

## **Kraft shakes up dairy market**

Food giant offers line of cheese free of controversial hormone  
(Crain's Chicago Business)

Kraft Foods Inc. plans to offer cheese free of a controversial growth hormone, a strategic move that pressures competitors to follow.

Northfield-based Kraft says it will start selling a line of cheese made with milk from cows free of rBST by June. Some consumer groups, citing scientific studies, say the production-boosting hormone can cause cancer, despite assurances from U.S. food regulators that it is safe.

Kraft aims to capitalize on consumer worries about food safety with a specialty product that will fetch a higher price than its mass-market cheeses. The new cheese reflects CEO Irene Rosenfeld's plan to rekindle growth with premium brands.

Such a move by the nation's biggest food company also could force rivals to offer products free of artificial hormones.

"This is a big development and shows that food companies acknowledge consumers are taking a much more active interest in what is in their food," says Bill Bishop, chairman of Barrington-based consultancy Willard Bishop. "This used to be a niche interest, but as it becomes more mainstream the big food companies . . . have to respond or they will find themselves in an unfortunate position."

Other companies already have responded to those concerns. Dean Foods Co., the largest U.S. dairy company, offers a line of rBST-free products, while grocery chain Kroger Co. bans the artificial hormone from its name-brand milk. Starbucks Corp. last year became the highest-profile company to act, instituting a ban in its 6,793 company-operated cafes.

Chipotle Mexican Grill Inc., spun off from McDonald's Corp. in 2006, also announced last year it was banning rBST. In a statement, Oak Brook-based McDonald's says, "We continue to look to the (U.S. regulators) to provide further guidance, as well as engage our suppliers on this topic."

The Food and Drug Administration approved the use of rBST, or recombinant bovine somatotropin, in dairy cows in 1993. The agency reaffirmed its ruling that there was no health or safety threat to humans in 2000. All cows have BST, a protein hormone that stimulates milk production, and rBST is a synthetic version used to increase milk production.

About 17% of U.S. dairy cows receive the artificial hormone, according to a 2007 government survey.

Opponents of rBST say it increases infections in cows and stimulates the production of another hormone in the animals linked to cancer in humans.

RBST, produced by St. Louis-based Monsanto Co., is sold under the brand Posilac. A Monsanto spokeswoman refused to release financial information about the product, but Chief Financial Officer Terrell Crews said during an Oct. 10 analysts' conference call that the company expects to see declines in Posilac demand, because "we've seen some pressure in the dairy business on that product."

For big food companies like Kraft, changing processes can add to manufacturing expenses, but those added costs can be passed on to consumers. And given their higher retail prices, natural and organic lines typically are more profitable, Mr. Bishop says.

Kraft began talking with suppliers in November about using milk free of synthetic hormones for its "2% Milk" cheese lines, a spokesman says. Kraft chose the 2% brand because it's a premium line with several dozen products. "We understand this is important to some people, and this is what is really driving the decision for us," he says.

Kraft will continue to use milk that is not certified rBST-free in the majority of its cheese products.

Still, the company's shift has the potential to reverberate throughout the dairy industry, resulting in more rBST-free cheese, ice cream and butter in general, says Catherine Donnelly, professor of nutrition and food science at the University of Vermont in Burlington.

Several small processors, including Tillamook County Creamery Assn. in Oregon, began offering rBST-free cheese several years ago, but the decision by Kraft, the maker of Velveeta and Cheez Whiz, validates it as a mass-market move, she says.

"Consumers are speaking out with their pocketbooks, and it's a national trend that people care more about where their food comes from and how it's produced," Ms. Donnelly says.

Kraft and rivals assured customers for years that rBST-containing products were safe because they were approved by the FDA.

But "now consumers don't trust anything," she says.

Some in the dairy industry are skeptical that any health threat exists.

Terry Etherton, head of the Department of Dairy and Animal Science at Penn State University in State College, Pa., says the growth of rBST-free products is "part of a smoke-and-mirrors campaign."

He says supermarkets usually charge about 20% more for rBST-free milk, while those retailers and dairy processors don't see similar cost increases.

"We do expect an additional premium (in the price) to reflect the cost of ingredients and adjustments to the supply chain to accommodate the milk," a Kraft spokesman says. He declines to discuss any specific prices or costs involved in the change.

Pennsylvania is debating whether processors should be allowed to label a product rBST-free.

Monsanto and other opponents to such labeling say there is no way to accurately certify something as free of rBST because milk with or without the hormone is chemically the same.

"Unfortunately, consumers are being misled to think one carton of milk is safer or more healthy, when in fact all milk is the same," a Monsanto spokeswoman says. "People are paying more for milk that is the same."