



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Challenges in International Dairy Markets

Mike Brown

***Dairy Economist
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**

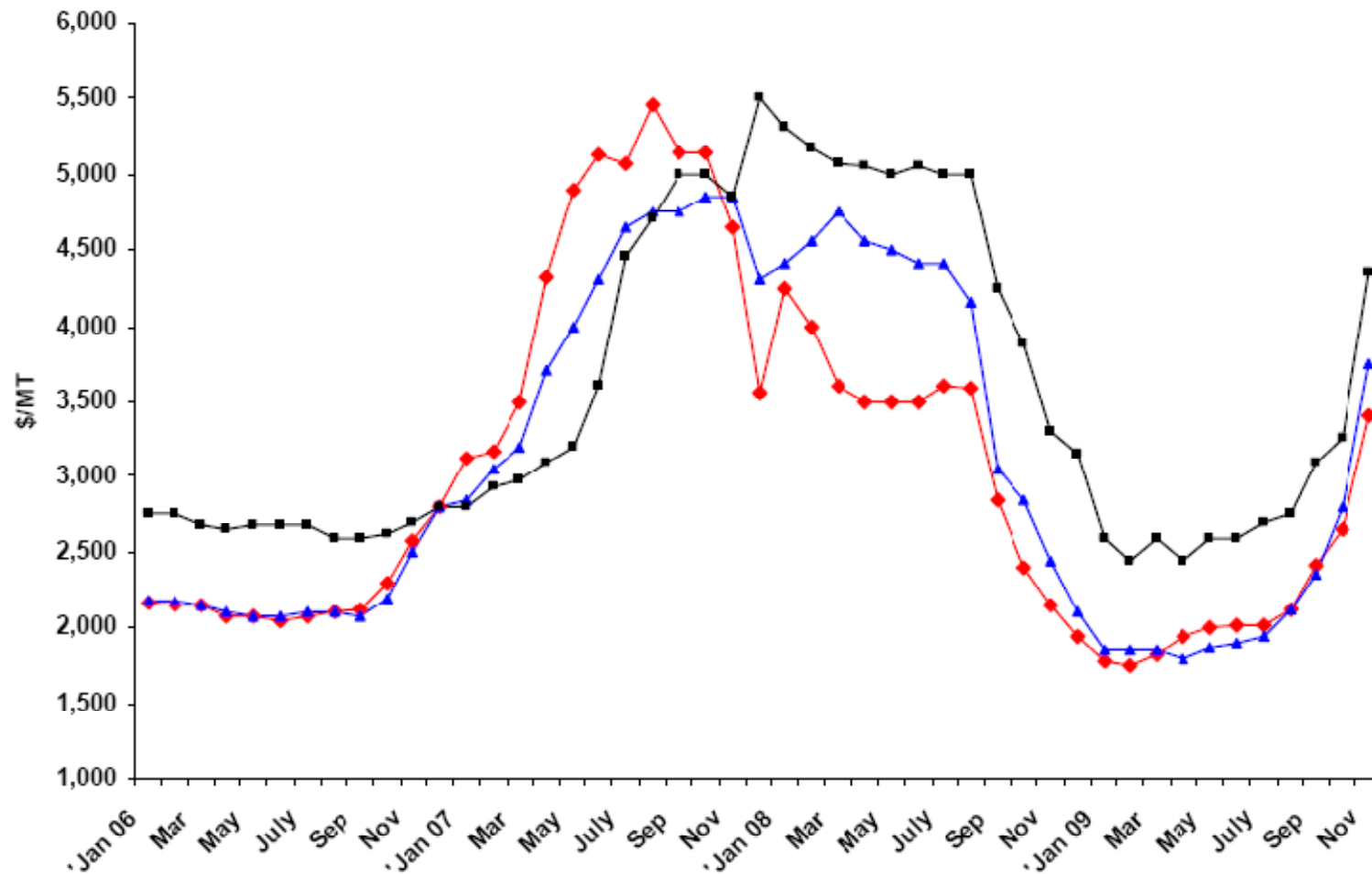
Not so Fine in 2009

- **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.TM*
- *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!