Global Dairy Trade: Issues and Policies

Overview

- About Fonterra
- 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 7th largest dairy company globally

The Fonterra Farm

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

Production Comparisons

Average raw milk yield per cow

Country	Kilograms/year
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

Country	US cents/kg
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).

Global Dairy Market: Demand and Supply

Global consumption

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

2003 figures

Forecast change in global consumption

Region	compound annual growth 2002-12
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 NFDM 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

- Outlook for the global economy?
- Competition from 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 <u>increase</u> 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

Fonterra