

# **Global Dairy Trade: Issues and Policies**



# Overview

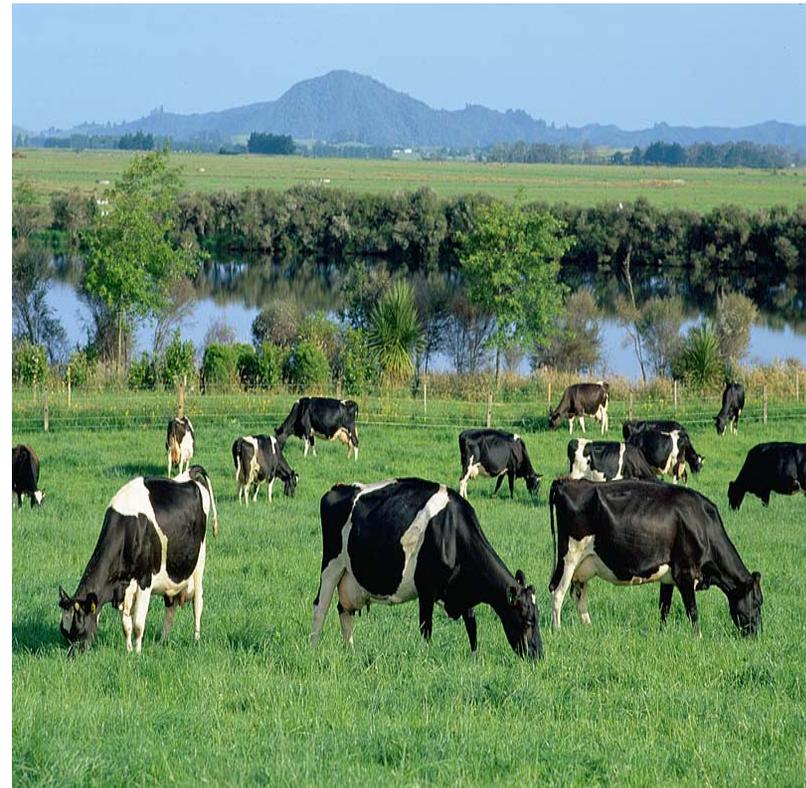
- About Fonterra
- Fonterra in the United States
- The Global Dairy Market: demand and supply
- Dairy Trade: challenges and opportunities

# About Fonterra

- Four year old private cooperative owned by 12,000 farmers
- Assets \$8.3 bn, revenue \$7.8 bn, 2003/04 returned \$3.5 bn to farmers
- Approximately 3.7 million cows, collecting 40 bn pounds milk/year
- About 7<sup>th</sup> largest dairy company globally

# The Fonterra Farm

- On average 300 cows
- Mostly family farms
- Pastoral based
- Seasonal production
- No Government subsidies



# Production Comparisons

## Average raw milk yield per cow

<u>Country</u>	<u>Kilograms/year</u>
Canada	9500
United States	8235
Japan	7400
European Union	6000
Australia	4906
New Zealand	3700
Mexico	1397

2003 figures

# Average cost of production

Cost of production in US cents per kilogram

<u>Country</u>	<u>US cents/kg</u>
Chile	7.7
Argentina	8.5
New Zealand	13.5
Australia	16.0
India	18.9
China	19.9
United States	26.7
European Union	28.9

2002 figures

# Fonterra Production

- Collect 40 bn pounds of milk to produce 4.5 bn pounds of products for export
- 25 manufacturing sites in NZ
- Capacity range 13 mn litres/day to 0.2 mn
- Key products WMP, SMP, cheese, butter, casein/other proteins, AMF
- Fonterra Ingredients – New Zealand Milk

# Fonterra Trade

- Export approximately 95 % milk collected
- Export to more than 140 countries
  - Asia 32%, Americas 25%, Oceania 21%, Other 22%
- Represent approx 40 % world dairy trade
- Increasingly trading non-NZ product  
eg 2004:
  - 5 bn pounds Latin America
  - 3 bn pounds Australia
  - 1 bn pounds US

# Fonterra in the United States

- The US is Fonterra's largest economic partner and we are part of the fabric of the US dairy industry:
  - *Importer* (Fonterra USA).
  - *Partner* (Dairy Farmers of America).
  - *Investor and manufacturer* (DairiConcepts).
  - *Exporter* (DairyAmerica plus other activities).

# DairiConcepts

- 50/50 JV between Fonterra and Dairy Farmers of America
- Based in Springfield, Missouri with ten manufacturing plants in New Mexico, Missouri, Wisconsin and South Dakota employing approximately 350 people
- Using US milk to manufacture MPC, NFDM, cheese and cheese flavors

# DairyAmerica

- Partnership between Fonterra and seven US dairy cooperatives to export US NFDM onto the world market
- Based in Fresno, California
- Outstanding performance in 2004 – commercial exports of close to \$300 million of US NFDM around the world
- Paving the way to the US becoming a significant global supplier of NFDM

# Global Dairy Market: Demand and Supply



USDA 2005 Agricultural Outlook  
Forum

# Global consumption

<u>Country/region</u>	<u>litres/capita/year</u>
Europe	318
US/Canada	284
Oceania	195
Latin America	128
Asia	48
Africa	25

2003 figures

# Forecast change in global consumption

<u>Region</u>	<u>compound annual growth 2002-12</u>
Latin America	3.6 %
Asia	3.5 %
Europe	2.2 %
US/Canada	2.0 %
Oceania	1.9 %
Africa	0.9 %

Weighted world average growth approximately 2 % per annum

# What is driving demand?

- Wealthy markets: functionality of dairy products to meet specific needs, eg bone health, low carb, convenience.
- Less affluent: competitive source of nutrition.
- Economic growth=advance along consumption chain, consuming more dairy in more sophisticated forms.

# China

- Government encouraging dairy consumption.
- Urban consumption grown 22% per capita, per annum over past 5 years.
- Domestic production capacity growing but not keeping pace with demand.

# Supply Outlook

- Constraints in Oceania.
- Ongoing withdrawal of European Union from global commodity markets.
- Eastern Europe?
- Potential of Latin America.

# United States

- Vital role for the US in meeting world market demand.
- 2004 foretaste of potential. 100,000 MT of US NFDMM on world market without export subsidy. Continue in 2005.
- Ongoing reform and efficiency gains in US will deepen the US potential as global supplier.

# Challenges and Opportunities

“...there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns - the ones we don't know we don't know.” Secretary Donald Rumsfeld 2002

- The global economy?
- Soy and other protein sources?
- The need to open markets

# Milk Protein products

- Debate over Milk Protein Concentrate in the US.
- The experience of the Portales, NM Operation.
- 2004 International Trade Commission study.
- Open the door to soy?

# Growing dairy through trade liberalisation

- International trade in dairy only 7 % of total global milk production.
- Growth to 10 %: an increase greater than Fonterra's current total sales.
- But challenges through distortions, eg tariffs:
  - Butter: Japan 660 %, EU 140 %, US 115 %
  - Canada: dairy tariffs in 250-300 % range

# WTO Doha Development Agenda

- Best opportunity for meaningful global reform of trade rules.
- Framework agreement developed July 2004.
- Modalities for liberalisation under development.
- DDA projected to end in late 2006.

# WTO and agriculture

- Key priorities from Fonterra's perspective:
  - Ambitious date for total elimination of agricultural export subsidies.
  - Agree on ambitious package for opening markets: comprehensive treatment, reducing tariffs, expanding quotas.
  - Move from trade distorting to less distorting domestic support measures.

# Free Trade Agreements

- “Latest fashion” in trade circles?
- Pathfinders or diversions?
- Dairy as a sensitive product, eg US/Australia FTA.
- Interesting potential, eg NZ/China FTA.
- Bottom line – WTO first priority, FTAs must be high quality and worthy of name.

# Summary

- Global outlook for dairy is positive.
- The global dairy market of the future will be larger, with more demand, and more suppliers.
- The trend is towards more open markets.
- Fonterra intends to be a leader in these developments.



TO LEAD IN DAIRY

