Northeast Dairy Leadership Team  
October 13, 2010  

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International Dairy Foods Association  

MY PREDICTIONS....  

Market Opportunities Abound  

Agreement on FMMO Reform and Margin insurance  

Supply Control will Erase the Gains
Per Capita Production of Cultured Products Is Rising.

How High Will Production/Consumption of Yogurt Products Go?

Source: USDA, ERS

Source: USDA, NASS and Gustavo Valle, Dannon
Cottage Cheese Retail Sales Were POSITIVE in 2009!

- The positive quarterly compared to year-ago retail sales volume growth in 2009 was its first in four years.

![Bar chart showing quarterly retail sales growth from Q2 2005 to Q4 2009.](chart1.png)

Source: Information Resources Inc., Total Food ending Q4 2009
December 28, 2009

Per Capita Cheese Consumption Is Growing, Mostly for Non-American Types.

![Graph showing per capita cheese consumption from 1975 to 2005.](chart2.png)

Source: USDA, ERS
In the last 60 years, more milk is going into cheese, but many categories are growing.

<table>
<thead>
<tr>
<th>Year</th>
<th>On Farm</th>
<th>Field and Cultured</th>
<th>Cheese</th>
<th>Butter/Dry Milk</th>
<th>Frozen Dairy</th>
<th>Other</th>
</tr>
</thead>
<tbody>
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<td>1950</td>
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<td>1960</td>
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<td>2009</td>
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</tbody>
</table>

Source: USDA, NASS

**Food 2020: Trends and Preferences**

Consumers:
- Care about how food is produced
- Want healthier foods
- Care about the cost
- Don’t want “processed” food
- Want to support local farmers
- Will pay more for Quality and Innovation.
New Food Policies may impact how Consumers View Dairy

Labels may call out what to avoid, instead of what’s healthy.

Dietary Guidelines, Marketing to Kids, First Lady’s Let’s Move Campaign, Schools

Protein ingredients in demand -- will dairy or other proteins serve that market?
The Percentage of U.S. Production Exported Fell in 2009, but Remains High Historically.

Exports as a Percentage of U.S. Milk Production (total solids basis)

Source: USDEC
IDFA/NMPF Task Force

- FMMO Reform
- Margin Protection Program
Reforming this should be simple...

Class I Price = (Class I skim milk price x 0.965) + (Class I butterfat price x 3.5). Class I Skim Milk Price = Higher of advanced Class III or IV skim milk pricing factors + applicable Class I differential. Class I Butterfat Price = Advanced butterfat pricing factor + (applicable Class I differential divided by 100). Note: Advanced pricing factors are computed using applicable price formulas listed below, except that product price averages are for two weeks.

Class II Price = (Class II skim milk price x 0.965) + (Class II butterfat price x 3.5). Class II Skim Milk Price = Advanced Class IV skim milk pricing factor + $0.70. Class II Butterfat Price = Butterfat price + $0.007. Class II Nonfat Solids Price = Class II skim milk price divided by 9.

Class III Price = (Class III skim milk price x 0.965) + (Butterfat price x 3.5). Class III Skim Milk Price = (Protein price x 3.1) + (Other solids price x 5.9). Protein Price = ((Cheese price – 0.2003) x 1.383) + ((((Cheese price – 0.2003) x 1.572) – Butterfat price x 0.9) x 1.17). Other Solids Price = (Dry whey price – 0.1991) times 1.03. Butterfat Price = (Butter price – 0.1715) times 1.211.

Class IV Price = (Class IV skim milk price x 0.965) + (Butterfat price x 3.5). Class IV Skim Milk Price = Nonfat solids price times 9. Nonfat Solids Price = (Nonfat dry milk price - 0.1678) times 0.99. Butterfat Price = See Class III. Somatic Cell Adjustment Rate = Cheese price x 0.0005, rounded to fifth decimal place. Rate is per 1,000 somatic cell count difference from 350,000.

Do Dairy Farmers Manage Volatility?

<table>
<thead>
<tr>
<th>COMMODITY MARKET VOLATILITY</th>
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</thead>
<tbody>
<tr>
<td>Source: Blimling and Associates calculations using FutureSource data</td>
</tr>
<tr>
<td>30-Day Historic Volatility</td>
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<tr>
<td>* Class III milk is second nearby contract</td>
</tr>
</tbody>
</table>

![Graph showing commodity market volatility for different commodities in 2008 and 2009.](image)
Dairy Does not get Federal Share of Subsidized Insurance

- Total USDA insurance premium subsidies were $5.42 billion in 2009.
  - Corn: $2.04 billion
  - Soybeans: $1.19 billion
  - Wheat: $1.09 billion
  - Dairy: NONE

- No USDA premium subsidies offered for LGM-Dairy.

Source: Blimling and Associates
What have we learned?

☐ An International Comparison of Milk Supply Control Programs and Their Impacts

☐ By Informa economics, Inc.

Farm Gate Milk Prices Fell in All Countries in 2008/2009

Sources: USDA, LTO-Nederland, CDC, Informa Estimates
Canada per-capita consumption of dairy is declining while the U.S. continues to grow.

Source: USDA and Statistics Canada
Canada Imports and Exports

CA Milk Equivalent Imports and Exports

Sources: Eurostat, Statistics Canada, CDC, BLS, ERS, Informa Estimates

U.S. Imports and Exports

US Milk Equivalent Imports and Exports

Sources: GTIS, Informa Calculations
Why are Canadian dairy companies moving south to invest?

Source: USDA and Statistics Canada