

General Sessions

Moderators: Dick Wallace, Rodrigo Bicalho, Darcie Stolz, Nigel Cook

Protecting our Freedom to Operate Earning and Maintaining Public Trust and our Social License

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Abstract

Animal agriculture is under increasing pressure. In addition to the traditional challenges of herd health, productivity and profitability, there are growing questions about our production systems and practices. Finding an acceptable location for a livestock facility and generating local support is difficult. Activist groups opposed to contemporary production practices are pursuing litigation, pressuring customers and initiating legislation to change the way we operate. Customers and consumers are asking questions about animal welfare, sustainability, pre-harvest food safety and immigration issues.

Résumé

L'agriculture animale subie une pression accrue. En plus des défis habituels concernant la santé des troupeaux, la productivité et la rentabilité, il y a un nouveau questionnement par rapport aux systèmes et aux pratiques de production. Il est souvent difficile de trouver des sites adéquats pour la production de bétail et le support à l'échelle locale n'est pas toujours présent. Les groupes militants qui s'opposent aux systèmes de production contemporains font maintenant recours à la justice, mettent de la pression sur les consommateurs et demandent de nouvelles lois pour gérer nos productions. Les clients et les consommateurs se posent des questions sur le bien-être animal, sur la durabilité, sur la sécurité sanitaire des aliments avant la récolte et sur l'immigration.

Introduction

The changing structure of animal agriculture, the increasing influence of global brands, the sophistication and influence of activist groups and the explosion of social networking and new media create a new environment that requires those in animal agriculture to

explore new ways to build consumer trust and protect our freedom to operate.

Our Changing Structure

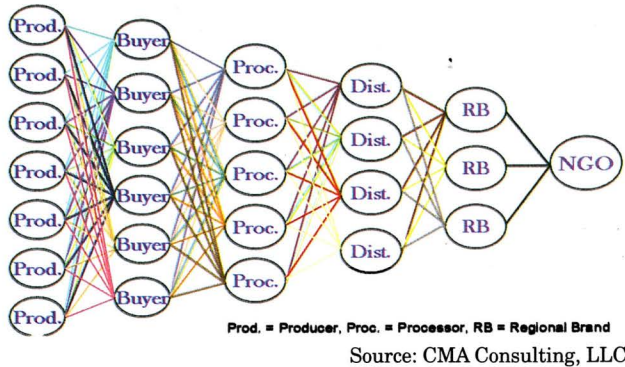
The changes in agriculture over the past 100 years have been remarkable. Today we employ technology our grandparents never dreamed of. Our adoption of technology and the related increase in efficiency and productivity resulted in fewer Americans being involved in food production. According to the US Census Bureau, in 1900, 36% of all US occupations were "agricultural pursuits." In 1950, 11.6% of all US occupations were farmers, farm managers or farm laborers. In 2000, 0.7% of the U.S. population was employed in farming, forestry or fishing.

Until the late 20th century, we produced food using the agrarian model pictured below. We had millions of producers selling commodities to local buyers who would aggregate loads and take them to a packer or processor who would then sell to a regional or local brand. In this model, it was very difficult to send an efficient market signal from the regional or local brand all the way back to the producer. In the agrarian model, if a non-governmental organization (NGO) or activist group wanted to change the behavior of a producer, the only way to do so was through legislation or regulation. NGOs could not apply pressure to the local or regional brand and expect change at the point of production.

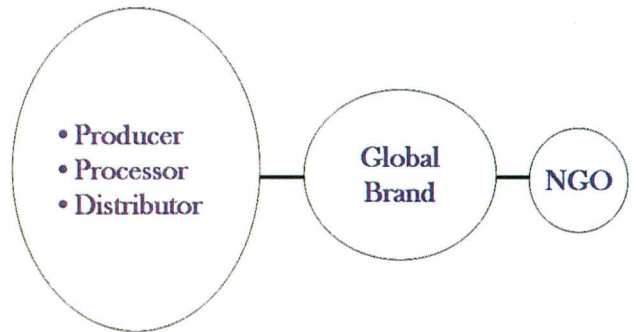
But today, we no longer operate in the disintegrated agrarian model. Today we operate in an industrial model (pictured below) where the adoption of technology, consolidation and integration have dramatically changed how the food system operates and how it is perceived by consumers. In the US today:

- The top 10 food retailers sell more than 75% of food.
- The top 10 chicken companies produce 79% of chicken.

Agrarian Model



Industrial Model



- The top 50 dairy cooperatives produce 79% of the milk.
- The top 60 egg companies produce 85% of eggs.
- The top 20 pork producers produce more than 50% of pork. (2% percent of pork producers produce 80%)
- The top 10 pork packers process 87% of pork.
- The top four beef packers process more than 80% of beef.

The transition to the industrial model brought with it improved food safety, increased product variety, improved consistency and a reliable and affordable source of nutritious food for American consumers. Unfortunately, it also resulted in fewer people being connected to the food system and reduced understanding and appreciation for how food is produced. The result has been diminished consumer trust and confidence in contemporary animal agriculture and a corresponding increase in consumer concern and activist pressure.

Brands as Agents of Social Change

In the industrial model of food production, the link between NGOs, global brands and food production is short and direct. NGOs like Greenpeace and The Humane Society of the United States (HSUS) are now embracing market-based campaigns as well as legislation and litigation to achieve their objectives.

Kert Davies, director of research for Greenpeace, is quoted as saying that discovering brands was like discovering gunpowder, and that Greenpeace attacks the weakest link in a brand's supply chain. If livestock production practices are perceived to be a threat to sustainability or environmental integrity, the industry should expect groups like Greenpeace to exert market pressure as well as legislation or litigation to change

those practices believed to threaten environmental sustainability.

HSUS is one of the most respected and most effective NGOs impacting animal agriculture. They have adopted strategies and messages designed to appeal to the rational majority and distanced themselves from the radical tactics of groups like People for the Ethical Treatment of Animals (PETA) in an effort to attract and maintain mainstream support. The result is a membership base of 10 million and a 2008 operating budget of \$138 million. According to *USA Today*, HSUS will be promoting animal related legislation in 28 states in 2008 using those mainstream messages.

There is also growing interest in animal law. More than 90 colleges and universities now offer courses in animal law, compared to only a handful a decade ago. *USA Today* compared the growing interest in animal law to the explosion in environmental law in the 1970s. Animal agriculture should work to ensure the environmental challenges the industry faced in the 1980s and 1990s aren't a precursor for 20 years of new animal welfare legislation, regulation, and litigation.

The only experience most Americans have with animals is with pets. Whether animals abandoned after Hurricane Katrina or painful procedures in livestock production, HSUS is exploiting the anthropomorphism and agricultural alienation in our affluent society to promote their agenda. At times, that includes pressuring branded food companies, and the companies are listening.

Global food companies have invested millions of dollars in building and defending their brand, and they can ill afford to have the practices of their supply chain put the brand at risk. It is no more the job of McDonald's or Wal-Mart to defend animal agriculture than it is of animal agriculture to defend those who supply the industry inputs.

At the same time, McDonald's, Wal-Mart and others who sell products derived from food animals have a vested interest in a consistent, safe and affordable supply. Those in animal agriculture can help secure the support of customers by working to build consumer trust and understanding of contemporary production systems. Research indicates consumers want to continue to consume meat, milk and eggs; they also want permission to believe the products are produced in a responsible, humane manner.

Market leaders like McDonald's and Wal-Mart are fully aware of the new relationship between NGOs, brands and the supply chain and they work to manage the risk to their brand and their customers.

In a speech to Wal-Mart managers in Kansas City in January, CEO Lee Scott said, "We live in a time when people are losing confidence in the ability of government to solve problems, but at Wal-Mart, we don't see the sidelines that politicians see, and we do not wait for someone else to solve problems that might hurt our business or affect our customers in a negative way." Scott went on to say, "Our customers want products that make them feel good about their purchases. They want to walk into our stores and be confident that the products on our shelves are safe and they are durable. They also want products that are made in a way that is consistent with their own personal values."

Animal agriculture can build customer support by increasing consumer trust and confidence and ensuring contemporary practices are consistent with the values and expectations of our stakeholders.

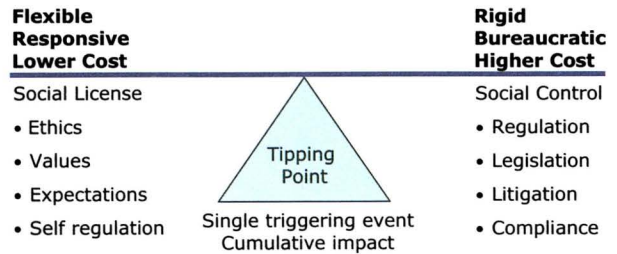
The Social License to Operate

Every organization, no matter how large or small, operates with some level of social license. A social license (illustrated below) is the privilege of operating with minimal government regulation based on maintaining public trust by doing what's right. You are granted a social license when you operate in a way that is consistent with the ethics, values and expectations of your stakeholders. Your stakeholders include customers, employees, the local community, regulators, legislators and the media.

Once lost, either through a single event or a series of events that reduce or eliminate public trust, social license is replaced with social control. Social control is regulation, legislation or litigation designed to compel you to perform to the expectations of your stakeholders. Operating with a social license is flexible and low cost. Operating with a high degree of social control increases costs, reduces operational flexibility and increases bureaucratic compliance.

Case in point: Arthur Anderson and Enron. Prior to the collapse of Enron, public accounting firms oper-

The Social License To Operate



Source: CMA Consulting, LLC

ated with a fairly broad social license. The accounting industry had established the Financial Accounting Standards Board to regulate the implementation of Generally Accepted Accounting Principles by Certified Public Accountants. The accounting industry created a structure for self-regulation based on the expectations of their stakeholders, which included investors, banks, the Securities and Exchange Commission, financial media and others.

Stakeholders relied on the industry to operate in a way that maintained public trust, and in return the public was willing to grant accountants broad social license. The Enron debacle cost the accounting profession its social license. That single event was the tipping point that compelled Congress to replace the social license of the accounting profession with the Sarbanes-Oxley Act, a law that requires extensive reporting and verification of financial information by publicly traded companies. According to research by Foley & Lardner, the average cost for a public company to comply with Sarbanes-Oxley is between \$10 and \$15 million per year. Those are costs that could have been returned to shareholders as dividends, or reinvested in research and development.

The same principles apply to animal agriculture and environmental management. The social license once enjoyed by livestock producers to manage manure has been replaced with a costly system of permitting and compliance. Once public trust is violated, the tipping point is crossed and high cost, bureaucratic regulation replaces flexible, lower cost social license. Once social control is in place it can be modified, but social license is never fully recovered.

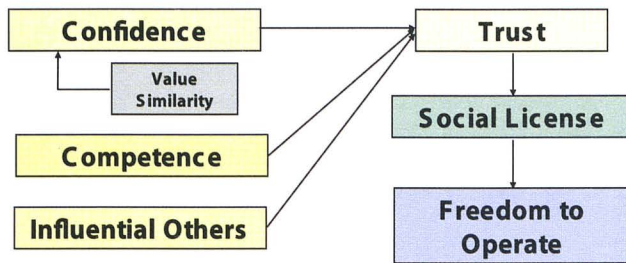
The question then becomes, what can be done to maintain public trust that grants the social license and protects freedom to operate?

A New Model for Building Trust

In 2006, with financial support from the National Pork Board, CMA commissioned a meta-analysis of all

A Model to Build Trust, Earn Social License and Protect Freedom to Operate

(Sapp/CMA)



Source: CMA Consulting, LLC

available research on the question of trust in the food system. Through that analysis, done in partnership with Steve Sapp at Iowa State University, we were able to determine three primary elements that drive trust in the food system. Those three elements are confidence, competence and influential others (model shown above).

Confidence is related to perceived shared values and ethics, and a belief that an individual or group will do the right thing. Competence is about skills, ability and technical capacity. Influential others include family and friends as well as respected, credentialed individuals like doctors and veterinarians.

In late 2007, CMA launched a nationwide consumer survey on behalf of The Center for Food Integrity to determine the role that confidence, competence and influential others play in creating and maintaining trust. We specifically asked consumers to rate their level of confidence, competence and trust in various groups of influential others in the food system. We asked questions related to food safety, environmental protection, nutrition, animal well-being and worker care.

The results of the survey were consistent and conclusive. On every single issue, consumers place much greater value on confidence in determining who they will trust in the food system. Confidence outweighed competence frequently by a factor of five.

These results should serve as a call to action for animal agriculture. No longer is it sufficient to rely solely on science or to attack our attackers as a means of protecting self-interest. This new environment requires new ways of engaging and new methods of communicating if we want to build trust, earn and maintain social license and protect our freedom to operate.

New Models for Building Trust

The food system has an incredible challenge and opportunity ahead. Over the course of the next

30 years we need to increase food production to feed a total of 400 million Americans and 2.7 billion more people around the globe. To meet that challenge, we have to embrace new models of public engagement that build and maintain public trust and our social license to operate.

We need consumers to understand that while our systems have changed and our use of technology has increased, our commitment to doing what's right has never been stronger. We need to be able to verify our claims with objective science and we have to be able to continue to operate profitably if we want to survive. We need to adopt systems and practices that are ethically grounded, scientifically verified and economically viable (model follows).

It is only by achieving and maintaining this balance that we can create systems that are truly sustainable. Each side of the sustainability triangle has stakeholders focused on maintaining the strength of that side, even at the expense of maintaining balance. There may be times when stakeholders have to look beyond short term self-interest to foster sustainability.

If food system practices are not ethically grounded, they will not achieve broad-based societal acceptance and support. If they are not scientifically verified, there is no way to evaluate and validate the claims of sustainability, and if they are not economically viable they cannot be commercially sustained. For a system to be truly sustainable, it has to be ethically grounded, scientifically verified and economically viable. This model encourages stakeholders to look for balance in an effort to find true sustainability.

There is likely to be some tension inherent among stakeholders who place greater value on a single side of the sustainability triangle.

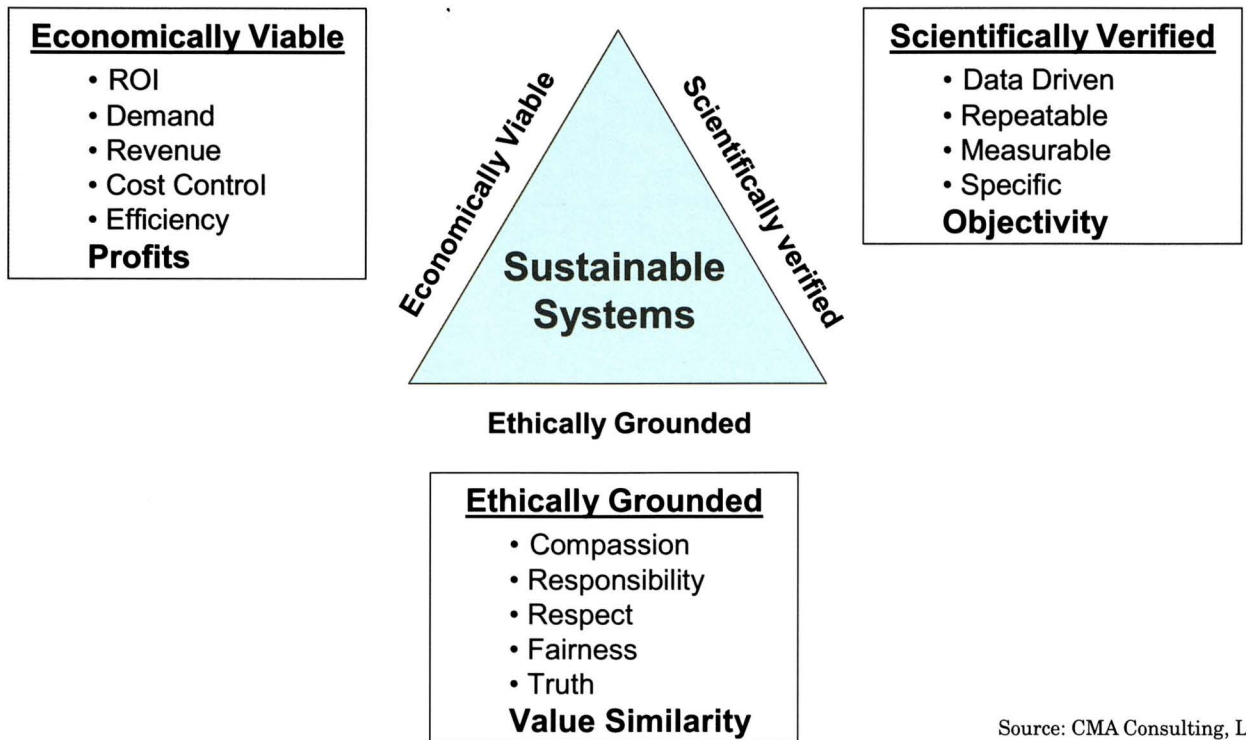
Ethically Grounded

Those who focus on ethics want food system practices that are consistent with the shared values of compassion, responsibility, respect, fairness and truth. They want to ensure that our increasingly sophisticated and technologically advanced food system doesn't put profits ahead of ethical principles and that science is not used as moral justification. When this side of the triangle is out of balance, critics claim there is no scientific basis for the claims being made and that the ethical demands will jeopardize the economic viability of the system.

Scientifically Verified

Those with a primary interest in scientific verification are data driven. They want specific, measurable, and repeatable observations to provide the basis

Balancing for Success



Source: CMA Consulting, LLC

for their objective decisions. They believe science can provide the insight and guidance necessary to make reasonable determinations about how food systems should be managed. When this side of the triangle is out of balance, critics claim the organization is relying on science while ignoring ethical considerations and that research may be done and recommendations made without consideration of the economic impact.

Economically Viable

Those responsible for the “bottom line” are focused on profitability. They work every day to respond to demand, control costs and increase efficiency to maximize the return on investment. They have to manage the increasingly complex demands of competing in a global marketplace with volatile commodity markets and ruthless competition. When this side of the triangle is out of balance, critics claim profits outweigh ethical principles and that business decisions are made without the benefit of scientific verification, placing those decisions at risk when questioned by those who value validation.

If we can’t operate a system that maintains a balance of practices that are ethically grounded, scientific

ally verified and economically viable, it will collapse. That collapse may subject producers, processors, restaurants or retailers to undue pressure that includes consumer protests or boycotts, unfavorable shareholder resolutions, uninformed supply chain mandates, regulation, legislation, litigation or bankruptcy.

Maintaining balance is never easy. Success demands an increased level of communication and engagement and willingness to look for solutions that are ethically grounded, scientifically verified and economically viable for each segment of the food system. Only by working with stakeholders across the food chain can we maintain the integrity of the sustainable system.

The National Dairy Animal Well-being Initiative

The National Dairy Animal Well-being Initiative was established by a broad based group of volunteers from across the country representing every facet of the dairy industry. The goal of the Initiative is to provide assurance that the entire industry is meeting its obligation to provide appropriate care for dairy animals. It has embraced the sustainable model by adopting principles and guidelines that are ethically grounded and scientifically verified. The principles and guidelines

are broad enough to allow individual welfare programs adopted by co-ops or others to meet customer expectations and be economically viable.

The volunteer coalition includes food companies, co-ops, producers, processors, retailers, lenders, researchers and veterinarians. To accomplish the goal, the volunteer coalition is finalizing broad principles and guidelines that any dairy welfare program should include to meet our ethical obligation to provide for the well-being of dairy animals. The final principles and guidelines will be released at World Dairy Expo in October.

Conclusion – It's About Trust

As we increase both the distance most consumers have from the farm and the level of technology we implement in food production, we have to dramatically improve our ability and commitment to build trust with our customers and consumers. This will require a new way of thinking, a new way of operating and a new way of communicating. Albert Einstein is quoted as saying, "We cannot solve problems using the same thinking we used when we created them." The old model of relying solely on science and attacking our critics is not sufficient to protect our freedom to operate in today's environment.

Building trust requires an increase in early stakeholder engagement, transparency, professionalism, assessment and verification at all levels of the production and processing system. We have to give customers, policy makers, community leaders and consumers permission to believe that contemporary animal agriculture is consistent with their values and expectations. If we fail, we will continue to see pressure to revoke our social license to operate and replace it with greater social control of our production practices, our environmental practices and our use of technology.

To be successful, we have to build and communicate an ethical foundation for our activity and engage in value-based communication if we want to build the trust that protects our freedom to operate. We need to demonstrate our commitment to practices that are ethically grounded, scientifically verified and economically viable.

PRODUCT INFORMATION

NADA #141-063, Approved by FDA.

Nuflor® (FLORFENICOL)

Injectable Solution 300 mg/mL

For Intramuscular and
Subcutaneous Use in Cattle Only.

BRIEF SUMMARY (For full Prescribing Information, see package insert.)

INDICATIONS NUFLOR Injectable Solution is indicated for treatment of bovine respiratory disease (BRD), associated with *Mannheimia haemolytica*, *Pasteurella multocida*, and *Histophilus somni* (*Haemophilus somnus*), and for the treatment of bovine interdigital phlegmon (foot rot, acute interdigital necrobacillosis, infectious pododermatitis) associated with *Fusobacterium necrophorum* and *Bacteroides melaninogenicus*. Also, it is indicated for the control of respiratory disease in cattle at high risk of developing BRD associated with *Mannheimia haemolytica*, *Pasteurella multocida*, and *Histophilus somni* (*Haemophilus somnus*).

RESIDUE WARNINGS: Animals intended for human consumption must not be slaughtered within 28 days of the last intramuscular treatment. Animals intended for human consumption must not be slaughtered within 38 days of subcutaneous treatment. Do not use in female dairy cattle 20 months of age or older. Use of florfenicol in this class of cattle may cause milk residues. A withdrawal period has not been established in pre-ruminating calves. Do not use in calves to be processed for veal.

WARNINGS: NOT FOR HUMAN USE. KEEP OUT OF REACH OF CHILDREN. This product contains materials that can be irritating to skin and eyes. Avoid direct contact with skin, eyes, and clothing. In case of accidental eye exposure, flush with water for 15 minutes. In case of accidental skin exposure, wash with soap and water. Remove contaminated clothing. Consult a physician if irritation persists. Accidental injection of this product may cause local irritation. Consult a physician immediately. The Material Safety Data Sheet (MSDS) contains more detailed occupational safety information.

For customer service, adverse effects reporting, and/or a copy of the MSDS, call 1-800-211-3573.

CAUTION Not for use in cattle of breeding age. The effects of florfenicol on bovine reproductive performance, pregnancy, and lactation have not been determined. Intramuscular injection may result in local tissue reaction which persists beyond 28 days. This may result in trim loss of edible tissue at slaughter. Tissue reaction at injection sites other than the neck is likely to be more severe.

ADVERSE EFFECTS Inappetence, decreased water consumption, or diarrhea may occur transiently following treatment.

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Do not use in female dairy cattle 20 months of age or older, as use in lactating dairy cattle may cause milk residues. Not for use in cattle of breeding age. Do not use for calves to be processed for veal. Full product information found on page 6.