Challenges in International Dairy Markets

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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
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
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

$/MT

Jan 06, Mar, May, July, Sep, Nov, Jan 07, Mar, May, July, Sep, Nov, Jan 08, Mar, May, July, Sep, Nov, Jan 09, Mar, May, July, Sep, Nov
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!