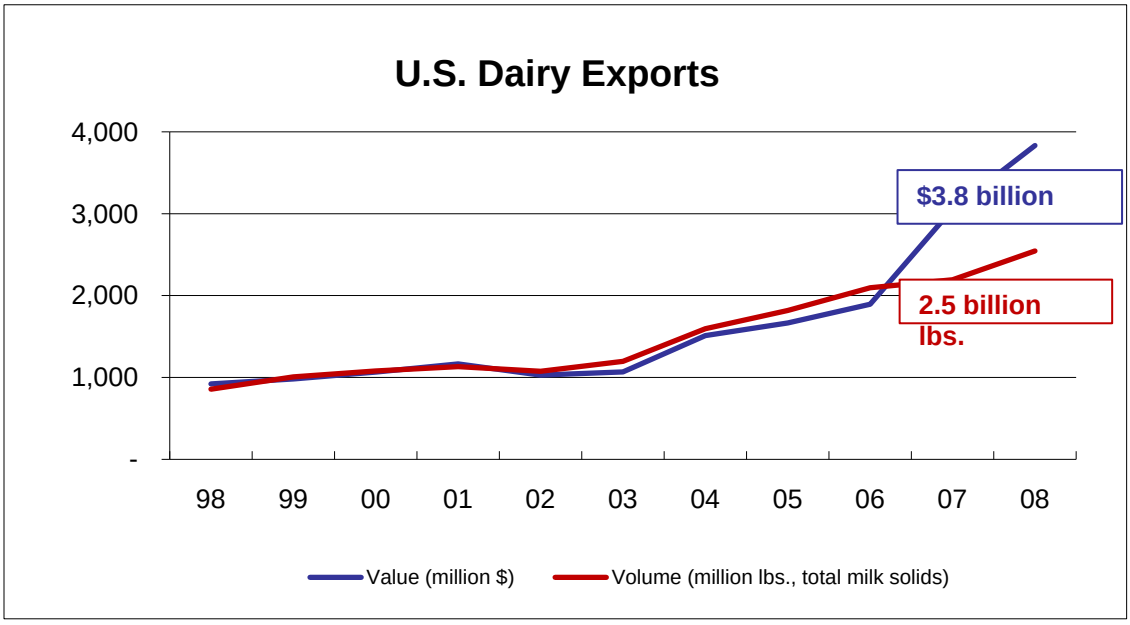
Figure 1–1. USDEC Offices.



were exported, while imports represented 4.0 percent. For comparison, in 2007, exports represented 9.5 percent of U.S. milk solids production and imports were greater at 4.4 percent (Figure 1–3).

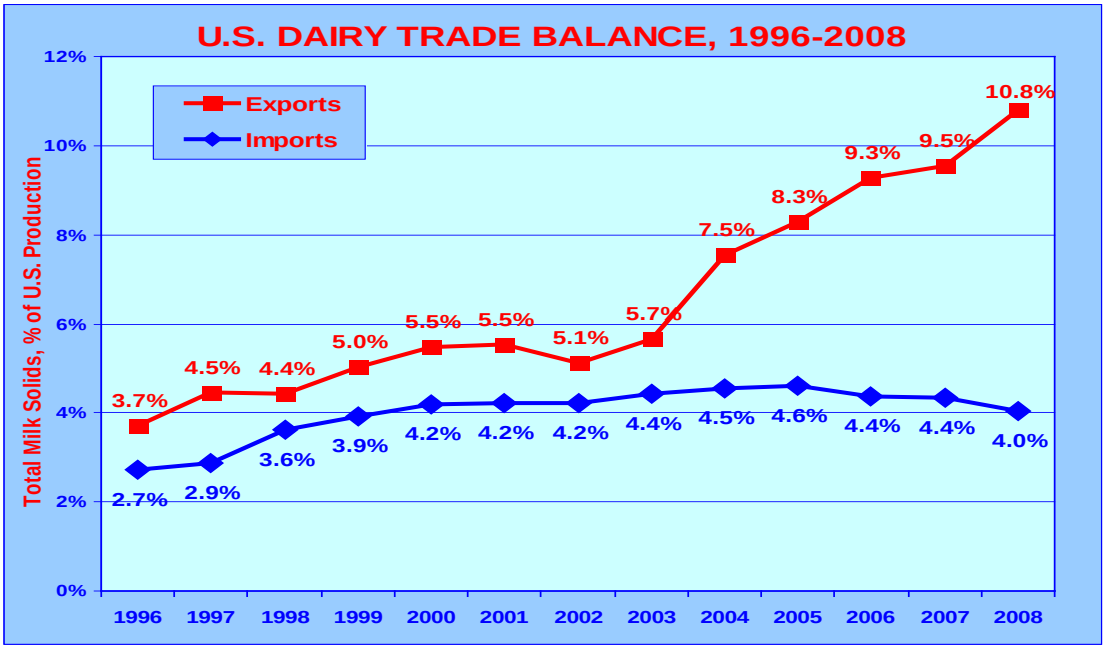
Export gains in 2008 occurred in most product categories. By volume, the major U.S. dairy exports were skim milk powder/nonfat dry milk (+51 percent), whey proteins (-17 percent),

Figure 1–2. Value and Volume of U.S. Dairy Exports.



Source: USDEC, USDA

Figure 1–3. U.S. Dairy Trade Balance, 1996–2008.



Source: USDEC, USDA

cheese (+32 percent), and lactose (+2 percent). Mexico, Southeast Asia, and Canada remained the largest destinations for U.S. dairy products. USDEC continued working to improve the export capabilities of domestic dairy companies by providing up–to–date information on market conditions, global trade trends, and regulatory requirements for export.

Ongoing reverse trade mission activities provide opportunities for domestic dairy product suppliers to meet potential importers visiting the United States.

DMI's 2008 ingredients program was conducted through DMI's Innovation and Ingredients Program (Innovation Program) and through the Web site www.innovatewithdairy.com. DMI's Innovation Program supports dairy product and nutrition research, ingredient applications development, and technical assistance for the dairy, food, and beverage industries. Producer–funded product research and innovation, along with insights into consumer preferences, are tools that DMI provides to U.S. dairy ingredient suppliers to help sell U.S. dairy ingredients to food and beverage manufacturers. Dairy, food, and beverage manufacturers look to DMI as a partner and resource. With food and beverage manufacturers, DMI provides know–how and laboratory and professional resources to help develop or improve foods using dairy ingredients.

DMI's Innovation Program hosted the 2008 Dairy Innovation Forum (Forum) in Scottsdale, Arizona. The invitation–only Forum continued a DMI tradition of bringing together top decision makers in science and marketing to develop ways to increase consumption of dairy products. Participants included industry representatives such as dairy processors and cooperatives, food manufacturers, Government officials, ingredient suppliers, State and regional representatives, and university researchers. The Forum continued to focus on innovation — a key to the future of

the dairy and dairy ingredient industries. Additionally, the Forum aimed to allow top industry experts to share the latest dairy product innovations, strategic insights, research, technological advances and trends that can help the dairy industry take advantage of growth opportunities. DMI publications that support the Innovation Program include: (1) *Dairy Council Digest*–published six times per year and focuses on the latest dairy nutrition research relevant to dairy, food and beverage manufacturers and health professionals; (2) *Ingredient Specification Sheets*–cover technical basics of a variety of dairy ingredients and are updated as new data is available; (3) *Dairy Herald*–reports periodically on how food formulators and markets can take advantage of taste, cost, functional, and nutritional appeal of dairy ingredients; (4) *Application Monographs*–published as necessary, provide a comprehensive look at how whey protein and other dairy ingredients can be used in foods and beverages for different functionality needs; (5) *Tools for Innovation*–a periodic supplement from DMI and *Dairy Foods* magazine that covers dairy product trends and research; (6) *Innovations in Dairy*–a technical bulletin, published two to three times a year on specific topics in dairy products, ingredients, processing, and packaging; and (7) *Dairy Business View*–an e–newsletter published bi–monthly with *Dairy Foods* magazine and covers dairy industry news, new technologies, business trends, innovation, and research.

3–A–Day™ of Dairy for Stronger Bones

The 3–A–Day™ of Dairy for Stronger Bones (3–A–Day™) marketing and nutrition education campaign was officially launched on March 3, 2003, and continued in 2008. The program objectives are to increase total consumption of dairy products and reinforce dairy as the leading source of calcium by providing simple guidance about dairy food selections. The development of the program was a joint dairy industry effort led by DMI. A key component of the 3–A–Day™ program is the logo, which appears on packages and labels of milk, cheese, and yogurt products containing 20 percent or more of the daily value of calcium.

Health professional outreach remained a critical component of the 3–A–Day™ program. The American Academy of Family Physicians, the American Academy of Pediatrics, the American Dietetic Association, and the National Medical Association all continued their support and partnership with DMI and 3–A–Day™. The National Hispanic Medical Association and the School Nutrition Association are the latest health professional organizations to partner with dairy to educate the public about dairy's role in a healthy diet and the need to consume three servings of milk, cheese, and yogurt daily. By working with key health professional partners like these, DMI continued to provide a clear, practical message to the public on the importance of dealing with the Nation's calcium crisis. Combined, these organizations represent more than 250,000 health professionals nationwide. DMI's 3–A–Day™ advisory panel, comprised of leaders from these organizations along with other nutrition experts, continued to help guide the overall campaign as well as nutrition philosophy and principles.

Innovation Center for U.S. Dairy

Dairy producers, processors and manufacturers announced an unprecedented agreement to collaborate on pre–competitive initiatives through a new Innovation Center for U.S. Dairy (Innovation Center). The goal of the initiative is to accelerate industry innovation throughout the supply chain to grow sales in an increasingly competitive consumer marketplace.

The Innovation Center was established by dairy farmers through DMI. It is the first organization of its kind to bring together milk producers, processors and manufacturers under one organization to collaborate on major issues affecting the dairy industry. The Innovation Center held its inaugural meeting on July 1, 2008, in Rosemont, Illinois.

The Innovation Center provides a forum for the entire dairy industry to work together to offer consumers the products they want — when and where they want them — and increase dairy sales through pre–competitive collaboration. It combines the collective resources of the industry to provide consumers with nutritious dairy products and foster industry innovation for healthy people, healthy products, and a healthy planet. The Board of Directors for the Innovation Center represents leaders from across the dairy value chain, including producers and chief executives of the Nation's leading processors, manufacturers, and brands. The Innovation Center is supported and staffed by DMI. The priorities include: Sustainability, Health and Wellness, Product Development, Information and Communications, Regulatory Issues (excludes pricing), Consumer Confidence, and Globalization.

The Innovation Center will move its priorities forward through enlisting cross–industry Operational Committees charged with developing action plans. These committees and purposes include: Health and Wellness Committee — to increase category sales and demand for dairy products by identifying and meeting the health and wellness needs and desires of consumers; Product Development and Information Committee — to act as the steward of the pre–competitive innovation assets and resources of the industry; Globalization — to provide a strategic analysis of the global dairy landscape to provide a common understanding of the challenges, opportunities, and threats posed by increasing globalization to the U.S. dairy industry; and Sustainability — to provide consumers with the nutritious dairy products they want in a way is that is economically viable, environmentally sound, and socially responsible.

Sustainability Summit

In June 2008, dairy leaders announced an industry–wide commitment and action plan to reduce fluid milk's carbon footprint while increasing business value, from farm to consumer. The action plan was an outcome of the industry's first Sustainability Summit for U.S. Dairy, a gathering of 250 leaders representing producers, processors, non–governmental organizations, university researchers and Government agencies held in Rogers, Arkansas, June 16 to June 19. The plan focuses on operational efficiencies and innovations to reduce greenhouse gas emissions while ensuring financial viability and industry growth.

The summit attendees recommended a number of actions, including: (1) Reduce energy use in the milk supply chain by developing technologies for next generation milk processing on the farm and in the plant; (2) establish a mechanism to optimize returns to the dairy industry from a carbon credit trading system that encourages the reduction of greenhouse gas emissions; (3) reduce carbon emissions and increase energy efficiency for dairy farmers and processors through financially viable best management practices and tools that calculate individual farm energy and alternative energy opportunities; (4) supply green power to communities by expanding the use of methane digesters; (5) stimulate development of low–cost, low–carbon, consumer–acceptable packaging; and (6) reduce cooling costs and emissions associated with refrigeration by expanding economically feasible, environmentally responsible, and consumer–accepted dairy products. Only those projects that are within the parameters of the Dairy Act and Dairy Order will be funded by the checkoff program.

The summit, held in conjunction with the University of Arkansas' Applied Sustainability Center, was the first major step in a comprehensive dairy industry–wide initiative bringing together producers, processors, and others to identify and address sustainability opportunities. The innovative ideas and initiatives advanced by the summit participants will be further refined for possible testing and evaluation. The goal will be to field–test several prototype projects to determine their real–world viability as ways to reduce greenhouse gas emissions.

Communications and Technology

Consumers receive mixed messages through the media about the nutritional value and benefits of food. DMI worked to provide consumers with education and information based on sound nutritional science and communicated the value of dairy products to consumers as well as to health professionals and educators. DMI also worked to inform dairy farmers about how their assessment dollars were being used. The organization continued to communicate to dairy producers and other industry audiences through publications (such as the annual report, joint newsletters with Qualified Programs, and dairy cooperative check inserts), dairy industry events (including major trade shows and producer meetings), and media relations (including press releases, feature placement, and farm broadcast interviews). DMI continued its "Dairy Ambassadors" program, which uses a select group of dairy producers to deliver consistent messages about the dairy promotion program to producers and other industry audiences.

DMI continued its support for butter through cooperation and public relations activities with the American Butter Institute, including the Web site www.butterisbest.com, a consumer resource center with current cooking trends and ideas, butter recipes, and links to other butter–related Web sites. DMI also continued to work with the Wisconsin Milk Marketing Board to execute co–funded retail butter promotion activities. The national effort helped to drive incremental retail butter sales in select markets across the United States.

Another activity of the Communications and Technology program was the issues management program. The objective of this program is to identify, monitor, and manage key issues that may influence consumer perceptions of dairy products. DMI coordinated its issues management activities with Qualified Programs as well as with other dairy and agricultural groups. The organization worked with these groups to bring forth sound, science–based information to

address consumer issues, and continued a proactive program to educate consumers and to reinforce the positive attributes of dairy foods, dairy farmers, and dairy farming practices to this audience.

As part of an effort to help protect the image of dairy producers and the dairy industry among the public, DMI continued its Web site, www.dairyfarmingtoday.org. The site educates the public about how today's dairy producers care for their animals, protect the land, and produce safe, wholesome milk.

Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs

Qualified Programs are certified annually by the Secretary of Agriculture. To receive certification, the Qualified Program must: (1) conduct activities that are intended to increase human consumption of milk and dairy products generally; (2) have been active and ongoing before passage of the Dairy Act, except for programs operated under the laws of the United States or any State; (3) be primarily financed by producers, either individually or through cooperative associations; (4) not use a private brand or trade name in its advertising and promotion of dairy products (unless approved by the Dairy Board and USDA); and (5) not use program funds for the purpose of influencing governmental policy or action (7 CFR §1150.153). A list of the Qualified Programs is provided online at www.ams.usda.gov/dairy in Appendix F.

The aggregate revenue from the producers' 15–cent per hundredweight assessment directed to the Qualified Programs in 2008 was $189 million (approximately 10 cents out of the 15–cent assessment). See Appendix B–7 and Appendix B–8 at www.ams.usda.gov/dairy for aggregate income and expenditure data of the Qualified Programs.

Some of these Qualified Programs participate in cooperative efforts conducted and coordinated by other Qualified Programs and/or other organizations such as DMI, the Dairy Board, and UDIA. Their goal in combining funding and coordinating projects is more effective and efficient management of producers' promotion dollars through larger, broad–based projects. For example, UDIA coordinates nationally through DMI the programs and resources of 18 federation members and their affiliated units to support the unified marketing plan.

National Fluid Milk Processor Promotion Board

The National Fluid Milk Processor Promotion Board (Fluid Milk Board), as authorized in the Fluid Milk Act, administers a fluid milk promotion and consumer education program that is funded by fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase fluid milk consumption, and maintain and expand markets and uses for fluid milk products in the contiguous 48 States and the District of Columbia.

The Secretary of Agriculture appoints 20 members to the Fluid Milk Board. Fifteen members are fluid milk processors who each represent a separate geographical region, and five are at–large members. Of the five at–large members, at least three must be fluid milk processors and at least one must be from the general public. Four fluid milk processors and one public member

serve as at–large members on the current Fluid Milk Board. The members of the Fluid Milk Board serve 3–year terms and are eligible to be appointed to two consecutive terms. The Fluid Milk Promotion Order (Fluid Milk Order) provides that no company shall be represented on the Board by more than three representatives. Current Fluid Milk Board members are listed online in Appendix A–2 at www.ams.usda.gov/dairy. A map of the Fluid Milk Board regions can be found online at www.ams.usda.gov/dairy in Appendix H–2.

The Fluid Milk Board elects four officers: Chair, Vice Chair, Secretary, and Treasurer. Fluid Milk Board members are assigned by the Chair to the Fluid Milk Board's program committees. In 2008, the Fluid Milk Board made a significant strategic shift from having the committees focused by discipline (advertising, promotions, and public relations) to having three committees focused by consumer target (Moms, Teens, and Hispanics) with the fourth committee focused on business development and research to address the Fluid Milk Board's concern that it provides the best program priorities, planning activities and projects, and evaluating results. The Fluid Milk Board maintained the Finance Committee that reviews all program authorization requests for funding sufficiency, the Fluid Milk Board's independent financial audit, and the work of the Board's accounting firm. The Fluid Milk Board met three times during 2008.

The National Fluid Milk Processor Promotion Program (MilkPEP) is funded by a 20–cent per hundredweight assessment on fluid milk products processed and marketed commercially in consumer–type packages in the contiguous 48 States and the District of Columbia. The program exempts from assessment those processors who process and market 3 million pounds or less of fluid milk products each month, excluding fluid milk products delivered to the residence of a consumer. Assessments generated $107.2 million in 2008. The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California Milk Processor Board. The amount returned to California from 2008 assessments was $10.4 million. The California fluid milk processor promotion program uses the funds to conduct its promotion activities, which include the "*got milk?*®" advertising campaign.

The actual income and expenses for 2007–2008 as well as USDA's oversight and evaluation expenses for 2007–2008, and the Fluid Milk Board's approved budget for 2009 can be found online at www.ams.usda.gov/dairy in Appendix B. Appendix C, also found online at www.ams.usda.gov/dairy, contains an independent auditor's report for the period of January 1 through December 31, 2008. The Fluid Milk Board's administrative expenses continued to be within the 5–percent–of–assessments limitation required by the Fluid Milk Order.

Medical and Scientific Activities

The Fluid Milk Board's Medical Advisory Board (MAB), comprised of academic, medical, and health care professionals with expertise relevant to the health benefits of fluid milk, met twice in 2008. The MAB provides guidance to the Fluid Milk Board's development of key nutritional and health messages for consumers and health professionals. MAB members assisted the Fluid Milk Board in continuing relationships with health and health professional organizations such as the American Academy of Pediatrics, the American Dietetic Association, and the American Heart Association. They also appeared as medical professionals in the media, providing science–based statements supporting the health benefits of milk.

The medical and scientific activities of the Fluid Milk Board also included preparing press materials and acting as spokespersons on breaking research with relevance to fluid milk. The MAB worked over the past year to inform others in the scientific community of the new and emerging research showing that three servings of milk each day as part of a daily nutrition plan may help people maintain a healthy weight, and that consuming milk after exercising can aid in muscle recovery and rehydration. These communications and activities continue to highlight milk's nutritional profile that includes nine essential vitamins and minerals.

National Fluid Milk Programs

The Fluid Milk Board continued to execute a generic national fluid milk processor promotion program. The fluid milk marketing programs are research–based and message–focused for the purpose of positively changing the attitudes and purchase behavior of Americans regarding fluid milk. MilkPEP's primary objectives are to increase the consumption of fluid milk and to identify and support growth opportunities for the fluid milk industry. For 2008, the fluid milk marketing plans were designed to conduct marketing and promotional activities emphasizing milk's role in weight maintenance and refueling after exercise. Many communication media were used to accomplish these objectives, including television and print advertising, press releases, promotions, Internet, and others. The program's target audiences included women and moms, teens, and Hispanics.

The *got milk?*®/Milk Mustache advertising campaign, continued to provide the basis for advertising activities and other program delivery methods. A description of the 2008 program activities follows.

Sponsorships

The Fluid Milk Board continued leveraging its multi–year partnership with the Walt Disney Corporation®. The sponsorship provides a unique opportunity to raise milk's image among teens and young adults by highlighting the message that milk is a great beverage of choice for active teens and for athletes of all ages. As part of the partnership, milk continued to be "the official training fuel" of Disney's Wide World of Sports™, while the Milk House, a state–of–the art facility that hosts more than 30 championships and 20 tournaments for more than 40 different amateur sports (including baseball, football, soccer, volleyball, and inline hockey) annually, remained the centerpiece arena. The Milk House features prominently displayed *got milk?*® signage and milk mustache posters throughout the complex.

The Fluid Milk Board sponsored the Scholar Athlete Milk Mustache of the Year (SAMMY) program for the tenth year and awarded 25 high school students from various regions across the United States a $7,500 scholarship. Each applicant was required to list his/her high school achievements and tell why milk is an important beverage to include in his/her daily regimens. This year SAMMY received more than 65,000 applications. In addition to the scholarship award, each of the 25 winners were inducted into the SAMMY Hall of Fame and featured in a special milk mustache advertisement which appeared in *USA Today*, *Sports Illustrated*, and *ESPN*

magazine. Winners were selected by milk mustache celebrity judges and honored during the awards ceremony at Disney's Milk House.

Advertising

The Fluid Milk Board advertising program consisted of television and print advertising as well as media–driven promotions. The advertisements highlighted specific, relevant health–benefit messages about milk and its nutrient content, while media–driven promotions served to extend the advertising campaign.

The "Little Victories" television advertisement was modified to encourage women to include low fat or fat–free milk as part of their daily diet to promote milk's weight maintenance benefits. The commercial prominently featured women being active with their families and consuming milk.

Fluid milk print advertisements produced in 2008 included celebrity advertisements targeting moms and women; celebrity advertisements with the active, bone growth, refuel, and healthy weight messages targeting teen boys and girls; contest and sweepstakes announcements and winners; Hispanic outreach; school milk posters; and trade advertisements. The Fluid Milk Board leveraged the logo for milk's message: "the Campaign for Healthy Weight, Milk Your Diet." Appendix G, which can be found at www.ams.usda.gov/dairy, includes thumbnail images of the Fluid Milk Board's television and print advertisements, public relations, and promotion efforts.

The national Hispanic advertising campaign continued as part of industry outreach to the growing Hispanic population. The advertisements continued to feature the popular tagline, *"Más leche, Más logro"* ("More milk, More achievement"), which reminds Hispanic moms to include low fat or fat–free milk to promote milk's healthy weight benefits. Print advertising featured celebrities Alicia Villareal and Charytín Goyco along with several Hispanic advertorials, brochures, and television commercials designed to complement the general market's weight maintenance message with an integrated Hispanic overlay. Hispanic consumers were directed to www.eligeleche.com for more information on Hispanic healthy weight activities.

Promotions

The Fluid Milk Board conducted promotions to help increase fluid milk sales in retail outlets. The promotions worked to move more milk out of the grocery store refrigerator and to increase sales in other retail outlets such as convenience stores, independent grocery stores, drug stores, and mass merchandisers. For some promotions, the Fluid Milk Board worked with partners to increase the appeal to consumers. Promotional activities continued to focus on feature incentives to increase advertisements, displays of milk, and programs offering prizes directly to consumers

to help drive incremental purchases. Qualified Programs played an important role in the execution of these retail programs.

The Fluid Milk Board conducted four national promotions and a back–to–school feature incentive program in 2008. The first promotion, "Make a Splash with Curves," a 4–week retail promotion program launched in March, included in–store displays of promotional clings and wobblers encouraging women to purchase milk and collect three milk caps, take them to their local participating Curves® location, and receive three free weeks' trial membership. Additionally, at Curves® locations, posters informed members of the chance to win 1 of 24 free 2–year memberships at Curves® fitness centers by entering online at www.whymilk.com.

The second promotion, "Chief Health Officer" (CHO), launched on Mother's Day in May, celebrated moms. The retail component promoted the $100,000 grand prize CHO salary. In–store signage of wobblers and clings prompted moms to go to www.whymilk.com each day to enter. Additionally, the Milk Mustache Mobile tour supported the CHO program from April to September. Tour attendees were asked to "mominate" their mom by providing a video explaining why they have the best mom. One winner was selected and she received her own Milk Mustache ad. A Hispanic overlay, Super Mamá, was created as part of the retail component and the Milk Mustache Mobile Tour.

The third promotion showcased milk's value message: "milk gives you great nutritional bang for your buck." It coincided with milk's ad launch of financial expert Suze Orman sharing that even with today's economy, the cost of a serving of milk is about a quarter a glass, and with milk's nine essential nutrients, it contains the best nutritional value for the consumer's dollar. The promotion featured an online sweepstakes where consumers could win $100 in groceries.

During the back–to–school timeframe, the Fluid Milk Board conducted an all–milk feature incentive program bringing the Refuel with Chocolate Milk message to moms for the first time. The program promoted milk, and especially chocolate milk, as a great beverage choice for mom to help refuel her kids after their sports activities. In–store point–of–sale materials included banners, wobblers, and static clings to aid retailers in creating displays in the dairy case.

The final promotion, "Chocolate Milk —The Official Drink of Halloween," was a flavored milk feature incentive program that rewarded retailers for feature ad and display activity. Held in October, the program promoted flavored milk as a healthy treat for moms to give her kids at Halloween.

Promotional point–of–sale materials included banners, wobblers, and static clings to aid retailers in creating exciting in–store displays. This promotion also included a Hispanic component, *Día de Los Muertos*, or "Day of the Dead." Appendix G, which can be found online at

www.ams.usda.gov/dairy, includes thumbnail images of the Fluid Milk Board's promotional activities.

Public Relations

The public relations programs continued to focus on (1) the nutritional benefits of milk; (2) emerging scientific studies that highlight milk's benefits; (3) leveraging the high interest generated by the celebrities and the *got milk?*®/Milk Mustache campaign; and (4) preparing for and responding to misinformation and negative news about milk or the educational campaign. A wide variety of initiatives were implemented to reach specific target audiences. Almost 2 billion media impressions were garnered through the integrated public relations program. The program provided support for the four national retail promotions by helping to build public awareness and increase retailer participation.

For the 11th consecutive year, the Milk Mustache Mobile Tour made its way around the United States. This year's tour, "Chief Health Officer," (CHO) ran from April through August, covering 75 cities nationwide, with 8 cities conducting Hispanic overlays. Events included Curves® workout equipment, fluid milk sampling, and health assessments by a nutritional expert. This year the tour trucks' signage was dedicated to moms and featured celebrity moms Marg Helgenberger, Mariska Hargitay, and Charytín Goyco. The CHO tour provided consumers a "Weighing In on the American Diet" report detailing Americans' eating habits and encouraging Americans to eat right, move more, and choose three glasses of low fat or fat–free milk daily as part of a healthy diet and to help maintain a healthy weight.

The 2008 "Refuel Your School" program encouraged high school sports teams to show how they recover with chocolate milk. Twenty–five winners were awarded $1,000 to support fitness and nutrition programs and a special *got milk?*® recognition assembly.

Additionally, MilkPEP continued to raise consumer awareness through television, radio, print, and online stories as well as visiting cities nationwide to promote low fat chocolate milk as a recovery drink to participants in local walk/runs and other sporting events and by engaging local processors. Research in the *International Journal of Sport Nutrition and Exercise Metabolism* featured a study which encouraged low fat chocolate milk as a recovery beverage after strenuous exercise. The study found that cyclists who drank the low fat chocolate milk were able to pedal nearly twice as long in the second round of exercise than those who consumed the carbohydrate replacement drink and as long as those who consumed the fluid replacement drink.

The Fluid Milk program also addressed the growing need of processors and retailers in response to the new Supplemental Nutrition Program for Women, Infants and Children (WIC) guidelines that would be more restrictive on the purchase of full fat milk. MilkPEP's solution was to

provide educational materials regarding the nutritional equivalency of low fat and fat–free milk. Bi–lingual posters and brochures were produced and sent to State WIC offices to educate participants. Materials were also made available for order by processors and retailers to use in their local markets.

MilkPEP continued providing processors access to customizable National Programs, such as the Milk Mustache Mobile, and related media materials at www.milkpep.org to use in their own public relations efforts. Additionally, the Web site provided a daily email to processors for breaking news, a list of dietetic spokespersons for use as a resource, processor success stories, and links to a searchable library of medical research studies.

Brochures, news releases, and other information on milk advertising and promotions were made available to consumers through Web sites www.whymilk.com, www.bodybymilk.com, and www.eligeleche.com.

Business Development and Research

The Business Development and Research committee (BDR) is a joint effort of the Fluid Milk Board, processors, and suppliers. This ongoing effort was established to address barriers to fluid milk consumption not targeted by the advertising, promotion, and public relations activities.

Over the years, BDR, formerly known as the Fluid Milk Strategic Thinking Initiative (FMSTI), has conducted market tests and studies in various business channels to develop proven ways to increase milk sales and subsequently turned these studies into customer–friendly processor materials which may be found at www.milkdelivers.org. These materials include reports on milk's opportunities in vending, foodservice, convenience and drug store, supermarket, and school foodservice channels. Some of the materials included are brochures focusing on new ways to get kids to drink more milk; vending sales kits containing results from the Multi–Channel Vending Test; and many other reports and studies published in prior years highlighting opportunities for increasing milk sales.

Complete reports, studies, executive summaries, and press releases for the Fluid Board's ongoing processor initiatives are available for processors on the Web site www.milkpep.org. Customers can also visit www.milkdelivers.org or call the milk hotline at 1–800–945–MILK (6455) for copies of presentations, videos, and marketing materials.

School Marketing

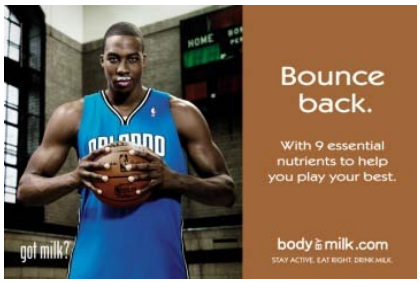
The Fluid Milk Board continued its efforts to increase milk sales in schools. The "Capturing the School Milk Opportunity" seminars continued with a focus on reaching out directly to School Nutrition Professionals. The seminars present a myriad of options that can be implemented to improve school milk sales. The 2008 seminar series focused on school State organizations across the country.

The "Spotlight On" program continued in 2008 and recognized School Nutrition Professionals who actively encouraged students to improve their health by consuming more milk. The

program rewarded one contestant per month and a grand prize winner at the end of the year. Monthly winners received *got milk?*® cooler barrels for their schools and iPods® for themselves. Entrants shared their stories via essays submitted on www.milkdelivers.org. The program was open to various school influencers including food service directors, administrators, and board officials. MilkPEP posted all entries on the Web site in order to inspire more success stories and to provide ideas to other schools to improve their milk opportunities to students such as adding new flavors and packaging; hosting milk sampling days; or adding milk to the à la carte selections.

The Fluid Milk Board expanded its School Image Poster Program for the 2008–2009 school year to help educate students and school food service professionals about the role milk plays in good nutrition. Kits were sent to 45,000 participating public middle and high school foodservice directors in August for the beginning of the school year promoting the BodyByMilk℠ (BBM℠) campaign, which spoke to teens directly about a healthy lifestyle that included drinking milk. Kits contained truck–sized posters, static clings, and banners to be displayed in school cafeterias. In the BBM "Drink Milk Get Music" program, teens were rewarded for drinking milk with free music downloads. Smaller posters were sent to schools with cafeteria size limitations. More than 60,000 public elementary schools received posters with traditional health messages such as the "nine essential nutrients active bodies need."

This year's posters featured various artists, actors, and athletes such as Miley Cyrus, Dwight Howard, All–American Rejects, Taylor Swift, Amanda Bynes, Steve Nash, Masi Oka, Olympic athletes (male and female versions), and Hayden Panettiere. The posters and other school materials are displayed online at www.usda.ams.usda.gov/dairy in Appendix G. The BBM℠ message encouraged teens to drink three glasses of low fat or fat–free milk daily to give their bodies the nutrients they need, like protein to build muscle. Additionally, some studies suggest teens who choose milk tend to be leaner than those who choose sugary beverages. The BBM℠ program integrated messaging in print advertising and promotion in the schools' cafeterias, online, and at retail. Students were encouraged to save their UPC codes from milk containers and redeem them online for free music downloads at www.bodybymilk.com.



Chapter 2
USDA Activities

Dairy Programs, of USDA's Agricultural Marketing Service (AMS), has day–to–day oversight responsibilities for the Dairy Board and the Fluid Milk Board. Dairy Programs oversight activities include reviewing and approving the Dairy and Fluid Milk Boards' budgets, budget amendments, contracts, advertising campaigns, and investment plans. Approval of program materials is a major responsibility of Dairy Programs. Program materials are monitored for conformance with provisions of the respective Acts and Orders, USDA's My Pyramid, the U.S. Dietary Guidelines for Americans, and other legislation such as the Nutrition Labeling and Education Act.

Dairy Programs continues to ensure that the collection, accounting, auditing, and expenditure of promotion funds is consistent with the enabling legislation and orders; to certify Qualified Programs; and to provide for evaluation of the effectiveness of both promotion programs' advertising campaigns. Dairy Programs assists the Boards in their assessment collection, compliance, and enforcement actions.

Other Dairy Programs responsibilities relate to nominating and appointing Board members, amending the orders, conducting referenda, and conducting regular management reviews. Dairy Programs representatives attend full Board and committee meetings, and other meetings of consequence to the program.

National Dairy Promotion and Research Board Oversight

Nominations and Appointments

The 36 members of the Dairy Board who administer the program serve 3–year terms, with no member serving more than two consecutive terms. Dairy Board members must be active dairy producers and are selected by the Secretary of Agriculture from nominations submitted by producer organizations, general farm organizations representing dairy producers, Qualified Programs, or other interested parties.

Thirty–one nominations were received by USDA for 12 expiring terms and 1 reapportioned seat for the Dairy Board. The reapportioned seat was based on the Board's request to USDA that member representation be modified to reflect the current geographic distribution of milk produced in the 48 contiguous States. The Board is required to review the geographic representation of its members every 3 to 5 years. A proposed rule was issued on July 24, 2008, with a 15–day comment period. No comments were submitted regarding the modifications, and a final rule adopting the proposed changes was published in the *Federal Register* on September 30, 2008.

A press release issued on November 13, 2008, announced the appointment of eight new members and five incumbents. Twelve appointees will serve 3–year terms, November 1, 2008, through October 31, 2011, and one appointee from Region 2 will serve a 2–year term, November 1, 2008, through October 31, 2010.

Newly appointed were: John B. Fiscalini, Modesto, California (Region 2, shortened term); Ronald E. Shelton, Greeley, Colorado (Region 3); Harold A. Wick, Austin, Colorado (Region 3); Byron A. Lehman, Newton, Kansas (Region 4); Kenton W. Holle, Mandan, North Dakota (Region 5); Sharon K. Laubscher, Wonewoc, Wisconsin (Region 6); Larry B. Jaggers, Glendale, Kentucky (Region 8); and Ellen H. Paradee, Grand Isle, Vermont. (Region 13).

Reappointed to serve second terms were: Ronald L. Koetsier, Visalia, California (Region 2); William R. D. Anglin, Bentonville, Arkansas (Region 4); Carl F. VanDen Avond, Luxemburg, Wisconsin (Region 6); Douglas D. Nuttelman, Stromsburg, Nebraska (Region 7); and Carl A. Schmitz, Wadesville, Indiana. (Region 9).

A list of current Dairy Board members can be found online at www.ams.usda.gov/dairy in Appendix A–1. Appendix H–1, which can also be found online at www.ams.usda.gov/dairy, is a map of the contiguous 48 States depicting the 13 geographic regions under the Dairy Promotion and Research Order (Dairy Order).

Organic Exemption

Effective February 14, 2005, any persons producing and marketing solely 100 percent organic products were exempted from paying assessments to any research and promotion program administered by the Agricultural Marketing Service (70 FR 2743, published January 14, 2005). The final rule amended Section 1150.157 of the Dairy Order. In States that have mandatory assessment laws, dairy producers are only exempt from the Federal assessment. Producers are still responsible for remittance of State assessments. In 2008, approximately 863 dairy producers were granted exemptions representing approximately 1.2 billion pounds of production. The Dairy Order requires producers to re–apply annually to continue to receive the exemption.

Amendment to the Dairy Act

On November 10, 2005, the President signed the Agriculture Appropriations Bill (Bill), which modified Section 781 of the Dairy Production Stabilization Act of 1983 (7 U.S.C. *et seq*.). The modification implemented a 1–year allowance (during fiscal year 2006) for the Dairy Board to obligate and to expend funds for any activity to improve the environment and public health. Additionally, the Bill required the Secretary of Agriculture to review the impact of any expenditure pursuant to this change and include the review in the 2007 report of the Secretary of Agriculture to Congress on the dairy promotion program.

At its January 2006 meeting, the Dairy Board passed a motion authorizing expenditure of up to $6 million, administered and overseen by the National Milk Producers Federation (NMPF), to fund a portion of the National Air Emissions Monitoring Study (NAEMS). The NAEMS is intended to collect air emission data and create tools that all dairies can use, whether they are participating in the Environmental Protection Agency Air Quality Compliance Agreement (Consent Agreement) or not, to determine whether their air emission levels are in excess of the Clean Air Act thresholds and Comprehensive Environmental Response, Compensation and Liability Act and Emergency Planning and Community Right to Know Act reporting requirements. The Consent Agreement was developed to offer protection to operations while

research is conducted to determine the size and type of farms that may have regulatory responsibilities. Currently, little air emissions data exists for dairy operations.

NMPF is responsible for representing the interests of the Dairy Board with the Agriculture Air Research Council (AARC), through two board members on the AARC. The AARC is the non–profit organization formed to administer the air emission study and manage the accounting of the funds for all livestock and poultry groups involved.

The latest report of the AARC notes that the study is approximately 50 percent complete. The study is projected to conclude in the first half of 2010; and the focus will shift to wrap–up, equipment reconciliation, site decommissioning, and final data transfer to the U.S. Environmental Protection Agency (EPA). The EPA will have up to 18 months to complete the data interpretation.

Foreign Agricultural Service

The Secretary of Agriculture has delegated oversight responsibility for all foreign market development activities outside the United States to the USDA Foreign Agricultural Service (FAS) (7 CFR 2.43(a)(24)). FAS reviews the USDEC foreign market development plan and related export contracts. USDEC export contracts also are reviewed by AMS Dairy Programs to ensure conformance with the Dairy Act, Dairy Order, and with established USDA policies. In 2008, the USDA's Foreign Market Access Program and the Market Promotion Program provided matching funds to USDEC for dairy product promotion and market research in Japan, Mexico, Southeast Asia, South Korea, and Latin America.

Contracts

The Dairy Act and Dairy Order require that all contracts expending assessment funds be approved by the Secretary of Agriculture (7 CFR 1150.140). During 2008, Dairy Programs reviewed and approved 393 Dairy Board and Dairy Management Inc. (DMI) agreements, amendments, and annual plans. A list of contractors and corresponding Dairy Board initiatives approved by USDA can be found online at www.ams.usda.gov/dairy in Appendix D–1.

Contractor Audits

During 2008, DMI retained the certified public accounting firm Ernst & Young to audit the records of the following contractors: FoodMinds (public relations and communication), Team Services, LLC (marketing), Utah State University (research), RTC (marketing research), and Market Makers (export). These contractors represented expenditures totaling approximately $3.8 million. The audits did not reveal any findings. DMI continues to enhance procedures to improve management and internal controls over contracts.

Collections

The Dairy Act specifies that each person making payments to a producer for milk produced in

the United States and purchased from the producer shall, in the manner as prescribed by the Dairy Order, collect an assessment based upon the number of hundredweights of milk for commercial use handled for account of the producer and remit the assessment to the Dairy Board. The current rate of assessment is 15 cents per hundredweight of milk for commercial use or the equivalent thereof as determined by the Secretary of Agriculture.

The Dairy Act provides that dairy farmers can direct up to 10 cents of their 15–cent per hundredweight assessment to Qualified Programs. During 2008, the Dairy Board received about 5.05 cents per hundredweight of the 15–cent assessment.

Compliance

Compliance by responsible persons in filing reports and remitting assessments continues in a timely manner and at a high rate. No significant differences were discovered when comparing the audit results to what was reported by the responsible persons. The Dairy Board verifies that the credits claimed by responsible persons are actually sent to Qualified Programs. This verification is done by contract with each Qualified Program. When noncompliance exists, the Dairy Board takes initial action on the matter. If the Dairy Board is unsuccessful in resolving the violation, the matter is referred to USDA for further action.

Qualified Programs

Dairy Programs reviewed applications for continued qualification from 59 Qualified Programs. A list of the active Qualified Programs is provided online at www.ams.usda.gov/dairy in Appendix F. Consistent with its responsibility for monitoring the Qualified Programs, Dairy Programs obtained and reviewed income and expenditure data from each of the programs. The data reported from the Qualified Programs are included in aggregate form for 2007 and 2008 in Appendix B–7 and Appendix B–8 online at www.ams.usda.gov/dairy.

National Fluid Milk Processor Promotion Board Oversight

Nominations and Appointments

The 20 members of the Fluid Milk Board serve 3–year terms, with no member serving more than two consecutive terms. The Fluid Milk Promotion Order (Fluid Order) provides that no company shall be represented on the board by more than three representatives. Fluid Milk Board members who fill vacancies with a term of 18 months or less are permitted to serve 2 additional 3–year terms. Fluid Milk Board members are selected by the Secretary of Agriculture from nominations submitted by fluid milk processors, interested parties, and eligible organizations.

In a news release issued on February 18, 2009, the Secretary of Agriculture announced five reappointments and two new appointments to the Fluid Milk Board. Reappointed to serve a second term was Ed Mullins, Carlinville, Illinois (Region 9). Reappointed to serve their first terms after filling vacancies lasting less than 18 months were Jay S. Bryant, Reston, Virginia (Region 3); Charles S. Mayfield, Jr., Athens, Tennessee (Region 6); John R. Zuroweste, Dallas, Texas (Region 12); and Janey K. Thornton, Ph.D., (At–Large Public).

Newly appointed were: Timothy Kelbel, Cincinnati, Ohio (Region 15); and Miriam E. Brown, Des Moines, Iowa (At–Large Processor). The reappointed and newly appointed members were officially seated at the July 16–18, 2009, meeting, except for Janey K. Thornton, Ph.D., who resigned her position as the Board's public member. In a news release published on June 23, 2009, the Secretary of Agriculture announced the appointment of Mary A. Hill, (At–Large Public) to fill the vacant public seat. The terms for these appointees will expire on June 30, 2012.

A list of current Fluid Milk Board members can be found online in Appendix A–2 at www.ams.usda.gov/dairy. A map depicting the 15 geographic regions under the Fluid Milk Order can be found online at www.ams.usda.gov/dairy in Appendix H–2.

Order Amendment

A Final Rule, published in the May 21, 2008, *Federal Register* (73 FR 29389) with an effective date of July 1, 2008, adopted a proposal submitted by the Fluid Milk Board. Section 1160.213 of the Fluid Order was amended to reduce the burden of late payment fees applied to processors who underreport the amount of assessments they owe due to unintentional errors or miscalculations. Specifically, the amendment reduces late–payment charges provided that the processor has not made more than two reporting errors in the prior 12 months.

As a direct result of the amended Fluid Order, 7 of 88 total processors realized a reduction in late fees.

Program Development

The Fluid Milk Board contracted directly with Lowe Worldwide; DRAFTFCB; Weber Shandwick; and Siboney, U.S.A., to develop its mom and teen advertising, promotions, consumer education/public relations, and Hispanic advertising/public relations, respectively.

Contractor Audits

The Fluid Milk Board retained the certified public accounting firm of Snyder, Cohn, Collyer, Hamilton & Associates, P.C., to audit the records of Siboney, U.S.A., in order to determine if the agency had conformed to the financial compliance requirements specified in its agreement with the Fluid Milk Board for the period of January 1 through December 31, 2008.

The Fluid Milk Board continues to enhance its internal contract control system in order to ensure that the amounts invoiced to the Fluid Milk Board are in compliance with established contracts and procedures.

Compliance

Compliance by fluid milk processors in filing reports and remitting assessments continues in a timely manner and at a high rate.

Chapter 3
Impact of Generic Fluid Milk and Dairy Advertising and Promotion on Dairy Markets: An Independent Analysis

The Dairy Production Stabilization Act of 1983 (Dairy Act; 7 U.S.C. 4514) and the Fluid Milk Promotion Act of 1990 (Fluid Milk Act; 7 U.S.C. 6047) require an annual independent analysis of the advertising and promotion programs authorized by these Acts that operate to increase consumer awareness and sales of fluid milk and dairy products. Since 1998, economists from the Department of Applied Economics and Management at Cornell University have conducted the independent analyses of the National Dairy Promotion and Research Program (Dairy Program) and the National Fluid Milk Processor Promotion Program (Fluid Milk Program). In this chapter, the 2008 evaluation results of the effectiveness of the Dairy and Fluid Milk Programs are presented. The economic evaluation focuses on generic marketing activities by dairy farmers and fluid milk processors that are designed to increase the demand for fluid milk and dairy products. The results of two separate models are presented.

The first is a fluid milk–only demand model used to evaluate the economic impacts of all generic fluid milk marketing activities, of both programs, on fluid milk demand. The generic fluid milk marketing activities include fluid milk advertising and non–advertising marketing activities used to increase demand. Advertising includes all media activities such as television, print, radio, outdoor, and Web advertising by dairy farmers and fluid milk processors. Non–advertising fluid milk marketing includes health and nutrition educational programs, public relations, promotion programs, school milk programs, food service programs, retail programs, child nutrition fitness initiative, single serve milk promotions, value added marketing (issues/crisis, trade service communications, strategic research, and Real Seal), and trade service communications.

The advertising and non–advertising marketing variables represent all demand–enhancing activities by fluid milk processors and dairy farmers that have an impact within 1 year after being conducted. More recently, Dairy Management, Inc. (DMI), which is the national association[1] implementing a significant part of the Dairy Program, has conducted some marketing activities that require longer than 1 year to have an impact on demand. These activities are not included in this analysis. Non–demand enhancing activities that are not a part of this analysis include expenditures on overhead, longer–term business development programs, research, loans and grants, technical support, industry relations, and corporate technology. While the dairy farmers' and fluid milk processors' programs utilize various types of marketing strategies to increase fluid milk consumption, the effects of fluid milk marketing under both programs are combined because the objectives of both programs are the same and data cannot be satisfactorily segregated to evaluate the two programs separately.

[1] Dairy farmer assessments to promote fluid milk and dairy products are paid to the Dairy Board and 59 Qualified State or regional programs (QPs). In 2008, the Dairy Board accounted for $0.0505 of the $0.15 per hundredweight assessment on all milk, or about $94.4 million. The remaining $0.0995 per hundredweight, or about $188.8 million was accounted for by QPs. Promotion is carried out at the national level by DMI, which is a joint undertaking between the Dairy Board and United Dairy Industry Association (UDIA). UDIA is a federation comprised of 18 of the 59 QPs. DMI operations were supported by Dairy Board funds and contributions of $83.4 million from UDIA in 2008. The remaining QP funds were used locally by QPs to conduct their own advertising and promotion activities.

The second model is a combined fluid milk and dairy product demand model (measured in terms of domestic commercial disappearance) used to evaluate the economic impacts of all generic marketing activities for those products. This model, which is hereafter referred to as the "all–dairy products" model, is included because the dairy farmer programs now emphasize an "all–dairy" promotion strategy over product–specific campaigns. As in the fluid milk–only model, marketing activities in the all–dairy model include generic advertising and non–advertising marketing activities. Also, advertising and non–advertising marketing strategies are included as two separate variables in the demand model. Unlike the fluid milk–only model, the marketing activities in the all–dairy model include activities for all–dairy products (fluid and manufactured dairy products). This model provides a measure of the economic impact of all demand–enhancing, generic marketing activities by processors and farmers.

Highlights

While per capita fluid milk consumption has been declining for decades in the United States at about 1.0 percent per year, generic fluid milk marketing activities sponsored by fluid milk processors and dairy farmers have helped mitigate some of this decline. It is estimated that these marketing efforts have had a positive and statistically significant impact on per capita fluid milk consumption. Specifically, over the period 1995 through 2008, it is estimated that a 1.0 percent increase in generic fluid milk advertising expenditures resulted in a 0.06 percent increase in per capita fluid milk consumption when holding all other demand factors constant. Over the same period, it is estimated that a 1.0 percent increase in generic fluid milk non–advertising marketing expenditures resulted in a 0.032 percent increase in per capita fluid milk consumption when holding all other demand factors constant.

In terms of total consumption of fluid milk, generic fluid milk marketing activities increased fluid milk consumption by an average of 6.87 billion pounds per year. Put differently, had there not been generic fluid milk marketing conducted by the two national programs, fluid milk consumption would have been 9.9 percent less than it actually was over this time period. Hence, fluid milk marketing efforts by fluid milk processors and dairy farmers combined have had a positive and statistically significant impact that is partially mitigating declines in fluid milk consumption.

An average benefit–cost ratio (BCR) was computed for the Fluid Milk Program based on the period, 1998–2008. The BCR was 6.78, implying that, on average over the period 1998–2008, the benefits of Fluid Milk marketing programs have been 6.78 times greater than the costs, i.e., every dollar invested in Fluid Milk marketing yielded an additional $6.78 in industry net revenue. To make allowance for the error inherent in any statistical estimation, a 90 percent confidence interval was calculated for the average BCR. The estimated lower bound for the average BCR was 2.18. Hence, it is reasonable to conclude that this confidence interval gives credence to the finding that the benefits of the Fluid Program's marketing activities have been considerably greater than the cost of the programs.

In terms of the all–dairy product demand analysis, the average advertising elasticity for this period on a non–fat and fat basis was 0.034 and 0.027, respectively; a 1.0 percent increase in media advertising expenditures would increase per capita all–dairy product demand by 0.034 percent (nonfat basis) and 0.027 percent (fat basis). The average non–advertising marketing

elasticity for this period was 0.014 (nonfat) and 0.021 (fat); a 1.0 percent increase in media advertising expenditures would increase per capita all–dairy product demand by 0.014 percent (nonfat) and 0.021 percent (fat). Thus, the total marketing (advertising and non–advertising) effort by dairy farmers and fluid milk processors has had a positive and statistically significant impact on dairy consumption.

A BCR was calculated for the Dairy Program for the period of 1998 through 2008. The benefits of the Dairy Program were calculated as the change in dairy farmers' net revenue (producer surplus) due to demand enhancement from all marketing activities under the Dairy Program by way of increased sales and higher prices. The costs of the Dairy Program were calculated as the differences in total assessment revenues before and after the National Program was enacted. The results show that the average BCR for the Dairy Program was 5.49 (nonfat solids basis) and 7.07 (milk fat basis) from 1998 through 2008. This means that each dollar invested in generic dairy marketing by dairy farmers during the period would return between $5.49 and $7.07, on average, in net revenue to farmers. These BCRs apply to all of the Qualified Program's marketing programs, but exclude the longer term (programs that have no impact within a year) demand expansion programs conducted by DMI. The level of the marketing BCR suggests that the combined marketing programs supported by dairy farmers have been a successful investment.

The estimated lower bounds for a 90 percent confidence interval for the average BCR in the nonfat and fat models were 1.42 and 2.81, respectively. Hence, it is reasonable to conclude that these confidence intervals give credence to the finding that the benefits of the Dairy Program's marketing activities have been considerably greater than the cost of the programs.

Analysis of Generic Fluid Milk Marketing

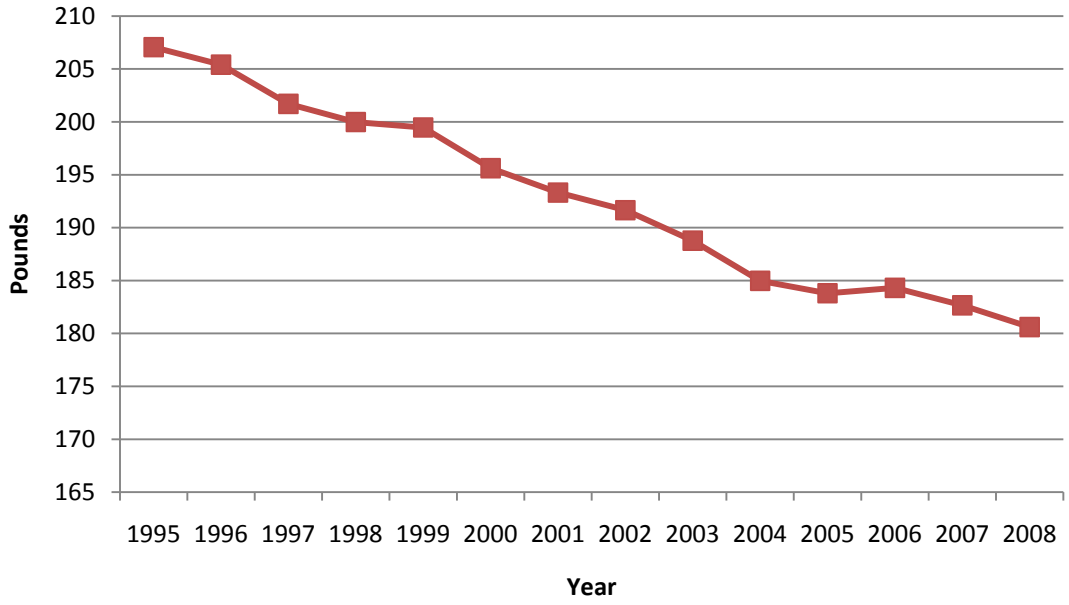
Per capita fluid milk consumption in the United States has been steadily declining for decades. Among the factors behind this decline are changes in U.S. demographics, changes in consumer preferences for fluid milk, how and where people consume food, changes in consumer income and retail fluid milk prices, changes in advertising and marketing by producers of beverages that compete with fluid milk, and changes in generic fluid milk advertising and marketing. The following is a brief graphical overview of changes in per capita fluid milk consumption and factors hypothesized to affect fluid milk consumption from 1995 through 2008. It is important to emphasize, however, that the decline in per capita fluid milk consumption has occurred over a significantly longer period of time than since 1995.

Figure 3–1 illustrates the declining trend in per capita fluid milk consumption[2] since 1995. From 1995 through 2008, annual per capita consumption declined by 12.8 percent. This translates into an average annual rate of decline of a little over 1.0 percent per year. Annual per capita consumption actually increased slightly from 2005 to 2006, increasing from 183.8 pounds to 184.3 pounds, but declined from 184.3 to 180.6 from 2006 to 2008.

One potential cause of declining per capita fluid milk consumption may be the increasing trend in food consumed away from home. As people consume more food away from home, fluid milk

[2] All consumption data used in this study were adjusted for leap year.

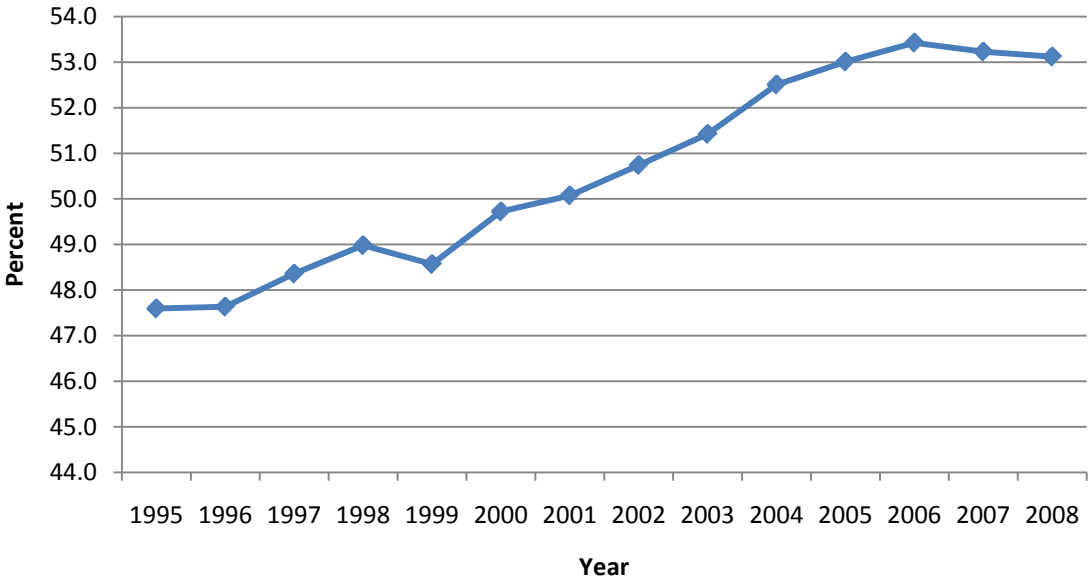
Figure 3–1. Per Capita Fluid Milk Consumption.



consumption may be diminished by the lack of availability of many varieties of fluid milk products at the Nation's eateries as well as the expanding availability of fluid milk substitutes. Many eating establishments carry only one type of fluid milk product, which causes some people who would normally drink fluid milk to consume a different beverage if the preferred fluid milk product is not available.

Figure 3–2 illustrates the trend in expenditures on food consumed away from home as a

Figure 3–2. Food Away From Home Expenditures as Percent of Total Food Expenditures.



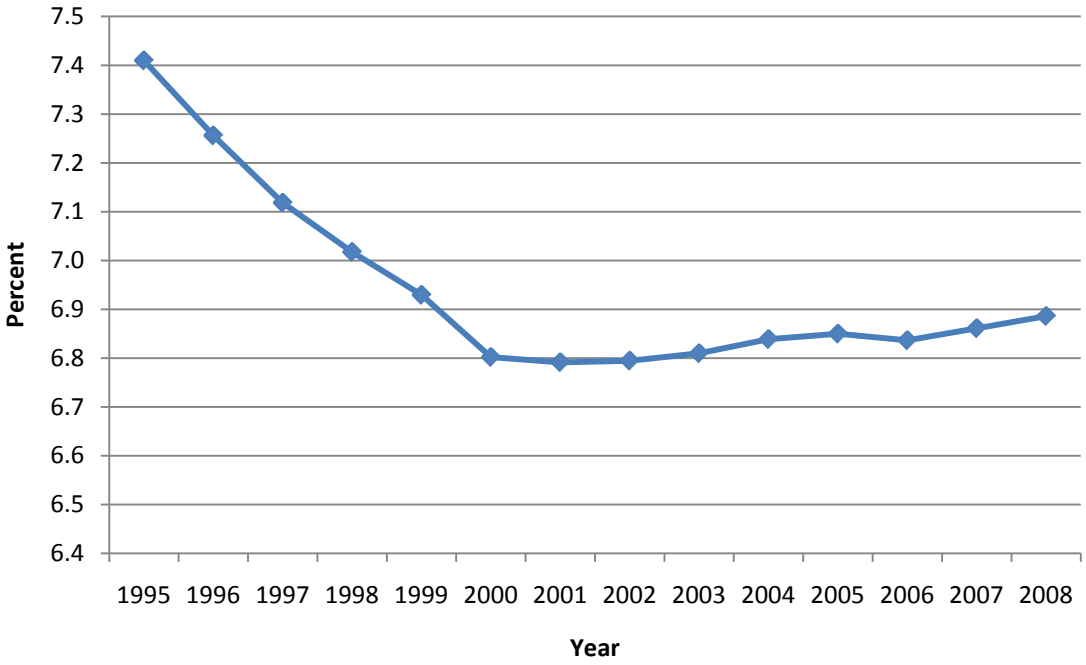
percentage of total food expenditures. From 1995 through 2008, the annual average percentage of expenditures on food consumed away from home increased by 11.6 percent. While there were some ups and downs in the percentage of food consumed away from home over this period, the general trend is increasing from 1995 through 2006. From 1998–1999, there was a small dip in food away from home expenditures as a percent of total food expenditures and the decline in per capita fluid milk consumption lessened considerably. More recently, food away from home expenditures as a percent of total food expenditures has decreased in 2 consecutive years, 2007 and 2008, and will likely decrease again in 2009. It is evident from Figures 3–1 and 3–2 that per capita fluid milk consumption and eating away from home are negatively correlated. Thus the increase in food consumed away from home appears to be responsible for some of the decrease in per capita fluid milk consumption.

A second factor for declining per capita fluid milk consumption may be changes in U.S. demographics. One important change is the proportion of young children in the population, which is lower than it was in 1995 (since 2002 the trend has increased marginally, but is still lower than it was in 1995). Since young children are one of the largest fluid milk–consuming cohorts, any decline in that cohort negatively impacts per capita fluid milk consumption.

Figure 3–3 shows the percentage of the population that was under 6 years old from 1995 through 2008, a segment of the population that decreased 7.1 percent between 1995 and 2000. Therefore, there is a positive correlation between per capita fluid milk consumption and this age cohort—both have declined since 1995. Note that since 2000, there has actually been a marginal increase in this age cohort, but it is still below levels in the mid–1990s.

Since 1995, the retail price of fluid milk products has generally been rising relative to the retail

Figure 3–3. Percent of Population Under 6 Years of Age.



price of other nonalcoholic beverages. This pattern is displayed in Figure 3–4. While there have been some periods since 1995 where retail fluid milk prices declined relative to other beverage prices, there is clearly an increasing trend over time making milk more expensive than other nonalcoholic beverages. From 1995 through 2008, annual average fluid milk prices rose 36.2 percent relative to other beverages. These retail fluid milk price increases are likely responsible for some of the decline in per capita fluid milk consumption. Between 2004 and 2006, the price of fluid milk relative to other beverages declined by 5.6 percent, which may be an important reason for the slight increase in per capita consumption in 2006. However, from 2006 to 2008, the retail price of milk relative to other beverages increased by 10.2 percent and per capita consumption declined by 1.0 percent.

Fluid milk's loss of market share to other beverages also may be due to aggressive marketing by competing beverage producers. Indeed, both dairy farmers and fluid milk processors started generic marketing programs to combat competing marketing from other beverage producers. Figure 3–5 displays the combined real generic fluid milk advertising expenditures divided by real bottled water plus soy beverage advertising. The general trend has been an erosion in the ratio of generic fluid milk advertising to competing beverage advertising. For example, in 1995, this ratio was 0.32, indicating that total generic fluid milk advertising was about one–third the total advertising budgets for bottled water plus soy beverages. By 2008, this ratio fell by almost one–half to 0.17. Hence, in terms of advertising, fluid milk has lost advertising market share to two of its main competitors, which likely had a negative impact on per capita milk consumption over this time period.

Figure 3–4. Retail Price of Fluid Milk Relative to Other Beverage Retail Prices.

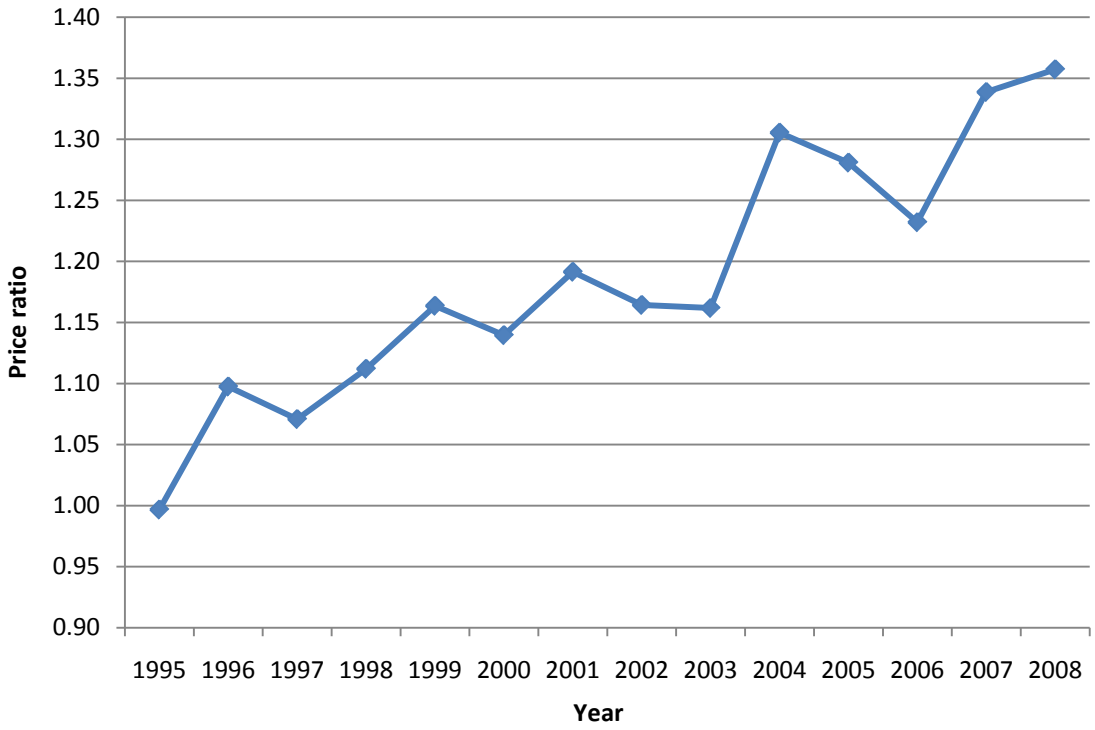
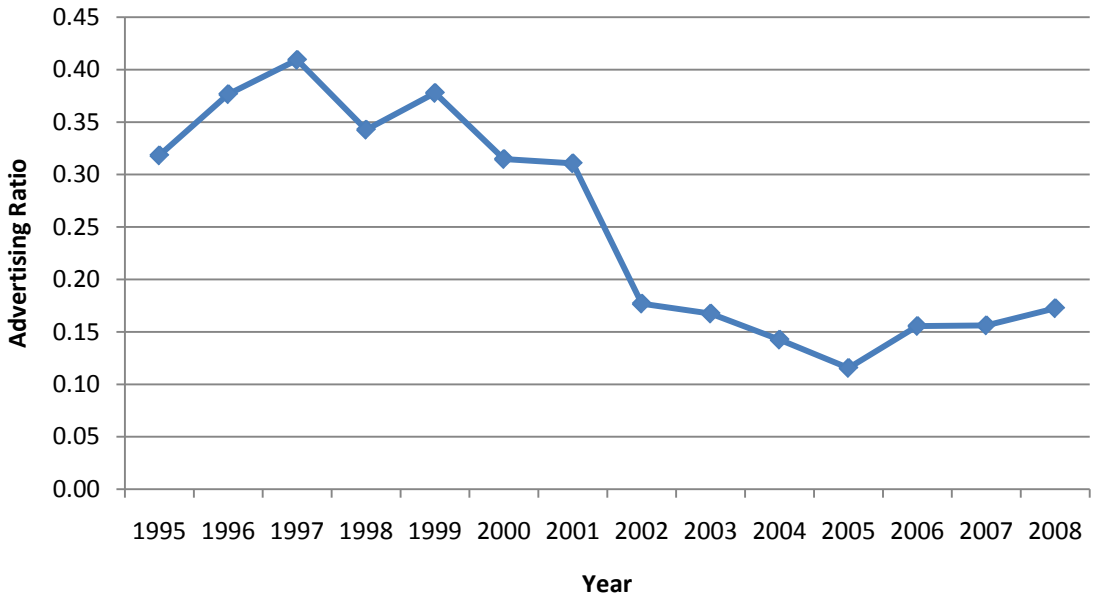
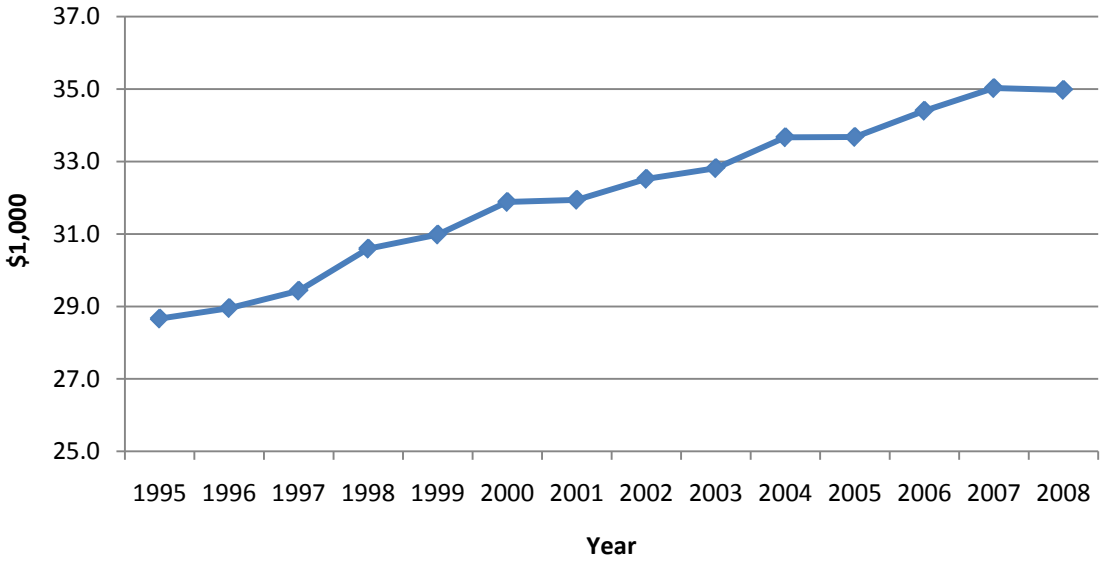


Figure 3–5. Generic Fluid Milk Advertising Divided by Bottled Water and Soy Beverage Advertising.



One factor that may have diminished some of the decline in per capita fluid milk consumption is the growth in real income over this period. Fluid milk is considered to be a "normal" good, which means that consumption increases as consumers' disposable incomes increase. Figure 3–6 illustrates the steady positive trend in real per capita disposable income (in 2008 dollars) from 1995 through 2008. Since 1995, real per capita income has increased by 22 percent, however, there was no growth from 2007 to 2008.

Figure 3–6. Real Per Capita Disposable Income, in 2008 Dollars.



Another factor that may have diminished some of the decline in per capita fluid milk consumption over part of this time period is generic marketing efforts by fluid milk processors and dairy farmers. The dairy farmer checkoff program is the largest checkoff program in the United States in terms of revenue and the third largest program is the fluid milk processor program.

Figure 3–7 shows generic fluid milk advertising real expenditures (in 2008 dollars) by dairy farmers and fluid milk processors. Over this period, dairy farmers, primarily through DMI, have significantly reduced their investment in generic fluid milk advertising. Real fluid milk advertising expenditures have fallen from $143.5 million in 1995 to just over $10 million in 2008, a 92.6 percent decrease. Since the Fluid Milk Program had its first full year of operation in 1997, its expenditures on fluid milk advertising have also declined from $97 million (1997) to $60.1 million in 2008, or 38.1 percent. Collectively, generic fluid milk advertising by both dairy farmers and fluid milk processors decreased by 70.6 percent.

Figure 3–8 shows generic fluid milk non–advertising marketing activities (in 2008 dollars) by dairy farmers and fluid milk processors. The trend in these expenditures has been the opposite of generic advertising. Dairy farmers have increased their annual expenditures of non–advertising marketing from almost $26 million in 1995 to $65.8 million in 2008, an increase of 154.2 percent. Fluid milk processors increased their expenditures in this category from $17 million in 1997 to $37.8 million in 2008, a 121.9 percent increase. Collectively, generic fluid milk non–advertising marketing expenditures by both dairy farmers and fluid milk processors increased by 141.4 percent.

Figure 3–9 shows combined generic fluid milk marketing (advertising and non–advertising)

Figure 3–7. Real Generic Advertising by Dairy Farmers and Fluid Milk Processors.

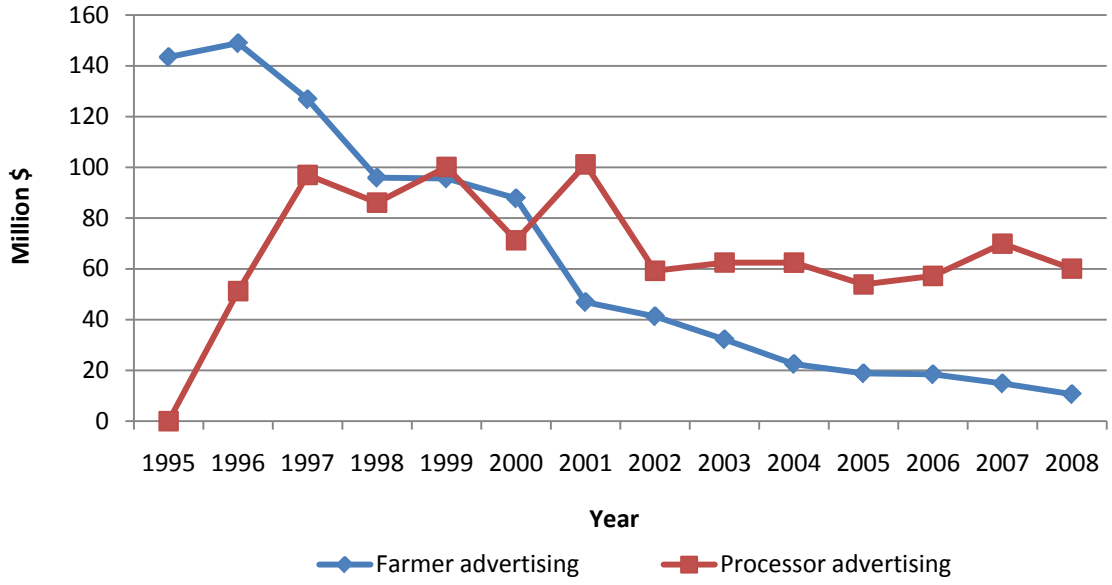
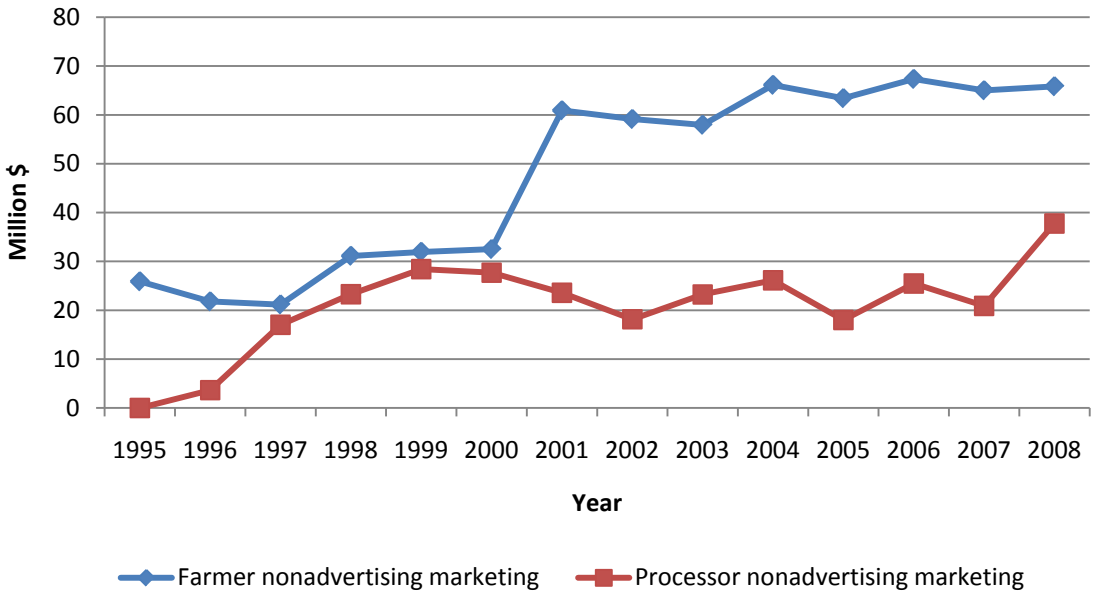
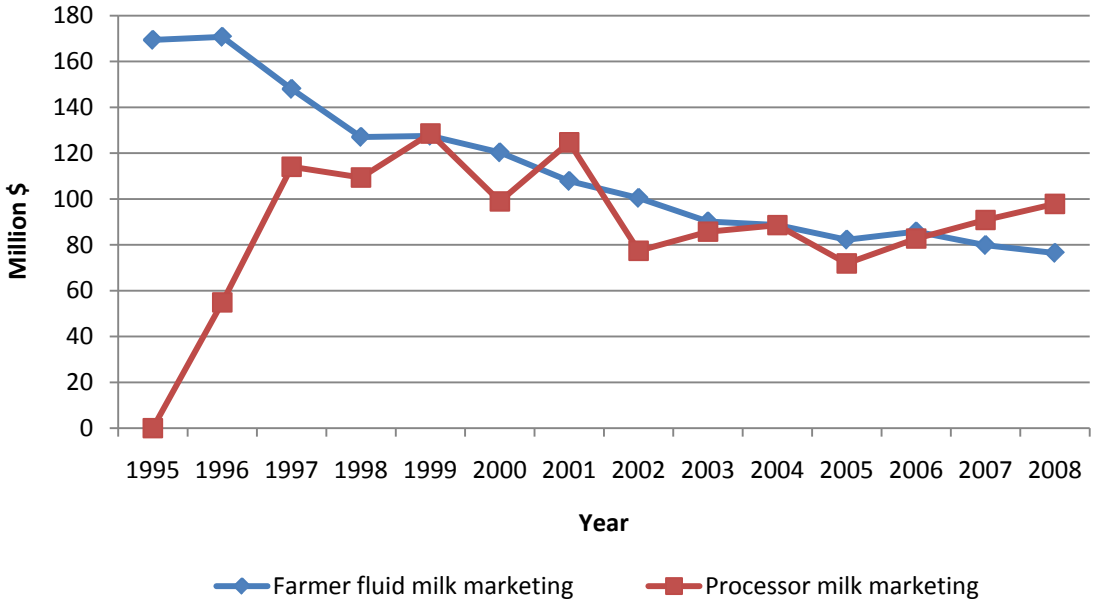


Figure 3–8. Real Generic Non–Advertising Marketing Expenditures by Dairy Farmers and Fluid Milk Processors.



activities (in 2008 dollars) by dairy farmers and fluid milk processors. The trend here has been negative for both farmers and processors. Dairy farmers have decreased their annual expenditures of combined fluid milk marketing from $169.4 million in 1995 to $76.5 million in 2008, a decrease of 54.9 percent. Some of this decline is due to inflation, which has eroded the

Figure 3–9. Real Generic Fluid Milk Marketing Expenditures by Dairy Farmers and Fluid Milk Processors.



purchasing power for marketing activities, but the primary reason for this decline has been a decision by dairy farmers to reduce expenditures on fluid milk marketing. Fluid milk processors decreased their combined generic marketing expenditures from $114 million in 1997 to $97.9 million in 2008, a 14.2 percent decrease. Almost all the decline in fluid milk processor generic milk marketing has been due to inflation eroding the purchasing power of their marketing dollars. Collectively, generic fluid milk marketing expenditures by both dairy farmers and fluid milk processors decreased by 38.5 percent since 1995.

Fluid Milk Model Estimation

To more formally evaluate the relationship between per capita fluid milk consumption and factors hypothesized to influence that consumption, we used an econometric modeling approach. Because there are factors other than generic marketing by dairy farmers and fluid milk processors that influence the demand for fluid milk, we used this model to identify the effects of individual factors affecting demand. The following variables were included as factors influencing per capita fluid milk demand: the consumer price index (CPI) for fluid milk; the CPI for nonalcoholic beverages, which was used as a proxy for fluid milk substitutes; the percentage of the U.S. population less than 6 years old; per capita disposable income; variables to capture seasonality in fluid milk demand; expenditures on food consumed away from home as a percentage of total food expenditures; expenditures on competing beverage advertising (bottled water and soy beverage advertising combined), expenditures on generic fluid milk advertising, and expenditures on generic fluid milk non–advertising marketing activities.[3] Since the goals of the farmer and processor marketing programs are the same with regards to fluid milk, all generic fluid milk advertising by both programs was aggregated into a single advertising variable, and all generic fluid milk non–advertising marketing by both programs was aggregated into a single non–advertising marketing variable.

The model was estimated with national quarterly data from 1995 through 2008. To account for the effects of inflation, prices and income were deflated by the CPI. Generic fluid milk advertising and competing advertising expenditures were deflated by a media cost index computed from annual changes in advertising costs by media type. Generic fluid milk non–advertising marketing expenditures were deflated by the CPI for all items. Because advertising has a carry–over effect on demand, past fluid milk advertising expenditures also were included in the model as explanatory variables using a distributed–lag structure.[4] Similar procedures were used to capture this carry–over effect for competing advertising.

The impacts of variables affecting demand can be represented with what economists call "elasticities." Elasticities measure the percentage change in per capita demand given a 1.0 percent change in one of the identified demand factors while holding all other factors constant.

[3] As mentioned in the introduction, the advertising expenditures include media expenditures for television, radio, print, and outdoor advertising, while the non–advertising marketing expenditures included funds spent on fluid milk public relations, sales promotions, nutrition education, retail programs, and sponsorships by dairy farmers and fluid milk processors.

[4] Specifically, a second–degree polynomial lag structure was imposed. The demand model included current advertising expenditures and 11 quarters of lagged advertising expenditures to capture the carry–over effect of advertising. Similarly, competing advertising included current and nine quarters of lagged expenditures. Non–advertising marketing expenditures were lagged six quarters.

Table 3–1 provides average elasticities for the period 1995 through 2008 for model variables, all of which have a statistically significant effect on consumption.[5]

The most important factors influencing per capita fluid milk demand are demographic changes and the proportion of food expenditures on food eaten away from home. While not as large in magnitude, retail fluid milk prices, income, expenditures on generic fluid milk advertising and non–advertising marketing efforts, and competing beverage advertising expenditures also impacted per capita fluid milk demand. Each factor is further discussed in detail.

The percentage of the population under 6 years of age was the most important factor affecting fluid milk consumption. This factor has an estimated elasticity of 0.706, which means that a 1.0 percent increase in this age cohort measure would result in a 0.706 percent increase in per capita fluid milk demand when holding all other demand factors constant. This result is consistent with previous studies, which show that one of the largest fluid milk–consuming segments of the population is young children. While this age cohort has declined since 1995, it has been slowly rising the last several years, which should have a mitigating influence on declining per capita fluid milk consumption.

The amount of food that is consumed away from home, measured in this model as per capita expenditures on food eaten away from home as a percentage of per capita expenditures on all

Table 3–1. Average Elasticity Values (1995–2008) for Factors Affecting the Per Capita Retail Demand for Fluid Milk.[a*]

Demand factor	**Elasticity**
Percent of population under 6 years of age	0.706*
Percent of food away from home expenditures	-0.499*
Per capita income	0.207*
Retail fluid milk price	-0.174*
Bottled water + soy beverage	-0.019*
Generic fluid milk advertising	0.060*
Generic fluid milk non–advertising marketing	0.032*

[a] Example: A 1.0 percent increase in the retail price of fluid milk is estimated to reduce per capita sales of fluid milk by 0.174 percent. For more information on the data used, see Table 3–5.
* All coefficients were statistically significant at the 1.0 percent significance level or less.

[5] The estimated model fit the data extremely well. Most variables were statistically significant at the 1.0 percent significance level or better. The adjusted goodness–of–fit measure indicated that the explanatory variables explained 97 percent of the variation in per capita fluid milk consumption. Various statistical diagnostics were performed and no statistical problems were found except for auto–correlation, which was corrected for using an autoregressive (AR1) error correction procedure.

food, has an elasticity of -0.499. This means that a 1.0 percent increase in the food consumed away from home would result in a 0.499 percent decrease in fluid milk demand when holding all other demand factors constant.

As mentioned previously, this negative relationship may be due to the limited availability of fluid milk products and high availability of fluid milk substitutes at many eating establishments, which frequently offer only one or two types of fluid milk beverages. One can hypothesize that because of these limited choices, some people who would ordinarily choose fluid milk choose another beverage instead. This result suggests the need to target the retail food service industry in an effort to increase away–from–home consumption.

Per capita disposable income has a positive and statistically significant impact on per capita fluid milk consumption. A 1.0 percent increase in real per capita income would result in a 0.207 percent increase in per capita fluid milk demand, holding all other demand factors constant. Similar to the price elasticity in magnitude, the income elasticity is consistent with the notion of fluid milk products as a staple commodity in the United States. With income up by 22 percent since 1995, this has lessened the decline in per capita fluid milk consumption. Holding all other factors constant, this 22 percent increase in real income increased per capita fluid milk consumption by 4.6 percent over this period.

Not surprisingly, the retail price of fluid milk has a negative and statistically significant impact on per capita demand. The results indicate that a 1.0 percent increase in the real retail price of fluid milk would result in a 0.174 percent decrease in per capita fluid milk quantity demanded. The magnitude of this elasticity is relatively small, which indicates that U.S. consumers' fluid milk purchasing behavior is relatively insensitive to changes in the retail price. This result, which is consistent with other studies, is likely due to the fact that fluid milk is generally regarded as a staple commodity in the United States. However, as described in the previous section, the retail price of fluid milk has increased substantially since 1995 (36.2 percent) relative to the price of other beverages. Consequently, the increase in fluid milk prices has significantly contributed to the decline in per capita consumption. For instance, had the real retail price remained constant since 1995 instead of increasing by 36.2 percent, per capita fluid milk consumption would have been 6.3 percent higher today.

Combined soy beverage and bottled water advertising also has had a negative impact on fluid milk demand during the study period. The estimated fluid milk demand elasticity with respect to soy beverage and bottled water advertising is -0.019, and statistically significant.

Finally, the generic fluid milk marketing activities conducted by fluid milk processors and dairy farmers have had a positive and statistically significant impact on per capita fluid milk demand. The average advertising elasticity is computed to be 0.06 and is statistically significantly different from zero at the 1.0 percent significance level. Thus, a 1.0 percent increase in generic fluid milk advertising would increase per capita fluid milk consumption by 0.06 percent holding all other demand factors constant. The generic non–advertising marketing elasticity is computed to be 0.032 and is statistically significant at the 1.0 percent significance level. In terms of relative elasticities, generic advertising is about 1.9 times more effective than non–advertising marketing. Even though generic fluid milk advertising appears to be more effective than

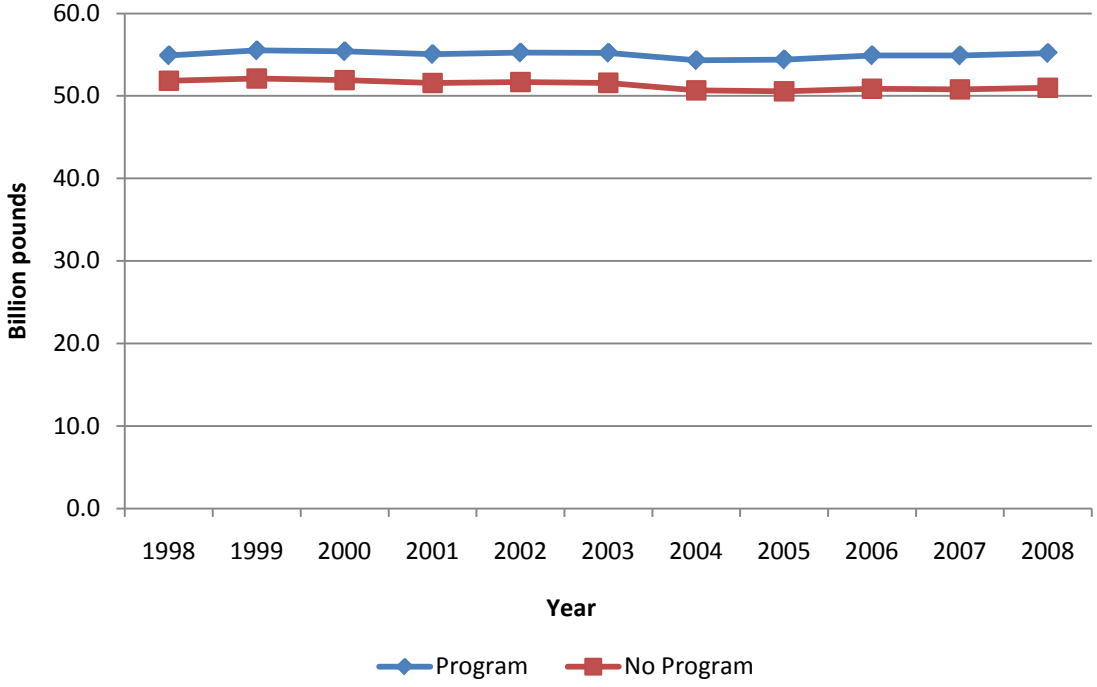
non–advertising marketing, the trend over time especially by DMI has been to phase advertising out of their marketing plans, while the fluid milk processors and some of the QPs still invest heavily in advertising.

Fluid Milk Model Simulation

To examine the impact of dairy farmer and fluid milk processor marketing on total consumption of fluid milk, the estimated demand equation was simulated for two scenarios for the period from 1998 through 2008: (1) a baseline scenario in which the combined fluid milk marketing (advertising and non–advertising) expenditures were equal to actual marketing expenditures under the two programs, and (2) a no–national–Dairy–Program, no–Fluid–Milk–Processor–Program scenario in which there was no fluid milk–processor–sponsored marketing and dairy–farmer–sponsored fluid milk marketing was reduced to 42 percent of actual levels to reflect the difference in assessment before the national program was enacted. A comparison of these two scenarios provided a measure of the impact of the national Dairy and Fluid Milk Programs.

Figure 3–10 displays the simulation results for annual fluid milk consumption for the two scenarios. These marketing activities were responsible for creating an additional 6.87 billion pounds more milk consumption each year on average. Put differently, had there not been generic fluid milk marketing conducted by the two National Programs, fluid milk consumption would have been 9.9 percent less than it actually was over this time period. Hence, the bottom line is that the fluid milk marketing efforts by dairy farmers and fluid milk processors combined have had a positive and statistically significant impact that is partially mitigating declines in per capita fluid milk consumption.

Figure 3–10. Simulated Milk Consumption With and Without Generic Fluid Milk Marketing.



Fluid Milk Processor Benefit–Cost Analysis

One way to measure whether the benefits of a program outweigh the cost is to compute a BCR. A BCR can be computed as the change in net revenue[6] due to generic dairy marketing divided by the cost of the checkoff program. In previous years, a BCR measure was not estimated for the fluid milk processor program because the necessary price data were unavailable. For this year's report, the necessary price data were obtained from a sampling of fluid milk processors and a BCR was calculated. To compute the BCR for the fluid milk processors' program,[7] the estimated demand equation was simulated for two scenarios for the period from 1998 through 2008: (1) a baseline scenario in which the combined fluid milk marketing (advertising and non–advertising) expenditures were equal to actual marketing expenditures under the two programs, and (2) a no–Fluid Milk Program scenario, in which there was no fluid milk–processor–sponsored marketing, but dairy farmer fluid milk marketing expenditures were set at historical levels. A BCR for the fluid milk processor program can be computed on the basis of the difference in market conditions between these two scenarios.

To estimate the BCR, an estimate of the supply response by fluid milk processors and a margin equation from the processor to retail price levels are necessary.[8] Using quarterly data from 1995 through 2008, a supply function for processors was estimated and the long–run own price elasticity of supply was computed to be 0.31 (i.e., a 1.0 percent increase in the processor price results in a 0.31 percent increase in quantity supplied of fluid milk products). For the margin equation, the retail price index was regressed on the wholesale processor price and a trend term. The three equations, retail demand equation, processor supply equation, and the margin equation, were used to simulate the processor market impacts of the Fluid Milk Program.

Table 3–2 presents the average quarterly impacts and BCRs (from 1998 to 2008) for the fluid milk processor program. The Fluid Milk Program's generic marketing had a positive impact on the price fluid milk processors received over this period under both assumed supply response cases. The average increase in price from 1998 to 2008 was 4.1 percent. In other words, had there not been any marketing by the Fluid Program, the average fluid milk processors' price would have been 4.1 percent lower from 1998 to 2008 than it actually was. The increase in overall fluid milk consumption due to the Fluid Program was 5.2 percent.

Fluid Milk Program marketing efforts had a positive impact on processor net returns over this period as well. The average increase in processor net returns from 1998 to 2008 was $746 million per year. In other words, had there not been any Fluid Milk Program marketing, average fluid milk processor net revenue would have been $746 million per year lower from 1998 to 2008 than it actually was.

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[6] "Net revenue" is defined as the aggregate gain in total fluid milk processor revenue from price and demand enhancements due to generic fluid milk advertising and non–advertising less the increase in supply costs for the additional milk marketed by fluid milk processors.

[7] A separate BCR is computed for the dairy farmers' program in the next section.

[8] All the results of the econometric estimation are provided in the following report: Kaiser, Harry M. "Measuring the Impacts of Generic Fluid Milk and Dairy Marketing." Research Bulletin, Department of Applied Economics and Management, Cornell University, 2009, which is available from the following Web URL: http://aem.cornell.edu/research/rb.htm.

Table 3–2. Average Market Impacts of Fluid Processor Generic Marketing Program, 1998–2008.

Item	
Change in processor price (percent)	4.1
Change in fluid milk consumption	5.2
Change in processor net returns ($ million per year)	746.0
Change in marketing costs ($ million per year)	110.2
Benefit–cost ratio	6.78
Lower bound of 90 percent confidence interval for BCR	2.18

How does the gain in processor net returns compare with the costs of the Fluid Milk Program? To answer the question, an average BCR was computed. A BCR greater than 1.0 implies that the total benefits of the Fluid Program exceed the costs. The average BCR from 1998 to 2008 was 6.78. This implies that, on average over the period 1998–2008, the benefits of Fluid Milk marketing programs have been 6.78 times greater than the costs, i.e., every dollar invested in the Fluid Milk Program's marketing yielded an additional $6.78 in industry net revenue.

To make allowance for the error inherent in any statistical estimation, a 90 percent confidence interval was calculated for the average BCR, providing a lower bound for the average BCR. One can be 90 percent "confident" that the true average BCR lies within those bounds. The estimated lower bound for the average BCR was 2.18. Since this lower bound is above 1.0, it is reasonable to conclude that these confidence intervals give credence to the finding that the benefits of the Fluid Program's marketing activities have been greater than the cost of the programs.

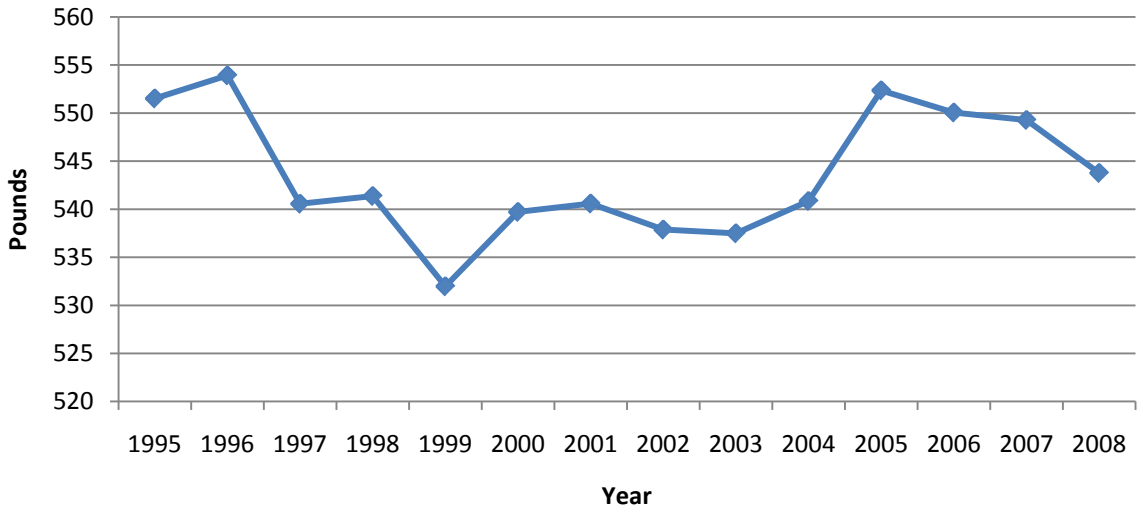
Questions often arise with respect to the accuracy of these BCR estimates. BCRs for commodity promotion programs are generally found to be large because marketing expenditures in relation to product value are small and, as such, only a small demand effect is needed to generate large positive returns. For example, generic milk marketing expenditures by fluid milk processors is only a tiny percentage of the recent average annual value of processor milk sales. The marketing activities resulted in modest gains in the quantity of milk products and a positive effect on processor prices, resulting in large positive net revenue from the marketing investment.

Analysis of All–Dairy Products Generic Marketing

The following is a brief graphical overview of changes in per capita domestic commercial disappearance of all dairy products and factors hypothesized to affect it from 1995 through 2008. Figures 3–11 and 3–12 display the per capita domestic commercial disappearance of all dairy products since 1995 on a solids nonfat and fat basis, respectively.[9] The trends in per capita consumption are completely different for the fat basis measure compared with the solids nonfat based measure.

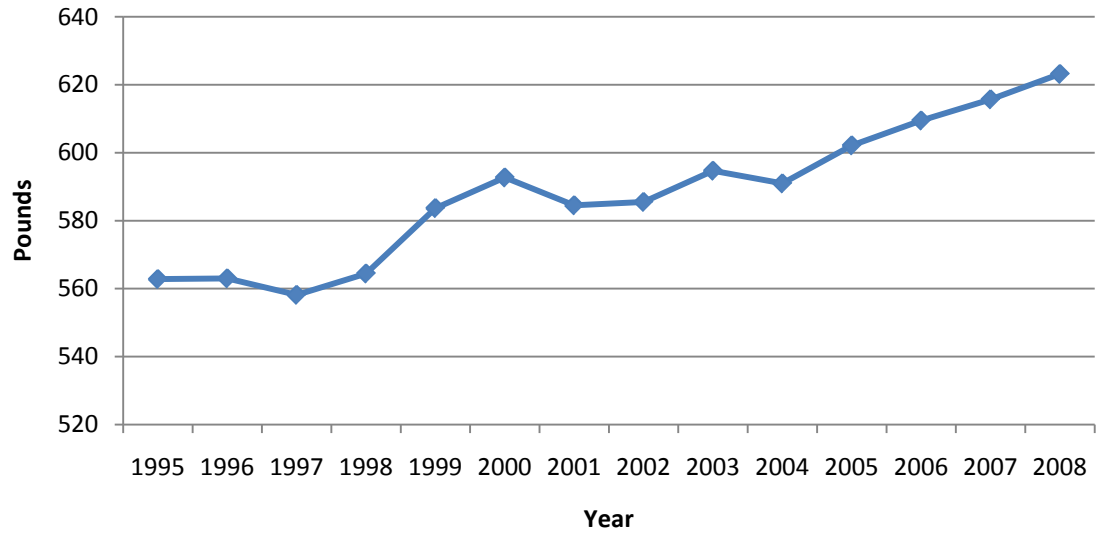
[9] Derived estimates of domestic commercial disappearance on a milk equivalent fat and skim solids basis from data for production, imports, exports, and commercial stocks of dairy products. There is significant potential for error in these estimates due to reporting errors, product inclusion, domestic stock estimates, and general conversion factors.

Figure 3–11. Domestic Per Capita Commercial Disappearance of Fluid Milk and Dairy Products (milk solids nonfat basis).



On a fat basis, per capita consumption has increased by 10.7 percent over this period, while on a solids nonfat basis, per capita consumption has actually decreased by 1.4 percent. A major reason for the difference in fat and nonfat domestic disappearance is the majority of dairy exports are nonfat products and exports have grown substantially in recent years. Hence, while domestic disappearance on a nonfat basis has been decreasing in recent years, this is really reflective of increases in nonfat dairy exports.

Figure 3–12. Domestic Per Capita Commercial Disappearance of Fluid Milk and Dairy Products (fat equivalent basis).



An important factor influencing per capita commercial disappearance of all dairy products is the retail price of dairy products. Figure 3–13 displays the CPI for fluid milk and all dairy products relative to the CPI for all items. This figure indicates that there have been both ups and downs for retail dairy prices relative to all prices in the economy. However, the general trend has been upward and dairy product prices have increased by 12.1 percent since 1995. The fact that dairy products have become more expensive relative to everything else consumers buy has had a negative impact on dairy consumption.

A factor that had a positive impact on per capita commercial disappearance of all dairy products is the growth in real income over this period. All dairy products are considered to be "normal" goods, which means that consumption increases as consumers' disposable incomes increase. Figure 3–6 illustrates the steady positive trend in real per capita income (in 2008 dollars) from 1995 through 2008. Since 1995, real per capita income has increased by 22 percent.

Another factor that may have contributed to increasing per capita domestic commercial disappearance of all dairy products over part of this time period is generic marketing efforts by fluid milk processors and dairy farmers. Figure 3–14 shows generic fluid milk and dairy product advertising real expenditures (in 2008 dollars) by dairy farmers and fluid milk processors. Real dairy farmer advertising expenditures have fallen from $261.4 million in 1995 to $72.5 million in 2008, a 72.3 percent decrease. Since the Fluid Milk Program's first full year of operation in 1997, their expenditures on fluid milk advertising have also declined from $97 million (1997) to $60.1 million in 2008, or 38.1 percent. However, since 2002, spending by fluid milk processors has been relatively stable, averaging $61 million per year. Collectively, generic dairy advertising by both dairy farmers and fluid milk processors (in 2008 dollars) decreased by 63.1 percent.

Figure 3–13. Retail Price of Dairy Products Relative to all Other Retail Prices

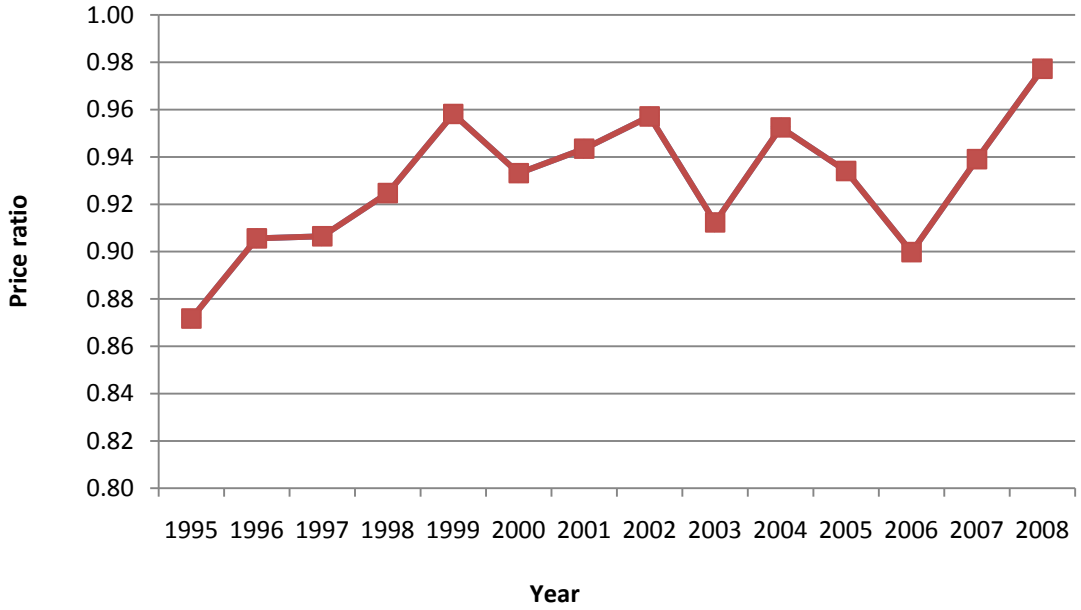


Figure 3–14. Real Generic Dairy Advertising by Dairy Farmers and Fluid Milk Processors.

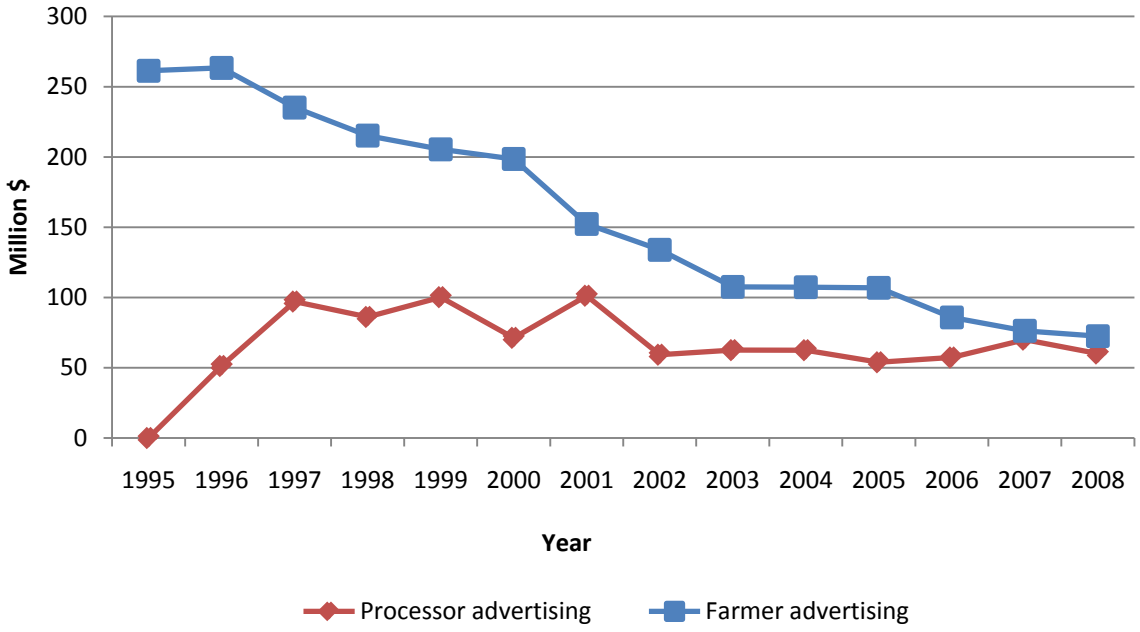
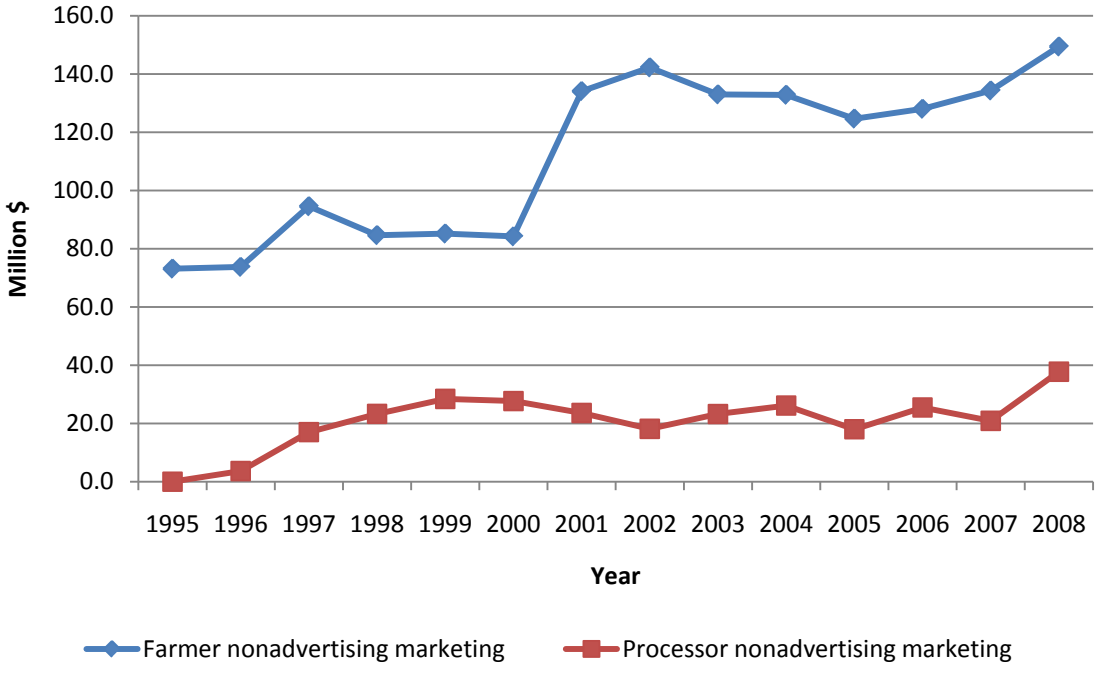


Figure 3–15 shows generic dairy non–advertising marketing activities (in 2008 dollars) by dairy farmers and fluid milk processors. The trend in these expenditures has been the opposite of

Figure 3–15. Real Generic Non–Advertising Dairy Marketing Expenditures by Dairy Farmers and Fluid Milk Processors.



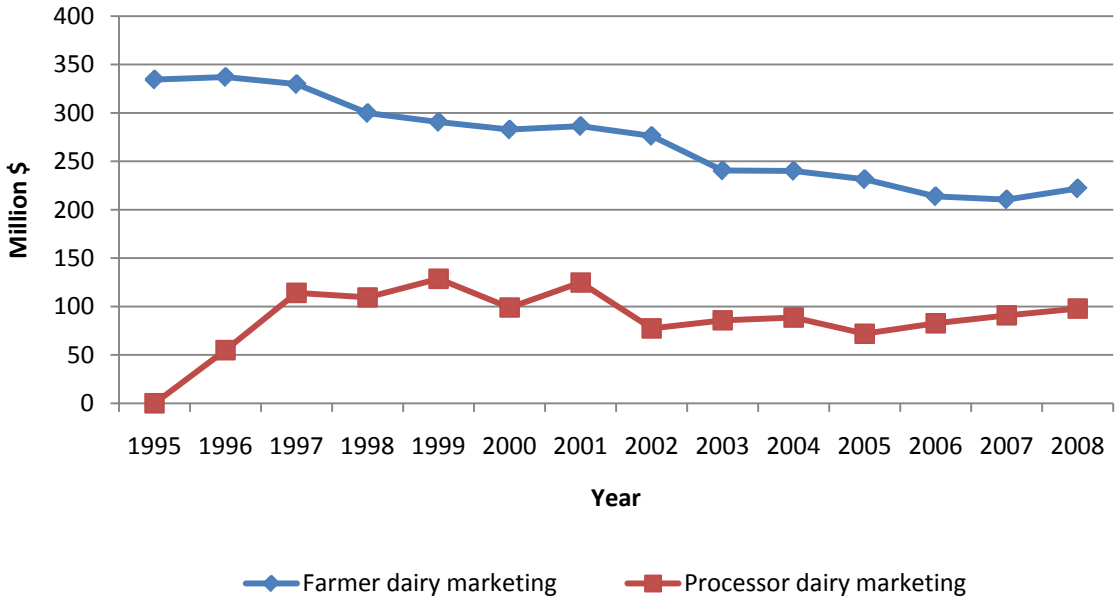
generic advertising. Dairy farmers have increased their annual expenditures of non–advertising dairy marketing from $73.2 million in 1995 to $149.4 million in 2008, an increase of 104.2 percent. Fluid milk processors increased their expenditures in this category from $17 million in 1997 to $37.8 million in 2008, a 121.9 percent increase. Collectively, generic fluid milk non–advertising marketing expenditures by both dairy farmers and fluid milk processors increased by 107.6 percent.

Figure 3–16 shows combined generic dairy marketing (advertising and non–advertising) activities (in 2008 dollars) by dairy farmers and fluid milk processors. The trend here has been negative for both farmers and processors. Annual expenditures of combined fluid milk marketing by dairy farmers decreased from $334.5 million in 1995 to $221.9 million in 2008, a decrease of 33.7 percent. Some of this decline is due to inflation, which has eroded the purchasing power for marketing activities, but the primary reason for this decline has been a decision by DMI to reduce expenditures on traditional advertising and non–advertising activities. Annual combined generic marketing expenditures by fluid milk processors decreased from $114 million in 1997 to $97.9 million in 2008, a 14.2 percent decrease due primarily to inflation. Collectively, generic fluid milk marketing expenditures by both dairy farmers and fluid milk processors decreased by 29.7 percent.

Dairy Model Estimation

To examine the overall impact of the fluid processor and dairy farmer programs on overall dairy demand, we estimated a combined fluid milk/dairy product demand model that included all generic dairy advertising activities as one demand determinant, and all non–advertising dairy marketing activities as another demand determinant. Expenditures for the following advertising activities were aggregated into one variable assumed to impact the all–dairy product demand model: television, radio, print, and outdoor media advertising for fluid milk and manufactured

Figure 3–16. Real Generic Dairy Marketing by Dairy Farmers and Fluid Milk Processors.



dairy products by dairy farmers and fluid milk processors. Expenditures for the following non–advertising, marketing activities were aggregated into one variable: retail programs, school marketing, food service and manufacturing programs, integrated communications, public relations, sales promotions, nutrition education, retail programs, and sponsorships conducted by fluid milk processors and dairy farmers. In addition, the following variables were included as factors influencing per capita all–dairy products demand: the CPI for all–dairy products, per capita disposable income, and variables to capture seasonality in dairy product demand. Similar to the fluid milk demand model, the all–dairy products demand model was estimated on a per capita basis to control for the influence of population increases on demand.

The model was estimated with national quarterly data for 1995 through 2008. To account for the impact of inflation, all prices and income variables were deflated by the CPI for all items. Generic fluid milk and cheese advertising expenditures were deflated by a weighted average media cost index (television, radio, print, and outdoor). Generic fluid milk and cheese non–advertising marketing expenditures were deflated by the CPI for all items.

Table 3–3 provides elasticities for the all–dairy product demand models on a fat and nonfat solids basis.[10] All variables were statistically significant. The results indicate that a 1.0 percent increase in the real price for dairy products would result in a 0.31 percent and 0.145 percent decrease in per capita all–dairy product demand on a nonfat and fat basis, respectively, holding all other variables constant. The average income elasticity for 1995 through 2008 was 0.128 (nonfat basis) and 0.207 (fat basis); in other words, a 1.0 percent increase in real per capita income would result in a 0.128 percent (nonfat basis) and 0.207 percent (fat basis) increase in per capita demand for all–dairy products holding all other variables constant.

The major interest here is the advertising and non–advertising marketing elasticities. The average advertising elasticity for this period on a nonfat and fat basis was 0.034 and 0.027, respectively; a 1.0 percent increase in media advertising expenditures would increase per capita all–dairy product demand by 0.034 percent (nonfat basis) and 0.027 percent (fat basis). The average non–advertising marketing elasticity for this period was 0.014 (nonfat basis) and 0.021 (fat basis), respectively; a 1.0 percent increase in media advertising expenditures would increase per capita all–dairy product demand by 0.014 percent (nonfat basis) and 0.021 percent (fat basis). Unlike for fluid milk demand, the advertising and non–advertising elasticities were not statistically different from each other.

Dairy Farmer Benefit–Cost Analysis

It should be pointed out that DMI has made a significant shift in its marketing programs in the past 2 years. Previously, the bulk of DMI's marketing expenditures were allocated to media advertising and to non–advertising marketing activities. In 2008, these traditional marketing activities accounted for only $31.25 million of DMI's marketing budget. The same is not true for the Qualified Programs, which continue to spend the majority of their marketing budgets on advertising and shorter term, non–advertising marketing activities. The remaining marketing

[10] The two models are for milk equivalent, calculated on a fat solids basis and nonfat solids basis. Not to be confused with models for nonfat solids and fat solids.

Table 3–3. Average Elasticity Values (1995–2008) for Factors Affecting Per Capita All–Dairy Products Demand.

Demand Factor	Nonfat solids basis Elasticity	Fat basis Elasticity
CPI for all–dairy products	-0.307*	-0.145**
Per capita income	0.128**	0.207*
Generic dairy advertising	0.034**	0.027*
Generic dairy non–advertising marketing	0.014*	0.021*

* Statistically significant at the 1.0 percent level or better.
**Statistically significant at the 10 percent level.

budget was spent on their new business plan of strategic business development with dairy processors and manufacturers, which is not included in the analysis that follows.

DMI has stated that they do not expect any short–term benefits of these programs for 2008, but rather expect to see these benefits to accrue in the longer term. Hence, the BCRs that follow only include the advertising and shorter term, non–advertising marketing activities by dairy farmers.

We calculated BCRs on both a milk fat and nonfat solids basis by simulating two scenarios: (1) a baseline scenario in which combined marketing (advertising and non–advertising marketing) levels were equal to actual marketing expenditures under the two programs, and (2) a no–national–Dairy–Program scenario in which there was fluid milk–processor–sponsored marketing, but dairy–farmer–sponsored marketing was reduced to 42 percent of actual levels to reflect the difference in assessment before and after the national program was enacted. A comparison of these two scenarios provided a measure of the impact of the Dairy Program. The benefits of the Dairy Program were calculated as the change in dairy farmer producer surplus (i.e., net revenue) due to demand enhancement from all marketing activities under the Dairy Program (i.e., the difference in producer surplus between scenarios 1 and 2). The demand enhancement reflects increases in quantity and price as a result of the dairy farmers' marketing program. The costs of the Dairy Program were calculated as the difference in total assessment revenue before and after the national program was enacted (after netting out the expenditures on DMI's new business plan, which was not included in this analysis). These scenarios were run for the time period 1998 through 2008 for the two milk–equivalent models: milk fat and nonfat.

As was the case for the Fluid Program, an own price elasticity of farm supply was necessary to compute the BCR and consequently a farm milk supply equation was estimated. Using quarterly data from 1995 through 2008, a supply function for dairy farmers was estimated and the long–run own price elasticity of supply was computed to be 1.3, i.e., a 1.0 percent increase in the producer price results in a 1.3 percent increase in quantity supplied of farm milk. This estimate was used as the base case for computing the BCR.

Table 3–4 presents the average quarterly impacts and BCR (from 1998 to 2008) for the dairy farmer program. The average all milk price from 1998 through 2008 was $14.78 per hundredweight. In the counter–factual no–mandated–Dairy–Program scenario for the nonfat solids model, the average all milk price was $14.57 per hundredweight, which is 21 cents lower. Thus, had there been no mandated Dairy Program over this period, the price farmers receive for their milk would have been 1.4 percent lower than it actually was. The total quantity of milk demand was estimated to be 2.1 percent higher, on a nonfat solids basis as a result of the Dairy Program. In the counter–factual no–mandated–Dairy–Program scenario for the milk fat model, the average all milk price was $14.52 per hundredweight, which is 26 cents lower. Thus, had there been no mandated Dairy Program over this period, the price farmers receive for their milk would have been 1.7 percent lower than it actually was. The total quantity of milk demand was estimated to be 2.3 percent higher, on a fat basis as a result of the Dairy Program.

The results show that the average BCR for the Dairy Program was 5.49 (nonfat solids basis) and 7.07 (milk fat basis) from 1998 through 2008. This means that each dollar invested in generic dairy marketing by dairy farmers during the period would return between $5.49 and $7.07, on average, in net revenue to farmers. The level of the BCR suggests that dairy farmer expenditures on advertising and non–advertising promotions have been a successful investment. To see how the BCR has varied over time, the models were simulated for an earlier time period (1997–99) and the latest time period (2006–08). The results indicate that the estimated BCR for the earlier and later time periods were almost identical.

In another interpretation of the BCR, the increase in real (2008 dollars) generic dairy marketing expenditures resulting from the Dairy Program costs dairy producers an additional $157.3 million per year on average from 1998 through 2008. The additional generic dairy marketing resulted in higher demand, prices, and net revenue for dairy producers nationwide. Based on the simulations conducted, we estimate that the average annual increase in producer surplus (reflecting changes in both revenues and costs) due to the additional generic marketing under the Dairy Program was $863.6 million on a nonfat basis and $1.112 billion on a fat basis. Dividing $863.6 (or $1,112) million by the additional Dairy Program cost of $157.3 million results in the estimated benefit–cost ratios of 5.49 (nonfat basis) and 7.07 (fat basis).

To make allowance for the error inherent in any statistical estimation, a 90 percent confidence interval was calculated for the average BCR, providing a lower for the average BCR. One can be 90 percent "confident" that the true average BCR lies within those bounds. The estimated lower

Table 3–4. Average Market Impacts of Dairy Farmer Generic Marketing Program, 1998–2008.

Item	Nonfat basis	Fat basis
Change in all milk price (percent)	1.4 percent	1.7 percent
Change in producer surplus ($ million per year)	863.6	1,112
Change in marketing costs ($ million per year)	157.3	157.3
Benefit–cost ratio	5.49	7.07
Lower bound of 90 percent confidence interval for BCR	1.42	2.81

bound for the average BCR in the nonfat and fat model is 1.42 and 2.81, respectively. Since both lower bounds are above 1.0, it is reasonable to conclude that these confidence intervals give credence to the finding that the benefits of the Dairy Program's marketing activities have been greater than the cost of the programs.

The change in generic dairy marketing expenditures noted previously is a mere 0.64 percent of the recent average annual value of farm milk marketings from 1998 through 2008 ($24.56 billion). The marketing activities resulted in modest gains in the quantity of dairy products and a positive effect on milk prices, resulting in large positive net revenue from the marketing investment.

Table 3–5. Description of Variables Used in Econometric Models.[a]

Variable	Description	Units	Mean[b]
	Consumption Variables		
RFDPC	Annual retail fluid demand per capita	lbs	192.8 (8.90)
RDDPCNF	Annual retail all–dairy product demand per capita on a non–fat basis	lbs	543.7 (6.6)
RDDPCF	Annual retail all–dairy product demand per capita on a fat basis	lbs	587.9 (20.53)
	Price Indices		
RFPCPI	Consumer retail price index for fresh milk and cream deflated by consumer price index for nonalcoholic beverages (1982–84=1)	#	1.19 (0.11)
RDPCPI	Consumer retail price index for all–dairy products deflated by consumer retail price index for all items (1982–84=1)	#	0.93 (0.03)
RBEVCPI	Consumer retail price index for non–alcoholic beverages (1982–84=1)	#	140.2 (8.72)
	Demographic and Income Variables		
INCPC	Annual per capita disposable income, deflated by the consumer retail price index for all items (2007=1)	$	32,110 (2,150)
AGE5	Percent of the population under age 6	%	8.32 (0.25)
FAFH%	Food away from home expenditures as percent of total food expenditures	%	50.6 (2.18)
	Marketing Expenditures		
GFMA	Annual generic fluid milk advertising expenditures by dairy farmers deflated by media cost index (2008 $)	$mil	64.6 (50.4)
GFMN	Annual generic fluid milk non–advertising marketing expenditures by dairy farmers deflated by consumer price index (2008 $)	$mil	47.9 (18.8)
GFDA	Annual generic milk and dairy advertising expenditures by dairy farmers, deflated by media cost index (2008 $)	$mil	158.7 (69.3)
GFDN	Annual generic milk and dairy non–advertising marketing expenditures by dairy farmers, deflated by media cost index (2008 $)	$mil	112.4 (27.9)
GPMA	Annual generic fluid milk advertising expenditures by fluid milk processors, deflated by media cost index (2008 $)	$mil	66.6 (25.9)
GPMN	Annual generic fluid milk non–advertising marketing expenditures by fluid milk processors, deflated by consumer price index (2008 $)	$mil	21.0 (9.7)
CBA	Annual soy beverage + bottled water advertising expenditures deflated by media cost index (2008 $)	$mil	525.5 (58.0)

[a] Quarterly dummy variables are also included in the model to account for seasonality in demand.
[b] Computed over the period 1995–2008. Standard deviation in parentheses.

Appendix A–1
National Dairy Promotion and Research Board
Current Member Listing

Region 1 (Oregon and Washington)

Elizabeth I. Anderson
Onalaska, Washington
Term expired 10/31/2009

Region 2 (California)

James L. Ahlem
Hilmar, California
Term expires 10/31/2010

Kimberly K. Clauss
Hilmar, California
Term expired 10/31/2009

Ronald L. Koetsier
Visalia, California
Term expires 10/31/2011

Brad J. Scott
Moreno Valley, California
Term expires 10/31/2010

Mary E. Cameron
Hanford, California
Term expired 10/31/2009

John B. Fiscalini
Modesto, California
Term expires 10/31/2010

Stephen D. Maddox
Riverdale, California
Term expires 10/31/2010

Pauline Tjaarda
Shafter, California
Term expires 10/31/2010

Region 3 (Arizona, Colorado, Idaho, Montana, Nevada, Utah, and Wyoming)

Grant B. Kohler
Midway, Utah
Term expires 10/31/2010

William C. Stouder
Wendell, Idaho
Term expired 10/31/2009

Ronald E. Shelton
Greeley, Colorado
Term expires 10/31/2011

Harold A. Wick
Austin, Colorado
Term expires 10/31/2011

Region 4 (Arkansas, Kansas, New Mexico, Oklahoma, and Texas)

William R. Anglin
Bentonville, Arkansas
Term expires 10/31/2011

Lawrence A. Hancock
Muleshoe, Texas
Term expired 10/31/2009

Jose L. Gonzalez
Mesquite, New Mexico
Term expires 10/31/2010

Byron A. Lehman
Newton, Kansas
Term expires 10/31/2011

Appendix A–1, continued

Region 5 (Minnesota, North Dakota, and South Dakota)

Paul L. Kent
Mora, Minnesota
Term expired 10/31/2009

Kenton W. Holle
Mandan, North Dakota
Term expires 10/31/2011

Region 6 (Wisconsin)

William J. Herr
Greenwood, Wisconsin
Term expires 10/31/2010

Peter J. Kappelman
Manitowoc, Wisconsin
Term expires 10/31/2009

Sharon K. Laubscher
Wonewoc, Wisconsin
Term expires 10/31/2011

Randy G. Roecker
Loganville, Wisconsin
Term expired 10/31/2009

Carl F. Van Den Avond
Green Bay, Wisconsin
Term expires 10/31/2011

Region 7 (Illionis, Iowa, Missouri, and Nebraska)

Larry G. Purdom
Purdy, Missouri
Term expired 10/31/2009

Douglas D. Nuttleman
Stromsburg, Nebraska
Term expires 10/31/2011

Region 8 (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee)

Larry B. Jaggers
Glendale, Kentucky
Term expires 10/31/2011

Region 9 (Indiana, Michigan, Ohio, and West Virginia)

Paul L. Broering
St. Henry, Ohio
Term expires 10/31/10

Donald E. Grutner
Fremont, Indiana
Term expired 10/31/2009

Carl A. Schmitz
Wadesville, Indiana
Term expires 10/31/2011

Region 10 (Florida, Georgia, North Carolina, South Carolina, and Virginia)

John M. Larson
Okeechobee, Florida
Term expires 10/31/2010

Appendix A–1, continued

Region 11 (Delaware, Maryland, New Jersey, and Pennsylvania)

Rita P. Kennedy
Butler, Pennsylvania
Term expired 10/31/2009

Paula A. Meabon
Wattsburg, Pennsylvania
Term expires 10/31/2010

Region 12 (New York)

Corinne M. Banker
Morrisville, New York
Term expires 10/31/2010

Sandford Stauffer
Nicholville, New York
Term expired 10/31/2009

Region 13 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont)

Ellen H. Paradee
Grand Isle, Vermont
Term expires 10/31/2011

Appendix A-2
National Fluid Milk Processor Promotion Board
Current Member Listing

Region 1 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont)
Michael F. Touhey, Jr.
Dean Foods Company
Franklin, Massachusetts
Term expires 06/30/2010

Region 2 (New Jersey and New York)
James F. Walsh
H.P. Hood, L.L.C.
Lynnefield, Massachusetts
Term expires 06/30/2011

Region 3 (Delaware, District of Columbia, Maryland, Pennsylvania, and Virginia)
Jay S. Bryant
Maryland and Virginia Milk Producer's Cooperative Association, Inc.
Reston, Virginia
Term expires 06/30/2012

Region 4 (Georgia, North Carolina, and South Carolina)
Charles L. Gaither, Jr.
Milkco, Inc.
Asheville, North Carolina
Term expires 06/30/2010

Region 5 (Florida)
Michael R. Smith
Publix Super Markets, Inc.
Lakeland, Florida
Term expires 06/30/2011

Region 6 (Ohio and West Virginia)
Charles S. Mayfield, Jr.
Mayfield Dairy (a subsidiary of Dean Foods Company)
Athens, Tennessee
Term expires 06/30/2012

Appendix A-2, continued

Region 7 (Michigan, Minnesota, North Dakota, South Dakota, and Wisconsin)
James B. Green
Kemps, L.L.C. (a subsidiary of H.P. Hood, L.L.C.)
St. Paul, Minnesota
Term expires 06/30/2010

Region 8 (Illinois and Indiana)
Brian Haugh
National Dairy Holdings (a subsidiary of Grupo Lala)
Dallas, Texas
Term expires 06/30/2011

Region 9 (Alabama, Kentucky, Louisiana, Mississippi, and Tennessee)
Edward L. Mullins
Prairie Farms Dairy, Inc.
Carlinville, Illinois
Term expires 06/30/2012

Region 10 (Texas)
Robert B. McCullough
H.E. Butt Grocery Company
San Antonio, Texas
Term expires 06/30/2010

Region 11 (Arkansas, Iowa, Kansas, Missouri, Nebraska, and Oklahoma)
Steven M. Turner
Turner Dairy L.L.C. (a subsidiary of Prairie Farms Dairy, Inc.)
Covington, Tennessee
Term Expires 06/30/2011

Region 12 (Arizona, Colorado, Nevada, New Mexico, and Utah)
John R. Zuroweste
Dean Foods Company
Dallas, Texas
Term expires 06/30/2012

Region 13 (Idaho, Montana, Oregon, Washington, and Wyoming)
Jerry N. Tidwell
Safeway, Inc.
Pleasanton, California
Term expires 06/30/2010

Appendix A-2, continued

Region 14 (Northern California)
Jay B. Simon
Super Store Industries
Stockton, California
Term expires 06/30/2011

Region 15 (Southern California)
Timothy Kelbel
The Kroger Company, Western Division
Cincinnati, Ohio
Term expires 06/30/2012

Members-At-Large (Processors)
Miriam E. Brown
Anderson Erikson Dairy
Des Moines, Iowa
Term expires 06/30/2012

Michael A. Krueger
Shamrock Foods Company
Phoenix, Arizona
Term expires 06/30/2011

Randy D. Mooney
Hiland Dairy Foods Company, L.L.C.
Springfield, Missouri
Term expires 06/30/2010

Teresa E. Webb
Farmland Dairies, L.L.C.
Wallington, New Jersey
Term expires 06/30/2010

Members-At-Large (Public)
Mary A. Hill
Jackson, Mississippi
Term expires 06/30/2012

Appendix B–1
National Dairy Promotion and Research Board
Actual Income and Expenses
(Thousands)

	2008
Income	
Assessments	$94,484
Interest	1,036
Total Income	**$95,520**
General Expenditures	
General and Administrative	$3,288
USDA Oversight	819
Total General Expenditures	**$4,107**
Program Expenditures	
Domestic Marketing and Export Enhancement	$105,922
Amortization of NAEMS[1] Study	2,000
Total Program Expenditures	**$107,922**
Excess of Revenue (Under) Over Expenditures	**($16,509)**
Fund Balance, Beginning of Year	**$55,135**
Fund Balance, End of Year	**$38,626**

[1]National Air Emissions Monitoring Study.

Source: Independent Auditor's Report of the National Dairy Board and USDA records.

Appendix B–2
USDA Oversight Costs for the National Dairy Promotion and Research Board (Thousands)

	2007	2008
USDA Oversight Costs		
Salaries and Benefits	$370,581	$461,036
Travel	62,733	84,094
Miscellaneous[1]	66,920	76,016
Equipment	5,016	2,509
Printing	6,604	9,559
USDA Oversight Total	**$511,854**	**$633,214**
Independent Evaluation	**$122,062**	**$108,523**
Total[2]	**$633,916**	**$741,737**

[1]Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and Office of General Counsel costs.

[2]The totals for USDA expenses differ slightly from those shown in Appendix B–1 because of end-of-year estimates which are adjusted in the following year and correspond to the Federal fiscal year, which runs from October 1 through September 30.

Source: USDA Accounting Reports.

Appendix B–3
National Dairy Promotion and Research Board
2009 Approved Budget
(Thousands)

	2009
Revenues	
Assessments	$100,600
Program Development Fund Draw	14,440
Interest	600
Total Income	**$115,640**
Expenses	
General and Administrative	$4,000
USDA Oversight	900
Subtotal	**$4,900**
Program Budget	
Milk	$9,168
Cheese	11,310
Ingredients	4,400
Export Enhancement	12,024
Children's Fitness and Nutrition Initiative	16,465
Product Research	6,000
Nutrition Research	7,924
Nutrition Affairs	9,934
Industry Image and Relations	9,515
Foodservice	759
Retail	2,273
Strategy and Insights	15,014
Other[1]	5,300
Subtotal	**$110,086***
Total Budget Expenditures	**$114,986**

[1]Other includes fixed commitments, butter promotion, value–added milk, and value–added cheese.
*UDIA Expense share of total is $26,897.

Source: Budgets received and approved by USDA from the National Dairy Board.

Appendix B–4
National Fluid Milk Processor Promotion Board
Actual Income and Expenses
(Thousands)

	2007	2008
Income		
Assessments	$107,736	$107,207
Late-Payment Charges	102	106
Interest	899	381
Other	71	6
Total Income	**$108,808**	**$107,700**
General Expenditures		
California Refund	$10,257	$10,353
Administrative	2,875	2,805
USDA Oversight	425	412
USDA Assessment Verification	89	74
Total General Expenditures	**$13,646**	**$13,644**
Program Expenditures		
Media	$72,122	$66,953
Public Relations	12,662	15,260
Promotions	12,468	11,091
Strategic Thinking	1,157	1,170
Medical Advisory Panel	268	226
Medical Research	100	64
Research, Local Markets, and Program Measurement	2,228	2,132
Program Management	120	-
Total Program Expenditures	**$101,125**	**$96,896**
Excess of Revenue (Under) Over Expenditures	($5,963)	($2,840)
Fund Balance, Beginning of Year	**$28,268**	**$22,304**
Fund Balance, End of Year	**$22,304**	**$19,356**

Source: Independent Auditor's Report of the Fluid Milk Board and USDA Records.

Appendix B–5
USDA Oversight Costs for the National Fluid Milk Processor Promotion Board (Thousands)

	2007	2008
USDA Oversight Costs		
Salaries and Benefits	$309,978	$331,759
Travel	18,506	17,786
Miscellaneous[1]	54,813	47,756
Equipment	3,164	2,721
Printing	2,306	9,013
USDA Oversight Total	**$388,767**	**$409,035**
Independent Evaluation	**$16,995**	**$36,174**
Total[2]	**$405,762**	**$445,209**

[1] Includes overhead, transportation, rent, communications, utilities, postage, contracts, supplies, photocopying, and Office of General Counsel costs.

[2] The totals for USDA expenses differ slightly from those shown in Appendix B–4 because of end-of-year estimates which are adjusted in the following year.

Source: USDA Accounting Reports.

Appendix B–6
National Fluid Milk Processor Promotion Board
Approved Budgets
(Thousands)

	2009
Revenues	
Assessments	$107,000
Interest	340
Total Income	**$107,340**
Carryover from Previous Fiscal Year	$4,025
Total Available Funds	**$111,365**
Expenses	
General and Administrative	$2,855
USDA Oversight	570
California Refund	10,210
Subtotal	**$13,635**
Program Budget	
Advertising, Promotions, Public Relations	$89,841
Medical Advisory Panel/ Medical Research	350
Research	2,778
Business Development	4,048
Program Measurement	209
Subtotal	**$97,226**
Total Budget Expenditures	**$110,861**

[1]Independent Evaluation costs are included in Program Measurement Expenses.
[2]Processor Compliance is included in General and Administrative Expenses.

Source: Budgets from the National Fluid Milk Board received and approved by USDA.

Appendix B–7
Aggregate Income and Expenditure Data Reported to USDA by the Qualified Programs (Thousands)

	2007	2008
Income		
Carryover from Previous Years	$60,672[1]	$63,990[1]
Producer Remittances	189,043	189,629
Transfers from Other Qualified Programs[2]	51,676	58,369
Transfers to Other Qualified Programs	-51,501	-55,337
Other Income	9,037	9,062
Total Adjusted Annual Income	**$258,927**	**$265,713**
Expenditures		
General and Administrative	$8,435	$8,267
Advertising and Sales Promotion	74,982	69,288
Unified Marketing Plan[4]	67,249	66,179
Dairy Foods and Nutrition Research	5,717	5,926
Public and Industry Communications	14,556	11,998
Nutrition Education	15,831	17,033
Market and Economic Research	1,394	1,232
Other[5]	2,126	2,964
Total Annual Expenditures	**$190,290**	**$182,887**
Total Available for Future Year Programs	**$68,637**	**$82,826**

[1] Differences are due to audit adjustments and varying accounting periods.
[2] Payments transferred between Qualified Programs differ due to different accounting methods and accounting periods.
[3] Includes interest, income from processors and handlers, sales of supplies and materials, contributions, and rental income.
[4] Unified Marketing Plan: Reported local spending by United Dairy Industry Association units participating in the Dairy Management Inc. unified marketing plan to fund national implementation programs.
[5] Includes capital expenses.

Source: Data reported by the Qualified Programs.

Appendix B–8
Aggregate Advertising Expenditure Data Reported to USDA by the Qualified Programs (Thousands)

Advertising Programs	2007	2008
Fluid Milk	$13,763 [18.5%]	$9,540 [13.8%]
Cheese	48,008 [64.6%]	46,781 [67.5%]
Butter	2,786 [3.8%]	2,860 [4.2%]
Frozen Dairy Products	259 [0.3%]	442 {0.6%]
Other[1]	9,554 [12.8%]	9,665 [13.9%]
Total	**$74,370 [100%]**	**$69,288 [100%]**

[1] Includes "Real Seal," holiday, multi-product, calcium, evaporated milk, foodservice, product donation at State fairs, and other events and contributions for displays or promotional events.

Source: Data reported by the Qualified Programs.

FINANCIAL STATEMENTS

National Dairy Promotion and Research Board
Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

National Dairy Promotion and Research Board

Financial Statements

Years Ended December 31, 2008 and 2007

Contents

Ernst & Young LLP
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Report of Independent Auditors

The Board of Directors
National Dairy Promotion and Research Board

We have audited the accompanying balance sheets of National Dairy Promotion and Research Board (NDB) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NDB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of NDB's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NDB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Dairy Promotion and Research Board as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Signed by Ernst & Young LLP

May 8, 2009

National Dairy Promotion and Research Board

Balance Sheets

	December 31	
	2008	**2007**
Assets		
Cash and cash equivalents	**$ 40,847,072**	$ 56,273,012
Assessments receivable, net of allowance for doubtful accounts of $200,000 in 2008 and $300,000 in 2007	**10,684,514**	7,986,431
Accrued interest receivable	**8,024**	104,824
Investment in NAEMS study, net of accumulated amortization of $4,166,667 in 2008 and $2,166,667 in 2007	**1,833,333**	3,833,333
Fixed assets, net of accumulated depreciation of $179,365 in 2008 and $165,524 in 2007	**28,838**	40,517
Total assets	**$ 53,401,781**	$ 68,238,117
Liabilities and net assets		
Liabilities:		
Due to related party – DMI	**$ 14,349,713**	$ 12,772,234
Accounts payable	**60,185**	134,281
Accrued expenses and other liabilities	**365,546**	196,647
Total liabilities	**14,775,444**	13,103,162
Unrestricted net assets:		
Designated	**27,017,837**	23,599,798
Undesignated	**11,608,500**	31,535,157
Net assets – unrestricted	**38,626,337**	55,134,955
Total liabilities and net assets	**$ 53,401,781**	$ 68,238,117

See accompanying notes.

National Dairy Promotion and Research Board

Statements of Activities

	Year Ended December 31	
	2008	**2007**
Revenues		
Assessments	**$ 94,484,051**	$ 91,951,512
Interest income	**1,036,239**	1,719,927
Total revenues	**95,520,290**	93,671,439
Expenses		
Programs:		
Domestic and export marketing	**105,921,955**	70,132,365
United States Department of Agriculture	**818,639**	712,299
Amortization of NAEMS study	**2,000,000**	2,000,000
Total programs	**108,740,594**	72,844,664
General and administrative:		
DMI general and administrative	**2,738,782**	3,157,229
General and administrative	**549,532**	500,920
Total general and administrative	**3,288,314**	3,658,149
Total expenses	**112,028,908**	76,502,813
(Decrease) increase in net assets	**(16,508,618)**	17,168,626
Net assets at beginning of year	**55,134,955**	37,966,329
Net assets at end of year	**$ 38,626,337**	$ 55,134,955

See accompanying notes.

National Dairy Promotion and Research Board

Statements of Cash Flows

	Year Ended December 31	
	2008	**2007**
Operating activities		
Change in net assets	**$ (16,508,618)**	$ 17,168,626
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Amortization of NAEMS study	**2,000,000**	2,000,000
Depreciation	**13,841**	3,635
Changes in assets and liabilities:		
Assessments receivable	**(2,698,083)**	567,499
Accrued interest receivable	**96,800**	(57,424)
Due to related party – DMI	**1,577,479**	11,081,627
Accounts payable	**(74,096)**	(115,951)
Accrued expenses and other liabilities	**168,899**	59,430
Net cash (used in) provided by operating activities	**(15,423,778)**	30,707,442
Investing activities		
Purchases of fixed assets	**(2,162)**	(12,000)
Net (decrease) increase in cash and cash equivalents	**(15,425,940)**	30,695,442
Cash and cash equivalents at beginning of year	**56,273,012**	25,577,570
Cash and cash equivalents at end of year	**$ 40,847,072**	$ 56,273,012

See accompanying notes.

National Dairy Promotion and Research Board

Notes to Financial Statements

December 31, 2008 and 2007

1. Organization

The National Dairy Promotion and Research Board (NDB) was established on May 1, 1984, pursuant to The Dairy and Tobacco Adjustment Act of 1983 (Public Law 98-180), as part of a comprehensive strategy to reduce milk surplus supplies in the United States (U.S.) and increase human consumption of U.S.-produced fluid milk and other dairy products. The purpose of NDB is to establish a coordinated program of promotion and research designed to strengthen the U.S. dairy industry's position in the marketplace and to maintain and expand domestic and international markets' usage of U.S.-produced fluid milk and other dairy products.

The United States Department of Agriculture (USDA) approved a joint venture between NDB and the United Dairy Industry Association (UDIA) to form Dairy Management Inc. (DMI) effective January 1, 1995. The purpose of DMI, a related organization, is to promote greater coordination, efficiency, and effectiveness and avoid incompatibility and duplication in the marketing programs and projects undertaken by NDB and UDIA. NDB and UDIA will jointly plan, develop, and implement their various marketing programs and activities through DMI, subject to the approval of the USDA.

NDB funds DMI on a cost-reimbursement basis. Core costs, which include staff salaries and benefits, travel, Board of Directors, and office operating expenses, are primarily funded by NDB, with UDIA funding one-half of Board of Directors and executive office costs. Marketing program costs, which include expenses associated with implementing the marketing programs of NDB and UDIA, are funded by NDB and UDIA based on the annual Unified Marketing Plan budget. NDB has funded DMI core costs of $26,852,351 and $20,023,639 and program costs of $81,808,386 and $53,265,955 for activity related to the years ended December 31, 2008 and 2007, respectively.

The U.S. Dairy Export Council (USDEC) is a related organization that was founded by the boards of both NDB and UDIA and began operations effective January 1, 1996. The purpose of USDEC is to improve the marketing conditions for the U.S. dairy industry with respect to the export of U.S. dairy products by promoting the acceptability, consumption, and purchase of U.S. dairy products in international markets. For the years ended December 31, 2008 and 2007, NDB reimbursed DMI $7,921,080 and $5,723,896, respectively, for USDEC's operations. This is included in the $81,808,386 and $53,265,955 program cost funding for activity related to the years ended December 31, 2008 and 2007, respectively.

NDB reimburses the USDA for the cost of administrative oversight and compliance audit activities. Expenses incurred under this arrangement amounted to $818,639 and $712,299 for the years ended December 31, 2008 and 2007, respectively.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) in the United States. These principles require management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates. Net assets, revenues, and investment income or loss are classified based on the existence or absence of donor-imposed restrictions in accordance with the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations,* as follows:

- Permanently restricted net assets are assets subject to donor-imposed restrictions requiring the asset be retained permanently and invested. Restrictions permit the use of some or all of the income earned on the invested assets for specific purposes.

- Temporarily restricted net assets are assets with donor restrictions that expire with the passage of time, the occurrence of an event, or the fulfillment of certain conditions. Earnings related to temporarily restricted net assets are recorded as temporarily restricted net assets until amounts are expensed in accordance with the donor's specified purposes. When donor restrictions are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities.

- Unrestricted net assets are not subject to donor-imposed stipulations. Board-designated net assets are unrestricted net assets designated by the Board to be used for several specific purposes. The Board retains control over these net assets and may, at its discretion, subsequently use the net assets for other purposes.

All net assets of the NDB at December 31, 2008 and 2007, are unrestricted.

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

Cash equivalents include all liquid investments with a maturity of three months or less at the date of acquisition.

Financial Instruments

Financial instruments of NDB consist of U.S. federal agency securities. The fair value of financial instruments approximates their carrying value in the financial statements.

In 2008, NDB adopted FASB Statement No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and established a framework for measuring fair value. SFAS No. 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability, as of the measurement date. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Pricing for NDB's investments are based on the open market and is valued on a daily basis.

NDB has classified its $39,634,108 of investments included in cash and cash equivalents as of December 31, 2008, as Level 1.

2. Summary of Significant Accounting Policies (continued)

Assessments

Assessment revenue is generated by a mandatory assessment of $0.15 per hundredweight on all milk produced and marketed in the contiguous United States. Milk producers can direct up to $0.10 per hundredweight to USDA-qualified state and regional generic dairy promotion organizations. For the years ended December 31, 2008 and 2007, the net NDB assessment was approximately $0.0505 per hundredweight of milk marketed. Assessment revenue is recognized in the month in which milk is marketed.

During 2005, the Dairy Promotion and Research Order was amended to allow organic dairy producers, as defined, to be exempt from paying assessments. The amount of exempted assessments in 2008 and 2007 was approximately $602,435 and $515,000, respectively.

Fixed Assets

Fixed assets consist of computer software and are recorded at cost. Depreciation and amortization are provided in amounts sufficient to charge the costs of depreciable assets to operations over estimated service lives of five years using the straight-line method.

Contract and Grant Expense

Expenses related to contracts are recognized as incurred. Grants for research projects typically require periodic reporting of project status and payments. Such payments are expensed as progress is achieved.

Income Taxes

NDB has received determination letters from the Internal Revenue Service recognizing that they are exempt from federal income taxes on related income under Section 501(a) as organizations described in Sections 501(c)(b) and 501(c)(3), respectively, of the Internal Revenue Code. There was no unrelated business taxable income for the years ended December 31, 2008 and 2007; therefore, no provision for income taxes has been reflected in the accompanying financial statements related to activities of NDB.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

In June 2006 the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This statement was deferred and will become effective for NDB during the year ended December 31, 2009. Compliance with this standard is not expected to have a material impact on the NDB's financial statements.

Employee Costs

NDB's operations are staffed by DMI employees who receive vacation, retirement, health, and other benefits provided by DMI.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of December 31:

	2008	2007
Cash	**$ 1,212,964**	$ 1,113,536
U.S. federal agency securities	**39,634,108**	55,159,476
	$40,847,072	$56,273,012

4. Assessments Receivable

Assessments receivable are recorded at the estimated net amounts to be received based on the amount of milk marketed and the average payment per hundredweight. In accordance with Public Law 98-180, NDB forwards unpaid assessments to the USDA for collection and other legal proceedings. As of December 31, 2008 and 2007, approximately $67,000 of cumulative unpaid assessments were at the USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2008 and 2007, and will not be recorded as revenue until such amounts are ultimately received. Civil penalties exist for any persons who do not pay the assessment and/or file required milk marketed assessment reports with NDB.

5. Net Assets

During 2008 and 2007, NDB's Board designated a portion of net assets for cash reserves. Total designations of net assets are as follows:

	2008	2007
Designated net assets:		
Cash reserves	**$ 1,800,000**	$ 1,800,000
NAEMS study	**1,833,333**	3,833,333
Subsequent-year program activity	**23,429,594**	17,966,465
Total designated net assets	**27,017,837**	23,599,798
Undesignated net assets	**11,608,500**	31,535,157
Total net assets	**$ 38,626,337**	$ 55,134,955

6. National Air Emissions Monitoring Study (NAEMS)

In 2005, the U.S. Congress approved a one-time waiver in restrictions that limited the use of checkoff dollars to post-harvest research activities. The waiver allowed NDB to use checkoff money to pay for research into the types of air emissions coming from a cross-section of dairy operations.

In January 2006, NDB contracted with National Milk Producers Federation (NMPF) to conduct a research project to study the environmental effects of air emissions from dairy operations. Total investment in the project was $6.0 million. This amount was disbursed to NMPF during 2006 for the project beginning in December. In turn, NMPF placed these funds into an escrow account, and, subsequently, released an NDB-approved portion of these funds to the Agricultural Air Research Council (AARC). AARC is conducting the research during a three-year period.

7. National Air Emissions Monitoring Study (NAEMS) (continued)

NDB is amortizing this investment over the life of the project as follows:

	2008	2007
Investment in NAEMS Air Emissions Study	**$ 6,000,000**	$ 6,000,000
Less:		
Accumulated amortization	**4,166,667**	2,166,667
Net investment	**$ 1,833,333**	$ 3,833,333

National Fluid Milk Processor Promotion Board

Financial Statements

and

Independent Auditor's Report

Year Ended December 31, 2008

1250 H Street, N.W., Suite 950
Washington, D.C. 20005

Part I

Financial Statements and Independent Auditor's Report for the Year Ended December 31, 2008

Part II

Independent Auditor's Report on Internal Control (Combined Report Applicable to Internal Control over Financial Reporting Based on an Audit of Financial Statements and Internal Control over Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards)*

Part III

Independent Auditor's Comments on Compliance with *Government Auditing Standards*

Table of Contents

SNYDER·COHN·COLLYER·HAMILTON & ASSOCIATES P.C.

Independent Auditor's Report

To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.

We have audited the accompanying statement of financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the National Fluid Milk Processor Promotion Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2008, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants and Business Advisors
4520 East West Highway, Suite 520, Bethesda, MD 20814-3338
Phone: 301-652-6700 Fax: 301-986-1028
Web: cpahelp.com E-Mail: advice@cpahelp.com

In accordance with *Government Auditing Standards*, we have also issued reports dated March 30, 2009 on our consideration of the National Fluid Milk Processor Promotion Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

SNYDER, COHN, COLLYER, HAMILTON & ASSOCIATES, P.C.
Bethesda, Maryland
March 30, 2009

National Fluid Milk Processor Promotion Board

Statement of Financial Position

December 31, 2008

Assets	
Current assets:	
Cash and cash equivalents	$ 6,019,313
Assessments receivable, net	10,626,743
Investments - held to maturity	6,100,000
Future year costs	7,307,397
Prepaid expenses	13,658
Other receivables	331,316
Total current assets	30,398,427
Property and equipment, net	171,272
Total assets	$ 30,569,699
Liabilities and net assets	
Current liabilities:	
Accounts payable and accrued expenses	$ 11,089,835
Deferred compensation, related party	122,463
Total current liabilities	11,212,298
Commitments	
Net assets:	
Designated for contingencies	2,500,000
Undesignated	16,857,401
Total net assets	19,357,401
Total liabilities and net assets	$ 30,569,699

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statement of Revenues, Expenses and Changes in Net Assets

For the year ended December 31, 2008

Revenues:	
Assessments	$ 107,207,269
Late payment charges	105,543
Interest income	381,384
Other	5,632
Total revenues	107,699,828
Expenses:	
Program expenses:	
Media	66,953,067
Promotions	11,091,130
Public relations	15,259,548
Strategic thinking	1,169,527
Research	2,132,235
Medical advisory panel	225,580
Medical research	63,546
Program measurement	108,369
Total program expenses	97,003,002
Other expenses:	
California grant	10,352,588
Administrative	2,804,858
USDA oversight	412,075
USDA compliance audit	73,842
Total other expenses	13,643,363
Total expenses	110,646,365
Excess of expenses over revenues	(2,946,537)
Net assets - beginning	22,303,938
Net assets - ending	$ 19,357,401

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statement of Cash Flows

For the year ended December 31, 2008

Cash flows from operating activities:	
Excess of expenses over revenues	$ (2,946,537)
Adjustments to reconcile excess of expenses over revenues to net cash used in operating activities:	
Depreciation and amortization	62,245
Changes in assets and liabilities:	
Increase in assessments receivable	(101,547)
Increase in future year costs	(1,566,605)
Decrease in prepaid expenses	11,459
Increase in other receivables	(197,644)
Increase in accounts payable and accrued expenses	71,338
Increase in deferred compensation	122,463
Net cash used in operating activities	(4,544,828)
Cash flows from investing activities:	
Purchase of investments	(6,100,000)
Payments made for property and equipment	(233,517)
Net cash used in investing activities	(6,333,517)
Net decrease in cash and cash equivalents	(10,878,345)
Cash and cash equivalents - beginning	16,897,658
Cash and cash equivalents - ending	$ 6,019,313

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2008

Note 1: Summary of significant accounting policies:

The National Fluid Milk Processor Promotion Board (the Board) was established pursuant to the authority of the Fluid Milk Promotion Act (the Act) of 1990, Subtitle H of the Title XIX of the Food, Agriculture, Conservation and Trade Act of 1990. The purpose of the Board is to administer the provisions of the Fluid Milk Promotion Order (the Order) established pursuant to the Act which establishes an orderly procedure for the development, and the financing through an assessment, of a coordinated program of advertising, promotion, and education for fluid milk products.

The Act requires that a referendum be conducted among processors to determine if a majority favored implementing the fluid milk program. In the October 1993 initial referendum, the majority of processors voted to approve the implementation of the fluid milk program. A continuation referendum was held in February-March 1996. Of the processors voting in that referendum, the majority favored continuation of the fluid milk program. In November 1998, another continuation referendum was held at the request of the Board and processors voted to continue the fluid milk program as established by the Order. The Act and Order state that the United States Department of Agriculture (USDA) will hold future referenda upon the request of the Board, processors representing 10 percent or more of the volume of fluid milk products marketed by those processors voting in the last referendum, or when called by the U.S. Secretary of Agriculture. On March 30, 2004, a Notice of Review and Request was published in the Federal Register. The purpose of the Review was to determine whether the Order should continue without change. No comments were received and the Order will continue without change.

For financial reporting purposes, the Board is considered a quasi-governmental agency of the U.S. government. As such, it is exempt from income taxes under the Internal Revenue Code. The USDA and its affiliated agencies operate in an oversight capacity of the Board.

The financial statements of the Board are prepared in conformity with accounting principles generally accepted in the United States of America. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

Assessments - Assessments are generated from those processors marketing more than 3,000,000 pounds of fluid milk per month by a 20-cent per hundred weight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the 48 contiguous United States and the District of Columbia. Assessment revenue is recognized in the month in which the fluid milk product is processed.

Note 1: **Summary of significant accounting policies**: (continued)

Late payment charges are assessed, as provided under the Act, to processors who do not remit monthly assessments within 30 days following the month of assessment. The late payment charge is equal to 1.5% of unpaid assessments and accrues monthly. At no time does the Board stop accruing interest on these assessments. For 2008, an allowance for doubtful accounts of $-0- has been established for those amounts where the late charges are being appealed.

California grant - In accordance with the Act, the Board is required to provide a grant to a third party equal to 80% of the assessments collected from Regions 14 and 15 to implement a fluid milk promotion campaign. Disbursements under these provisions are recorded as "California Grant" in the accompanying financial statements.

Cash equivalents - For purposes of the statement of cash flows, the Board considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Future year costs - Future year costs represent costs incurred for 2009 budget year projects.

Assessments receivable - An allowance for uncollectible accounts has been established for those assessments which management has determined as uncollectible. The total allowance for uncollectible amounts at December 31, 2008 was $312,767.

Property and equipment - Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets on a straight-line basis. Expenditures for repairs and maintenance are charged to expense as incurred.

Use of estimates - The Board has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Advertising - In accordance with its mission, the Board has approved the development of direct and nondirect response advertising and promotional activities. All costs related to these activities are charged to expense as incurred.

Note 2: Cash and cash equivalents:

At December 31, 2008, the bank balance of the Board's cash deposits was entirely covered by federal depository insurance or was covered by collateral held by the Board's agent in the Board's name. Included in cash and cash equivalents is $2,500,000 of Board designated cash reserves.

Note 3: Investments:

The Board is required to follow the Agricultural Marketing Service (AMS) investment policy. Accordingly, the Board is authorized to invest in securities consisting of obligations issued or fully insured or guaranteed by the U.S. or any U.S. government agency, including obligations of government-sponsored corporations, and must mature within one year or less from the date of purchase. Investments are carried at cost, which approximates fair value. The Board's investments are covered by collateral and held by the counterparty's trust department or agent in the Board's name.

At December 31, 2008, the Board held multiple certificates of deposit totaling $6,100,000. These certificates of deposit have been issued through the Certificate of Deposit Account Registry Service (CDARS) and are entirely covered by federal depository insurance. A summary of the terms for the certificates of deposit and the annual yield are as follows:

Value	Term	Yield
$1,100,000	6 months	3.15%
2,500,000	6 months	3.15%
2,500,000	12 months	3.30%

Note 4: Property and equipment:

Property and equipment consist of the following as of December 31, 2008:

Furniture and fixtures	$ 31,119
Leasehold improvements	130,324
Office equipment	72,074
	233,517
Less: accumulated depreciation	(62,245)
	$ 171,272

Note 4: **Property and equipment**: (continued)

Depreciation expense for the year ended December 31, 2008 was $62,245.

Note 5: **Compliance matters**:

In accordance with the Act and the Order, effective one year after the date of the establishment of the Board, the Board shall not spend in excess of 5% of the assessments collected for the administration of the Board. For the year ended December 31, 2008, the Board did not exceed this limitation.

Note 6: **Program administration**:

At the end of 2007 and during 2008, the Board entered into agreements with various organizations to develop programs for advertising, promotion, consumer education and certain minority initiatives in connection with the national fluid milk campaign. The funding levels vary for the various organizations and are subject to approval. The organizations and the expiration dates of the agreements are as follows:

Agency	Expiration
DraftFCB, Inc.	June 2011
Lowe & Partners/SMS, Inc.	December 2010
Publicidad Siboney Corporation	June 2009
CMGRP, Inc. d/b/a Weber Shandwick	June 2010

In October 2007, the Board entered into two agreements, an office services and a professional services agreement, with the International Dairy Foods Association (IDFA).

The office services agreement was renewed during October 2008 for a 12-month period expiring on September 30, 2009. Under this agreement, IDFA will provide certain administrative services and resources to the Board. Fees for these services are based on either hourly rates or predetermined amounts ranging from $220 to $2,100 per month plus materials. During the year ended December 31, 2008, the Board incurred $92,870 under this agreement.

Note 6: **Program administration**: (continued)

The professional services agreement is a 27-month agreement expiring on December 31, 2009. The agreement allows for IDFA to assist the Board in performing general services pursuant to its responsibility under the Fluid Milk Promotion Act of 1990. General services are set forth in greater detail in the agreement, but include areas such as:

- Medical and nutritional
- Sales and econometric analysis
- In house legal services
- Specialized IT services
- Other services as requested

The agreement was amended in October 2008 to establish new minimum hours and monthly fee arrangements. Total costs incurred under this agreement amounted to $340,529 for the year ended December 31, 2008.

Note 7: **Commitments**:

The Board entered into an agreement during fiscal year 2000 with Walt Disney World Hospitality & Recreation Corporation (WDWHRC), whereby the Board agreed to pay WDWHRC $1,800,000 each year for six years through 2006 in exchange for the sponsorship and certain promotional rights at the Sports Complex in order to cooperatively develop programs to promote fluid milk products at Walt Disney World Resort. In December 2003, both parties agreed to extend the term of the agreement for another three years through 2009 at the previously agreed rate of $1,800,000, to be increased annually by the change in the Consumer Price Index.

Note 8: Operating lease:

In October 2007, the Board entered into a 20-month lease agreement with IDFA, which expires on May 31, 2009. Under the terms of the lease, the Board is required to pay monthly base rent plus additional monthly charges equal to a pro rata portion of the building's operating expenses and other charges as defined in the lease agreement. The Board also has the option to renew the lease for an additional twelve months, which it is in the process of exercising. The future minimum base rental payment under the agreement for the year ending December 31, 2009 is $68,417. The Board incurred $165,022 of rental expense during 2008.

Note 9: Transactions with the United States Department of Agriculture:

Under the provisions of the Act and the Order, the Board is required to pay the United States Department of Agriculture certain fees for oversight and evaluation costs. These costs were $485,917 during 2008.

Note 10: Related party activity:

Accounting services for the Board are performed by Rubin, Kasnett & Associates, P.C. (RK&A); the cost of these services was $400,030 during 2008. A principal of RK&A serves as the Chief Financial Officer of the Board and receives compensation for services performed.

The Board has entered into an employment agreement with its Chief Executive Officer (CEO). The agreement runs from January 1, 2004 to December 31, 2009 and provides for annual compensation, benefits, and increases based upon the CEO's annual performance evaluation. The agreement also includes provisions that would require severance payments upon early termination of the agreement.

Other receivables consist of $265,313 due from IDFA, which represents excess retirement plan fundings associated with the CEO's employment contract. This amount will be refunded to the Board upon the CEO's retirement in 2009. The deferred compensation payable balance of $122,463 as of December 31, 2008, represents the portion of the excess retirement plan funding due to the CEO.

Note 11: Retirement plan:

In October 2007, the Board adopted a safe harbor 401(k) plan. An employee is eligible to participate in the plan once the service requirement is completed as defined in the plan document. If an employee was employed by the Board on October 1, 2007, the service requirement was waived and those employees were immediately eligible to participate. Participants may elect to defer a portion of their salary and contribute it to the retirement plan. Additionally, the Board will make a safe harbor matching contribution equal to 100% of deferrals that do not exceed 3% of the employees' compensation plus a 50% match for deferrals between 3% - 5% of employees' compensation. However for any plan year when the plan is not a "safe harbor" plan, the contribution is at the Board's discretion. The Board's contribution totaled $110,262 for the year ended December 31, 2008.

Note 12: Subsequent event:

Subsequent to year end, the Board entered into an employment agreement with a new Chief Executive Officer (CEO). The agreement runs from March 1, 2009 through February 28, 2011 and provides for annual compensation, benefits, and increases based upon the CEO's annual performance evaluation. The agreement also includes provisions that would require severance payments upon early termination of the agreement.

The Board also entered into a consulting agreement with an outside consultant. The duration of the agreement is from March 1, 2009 through March 31, 2010. The consultant will provide program support for the Board's advertising, public relations and promotions programs as requested and directed by the Board. Fees for these services will be billed at an hourly rate of $70 plus any additional out-of-pocket expenses. The total fees and out-of-pocket expenses paid to the consultant shall not exceed $143,200.

SUPPLEMENTARY INFORMATION

Independent Auditor's Report on Supplementary Information

To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.

Our report on our audit of the basic financial statements of the National Fluid Milk Processor Promotion Board for 2008 appears on pages 1 and 2. We conducted our audit for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 15 to19 for the year ended December 31, 2008 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, other than the budget amounts, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

SNYDER, COHN, COLLYER, HAMILTON & ASSOCIATES, P.C.
Bethesda, Maryland
March 30, 2009

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National Fluid Milk Processor Promotion Board

Schedule of Revenues and Expenses
Actual Compared to Budget
(Budget Basis)

For the year ended December 31, 2008

	Unexpended/ Amended Budget (Unaudited)	Current Year Actual	Actual Over (Under) Budget
Revenues:			
Assessments	$ 107,000,000	$ 107,207,269	$ 207,269
Late payment charges	-	105,543	105,543
Interest income	340,000	381,384	41,384
Other	-	5,632	5,632
Carryover - prior years	5,958,050	-	(5,958,050)
Total revenues	113,298,050	107,699,828	(5,598,222)
Expenses:			
Program expenses:			
Program - current year	99,452,000	94,978,202	(4,473,798)
Program - prior years	4,830,619	2,024,800	(2,805,819)
Total program expenses	104,282,619	97,003,002	(7,279,617)
Other expenses:			
California grant	10,210,000	10,352,588	142,588
Administrative	3,064,850	2,804,858	(259,992)
USDA oversight	567,000	485,917	(81,083)
Total other expenses	13,841,850	13,643,363	(198,487)
Less: encumbrances - prior years	(4,830,619)	-	4,830,619
Total expenses	113,293,850	110,646,365	(2,647,485)
Unallocated budget	4,200	-	(4,200)
Excess of expenses over revenues	$ -	$ (2,946,537)	$ (2,946,537)

See Independent Auditor's Report on Supplementary Information

National Fluid Milk Processor Promotion Board

Schedule of Program Expenses
Actual Compared to Budget
(Budget Basis)

For the year ended December 31, 2008

	Current Year Amended Budget (Unaudited)	Expended Current Year Actual	Actual Over (Under) Budget	Prior Year Unexpended Budget (Unaudited)	Expended Prior Year Actual	Actual Over (Under) Budget	Total Program Activity
Media	$ 67,695,000	$ 66,751,167	$ (943,833)	$ 875,568	$ 201,900	$ (673,668)	$ 66,953,067
Promotions	11,307,800	10,419,960	(887,840)	852,099	671,170	(180,929)	11,091,130
Public relations	15,639,200	14,840,312	(798,888)	916,341	419,236	(497,105)	15,259,548
Strategic thinking	1,140,000	1,054,267	(85,733)	448,659	115,260	(333,399)	1,169,527
Research	2,835,000	1,636,996	(1,198,004)	1,217,438	495,239	(722,199)	2,132,235
Medical advisory board	400,000	159,283	(240,717)	210,941	66,297	(144,644)	225,580
Medical research	205,000	43,546	(161,454)	229,361	20,000	(209,361)	63,546
Program measurement	230,000	72,671	(157,329)	80,212	35,698	(44,514)	108,369
Total program expenses	$ 99,452,000	$ 94,978,202	$ (4,473,798)	$ 4,830,619	$ 2,024,800	$ (2,805,819)	$ 97,003,002

See Independent Auditor's Report on Supplementary Information

National Fluid Milk Processor Promotion Board

Schedule of Administrative Expenses
Actual Compared to Budget
(Budget Basis)

For the year ended December 31, 2008

	Current Year Amended Budget (Unaudited)	Current Year Actual	Actual Over (Under) Budget
Management contract	$ -	$ 264	$ 264
Board meeting expenses	270,000	252,567	(17,433)
Resource development committee	200,000	228,361	28,361
Support staff severence	145,000	154,709	9,709
Staff salaries and benefits:			
Staff salaries and compensation	1,289,640	1,284,827	(4,813)
Program management salary allocation	(1,397,390)	(1,387,575)	9,815
Staff retirement benefit	145,300	110,262	(35,038)
Payroll taxes	74,890	72,098	(2,792)
Health insurance	44,460	46,698	2,238
Life insurance	8,220	5,066	(3,154)
Disability insurance	14,380	13,568	(812)
Workers compensation	4,100	1,977	(2,123)
Other employee benefits	18,100	15,840	(2,260)
Total staff salaries and benefits	201,700	162,761	(38,939)
Finance and administration:			
Contract staff	160,000	160,000	-
Consultants - HR, IT	95,000	71,399	(23,601)
Financial services	400,000	400,030	30
Total finance and administration	655,000	631,429	(23,571)
Other operating expenses:			
Legal	495,000	494,663	(337)
Audits	110,000	73,408	(36,592)
Office facilities	200,000	165,022	(34,978)
Support and maintenance	30,200	77,733	47,533
Staff travel	300,000	349,186	49,186
Telephone	25,000	23,377	(1,623)
Insurance	40,000	35,248	(4,752)
Postage and delivery	10,000	19,939	9,939
Payroll service and pension administration	6,900	6,940	40

National Fluid Milk Processor Promotion Board

Schedule of Administrative Expenses
Actual Compared to Budget
(Budget Basis)

For the year ended December 31, 2008

	Current Year Amended Budget (Unaudited)	Current Year Actual	Actual Over (Under) Budget
Other operating expenses: (continued)			
Office supplies and expense	$ 80,000	$ 34,897	$ (45,103)
Employee development	25,000	10,694	(14,306)
Software license and support	-	2,374	2,374
Miscellaneous	10,000	2,273	(7,727)
Space plan and build-out	170,474	5,880	(164,594)
Furniture	33,850	4,062	(29,788)
Equipment	56,726	6,826	(49,900)
Amortization and depreciation	-	62,245	62,245
Total other operating expenses	1,593,150	1,374,767	(218,383)
Total administrative expenses	$ 3,064,850	$ 2,804,858	$ (259,992)

See Independent Auditor's Report on Supplementary Information

National Fluid Milk Processor Promotion Board

Schedule of Cash Receipts and Disbursements

For the year ended December 31, 2008

Cash receipts from operations:	
Assessments	$ 106,957,205
Late payment charges	105,543
Interest income	332,257
Other	5,632
Cash receipts from operations	107,400,637
Cash disbursements for operations	(111,945,465)
Cash disbursements for investing activities:	
Purchase of investments	(6,100,000)
Purchase of property and equipment	(233,517)
Cash disbursements for investing activities	(6,333,517)
Excess of disbursements over cash receipts	(10,878,345)
Cash and cash equivalents - beginning	16,897,658
Cash and cash equivalents - ending	$ 6,019,313

See Independent Auditor's Report on Supplementary Information

PART II

SNYDER·COHN·COLLYER·HAMILTON & ASSOCIATES P.C.

Independent Auditor's Report on Internal Control
(Combined Report Applicable to Internal Control over Financial Reporting
Based on an Audit of Financial Statements and Internal Control over Compliance
Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*)

To the Board of Directors
National Fluid Milk Processor Promotion Board
Washington, D.C.

We have audited the financial statements of the National Fluid Milk Processor Promotion Board (the Board), as of and for the year ended December 31, 2008, and have issued our report thereon dated March 30, 2009. We have also audited the Board's compliance with requirements applicable to *Government Auditing Standards* and have issued our report thereon dated March 30, 2009.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the Board complied with certain laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

The management of the Board is responsible for establishing and maintaining effective internal control. In planning and performing our audits of the financial statements and compliance, we considered the Board's internal control over financial reporting and its internal control over compliance with requirements that could have a direct and material effect on the determination of financial statement amounts in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting and internal control over compliance.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis misstatements or noncompliance with applicable requirements of *Government Auditing Standards.* A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements or noncompliance with applicable requirements of *Government Auditing Standards* that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements or material noncompliance with applicable requirements of *Government Auditing Standards* will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiency in internal control that we consider to be a significant deficiency.

During the course of the audit, we noted one instance where an employee check was issued by the Board without a second signature on the check as required per Board policy. We recommend that the Board employ procedures to ensure that all checks are countersigned before mailing. This allows for better control over the cash disbursements process.

This report is intended solely for the information of the Board of Directors of the National Fluid Milk Processor Promotion Board, management, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture, and is not intended to be and should not be used by anyone other than these specified parties.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

SNYDER, COHN, COLLYER, HAMILTON & ASSOCIATES, P.C.
Bethesda, Maryland
March 30, 2009

PART III

SNYDER·COHN·COLLYER·HAMILTON & ASSOCIATES P.C.

To the Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of financial position of the National Fluid Milk Processor Promotion Board as of December 31, 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated March 30, 2009. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention, insofar as it relates to accounting matters, that causes us to believe that the National Fluid Milk Processor Promotion Board:

- Failed to comply with laws and regulations applicable to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1160.212 of the Fluid Milk Promotion Order, relating to the use of assessment funds for the purpose of influencing governmental policy or action;
- Expended assessment funds for purposes other than those authorized by the Fluid Milk Promotion Act and the Fluid Milk Promotion Order;
- Expended or obligated assessment funds on any projects prior to the fiscal year in which those funds were authorized to be expended by the National Fluid Milk Processor Promotion Board's approved Budget and Marketing Plan;
- Did not adhere to the original or amended Budget and Marketing Plan for the year ended December 31, 2008;
- Did not obtain a written contract or agreement with any person or entity providing goods or services to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1999H, paragraph (g) of the Fluid Milk Promotion Order, relating to the limitations on the types of investments which may be purchased by the National Fluid Milk Processor Promotion Board and the insurance or collateral that must be obtained for all National Fluid Milk Processor Promotion Board deposits and investments;

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- Failed to comply with internal controls, except as described below;
- Failed to comply with disclosure requirements for lease commitments;
- Failed to comply with standards established requiring signed contracts, USDA approval letters (if necessary), contract term documentation within the file, and CFO's signature on the Board approval letter; or
- Failed to comply with the by-laws of the National Fluid Milk Processor Promotion Board or any other policy of the National Fluid Milk Processor Promotion Board, specifically as they relate to all financial matters, including time and attendance, and travel.

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

During the course of the audit, we noted one instance where an employee check was issued by the Board without a second signature on the check as required per Board policy. We recommend that the Board employ procedures to ensure that all checks are countersigned before mailing. This allows for better control over the cash disbursements process.

This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management of the National Fluid Milk Processor Promotion Board, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

SNYDER, COHN, COLLYER, HAMILTON & ASSOCIATES, P.C.
Bethesda, Maryland
March 30, 2009

Appendix D–1
National Dairy Promotion and Research Board
and Dairy Management Inc.
Contracts Reviewed by USDA

Advertising and Marketing Services

American Association of School Administrators–Journal Advertising
American Dairy Association/Dairy Council, Inc.–Professional Staff Services
ARAMARK Educational Services, L.L.C.–Promoting Dairy Products in Schools
Dairy Farmers, Inc.–Professional Services
Domino's Pizza–Cheese Promotion Activity
Flair Communications Agency–Marketing and Program Management Services
G2 Promotional Marketing–Retail Activities; Healthy Milk Awareness
Jefferson Davis Associates–School Milk Packaging Assessment; Acceptance of Shelf–Stable Milk
Media Management Services–Appreciative Inquiry Summit Support, School Marketing Strategic Support and Planning
NFL Properties, L.L.C.–Promotional Activities; Logo Usage Rights
National School Board Association–Journal Advertising
Novak Birch–Marketing and Creative Services
Prevail! Strategic Marketing and Communications–Child Nutrition and Fitness Initiative Platform Management
RTC–Dairy Aisle Reinvention (Continued in 2008)
Southeast Dairy Industry Association–Professional Services
Subway Franchisee Advertising Trust–Merchandizing of Single–Serve Milk and Yogurt
Western Dairy Farmers–Professional Services
Team Services, L.L.C.–NFL and Sports Marketing Services
Willard Bishop–Strategic Insights Consulting
Wisconsin Milk Marketing Board–National Butter Program
Wondergroup–Child Nutrition and Fitness Initiative Activities

Communications, Public Relations, and Nutrition Education

Action for Healthy Kids, Inc.–Sponsorship
Audrey Welper–Media Consulting
Bader Rutter & Associates–Dairy Ingredients Media Relations Program
Bella Ablava–Russian Marketing Consulting and Services
Blu Skye Sustainability–Dairy Industry Sustainability Initiative
BNP Media–Leadership in School Nutrition Awards Program
Burson–Marsteller–Dairy Ingredient Crisis Preparation
Ceres Connections–Child Nutrition and Fitness Initiative Consulting
Christopher Klose–Editorial Consulting, Communications
Cleveland Dovington Partners, Inc.–Information Technology Services and Consulting
CMA Consulting –Consulting Services Related to Growth Oriented Dairy Producers
Cooperrider and Associates–Healthy School, Healthy Kids Summit Services
Dairy Farmers, Inc.–Communication Activities, UMP Implementation
Destination Imagination, Inc.– Sponsorship; CNFI Research

Appendix D–1, continued

Edelman Public Relations Worldwide–3–A–Day™, Nutrition, Scientific Affairs, Child Nutrition and Fitness Initiative and Dairy Image Public Relations and Communications Activities
Fleishman Hillard, Inc.–Foot and Mouth Disease Response
FoodMinds L.L.C.–Health Professional, Nutrition and Scientific Affairs Public Relations; Whey Influencer Program; Dietary Guidelines Protection and Promotion
Food, Research, and Action Center–Food Breakfast Expansion
Fresh Approach–Commodity Roundtable Services
Gagen MacDonald L.L.C.–Communications Support Activities
Got Breakfast? Foundation–School Breakfast Program Promotion
Health and Nutrition Network–Media Training and Consulting Services
IA Collaborative–Nutrient Rich Coalition Architecture, Positioning Evaluation and Brand Development
I–Site Web Design–School Marketing Web Program
Image Base Corporation–Video News Release Production; School Milk Video Project
Integer Group–Dairy Producer and Export Communications Program
JDG Consulting–Dairy Issues Management
Kelly Czerwonka–Consulting Services
LevCom–Communications Activity
McDonalds USD–Co–promotion of Specialty Coffee
Mobilization L.L.C.–Video and Production services
National Cattleman's Beef Association–Naturally Nutrient Rich Score Project
National Dairy Shrine–Dairy Scholarship Program
Natural Marketing–Dairy Industry Sustainability Project Services
Nutrition Impact L.L.C.–Nutrient Density Index; Consulting and Project Services
Promar Japan– Japanese Marketing Activities
Promotion Management Group–Hispanic Program Services
Results Direct–DMI and USDEC Website Activities
Richter Brothers–www.dairyfarmingtoday.org Web site activities
Ruby–Do Special Projects–Industry Image and Relations Consulting
School Nutrition Foundation–School Marketing and Promotion
Slack Barshinger and Partners–Integrated Marketing and Leadership Communications, Ingredients Media Relations
Weber Shandwick, Inc.–Consulting and Professional Services; Issues Monitoring and Response; Crisis Communications Program

Export and Ingredients
2020 Company L.L.C.–European Importation Health Certificate Services
American–Mexican Marketing–Mexican Market Representation and Program Activities
Arab Marketing Finance, Inc.–Middle East Market Representation and Program Activities
Carla Sorenson–Professional Services
Contacts International Consulting, Ltd.–South American Market Representation and Program Activities
Dairy Farmers, Inc.–Caribbean Retail Promotion Activities

Appendix D–1, continued

Data Development Worldwide–Evaluation Study of Cloning Issue
David L. Stiefer–USDEC Consulting Services
Inavero Institute–USDEC Member feedback survey
International Dairy Foods Association–Export Manual Updates
IntNet–Korean Market Representation and Program Activities
JDG Consulting–USDEC Domestic Communications Plan
Knechtel, Inc.–Design and Develop Dairy Protein Based Products
Knowledge Networks–Message and Claims Testing
Market Makers–Japanese Market Representative and Program Activities
Mistral Group, Ltd.–European Market Representation and Program Activities
National Milk Producers Federation–Global and Domestic Research Activities; Trade Barriers; Marketing Information and Economic Research Services; Animal Health and Welfare Issues
Novak Birch–USDEC Website Creative and Design Services
Pasin Group–Estimate of Total Usage of Milkfat (Domestic and Imports–Exports) in the U.S. Based on End–Use
PR Consultants–Chinese Market Representation and Program Activities
Pacrim Associates–Southeast Asian Market Representation and Program Activities
Promar International–Middle East and North Africa Consulting Services
Promar Japan–Japanese Marketing Activities
Results Direct–USDEC Web site Activities www.usdec.org
Schonrock Consulting–Export Guide Analysis and Consulting Services
Stanton, Emms, and Sia–Export Marketing Research Activities
Story Consulting–Consulting Services
William Paddock–Consulting Services

Market and Economic Research, Consulting Services
Arbor Strategy Group–Integrated Macro Trends and Packaging Trend Analysis
Axen Research–Smoothie Understanding Study
Baker Communications–National and Regional Staff Training Programs
Burrelle's Luce–Media Monitoring and Analysis
Center for Culinary Development–Identify Strategic Innovation Platforms for Delivering Energy Benefits to Consumers Through Milk and Milk–Based Products
CFE Solutions, Inc.–Consulting Services
Culinary Sales Support–Ideation, Testing and Recipe Development for Menu Applications
Decision Insights–Pizza Concept Screener
Deloitte Consulting L.L.P.–Creation of Business Plans and Economic Models
Demeter Communication–Community Outreach Scheduler Services
Digital Cement–Analysis of Health and Wellness Digital Information Resources
DLG Research–Qualitative Testing of Dairy Concepts Among Hispanics
D.L. Peterson and Associates–Qualitative Research on Consumer's Reactions Toward Food Groups to Encourage Message Alternatives
Environ–Review of School Milk Report; Nutrient Intake by Cheese Consumption Project; Exercise Nutrition White Paper; Nutrient Rich Foods Project;

Appendix D–1, continued

Fresh Look Marketing Group–Deli Cheese Tracking Data
Global Dairy Platform, L.L.C.–Development, Maintenance and Dissemination of Specific Market and Consumer Research
GFK Custom Research–Whey Protein Consumer Tracking Study; Dairy Ingredient Concept Screen Testing; Health Professionals Dairy Nutrition Tracking Study; Kids Tracker Program; Dairy Fortified Desserts and Confections Study; Hot Cocoas Market Structure Research; Nutrient Rich Foods Consumer Tool
Harris Interactive, Inc.–Nutrient Rich Values–Based Communications Strategy Development
Information Resources, Inc.–Milk and Cheese Category Volume Reports; Current Price Environment for Milk and Its Impact on Consumer Spending
Kiddie–i–OH–Youth Health and Fitness Focus Groups
Leah Goldman–Value–Added Cheese and Milk Product Focus Groups
Marketecture–Attitudes, Usage and Trends Analysis; Issue Tracker Study
Marketing Concepts–Unprocessed Whey Market Research; Real Seal Administration
Moskowitz—Jacobs–Hispanic Research; Chocolate Milk Sensory Research; Attitudinal Research Projects
Mintel International Group–New Products Database and Market Intelligence Reports
National Milk Producers Federation–Domestic Research Program Activities/Animal Health and Welfare Issues Activities
NPD Group–Snacking Behavior and Consumer Dynamics Surrounding Snack Cheese; Access to NPD Databases; Satiety Research Project
NutriScore–Nutrient Rich Foods Consulting and Services
NuVista Strategies–Snacking Structure Analysis
PHD Technologies–Meat Applications and Consulting; Trade Mission Activities
Promodata Ad Activity–Advertising Tracking Services
Pursuant, Inc.–Dairy Production Practices Attitude Research
Results Direct–Website support services; Development of Export Guide Migration Functional Specifications
Shainwright Consulting–Consulting and Research Services
Stanwood Consulting– Research Activities to Accomplish Health and Wellness–Related Strategy and Insights
Summit Research, Inc.–Yogurt Sampling; Health Club Messaging; Women and Whey Protein Messaging Research
Sundberg–Ferrar–Cereal and Milk On–The–Go
Sunflower–Yogurt Product Hispanic and Baby Boomer Sampling
Synetics–Lactose Intolerance Research
Technomic–Review of Dairy Ingredients Used in Food; Pizza and Sandwich Tracking
Teri Gacek Associates–Qualitative Market Research
TNS Custom Research–SIP Data, iNFOfast Subscription; Child Nutrition Initiative marketing and communications research services
Trion Group L.P.–Consulting Services
Video Monitoring Services–Broadcast Monitoring
Watson Mulhern L.L.C.–Consulting Services

Appendix D–2
National Fluid Milk Processor Promotion Board
Contracts Reviewed by USDA

Medical Advisory Board

Steve Abrams, M.D.–Baylor College of Medicine–Medical Advisory Board Member Services
Susan Barr, Ph.D.–Medical Advisory Board Member Services
Christine Economos, Ph.D.–Medical Advisory Board Member Services
Frank R. Greer, M.D.–Medical Advisory Board Member Services
Robert P. Heaney, M.D.–Creighton University–Medical Advisory Board Member Services
James O. Hill, Ph.D. –Medical Advisory Board Member Services
Rachel Johnson, Ph.D., R.D.–Medical Advisory Board Member Services
Ronald M. Krauss, M.D.–Medical Advisory Board Member Services

Advertising, Promotion, and Public Relations

Bader Rutter & Associates, Inc.–Marketing Communications
Draft, Inc.–Promotional Services
Outloud, L.L.C.–Marketing Communications Plan
Publicidad Siboney–Hispanic Marketing Program

Market Research and Evaluation, and Consulting Services

Bethart Bilingual Services–Market Research
Beverage Marketing Corporation–Consulting/Competitive Strategy Development
Click IQ, Inc.–Online Survey
C & R Research–Teen–Focused Market Research
Data Development Corporation–Market Research
Dynamic Logic–Advertising Analysis
Egg Strategy–Market Research
Greenfield Consulting–Consulting Services
Harris Interactive–Market Research
Information Resources, Inc.–Market Analysis
International Dairy Foods Association–Professional Management Services
Kelly Fisher–Consulting Services
Marketing Management Analytics–Marketing Mix Analysis
Prime Consulting Group–Consulting Services, Survey Analyses and Strategic Planning
RealMediaValue Company–Media Evaluation Services
Scherer Cybarian–Market Research Summaries

Other Agreements

HBW Group–Office configuration services
Heidrick & Struggles–Executive search
Snyder, Cohn, Collyer, Hamilton & Associates, P.C.–Audit Services

Appendix E-1
Nutrition and Health Research Institute and Dairy Foods Research Centers

Nutrition and Health Research Institute

Genetics and Nutrition Institute

Children's Hospital, Oakland Research Institute: Relationship of Genetics, Dietary Fat (Especially Dairy Fat), and Heart Disease.

Dairy Foods Research Center

California Dairy Foods Research Center

(University of California–Davis and California Polytechnic State University–San Luis Obispo): Specializes in product technology development, ingredient technology, product health enhancement properties, food safety, and quality assurance.

Midwest Dairy Foods Research Center

(University of Minnesota–St. Paul, Iowa State University-Ames and South Dakota State University–Brookings): Concentrates on natural and processed cheese functionality and flavor, fluid milk flavor and shelf life, genomics of probiotic bacteria, and utilization of acid and salt whey.

Southeast Dairy Foods Research Center

(North Carolina State University–Raleigh and Mississippi State University–Starkville): Specializes in milk and whey ingredient functionality, thermal and biological processing, sensory properties of cheese and dairy ingredients, dairy food safety, and microbial technologies for starter cultures and probiotics.

Western Dairy Center

(Utah State University–Logan, Oregon State University–Corvallis, Washington State University–Pullman, and University of Idaho–Moscow): Specializes in cheese flavor and functionality, fluid milk processing, whey and milk utilization, and microbial genetics and physiology.

Wisconsin Center for Dairy Research

(University of Wisconsin–Madison): Explores functional flavor and physical properties of cheese and cheese products, whey and whey components, and milk components used as ingredients and as finished products, cheese making and whey processing and separation procedures, use of milkfat, and food safety and quality technology.

Appendix E-2
Dairy Foods Competitive Research Activities

Principal Investigator, Institution, and Project Title

NIZO Food Research (Private Company): Solubility of Milk Protein Concentrate [completed in 2008]

Devin Peterson, Ph.D. (The Pennsylvania State University): Inhibition of Off-Flavor Development in Non-Refrigerated Milk by Phenolic Chemistry [continued in 2008]

Greg Thoma, Ph.D. (University Of Arkansas): Life Cycle Assessment of the Fluid Milk Supply Chain: Dairy Products [began 2008]

Hua Wang, Ph.D. (The Ohio State University Research Foundation): Methods to Maintain Dairy Culture Genotypes [continued in 2008]

Peggy M. Tomasula, Ph.D. (USDA Agricultural Research Service): Development and validation of the effect of interventions and processes on persistence of Listeria monocytogenes on Queso Fresco cheese [began 2008]

Shan-Tian Yang, Ph.D. (The Ohio State University Research Foundation): Production of Galacto-Oligosaccharides from Whey Lactose [continued in 2008]

Qixin Zhong, Ph.D., and Bin Zhao, Ph.D. (The University of Tennessee): Magnetic Nanotubes to Purify High Value Peptides/Proteins from Unclarified Whey [began 2008]

Appendix E-3
Nutrition Competitive Research Activities

Principal Investigator, Institution, and Project Title

Sean H. Adams, Ph.D. (USDA-Agricultural Research Service-Western Human Nutrition Research Center): Evaluation of the Anti-Inflammatory Effects of Calcium and Dairy in a Polygenic Obese Mouse Model [continued in 2008]

David J. Baer, Ph.D. (USDA-Agricultural Research Service-Beltsville Human Nutrition Research Center): Effects of Trans-Fatty Acids from Ruminant Sources on Risk Factor for Cardiovascular Disease [continued in 2008]; Dietary Protein Sources and Their Effects on Risk Factors Associated with Cardiovascular Disease [continued in 2008]

Leann L. Birch, Ph.D. (The Pennsylvania State University): Parental Influence on Girls' Calcium Intake, Bone Mineral Content and Weight Status–Phase III [completed in 2008]; and Mother-Daughter Patterns of Beverage and Dairy Consumption at Home and Away From Home in Girls 5 to 15 [began in 2008]

Robert Brannan, Ph.D. (Ohio University): Whey Protein Inhibition of Oil Absorption in Fried Foods [completed in 2008]

David Cameron-Smith, Ph.D. (Deakin University): Optimal Whey Protein Concentrate 80 (WPC 80) Dose to Combat Sarcopenia [continued in 2008]

Joseph E. Donnelly, Ph.D. (University of Kansas): Effects of Visible Cheese on Consumption of Food Groups to Encourage [began 2008]

Ellen M. Evans, Ph.D. (University of Illinois): Higher Protein Diet and Exercise for Optimal Weight Loss in Elderly Women [continued in 2008]

Roger Fielding, Ph.D. (Tufts University): Efficacy of Whey Protein Supplementation on Resistance Exercise Induced Changes in Muscle Strength, Fat Free Mass, and Function in Mobility-Limited Older Adults [continued in 2008]

Korry Hintze, Ph.D. (Utah State University): Effect of Milk Fat Globular Membrane (MFGM) in Providing Protection Against Gastrointestinal Stress [began in 2008]

Michael Holick, Ph.D., M.D. (Boston University School of Medicine): The Effect of Dietary Calcium and Vitamin D on Prostate Cancer [continued in 2008]

Robert Hutkins, Ph.D. (University of Nebraska): Anti-adherence Activity of Prebiotic Galactooligosaccharides Against Enteric Pathogens [began 2008]

Appendix E-3, continued

Jasminka Ilich-Ernst, Ph.D. (Florida State University Research Foundation): Calcium and Dairy-Derived Bioactive Compounds as Stem Cell Mediators of Bone and Fat Metabolism [began in 2008]

John L. Ivy, Ph.D. (The University of Texas at Austin): The Effect of Chocolate Milk (CM) on Exercise Recovery and Training Adaptation [continued in 2008]

Nancy L. Keim (USDA-Agricultural Research Service-Western Human Nutrition Research Center): The Effect of Dairy Foods in Normalizing the Hypothalamic-Pituitary-Adrenal Axis in Overweight/Obese Adults Following Diet-Induced Weight Loss [began in 2008]

Donald K. Layman, Ph.D. (University of Illinois): Meal Responses to Whey Proteins Enhance Protein and Carbohydrate Metabolism in Rats [continued in 2008]

Joan M. Lappe, Ph.D. (Creighton University): Pilot Project Preparatory to a Definitive Study of the Efficacy of Milk Minerals in Human Bone Health [completed in 2008]

Adam L. Lock, Ph.D. (University of Vermont): Influence of Maternal Intake of Conjugated Linoleic Acid on Hormone Responses by the Mammary Glands of Female Progeny [continued in 2008]; and The Impact of Natural and Industrial Sources of Trans Fatty Acids on the Development of Atherosclerosis in the ApoE*3 Leiden Mouse Model [began in 2008]

Shuichi Machida, Ph.D. (Tokai University): The Effects of Resistance Training Combined with Whey Protein Supplementation on Body Composition and Health of Elderly Japanese People with Sarcopenia [began 2008]

Mark A. McGuire, Ph.D. (University of Idaho): The Use of Milk Fat as a Possible Antibacterial Agent [began 2008]

Kevin C. Maki, Ph.D. (Provident Clinical Research & Consulting, Inc.): A Double-blind Randomized, Controlled, Crossover Study to Assess the Effects of Protein on Postprandial Hunger and Satiety on Men and Women [completed in 2008]

Kim Fleischer Michaelsen, Ph.D. (University of Copenhagen: The Role of Whey in Nutritional Support of HIV Infected Patients on Antiretroviral Treatment: A Randomized Trial in Jimma, Ethiopia [began in 2008]

Lynn L. Moore, Ph.D. (Boston University School of Medicine): Dairy Intake and Metabolic Risk in Adolescent Girls [continued in 2008]; and Development of a Food Pyramid Database in the Framingham Heart Study Offspring [began in 2008]

Mary Murphy, M.S., R.D. (ENVIRON): Nutrient Intakes by Cheese Consumption [began and completed in 2008]

Appendix E-3, continued

Theresa Nicklas, Ph.D. (Baylor College of Medicine): Understanding Perceived Lactose Intolerance in White, Black and Hispanic Adults [began in 2008]; and Healthy Eating and Lifestyle for Total Health (HEALTH) [began in 2008]

Troy Ott, Ph.D. (Pennsylvania State University): A Critical Evaluation of Sterols in Milk and Dairy Products [continued in 2008]

Stuart Phillips, Ph.D. (McMaster University): Responses of Muscle and Whole-Body Protein Turnover to Ingestion of Differing Doses of Whey and Soy Protein with and without Resistance Exercise in Elderly Men [continued in 2008]; and The Impact of Higher Dairy and Dietary Protein on the "Quality" of Hypoenergetic Diet and Exercise Induced Weight Loss in Pre-Menopausal, Overweight, and Obese Young Women [began in 2008]

Karen Rafferty, M.S., R.D., Robert Heaney, M.D. (Creighton University): A Project to Advance a Research Data Infrastructure by Creating a Master Data Bank [continued in 2008]

Nancy Rodriguez, Ph.D. (University of Connecticut): Milk's Impact on Protein Turnover-Specific Intracellular Signaling Protein in Human Skeletal Muscle During Recovery from Endurance Exercise [continued in 2008]

Michael J. Saunders, Ph.D. (James Madison University): Effects of Chocolate Milk Consumption on Markers of Muscle Recovery and Performance During Intensified Training in Competitive Soccer Players [began in 2008]

Dale Schoeller, Ph.D. (University of Wisconsin-Madison): A Novel Stable Isotope Measurement to Monitor Macronutrient Intake for Future Use in the Study of Interactions of Diet and Dairy on BMI and Bone Health [continued in 2008]

Gloria Solano-Aguilar, Ph.D., Todd R. Klaenhammer, Ph.D. (USDA Agricultural Research Service-Beltsville Human Nutrition Research Center and North Carolina State University): Effect of Dairy Delivery on Survival and Activity of Probiotic Cultures *in vivo* [began in 2008]

Debra Sullivan, Ph.D. (University of Kansas Medical Center): A Qualitative Study of Children's Perceptions of Dairy Foods [continued in 2008]

Angelo Tremblay, Ph.D. (Hopital Laval): Effect of Milk Supplementation on Appetite Control in Obese Women Following a Weight Loss Program [continued in 2008]

Francis Tylavsky, Dr. P.H (University of Tennessee Health Science Center): Role of Dairy Products in Decreasing Insulin Resistance and Modulating the Release of Glucagon-Like Peptide-1 in Obese African-American Adolescents: A Pilot Study, [completed in 2008]

Appendix E-3, continued

Marta Van Loan, Ph.D. (USDA-Agricultural Research Service-Western Human Nutrition Research Center): The Role of Dairy Foods in Enhancing Central Fat Loss and Weight Loss with Moderate Energy Restriction in Overweight and Obese Adults [continued in 2008]

Jeff Volek, Ph.D. (University of Connecticut): Investigation of Whey Protein Supplementation for Physiological Enhancement to Resistance Training and Dietary Regimes in Young Adults [continued in 2008]

Youfa Wang, M.D., Ph.D. (Johns Hopkins University Bloomberg School of Public Health): The Influences of Dairy Consumption and Related Nutrients on Obesity, Metabolic Syndrome, and Type 2 Diabetes and the Ethnic Differences [began in 2008]

Eva Wareasjo, Ph.D. (Uppsala University): Milkfat Biomarkers and the Risk of a First Ever Acute Myocardial Infarction (AMI) - A Prospective Nested Case-Control Study [began in 2008]

Richard A. Washburn, Ph.D. (University of Kansas Center for Research): Whey Protein Supplementation with Resistance Training: Effect on Body Composition of Young Adults [continued in 2008]

Connie Weaver, Ph.D. (Purdue University): Influence of Dairy on Bone Mass Accrual, Bone Size and Fat and Lean Body Mass in Early Pubertal Overweight vs. Healthy Weight Girls [continued in 2008]; and Calcium, Dairy, and Body Fat in Adolescents [completed in 2008]

Michael B. Zemel, Ph.D. (University of Tennessee Research Foundation): Dairy Attenuation of Oxidative and Inflammatory Stress in Metabolic Syndrome [continued in 2008]; Dairy Modulation of Oxidative and Inflammatory Stress in Overweight and Obese Subject [completed in 2008]; and Exploratory Research in the Role of Dairy in Weight Management and Prevention of Obesity-Related Chronic Disease [completed in 2008]

Jun Zhou, Ph.D., Jack N. Losso, Ph.D., Roy Martin, Ph.D. (The Louisiana State University, Pennington Biomedical Research Center): Mechanisms of Reduced Appetite with Whey Protein [completed in 2008]

Appendix F
Qualified State or Regional Dairy Product Promotion, Research, or Nutrition Education Programs

Allied Milk Producers' Cooperative
495 Blough Road
Hooversville, PA 15936–8207

American Dairy Association Mid East
5950 Sharon Woods Blvd.
Columbus, OH 43229

American Dairy Association and Dairy Council, Inc.
219 South West Street, Suite 100
Syracuse, NY 13202

American Dairy Association of Alabama
5340 West Fayetteville Road
Atlanta, GA 30349–5416

American Dairy Association of Georgia
5340 West Fayetteville Road
Atlanta, GA 30349–5416

American Dairy Association of Kentucky
5340 West Fayetteville Road
Atlanta, GA 30349–5416

American Dairy Association of Michigan
2163 Jolly Road
Okemos, MI 48864

American Dairy Association of Mississippi
5340 West Fayetteville Road
Atlanta, GA 30349–5416

American Dairy Association of Nebraska
8205 F Street
Omaha, NE 68127–1779

American Dairy Association of North Carolina
5340 West Fayetteville Road
Atlanta, GA 30349–5416

American Dairy Association of South Carolina
5340 West Fayetteville Road
Atlanta, GA 30349–5416

American Dairy Association of South Dakota
2015 Rice Street
St. Paul, MN 55113

American Dairy Association of Virginia
5340 West Fayetteville Road
Atlanta, GA 30349–5416

California Manufacturing Milk Producers Advisory Board
3800 Cornucopia Way, Suite D
Modesto, CA 95358–9492

California Milk Producers Advisory Board
3800 Cornucopia Way, Suite D
Modesto, CA 95358–9492

Dairy Council of California
1101 National Drive, Suite B
Sacramento, CA 95834–1945

Dairy Council of Michigan
2163 Jolly Road
Okemos, MI 48864

Dairy Council of Nebraska
8205 F Street
Omaha, NE 68127–1779

Dairy Farmers, Inc.
166 Lookout Place, Suite 100
Maitland, FL 32751–4496

Appendix F, continued

DairyMAX
2214 Paddock Way Drive, Suite 600
Grand Prairie, TX 75050

Dairy Promotion, Inc.
10220 NW Ambassador Drive
Kansas City, MO 64153

Georgia Agricultural Commodity Commission for Milk
19 Martin Luther King Jr., Dr., SW, Room 328
Atlanta, GA 30334

Granite State Dairy Promotion
c/o New Hampshire Department of Agriculture
25 Capitol Street, Box 2042
Concord, NH 03302–2042

Idaho Dairy Products Commission
10221 West Emerald, Suite 180
Boise, ID 83704

Illinois Milk Promotion Board
1701 Towanda Avenue
Bloomington, IL 61701

Indiana Dairy Industry Development Board
9360 Castlegate Drive
Indianapolis, IN 46256

Louisiana Dairy Industry Promotion Board
c/o Louisiana Department of Agriculture and Forestry
47076 North Morrison Street
Hammond, LA 70401

Maine Dairy and Nutrition Council
333 Cony Road
Augusta, ME 04330

Maine Dairy Promotion Board
333 Cony Road
Augusta, ME 04330

Massachusetts Dairy Promotion Board
Suite 500, 251 Causeway Street
Boston, MA 02114

Michigan Dairy Market Program
P.O. Box 8002
Novi, MI 48376–8002

Mid–Atlantic Dairy Association
325 Chestnut Street, Suite 600
Philadelphia, PA 19106

Midwest Dairy Association
2015 Rice Street
St. Paul, MN 55113

Midwest Dairy Council
2015 Rice Street
St. Paul, MN 55113

Milk for Health on the Niagara Frontier, Inc.
4185 Seneca Street
West Seneca, NY 14224

Milk Promotion Services of Indiana, Inc.
9360 Castlegate Drive
Indianapolis, IN 46256

Minnesota Dairy Research and Promotion Council
2015 Rice Street
St. Paul, MN 55113

Nebraska Dairy Industry Development Board
8205 F Street
Omaha, NE 68127–1779

Appendix F, continued

Nevada Farm Bureau Dairy Producers Committee
2165 Green Vista Drive, Suite 205
Sparks, NV 89431

New England Dairy and Food Council, Inc.
1034 Commonwealth Avenue
Boston, MA 02215

New England Dairy Promotion Board
1034 Commonwealth Avenue
Boston, MA 02215

New Jersey Dairy Industry Advisory Council c/o New Jersey Dept. of Agriculture
PO Box 330
Trenton, NJ 08625–0330

New York State Dept. of Agriculture and Markets
Division of Milk Control and Dairy Services
10 B Airline Drive
Albany, NY 12235–0001

North Dakota Dairy Promotion Commission
2015 Rice Street
St. Paul, MN 55113

Oregon Dairy Products Commission
10505 Southwest Barbur Boulevard
Portland, OR 97219

Pennsylvania Dairy Promotion Program
c/o Pennsylvania Department of Agriculture
2301 North Cameron Street
Harrisburg, PA 17110–9408

Promotion Services, Inc.
5340 West Fayetteville Road
Atlanta, GA 30349–5416

Rochester Health Foundation, Inc. c/o ADADC, Inc.
219 South West Street, Suite 100
Syracuse, NY 13202

Southwest Dairy Museum
P.O. Box 936
Sulphur Springs, TX 7548

Tennessee Dairy Promotion Committee
5340 West Fayetteville Road
Atlanta, GA 30349–5416

United Dairymen of Arizona
2008 S. Hardy Drive
Tempe, AZ 85282

Utah Dairy Commission
1213 East 2100 South
Salt Lake City, UT 84106

Vermont Dairy Promotion Council
116 State Street, Drawer 20
Montpelier, VT 05620–2901

Washington State Dairy Council
4201 198th Street, SW, Suite 102
Lynnwood, WA 98036–6751

Washington State Dairy Products Commission
4201 198th Street, SW, Suite 101
Lynnwood, WA 98036

Western Dairy Association
12000 North Washington Street, Suite 200
Thornton, CO 80241

Wisconsin Milk Marketing Board, Inc.
8418 Excelsior Drive
Madison, WI 53717

Appendix G
National Fluid Milk Processor Promotion Board

Source: MilkPEP/Lowe Worldwide
Moms Target

Brooke Shields

Marg Helgenberger

Heidi Klum

Ali Vincent

Campaign for Healthy Weight (CFHW) Logo

Martha Stewart

Glenn Close

Michele Aguilar

Trisha Yearwood

Appendix G, continued

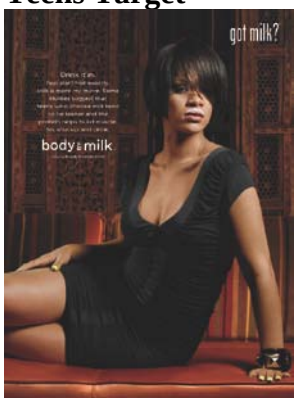
Moms Target, continued

Heidi Klum

Suze Orman

Jaci Hasemeyer, Chief Health Officer winner

Teens Target



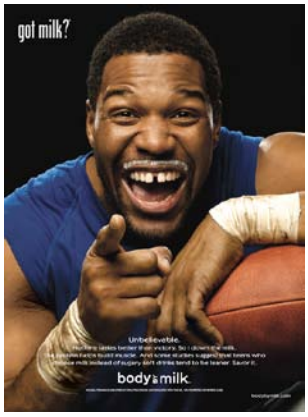
Rihanna

Batman

Miley Cyrus

Wes Welker and Michael Strahan

Ana Ivanovic

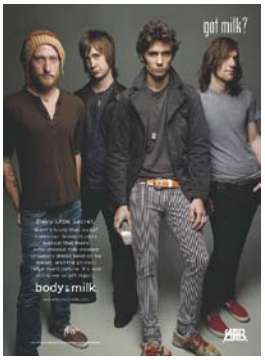


Michael Strahan

Appendix G, continued

Teens Target, continued

Avery Johnson and Josh Howard



All-American Rejects

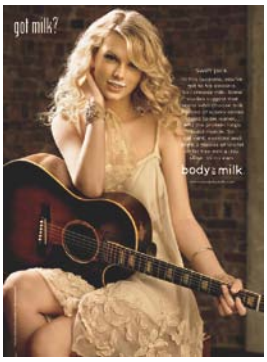
Dwight Howard

Chris Brown

Olympic Athletes

body by milk.SM

Body by Milk^{SM} (BBM^{SM})

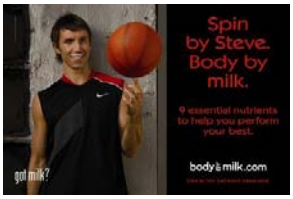


Taylor Swift

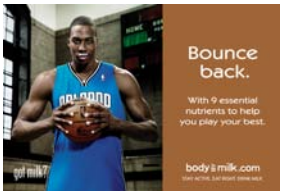
School Milk Posters

Elementary Schools:

Amanda Bynes



Steve Nash

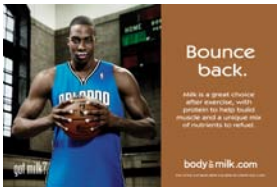


Dwight Howard

Miley Cyrus

Middle and High Schools:

Taylor Swift



Dwight Howard-Gym

Masi Oka

All-American Rejects

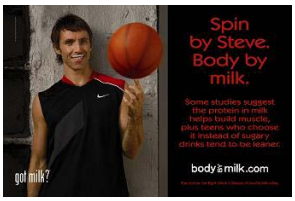
Appendix G, continued

School Milk Posters, continued
Middle and High Schools:

Miley Cyrus

Hayden Panettiere

Amanda Bynes



Steve Nash

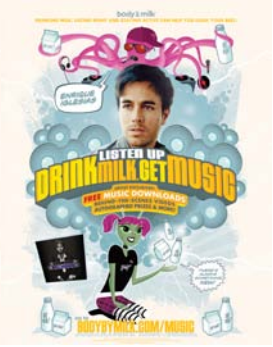
Female Olympic Athletes-Gym

Male Olympic Athletes-Gym

Source: MilkPEP/DRAFTFCB
School Materials
Posters:

Group

Cornell



Enrique

Lifehouse

Plain White T's

Smashing Pumpkins

Rihanna

Swift

Appendix G, continued

School Materials, continued

Clings:

Listen Up

Drink Up

BBM[SM]

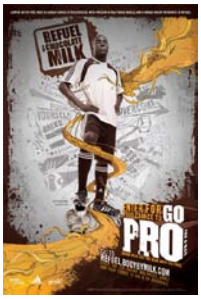
Group

Posters:

Group

Ana Ivanovic

Dwight Howard



Jozy Altidore

Group-Orange

Refuel Cling

Group-Red

BBM[SM] Refuel Homepage

BBM[SM] Go Pro Entry Page

BBM[SM] Refuel Trivia Widget

Appendix G, continued

Mom Materials

Chief Health Officer:

Large Promotion Banner

Large Hispanic Banner

Pink Cling

Hispanic Cling

CHO Mini Channel Strip

CHO Promotional Mini Channel Strip

Refuel:

Refuel Poster

Refuel Cling

Refuel Hispanic Poster

Refuel Shelf Talker

WIC:

Poster

Brochure

Hispanic Poster

Hispanic Brochure

Appendix G, continued

Mom Materials, continued
Halloween POS and Toolkit:

Promotional Banner

Hispanic Promotional Banner

Hispanic Cling

Source: MilkPEP/Weber Shandwick
Public Relations Materials

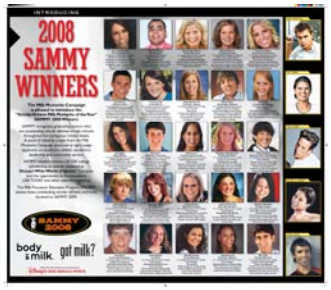

Milk Mustache Mobile
Chief Health Officer (CHO) Tour

CFHW Logo

body BY milk SM
BBM[SM] Logo

CHO Booth

2008 SAMMY Logo



2008 SAMMY Winners

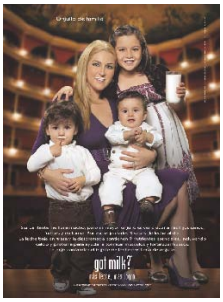
CHO Curves Booth

Caroline O'Neil, MS, RD
Web Screenshot

Dwight BBM[SM] Widget

Appendix G, continued

Source: MilkPEP/Siboney, U.S.A.
Hispanic Materials



Alicia Villareal

Charytín Goyco

Super Mamá Contest

Super Mamá Brochure Front

más leche, más logro.
got milk?®

Hispanic got milk?® Logo

Super Mamá Winner

Super Mamá Brochure Back

Hispanic Halloween Promotional Cling

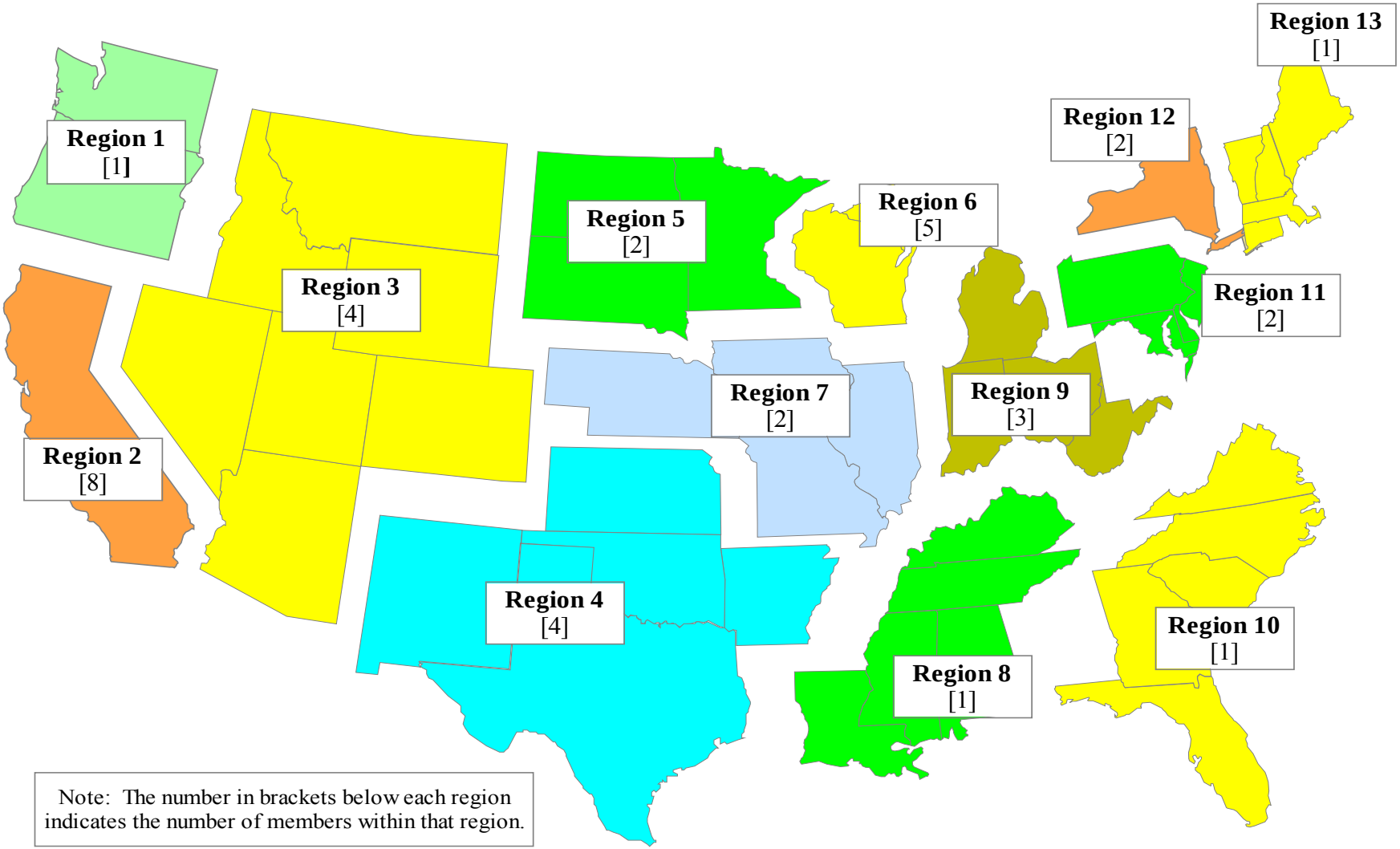
Super Mamá POS Mega Cling

Su-Nui Escobar and Charytín Advertorials

Super Mamá POS Clings

Hispanic WIC Posters

Appendix H-1
Regions of the National Dairy Promotion and Research Board



Note: The number in brackets below each region indicates the number of members within that region.

Appendix H-2
Regions of the National Fluid Milk Processor Promotion Board