

Challenges in International Dairy Markets

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Glanbia Foods, Inc.***

Glanbia PLC

- **Glanbia is Gaelic for “Pure Food”**
- **Arose from Merger of Avonmore, Waterford Dairy cooperatives in 1997**
- **Publicly traded Irish dairy company**
- **Based in Kilkenny Ireland**
- **70% owned by dairy farmers & their Cooperative**

Glanbia PLC

- **In 2008:**
 - ◆ **4,300 employees**
 - ◆ **4,900 milk suppliers**
 - ◆ **11.6 billion pounds milk processed worldwide**
 - ◆ **>950 million lbs. cheese**
 - ◆ **500 million lbs. food ingredients**

Glanbia USA

- **In 2009:**
 - ◆ **3 Cheese Plants**
 - ◆ **3 Whey Plants**
 - ◆ **7.3 billion pounds milk processed**
 - **2/3 of Glanbia milk processed**
 - ◆ **>700 million lbs. American Cheese**
 - **About 18% of US Supply**
 - ◆ **Whey Products:**
 - **WPC 34, WPC80, WPI90, Lactose**
 - **Specialty Whey Proteins**

EU has a Long History with World Trade

- **Glanbia PLC - Ireland**
 - ◆ Milk Powders, Casein, Butterfat products
 - ◆ Cheese, Whey
- **Other EU Companies have had Worldwide Marketing Presence**
 - ◆ Arla
 - ◆ Kerry
 - ◆ DMV-Campina
 - ◆ Danisco
 - ◆ Sorrento Lactalis.
 - ◆ Many Others!

EU Moves to the US...

- **Glanbia USA**

- ◆ **International whey markets were main reasons for Glanbia's investment in the US cheese Market**
 - **Other European Cooperatives also arrived:**
 - ◆ **Arla, Kerry, DMV-Campina**
 - **Glanbia's predecessors invested in Wisconsin.**
- ◆ **Moved to Idaho in late 1980's**
 - **Switch to 100% Cheddar production**
 - **Expanded whey protein processing.**

American-style Exports at Market Prices Is a Recent Phenomenon

- **2007**

- ◆ **Weak Australian milk flows.**
- ◆ **First significant exports of Cheddar**
- ◆ **Southwest Cheese (NM) well-located for Mexico markets**
- **NZ cheese price relationship:**
 - **Premium to CME for by end of 2007**
- **Weakening US Dollar**
- **No EU Export Refunds**

A Great 2008

- **2008**

- ◆ **Weak Oceania Production for 07-08 Season created real opportunities**
- ◆ **Weak Dollar Added Advantage**
- ◆ **Great Growth in Cheese Export Sales –**
 - **Majority Share of Cheddar/American Exports**
 - **Most sales through existing business partners**
 - **Many Markets –**
- **World cheese price at a Premium to CME**
- **No EU Export Refunds**

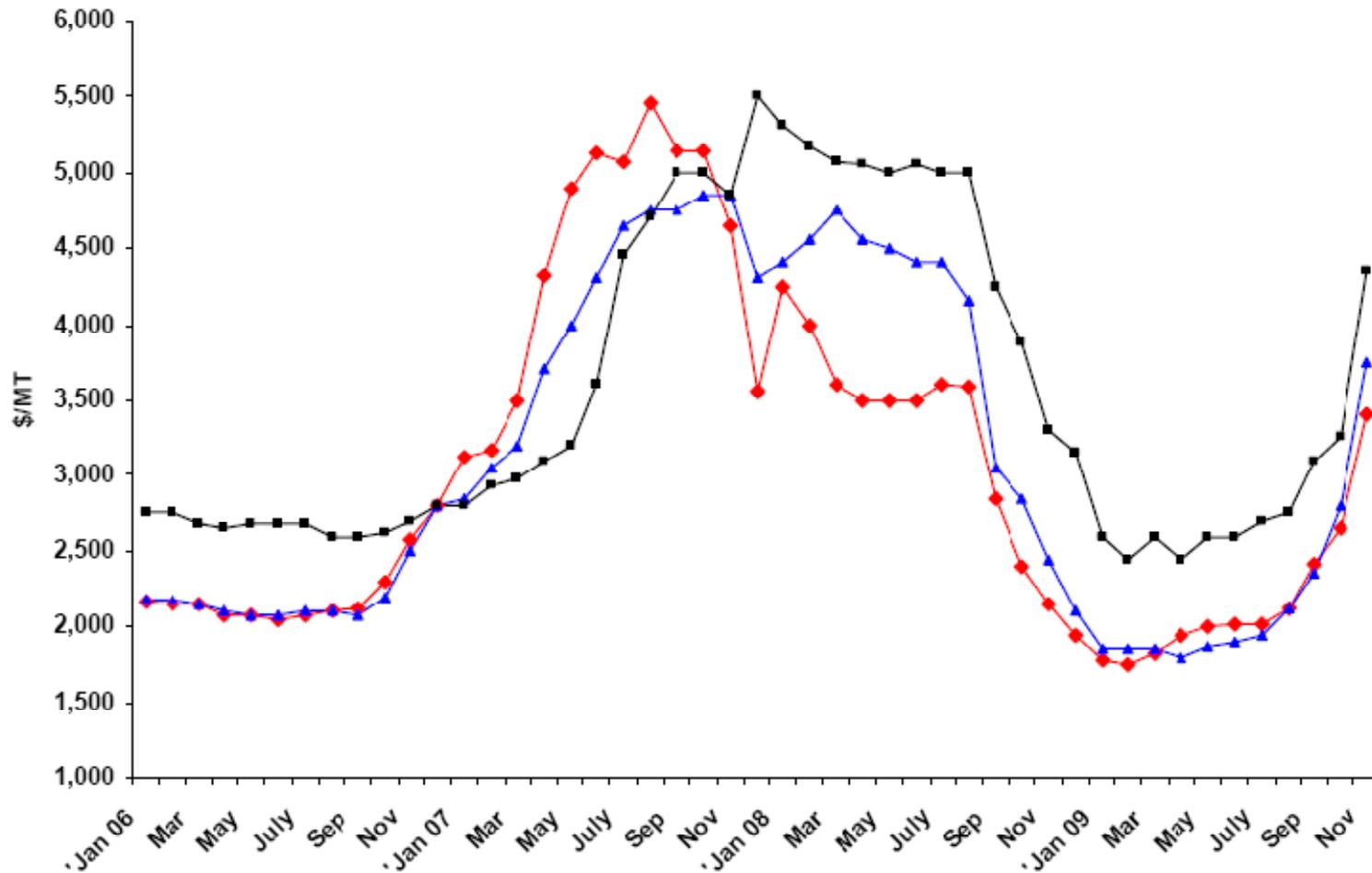
Not so Fine in 2009

- **2009**

- ◆ **Weak World Markets + Strong Dollar = Significant Sales Declines for US**
- ◆ **NZ, EU working aggressively to recapture their markets.**
- **World cheese price relationship to CME**
- **EU Export Refunds re-enacted**
 - **Not as big a factor**
- **US Responds with DEIP**
- **Mexico Sales remain relatively strong**

World Cheese Markets in One Chart

Oceania Prices (FOB) for NDM, Butter, and Cheese



Competitive Supply: Advantages

- **US can grow supply at mid-level cost**
 - ◆ Most EU production costs much higher
 - Indirect Farm Subsidies impact “survivability”
 - AU, SA have advantages
- **US has year-round supply**
 - ◆ Industry not grazing-dependent as in many low-cost countries

Competitive Supply: Advantages

- **US has more consistent supply**
 - ◆ Less dependent on grazing conditions
 - ◆ Available water for irrigation
 - ◆ Less political interference
- **US has Broad Manufacturing Base**
 - ◆ We make almost everything!
- **Long-term buyer relationships - Cheese, Whey**
 - ◆ Many US companies do have international presence

Competitive Supply: Advantages

- **Political Stability**
 - ◆ Inhibiting exports growth in some low-cost countries
 - ◆ Argentina, Ukraine
- **Distance to Markets – mixed story**
 - ◆ Mexico? Mideast? Asia?
- **Free Trade Agreements**
 - ◆ NAFTA
 - ◆ Helped keep exports to Mexico strong in 2009

Competitive Supply Challenges

- **Currency Volatility**
 - ◆ Competitive Issue for all Exporters
- **Distance to Markets**
 - ◆ Mideast, Africa, Asia
- **Product Specifications**
 - ◆ Must recognize international requirements
 - ◆ British weights & measures in a Metric World
 - ◆ Simple as packaging, but can also be very technical

Competitive Supply Challenges

- **Milk Production Costs**
 - ◆ NZ, AU, SA have significantly lower costs
- **US a newer world cheese supplier**
- **Monthly Regulated Pricing**
 - ◆ International Contracts are 3 months+
- **Direct Hedging Tool for Cheese**
 - ◆ **Class III Contracts too complicated**
 - Buyers want cheese or whey proteins, not both
 - ◆ **CME working to offer Cheese contract in '09**

Challenges Ahead

The Globalization Task Force of the Innovation Center for U.S. Dairy provide a good summary of issues The U.S. dairy industry must address in a more global dairy market.

The Innovation Center for U.S. Dairy

- ***Supported and staffed by Dairy Management Inc.™***
- ***Provides a forum for the dairy industry to work pre-competitively to address barriers to and opportunities for innovation and sales growth.***
- ***Aligns the collective resources of the industry to offer consumers nutritious dairy products and ingredients, and promote the health of people, communities, the planet and the industry.***
- ***Board of Directors represents leaders of more than 30 key U.S. producer organizations, dairy cooperatives, processors, manufacturers, and brands.***

Innovation Center for Dairy

Globalization Task Force Recommendations

- **Reforming regulated milk pricing systems (Federal and State) and price support programs**
 - NMPF, IDFA currently looking at options
- **Development of mechanisms for risk management & reduction of volatility**
 - ◆ US Production model becoming less diverse.
 - ◆ Dairy profitability becoming more dependent on effective use of risk management tools
 - ◆ Lowest cost in US no longer means profitable

Innovation Center for U.S. Dairy Globalization Task Force Recommendations

- **Continued pursuit of trade treaties that provide net export benefits**
 - ◆ US is losing ground with EU, others
 - ◆ **BUT Successful DOHA round is more crucial**
 - Address Export Subsidies Issue
 - Subsidies again price suppressing issue in 2009
 - “Third party” impacts on smaller FTA’s can be huge
- **Analysis and prospective redirection of industry’s global, pre-competitive sales and marketing investments and capabilities**
 - Do current assets fit future markets needs?

Innovation Center for U.S. Dairy

Globalization Task Force Recommendations

- **Building on existing food safety assurances and traceability as a US Industry competitive strength**
- **Developing ability to deliver customer product specifications (including review of current standards)**
- **Product and technology innovation (potentially with financial incentives)**

Glanbia Believes Exports offer Longer-Term Opportunity

- **Part of Broader Marketing Plan**
 - ◆ **US, International Sales**
- **Key is “Adding Value” to Commodities**
 - ◆ **Make long-term Commitment to Market**
 - **Staffing**
 - **Work to Local Market Needs**
 - ◆ **Product**
 - ◆ **Delivery**
 - **Stable Pricing**
 - **Stable Product Availability**

Better Understand Our Markets

- **Learn from Whey experience**
- **Use available tools:**
 - ◆ USDEC
 - ◆ Business Partners
- **Make doing business easy as possible**
 - ◆ Fixed Pricing
 - ◆ Volatility
 - Both with Price and Currency Risk Issues.
- **Make sure product is what buyer wants**
 - ◆ Returns from Asia are expensive!

Better Understand Our Markets

- **Product Needs**
 - ◆ Ex. High End Gouda vs. Mild White Cheese “Gouda”
 - ◆ Help customer get best value from US Products – ALL of the time!
- **Competitive Position**
 - ◆ Cost of Production
 - ◆ Transportation
 - ◆ Cost of Importing
- **Credit Risk**
 - ◆ Counterparty Performance

Growing Glanbia Cheese Exports

- **Making a staff commitment to Exports**
 - ◆ Something we can learn from our competitors
- **LEARNING the markets we want to serve**
 - ◆ Natural Cheese – local flavor profiles
 - ◆ Processed Cheese
 - Solids for further processing is vast majority of market
 - Great potential for volume growth
 - 10% of American Cheese Production?
 - Minimize landed cost through production, packaging, shipping efficiencies.

Growing Glanbia Cheese Exports

- **DEVELOP Products to better fit market needs**
 - ◆ “Value Added” Commodity is not an oxymoron
 - ◆ What can the plants do in a cost-efficient manner
 - ◆ Standards of Identity vs. Market Needs
- **Building Export Markets**
 - ◆ May Start with Opportunistic Sales
 - Ex. 2008 US cheese sales to Australia
 - ◆ Sustain with true commitment to market
 - Ex. Meeting specific customer product specs for Mexico “white cheese” market
 - Ex. Gouda vs. American Cheese

Growing Glanbia Cheese Exports

- **Partner with Current Multinational Customers**
 - ◆ Build on existing relationships
- **Commit to Product Development**
 - ◆ Glanbia has Whey Research Team
 - ◆ Other US processors do as well
 - ◆ How about Cheese?
 - Leprino known for their innovation
 - Whey success can be model for cheese down the road
- **Use DMI Innovation Center for Dairy**
 - ◆ Strategic approach to growing US Industry
 - Environment, Efficiency, Trade

Growing Glanbia Cheese Exports

- **Use the US Dairy Export Council**
 - ◆ **Strong Partnership with FAS**
 - ◆ **Strategy Development**
 - ◆ **Assistance on specific export issues**
 - **Market Access**
 - **Response to Border issues.**

Summary

- **Glanbia, other cheese companies got taste of export markets in 2007-2008**
- **Good lesson on market volatility in 2009**
- **Glanbia is committed to Growing Cheese Exports in 2010 and beyond**
- **Greater Industry is providing leadership to grow long-term export presence of USA**
 - ◆ **Trade Associations**
 - ◆ **Promotion Organizations**
 - ◆ **USDA and USTR, others.**

Thank You!