

Daviscope



Summer 2011 Volume 17 Number 2
Davisco Foods International, Inc. Newsletter

As opportunities glisten in China, challenges exist in meeting the demands of a nation hungry for Western products and technologies. Davisco Foods is committed to its Chinese business partners and to serving this developing market.



BiProUSA Connects at Major League Baseball's Spring Training

Baseball's spring training was an especially exciting time this year for Davisco. Representatives of the company's BiProUSA marketing team took a road trip in February to distribute sample packets of BiPro, Davisco's all-natural whey protein isolate, to Major League Baseball (MLB) teams in Florida and Arizona. Each of approximately 30 MLB teams received 300 free packets of the whey protein supplement.



Team BiProUSA visits the Toronto Blue Jays. From left to right: Dave Curta, Director of International Business; Erica Kupser, Customer Service Manager; Anna Bredl, Marketing Manager; Hal Olson, International Relations Manager.

"It is a huge step to go to spring training and sell BiPro to professional athletes, because it is helping to build our brand," says Anna Bredl, BiProUSA marketing manager.

Calling on teams at spring training came on the heels of a major accomplishment for BiPro, explains Bredl. "In January of 2010, BiPro received National Sanitation Foundation (NSF) International's Certified for Sport® status, making BiPro the first and only unflavored whey protein isolate available to athletes to attain this status," she says. During the long and costly process, BiProUSA was evaluated by NSF to verify that information appearing on the BiPro label matches the content of the product and that BiPro has no presence of 150 banned substances.

The NSF program, in response to growing concern by athletes, coaches, owners and others, reduces the risk that dietary or sports supplements contain banned substances. The program is recognized by the MLB, National Football League, Canadian Centre for Ethics in Sport, the Ladies Professional Golf Association and the Professional Golf Association. BiPro's label now bears the NSF Certified for Sport® mark and is listed on the NSF website, www.nsf.org.

During spring training visits, Team BiProUSA provided this message to players, coaches and their associates: "BiPro is great for immunity, overall muscle growth and repair, weight management, and hair, skin and nail health. BiPro provides all the essential and non-essential amino acids needed by the human body for growth, maintenance and overall general health and is especially rich in the branched chain amino acids called isoleucine, leucine and valine, that are especially important for muscle growth and recovery," says Bredl. A 22-gram serving of BiPro containing 20 grams of protein has only 80 calories, compared to similar products that contain upwards of 300 calories per serving, she says.

Baseball teams now using BiPro include the Chicago Cubs, Chicago White Sox, Minnesota Twins, San Diego Padres, New York Yankees, New York Mets, Philadelphia Phillies, Colorado Rockies, Cincinnati Reds, Pittsburgh Pirates, Atlanta Braves, Milwaukee Brewers and Texas Rangers. Team BiProUSA will follow up with MLB's strength-training coaches on the supplement's benefits next December. BiPro can be obtained by visiting the www.BiProUSA.com website and at the Friendly Confines Cheese Shoppe in Le Sueur, Minnesota.

| | | |
|-------------------|--|---------------|
| Inside: | Relationship Building in China | page 3 |
| InFocus: | Letter from Mark Davis..... | page 5 |
| Special Interest: | Dairies Depend on Quality Workers..... | page 6 |
| | Immigration Law Questions & Answers..... | page 7 |
| News: | BiProUSA at Major League Baseball's Spring Training..... | page 8 |



"China's economy is expected to grow 9.6 percent in 2011," according to the International Monetary Fund.¹ That growth is a big factor driving global demand for U.S. dairy products and the up-tick in farm gate milk prices. Consider these statistics from the U.S. Dairy Export Council: "In 2010, China purchased ... seven times the amount of whole milk powder it purchased in 2008,"² and "China rolled out 85 new products utilizing whey protein in 2010."³

With a population in China of 1.3 billion and with surging incomes in a Chinese middle class that hungers for Western products which include proteins with value-added benefits, there is continued optimism for market growth, explains Mark Davis, CEO of Davisco Foods International.





WHY CHINA?



...continued from page 3

Relationships Come First

Davisco has spent several years establishing relationships with Chinese business partners. It has gone above and beyond what many U.S. businesses do to determine market needs, provide quality ingredients, and give technological assistance.

A good relationship built on trust and long-term commitment must come before a Chinese company will consider whether to buy foreign-made products. "That's why Davisco has spent so much effort investing in China," says Davis.

Davisco's core group in China relations includes Mark Davis; Mitch Davis, general manager of Davis Family Dairies and vice president of research and development; Jim Ward, chief financial officer; Polly Olson, vice president of new business development, sales and marketing; David Curta, international sales manager; Emily Lauzon, director of international logistics; Brian Paulson, director of corporate quality; and two Davisco employees in China, Fred Wang, country manager; and Lily Wan, sales and marketing assistant, who are indispensable in achieving goals.

"When we travel there we are with our customers morning, noon and evening," says Olson. Socializing builds trust with Chinese business associates and aids in learning Chinese culture.

Gift giving is an integral part of China's culture. "They always leave you with a gift and a nice impression," says Olson. Gifts given to Davisco include an intricate tapestry of the Chinese landscape, which is displayed in the Eden Prairie sales and marketing office, and jade statues, also proudly displayed in Eden Prairie as well as at the Davisco business office. The core group is host to Chinese customers and government officials here, showing them food plants and farms and hosting social events. During the Chinese autumn festival Davisco presents mooncakes, an indispensable Chinese bakery delicacy offered among friends, to its Chinese customers.

A spirit of adventure, persistence and commitment are necessary to pursuing business opportunities in China, explain Mark and Mitch Davis. Mark, Mitch and Jim's first trip to China included touring a dairy farm Richard Nixon visited in 1972. Mark became intrigued with the people and their work ethic and values, believing it was an excellent fit for Davisco's model of business operations.

China's Dichotomy

"What they have accomplished is amazing," Mark says about the dichotomy of China's previous primitive systems and its rapid modernization. It's not uncommon to look down the street and see a man sweeping streets with a straw broom and farther down see an apartment being erected with modern equipment.

The dichotomy is also seen in China's agricultural and food processing industries. The Chinese are seeking ways to redefine their dairy industry by becoming more centralized, while maintaining the community way-of-living in which 80 percent of the milk is produced by small dairies of three or four cows. The market place, called "wet markets," where everything is butchered on the spot and no refrigeration exists is being replaced by "hyper markets" that are similar to U.S. supermarkets, says Mark. These new supermarkets are at an economic disadvantage due to the low cost of the traditional "wet markets."

Improved Products and Process

Davisco's trips to explore China's market demand for high-end ingredients to be included in infant formulas began in 2005. A relationship was started with infant formula company Beingmate to utilize Davisco's whey protein concentrate 80%, whey protein isolate 97%, lactose and other products. As stated in the letter of intent between the two companies, the purpose of the relationship was "to help Chinese manufacturers to offer improved quality and more nutritious foods."

Besides a consistent supply of high quality ingredients, Beingmate sought technical assistance from Davisco on establishing infant formula standards. They also wanted to improve milk quality at Chinese dairy farms in ways that enhanced productivity and efficiency and that met environmental standards. Mitch Davis, who has hosted Chinese groups at each of Davisco's dairies, spearheads this effort. "We want to be helpful to our customers," he says.

Success Takes Vision and Determination

Davisco has found that succeeding in China depends on hiring local people with experience in the dairy industry to help with communications. Otherwise, details—even basic understanding—can be lost in translation.

China's regulations require careful attention to detail. "Laws can change on a daily basis," says Olson. To

1 A group of Davisco and Chinese associates enjoy a traditional Mongolian dinner served in Hohhot, China, in 2010. Seated around the table are Dr. Fang Ming, Davisco Senior Scientist; Al Larsen, Davis Family Dairies Environmental Engineer; Sam Li, Managing Director, Eurodia – Greater China; Yang Ji-wu, General Manager, Powder BU, Yili Group; Wang Peng-ju, Deputy General Manager, Powder BU, Yili Group; and Mitch Davis, General Manager of Davis Family Dairies and Vice President of Research and Development. Standing are: Fred Wang (wearing tie), Davisco's Country Manager for China and Fan Ru-gang, Sourcing Manager, Powder BU, YILI Group.

2 Dr. John Fetrow, Professor of Dairy Production Medicine, University of Minnesota College of Veterinary Medicine, teaches a class on milk production to Chinese customers and government officials who traveled to the U.S. in 2009.

3 Al Larsen reviews blueprints for a dairy to be built in northern China at a meeting in Hangzhou, Zhejiang in 2010. From left to right: Wei Ying-dong, VP, Manufacturing, Beingmate Group; Liu Hui-wen, Deputy Mayor, Anda City, Heilongjiang Province; Li Hui, Mayor, Anda City, Heilongjiang Province; Teddy Cui, Deputy Import & Export Manager, Beingmate Group. **4** Workers carry milking units on a Chinese dairy that is now milking 2,000 cows. A tree-lined street leading to the dairy was made exclusively for President Richard Nixon's visit in 1972. **5** Part of Davisco's core China group in 2010. From left to right: Mitch Davis, Dave Curta, Polly Olson, Lily Wan, Dr. Fang Ming, all from Davisco, and Daniel Chen, Chinese dairy consultant. **6** A group of Chinese customers and government officials visited the Davis Family Dairies' New Sweden Dairy in 2009. The Chinese guests from left to right: Zhao Hai-zhi, Deputy GM, Beingmate Heilongjiang Company; Chi Li, International Relationship Manager, Beingmate Group; Liu Shu-ming, GM, Beingmate Heilongjiang Company; Teddy Cui, Deputy Import & Export Manager, Beingmate Group; and Li Wei-min, Milk Sourcing Manager, Beingmate Heilongjiang Company. **7** Relationship building between Mark Davis and a Chinese host during the first trip to China in 2005. **8** During the 2005 trip to China, Jim Ward, Mark Davis and Mitch Davis are pictured with Chinese hosts in front of the dairy in Hangzhou.

sort through the layers of paper work is Lauzon's job. She works closely with Davisco's Chinese employees on meeting regulations, performing transactions, and managing a food-grade warehouse located in Tianjin, China. Finance is challenging because the Chinese government controls U.S. dollars, and intermediaries are needed to assist with most transactions, says Lauzon.

Half of the growth in demand for dairy products in the world is coming from China, says Curta. "Davisco is well-positioned," he explains, being the first U.S. dairy company to have a food-grade warehouse there. Davisco products can be stored at and shipped from the warehouse, which shortens lead-time to customers because product is not held up in customs, Lauzon explains.

Davisco has laid careful groundwork in China, first by building business partnerships and then by persevering through obstacles. The future is bright. "Even as [the Chinese] strive to be self-sufficient, we expect the opportunity to export American dairy products will grow even more as the Chinese will produce larger volumes of domestic dairy products," says Mark.

Daviscope

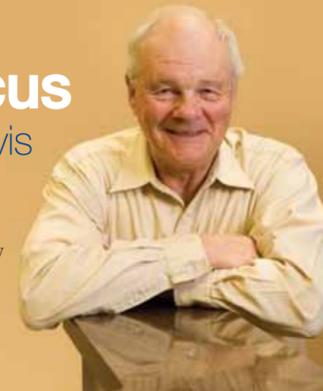
Davisco Foods International, Inc.
Quarterly Newsletter
Summer 2011 Volume 17 Number 2

Editor: John Velgersdyk
Design & Copywriting: Envision

DAVISCOPE is a newsletter for employees, their families, milk producers and customers and is published by Davisco Foods International, Inc. 704 North Main Street, Le Sueur, Minnesota 56058.

© 2011 Davisco Foods International, Inc.
Le Sueur, Minnesota

InFocus Mark Davis



China is certainly a wonderful opportunity for the American Dairy Industry.

As the Chinese people evolve into ever increasing consumers of Dairy products, Davisco intends to be a significant and steady presence, with our wide array of Dairy derived nutritional ingredients and our several varieties of cheese.

Our entire staff, here in the U.S., and, in China, realizes how important it is to be "on the ground", and, interacting with, not only our customers, and, their staff, but also, with the regulators and other policy determining Chinese officials.

The Chinese farm milk production sector is relatively under developed. Both Northern Plains and New Sweden farm personnel have had multiple visits, to China, and, visits from the Chinese participants, involved in upgrading China's farm milk production industry, to our dairy sites.

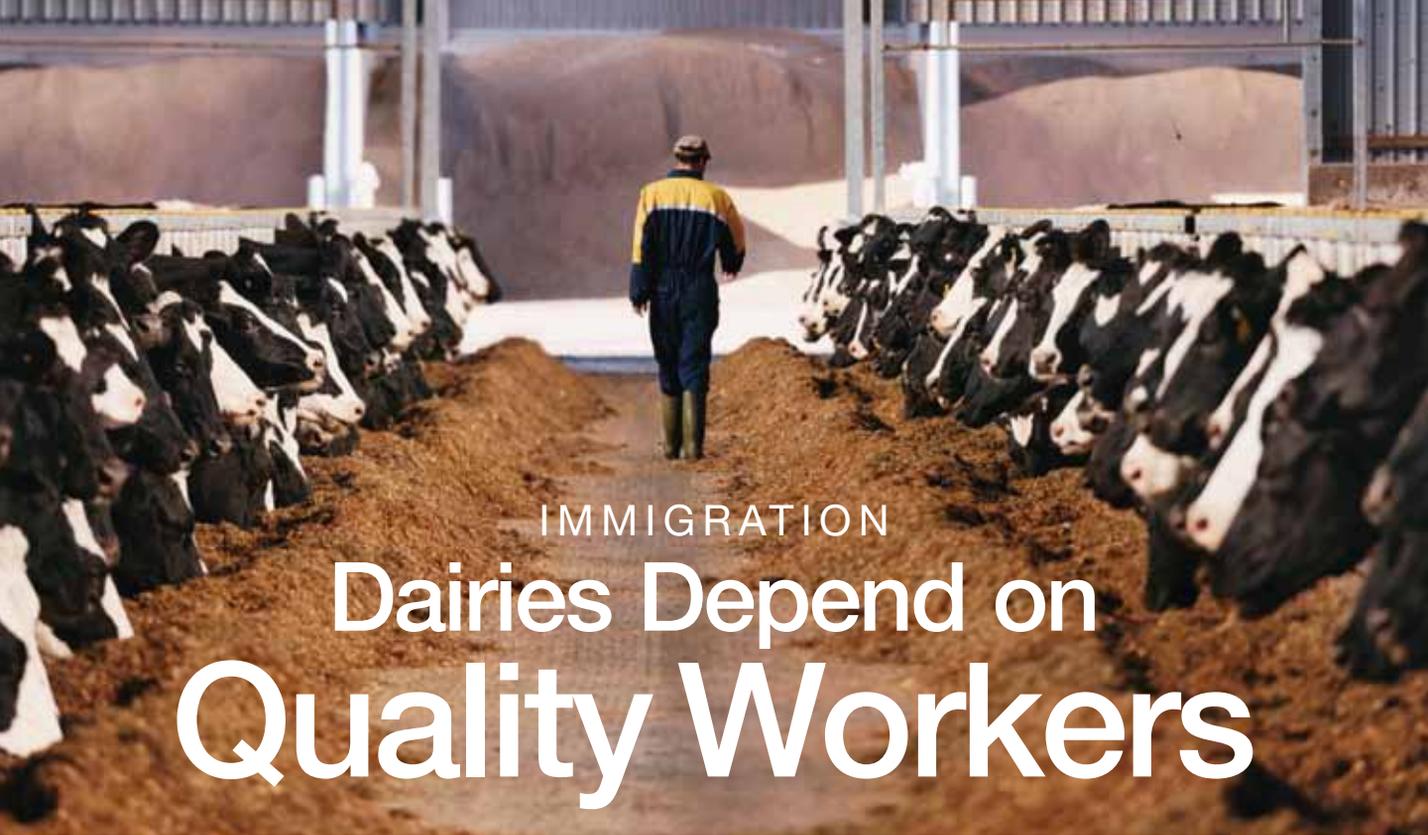
All in all, we've found the Chinese to be enthusiastic, curious and competitive. We must stay "at the top of our game", so to speak. Our European and Oceania friends also recognize the future!

Mark Davis

¹ "China's GDP to grow 9.6% in 2011," *IMF, China Business News*, April 29, 2011.

² "U.S. Dairy Exports Rebound," *Dairy Today*, April, 2011.

³ "Whey: An Ingredient for the World," *USDEC Export Profile*, April, 2011.



IMMIGRATION

Dairies Depend on Quality Workers

On dairy operations in nearly every U.S. state, foreign-born workers effectively handle milking and other related tasks to make operations run smoothly. Dairy employers appreciate immigrant workers for their work ethic and job dedication, and yet lapses in rules for current U.S. work visas may unfairly call their employment into question.

The dairy industry is taking notice of this very complex issue and is attempting to speak with one voice about the need for immigrant workers. Workers are needed to keep the dairy industry strong so it can meet growing global demand for dairy products.

“We need immigrant workers in milk production because not enough other applicants apply for this work,” says Mitch Davis, general manager of Davis Family Dairies (DFD), based in Le Sueur, Minnesota. Even when employees are recruited locally, entry-level positions in industries such as agriculture, food processing, landscaping and hospitality can sometimes still go unfilled, he explains.

As the economy picks up and more of the U.S. workforce retires, there will be an even larger need to fill jobs. Foreign-born workers often don’t have opportunities for work in their homelands so they are willing to take entry-level positions in the U.S.

Hard Work, Fair Wages

Foreign-born dairy employees receive fair compensation. The average salary for dairy production jobs at DFD is \$36,000; and \$26,000 is an average starting salary, says Davis. DFD also provides a matching 401K and offers health insurance to all employees.

On Moody [sic] County Dairy, managing partner Lynn Boadwine’s employees are paid in relation to the quality of work produced by each individual, he says. Pay includes health insurance and pension plans. The dairy’s immigrant employees live and interact locally in



Lynn Boadwine, managing partner of Moody County Dairy

the Garretson, South Dakota, community, says Boadwine. The dairy has 40 employees to manage 3,400 cows and 2,000 acres, with milk shipped to Davisco’s Lake Norden Cheese Plant.

Immigrants Keep Industries Strong

Rather than taking jobs away, immigrants sustain industries and keep highly skilled U.S. workers employed. “Every farm job supports three to five non-farm jobs” is an oft-quoted statistic. A comprehensive 2009 national survey by the National Milk Producers Federation (NMPF) found that 40 percent of U.S. dairy workers are foreign-born, affecting 62 percent of the nation’s milk supply.



New Sweden Dairy Managers

“To suddenly remove immigrant workers would economically cripple a viable industry,” reports Texas AgriLife Research/Texas A & M University, which conducted the NMPF survey. Researchers “estimated that if federal labor and immigrant policies were to result in the loss of just half of the 57,000 foreign-born dairy workers, an additional 66,000 workers would also be lost, due to the closure of some dairy farms, and the resulting multiplier effect of fewer jobs in grain and fertilizer production and sales, veterinary services, milk hauling, and related agricultural service jobs. This would produce an economic loss of \$11 billion,” according to the survey analysis found on NMPF’s website, nmpf.org.

In Idaho, milk shipped to Davisco’s Jerome Cheese Plant in Twin Falls is produced on dairies where 90 percent of the state’s 10,200 dairy employees are foreign-born according to a Boise State University study, says Bob Naerebout, executive director of the Idaho Dairyman’s Association. The sentiments of Idaho producers echo producers in other regions, he says.

“A successful economy in the U.S. and in rural America requires a quality labor pool,” says Boadwine. “It’s very difficult for an owner to make an investment to expand a business when you don’t have quality labor,” he adds.

Know Current Hiring Practices & Help Shape Reform

Immigration law expert Michael H. Davis* offers advice on being proactive.

Q What current hiring practices should dairy employers have in place?

A The first and most critical step is that all employers, including dairy operators, need to make sure to have solid I-9 completion, review, and retention policies. The 'I-9' is the Employment Eligibility Verification form required for all hires post-11/1986. Part 1 of the form is completed by the employee; Part 2 by the company. The employee must show government-issued proof of identification and work authorization. Second, the employer must be sure to carefully review the documents for authenticity.

Q What are some potential solutions to keep immigrants working on dairies?

A What is needed, at least as a start, is an effective temporary (and possibly permanent) work visa program that is specific to the agricultural industry and includes all dairy positions. The current H-2A agricultural visa is too cumbersome, short term, and restrictive. Such a program would help the U.S. tax situation and supervise the foreign nationals here in the U.S.; make

sure workers are not criminal or security threats; protect U.S. agricultural producers and consumers, etc. Assuming the person has no serious problems in his/her record other than having come to the U.S. illegally, it would be appropriate to offer some type of blanket waiver (pardon), especially if the U.S. Department of Labor certifies that there are no qualified U.S. workers for the job in question, as is the case with most agricultural jobs today.

Q How should the dairy industry work to shape immigration reform?

A Lobby . . . with [people in] Congressional offices and other political and industry sources. It is critical that the public understands the sheer percentage of potentially undocumented workers within the U.S. dairy industry; what would happen to U.S. dairy production if this number of workers were suddenly removed from the economy (in terms of milk prices, drop in quality control, shift to overseas producers, etc.).

*Michael H. Davis is an attorney with Davis and Goldfarb, PLLC, Minneapolis, Minnesota, who specializes in immigration law.



More information on the topic of immigration reform and foreign-born workers on dairies can be found on these websites:

ImmigrationWorks USA is a national federation of small business owners working to advance better immigration law. Tamar Jacoby is the CEO and president and has written many articles on the topic, which can be found at: www.immigrationworksusa.org.

Go to www.NMPF.org (National Milk Producers Federation) and look under issues/immigration reform for the position of this producer organization.

Idaho Dairymen's Association has a website: www.idahodairymens.org with "immigration reform" listed on the menu bar across the top of the website. Click and read through the highlights of an Idaho State University study, which details how the changing labor force on dairies impacts the community, along with editorials written by executive director Bob Naerebout.

The mission of the Immigrant Law Center of Minnesota is to provide quality immigration legal services, law-related education, and advocacy to meet the steadily increasing needs of Minnesota's immigrant and refugee communities. Find executive director John Keller at www.immigrantlawcentermn.org.