

Global Opportunities Headline Dairy Forum

Globalization and emerging markets for dairy products were primary topics of conversation at this year's International Dairy Foods Association (IDFA) Dairy Forum. From projected population growth to specific marketing strategies in China and India to nutrition policy in Europe, the sessions and speakers had a distinct international focus.

The global population is expected to grow by the equivalent of two Chinas over the next forty years, reported Dr. Bob Thompson from the University of Illinois. The demand for food worldwide will increase 70 to 80% by 2050, as the global middle class grows to 2.1 billion people (compared to 352 million in 2000). It's well established that, as incomes improve, one of the first thing that changes is diet and introduction of animal proteins such as milk and meat. That additional protein must come from somewhere. There's only about 12% more arable land available for crops or grazing that's not currently in production, forested, or subject to erosion or desertification. Farmers already account for 70% of fresh water use worldwide. And for the first time ever, over half the world's population lives in urban areas. Technology and efficiency must be the strategies going forward for those remaining in agricultural production.

The 2009 Bain and Company report, "The Impact of Globalization on the U.S. Dairy Industry," projected a five to ten year window for the U.S. to become a consistent dairy exporter, helping to fulfill the expected international demand gap of 7 billion pounds of milk equivalent products. U.S. dairy exports in 2010 were equivalent to 12.8% of total milk production and 2011's exports were equivalent to 13.3% of production through November, well above the 5.5% seen a decade ago in 2001, according to the U.S. Dairy Export Council.

The U.S. isn't the only country looking to expand market share. The biggest near-term international supply shake-up will be the elimination of European Union production quotas and price supports scheduled for 2015, according to Dairy Forum

speaker Rudy Dieperink of FrieslandCampina. Production is expected to expand in Northern Europe, where producers are more cost efficient, but how much production will increase and how quickly remain to be seen. Traditional international suppliers Australia and New Zealand have bounced back from last year's inclimate weather, but future expansion will likely be limited by land and input costs. Most available beef and sheep farms have already been converted into dairy production and any further expansion could move the dairies from pasture-based systems into grain-based ones, raising the cost of production.

Brazil is expected to gain in competitiveness in the next five years as they build their dairy infrastructure. Ukraine is a potential supplier once quality issues are fixed, and Chile and Argentina are gaining ground despite domestic and governmental troubles. Even with brisk expansion in their milk supply, however, most of these countries will still rely on imports to meet the growing dairy demand of their consumers. Bain and Company released a re-analysis of their original report last fall, taking into account the global economic recession. "The world supply-demand gap is wider than we originally anticipated," said Brett Burgess, a Bain and Company manager. "The U.S. is a likely source to fill it."

Dairy Forum panelists agreed that the United States has a window of opportunity to gain market share before Brazil and other countries catch up, but domestic policy remains a stumbling block. Policy discussions tend to focus on price where they should take a more long-term approach, said Hilmar Cheese Company President and CEO John Jeter. Australia, New Zealand, and the EU have made difficult decisions regarding industry policies; the U.S. dairy industry must come together and consider the long-term future, even if the change is hard.

China and India

Anil Gupta and Haiyan Wang, authors of “Getting China and India Right,” a business guide for expanding into those two countries, shared background and strategies at a Dairy Forum lunch session. In 1950, the U.S. Gross Domestic Product (GDP) was 20 times that of China. In 2011, the U.S. GDP was 2.5 times that of China and 8.5 times that of India. China’s GDP is expected to equal that of the U.S. by 2025 and be 2.5 times as large by 2050. Also by 2050, India’s GDP is projected to be 1.2 times that of the U.S. “The rise of China and India is inevitable,” said Wang. The two countries allowed industrialization to pass by once before but today’s technology is allowing them to catch up quickly.

This re-emergence of traditional powers is a huge opportunity for the dairy industry. China and India will account for over 60% of world growth in non-fluid dairy demand, according to the Bain and Company re-analysis report. China has expanded their domestic production, but the melamine and other quality scares have increased the demand for imported product. China is even investing in production outside their borders, as New Zealand just approved the sale of 16 bankrupt dairies to a Chinese business group.

India’s population has a strong heritage in the consumption of fluid dairy products and certainly has high cow numbers, but also significant infrastructure and distribution challenges. Some areas experience 30% product waste before it reaches the consumer. More innovative products will be needed to serve these markets: lactic drinks with a skim milk powder base are preferred to a glass of whole milk in China, and cheese has not been incorporated into the diet.

Going forward, it will be important for the U.S. dairy industry to consider the differences in these two markets. China has an aging population, primarily due to child restrictions, while India’s population is much younger. In fact, India is projected to have 400 million more people than China in forty years. A much higher percentage of

India’s population is in poverty, with 34.3% living on less than \$1.00 per day and 80.4% living on less than \$2.00 per day.

Developed Markets

At the same time much of the world is growing their overall demand for dairy products, more developed markets such as the European Union and United States are becoming more concerned with production methods. A growing number of consumers are concerned with organic and “natural” products, and animal welfare legislation has started to be implemented on both sides of the Atlantic. Environmental and conservation policies are also a growing concern, especially with soil and water quality.

Nutrition policy is also changing across the developed world. Last year, Denmark and Hungary became the first countries to impose a “fat tax,” raising the price on foods containing saturated fat. In December, France approved a tax on soft drinks, citing the high sugar content as a contributor to rising obesity. Ireland is now considering similar legislation. USDA just released their new guidelines for school meals, emphasizing fruits, vegetables, and whole grains and limiting fluid milk to low-fat and fat free white milk and only allowing fat-free flavored milks. It is more important than ever to focus on the full nutrient package in dairy products. As speaker Jay Waldvogel of Dairy Farmers of America said, too much legislation and labeling moves consumers away from “eating food” and toward “assembling ingredients.”

Whether supplying emerging markets or innovating to address concerns of more developed nations, global opportunities remain for the U.S. dairy industry. Existing policies must be addressed to fully capitalize on the window of opportunity and position the U.S. going forward, but the fact remains: more and more exported products are being marketed based on their solids content; more efficient production is needed to feed a growing global population while conserving resources; more opportunities are coming for the Jersey cow, the cow of the future.

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