



U.S. Dairy  
Export Council.

# Global Dairy Markets

What's Ahead and What's At Stake?



Managed by Dairy Management Inc.™

Northeast Dairy Leadership Team  
February 2, 2010



U.S. Dairy  
Export Council.

## Topics to Consider

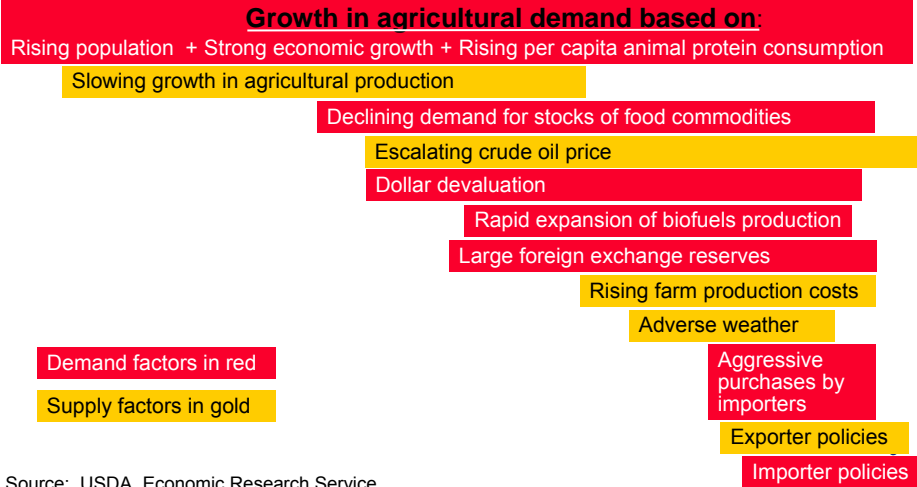
- How we got here
- Where are we now
- What it means
- Accommodating globalization





## Many Factors Led to Higher Food (Dairy) Prices

1996 1998 2000 2002 2004 2006 2007 2008

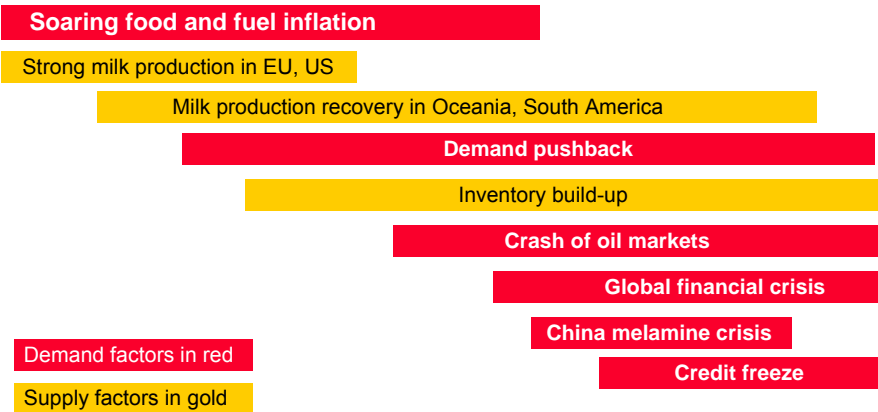


Source: USDA, Economic Research Service



## Crash Had Many Causes, but Demand Was Key

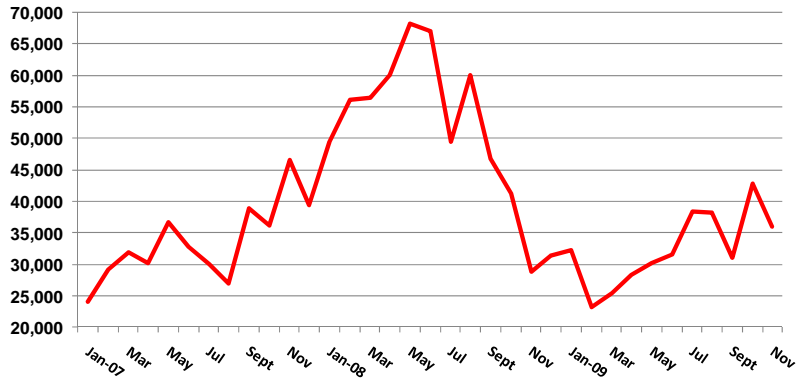
MAY08 JUN JUL AUG SEP OCT NOV DEC-08





## Exports: Coming Off The Floor

2007 – 2009 U.S. Exports – SMP/NDM, cheese, butterfat (MT)

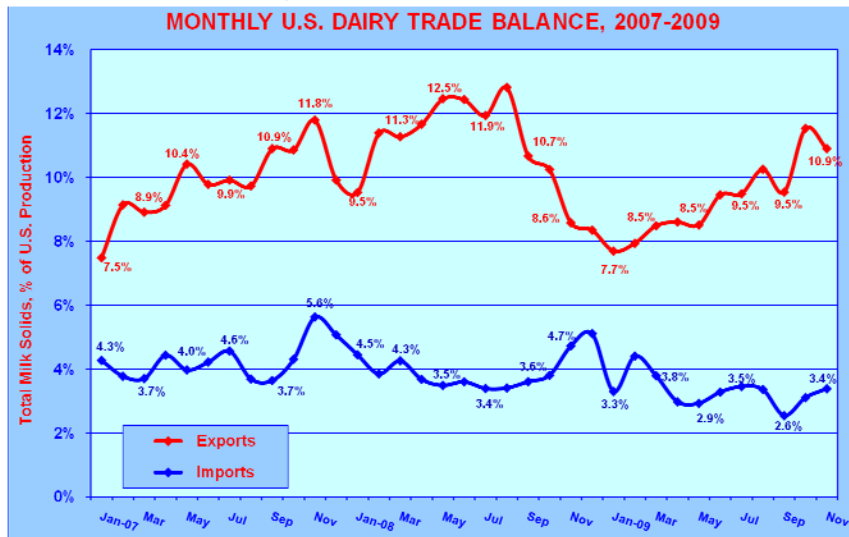


Source: GTIS Global Trade Atlas, compiled by USDEC Staff



## Accelerating Recovery Since January

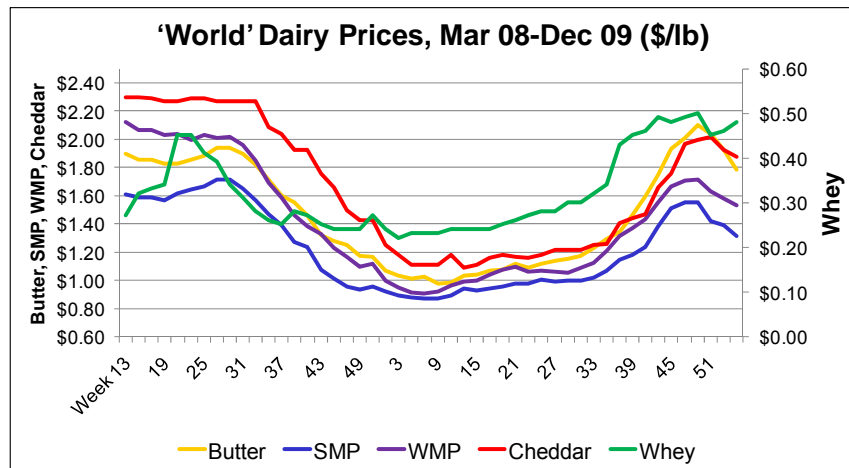
MONTHLY U.S. DAIRY TRADE BALANCE, 2007-2009



Source: USDA/NMFP



## Markets Have Come Back Some



Source: USDA, compiled by USDEC



## A Few Green Shoots of Recovery

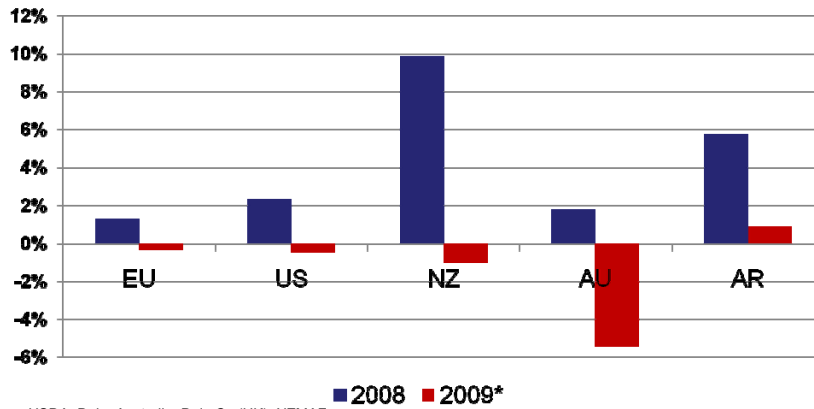
- November 2009 trade
  - Second straight month of increase vs. same month 1 year ago
  - Overall volume up 30% vs. Nov 2008
  - Whey powder exports up more than 15,000 mt
  - Notwithstanding, YTD volume is down 16%, YTD value is down 43%





## Supply Increases Reversed

Change in milk production  
(from previous year)



Sources: USDA, Dairy Australia, DairyCo (UK), NZMAF  
 \*EU represents Jan-Sep 2009 deliveries, U.S. represents Dec LDP Outlook estimate, AU represents Jul-Nov 2009 production, AR represents FAS estimate for Jan-Dec 2009, NZ represents AMS and other industry reports as of Jan 2010



## Sustained Recovery Needed To Restore Income

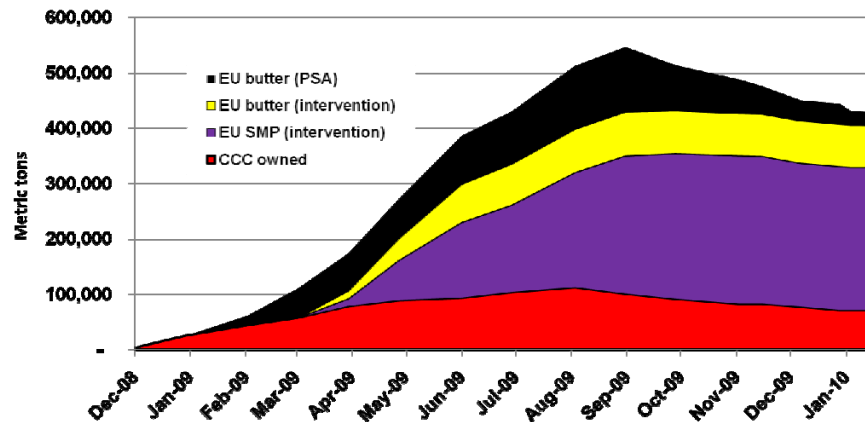
IMF Projections for GDP Growth

	2008	2009	2010
World GDP	+3.0%	-0.8%	+3.9%
Advanced economies	+0.6%	-3.2%	+2.1%
Emerging economies	+6.1%	+2.1%	+6.0%
United States	+0.4%	-2.5%	+2.7%
Euro area	+0.6%	-3.9%	+1.0%
Japan	-1.2%	-5.3%	+1.7%

Source: IMF, World Economic Outlook Update, January 2010



## Gov't Inventories High, but Flattening



Source: USDA and Dairy Markets (various issues) compiled by USDEC Staff

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## Cautious Outlook through H1 2010

- New supplies not an overwhelming problem
- Rate of inventory decline is key
- Lower cost suppliers have tied up early sales
  - Using NDM to “balance” leaves us a residual commodity supplier, always late to market with wrong product
  - Butter shippers have been aggressive
- U.S. value-added shippers are faring better
  - Our products currently competitive
  - Suppliers are better servicing the need

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## Globalized Market Poorly Understood Factor

- Few have escaped impact of global dairy market
- Globalization has created increasingly volatile markets
- Too much attributed to currency shifts...
- ...not enough to structural tighter supply/demand balance
- Implications require strategic industry response



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## The Globalization Study – Strategic Choices?

- Commissioned by Innovation Center for U.S. Dairy
  - Established by DMI
  - Forum of industry leaders addressing pre-competitive issues
- Conducted by Bain & Co.
- Led by Globalization Task Force Members:
  - Kevin Toland, Gianbia (Chair)
  - Richard Cotta, California Dairies
  - JP Ruiz-Funes, Land O'Lakes
  - Keith Murfield, United Dairymen of Arizona
  - Steve Shelley, Schreiber Foods
  - Sue Taylor, Leprino Foods
  - John Underwood, Dairgold
  - Jay Waldvogel, Dairy Farmers of America

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## Key Themes

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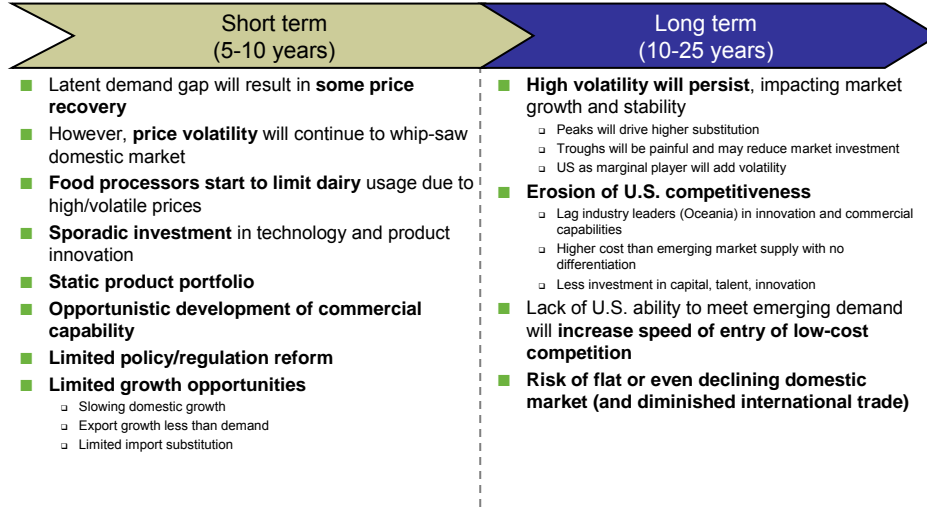
- ① **Globalization of the dairy industry will increase** in the coming years, with significant impact on domestic and international trade
- ② **Demand for dairy products will grow faster than available supply**, driven disproportionately by emerging markets
- ③ However, **traditional sources of supply will not be able to fully meet growing dairy demand**
- ④ Global imbalances will create **increasingly volatile dairy markets**, as processors must compete across borders for milk supplies

## Key Themes

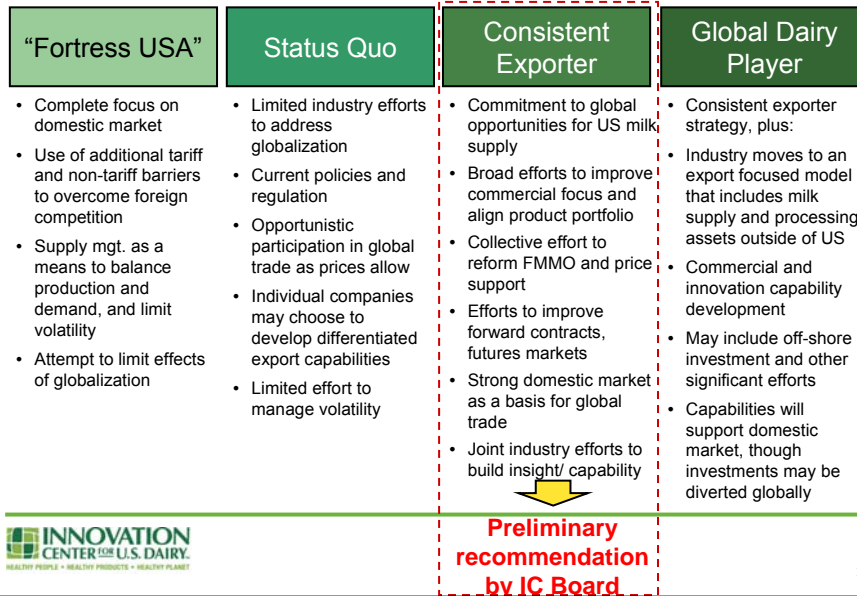
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- ⑤ Shortage of global supply creates **internal and external growth opportunities** for the United States
- ⑥ To capture this opportunity, the U.S. Dairy Industry will **need to leverage existing capabilities and invest in strengthening specific competitive weaknesses**
- ⑦ **Inaction will lead to a less competitive U.S. industry**
- ⑧ Longer term, new **low-cost supply (Brazil, Ukraine) will compete for a larger share of the global opportunity**, creating a finite window for the U.S. to establish a defensible competitive position

## Maintaining the status quo will likely result in a weakened U.S. dairy industry



## What are our options for a US dairy strategy?





## Innovation Center Plans Going Forward

1. Reforming regulated milk pricing systems and price support
  - *Defer to existing process within separate IDFA and NMPF task forces*
2. Development of mechanisms for risk management / reduction of volatility
  - *Working group to identify and seek unified efforts to achieve more effective and viable futures and risk management tools*
3. Continued pursuit of trade treaties providing net export benefits
  - *Provide periodic reports, as required, on ongoing industry efforts*
4. Analysis and prospective redirection of industry's global, pre-competitive sales and marketing investments and capabilities
  - *Include developments in globalization and related programs (at DMI and USDEC)*

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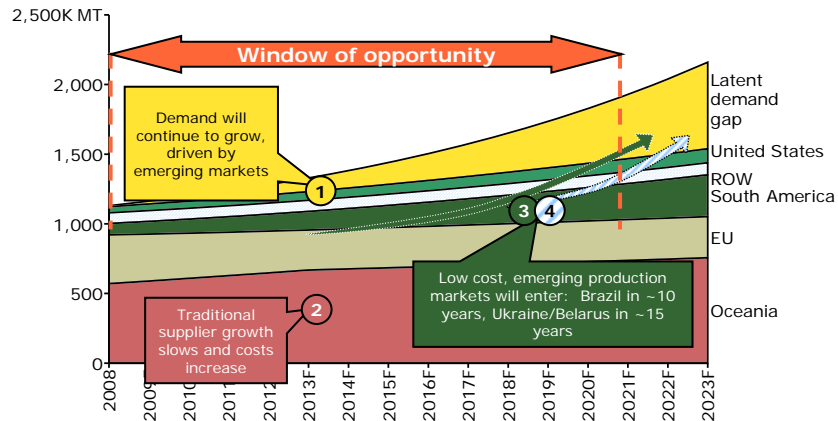
## Innovation Center Plans Going Forward (2)

5. Building on existing food safety assurances and traceability as a U.S. industry competitive strength
  - *Working group to identify/unify development of suitable industry programs to meet government mandates; anticipate needs of global buyers*
6. Developing ability to deliver customer product specifications
  - *Review standards, revisions of which could expand categories while sharing benefits across industry*
  - *Develop insights as to tight tolerance performance specs and processes to meet them*
7. Product & technology innovation
  - *Postpone this discussion pending development of possible alternate, industry-guided and -funded science and R&D program*

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**Business as usual is our greatest obstacle...  
Time for emerging suppliers is our biggest enemy.**

Global dairy net trade: milk protein



**INNOVATION**  
CENTER FOR U.S. DAIRY

Source: "World Trade Trends 2008", USDEC; FAPRI

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## **Crux of the Challenge**

*"If the U.S. industry wants to solve the chronic problem of milk price variability, it will have to resolve the issue of the variability in the role of export markets as a source of demand."*

*Dr. Brian Gould, U. of Wisconsin*

Either accommodate it by:

- Becoming more reliable and not the last-in, first-out residual supplier, or
- Stay with the destructive status quo, or
- Convince government to lock out the world market



## So Are Exports Worth Pursuing?

- Producers benefit from strong export markets
- Exports increased dairy farmer prices by about \$1/cwt in four-year period

Impact of Commercial Exports		
	Increase in All-Milk Price (\$/cwt.)	Increase in Producer Income (mil. \$)
1994	\$0.05	\$117
1995	\$0.07	\$110
1996	\$0.15	\$235
1997	\$0.19	\$344
1998	\$0.17	\$349
1999	\$0.10	\$200
2000	\$0.14	\$244
2001	\$0.31	\$584
2002	\$0.13	\$288
2003	\$0.11	\$252
2004	\$0.70	\$1,317
2005	\$0.87	\$1,693
2006	\$1.05	\$2,171
2007	\$1.40	\$2,985
2008	\$1.69	\$3,623

Source: NMPP



## Conclusions

- Overseas economies are rebounding well driving some stock replacement
- U.S. exports are recovering but demand is fragile
- Prices recovering somewhat, but primary suppliers to feel benefits first
  - Demand for U.S. product lags as residual supplier
- Buyers watching closely but they feel little pressure so far
  - Interest remains in securing stable U.S. supplies
- Sustaining exports is long-term proposition, requiring steady commitment in good times and bad



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