



U.S. Dairy
Export Council.

Consequences to U.S. Dairy Exports of a Softer Market



Southern Dairy Conference
January 28, 2009

Managed by Dairy Management Inc.™



Topics to Consider

- How we got here
- Where things are at now
- What it means
- What we're doing about it





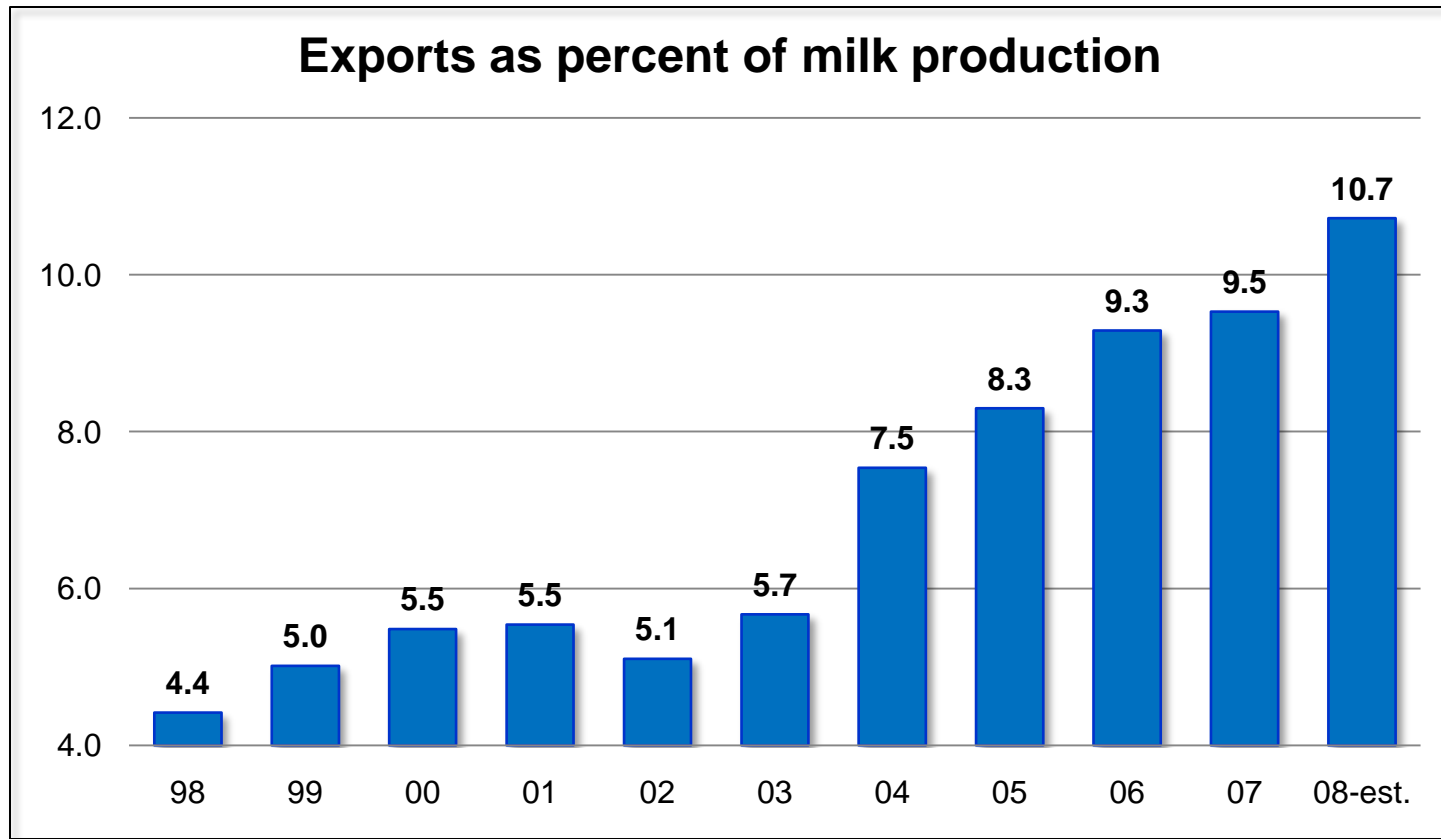
The Issue:

“Exports are no longer just an opportunity, they’re an obligation.”

-U.S. dairy co-op leader, fall 2007

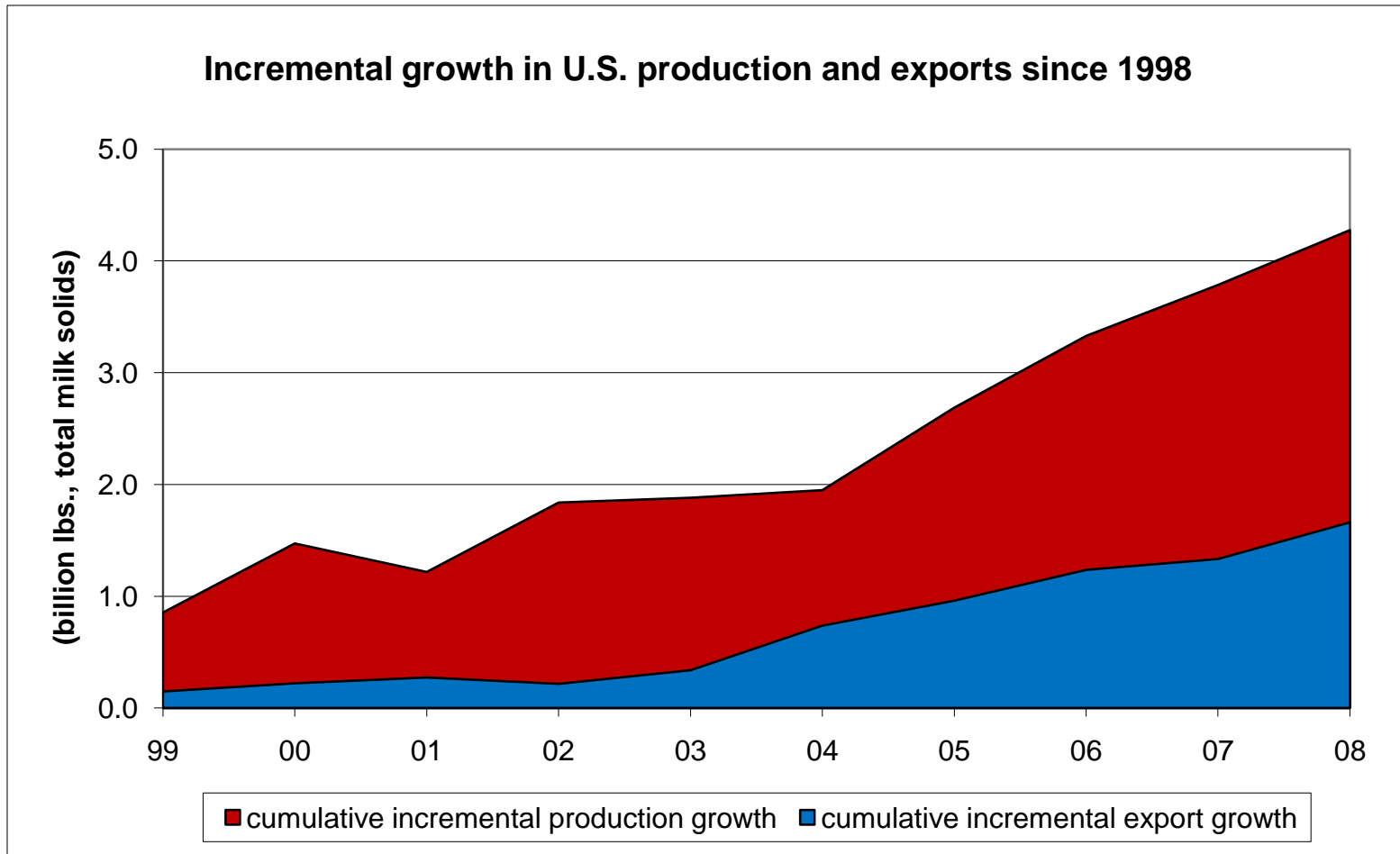


2006-08: Almost 10% of Production



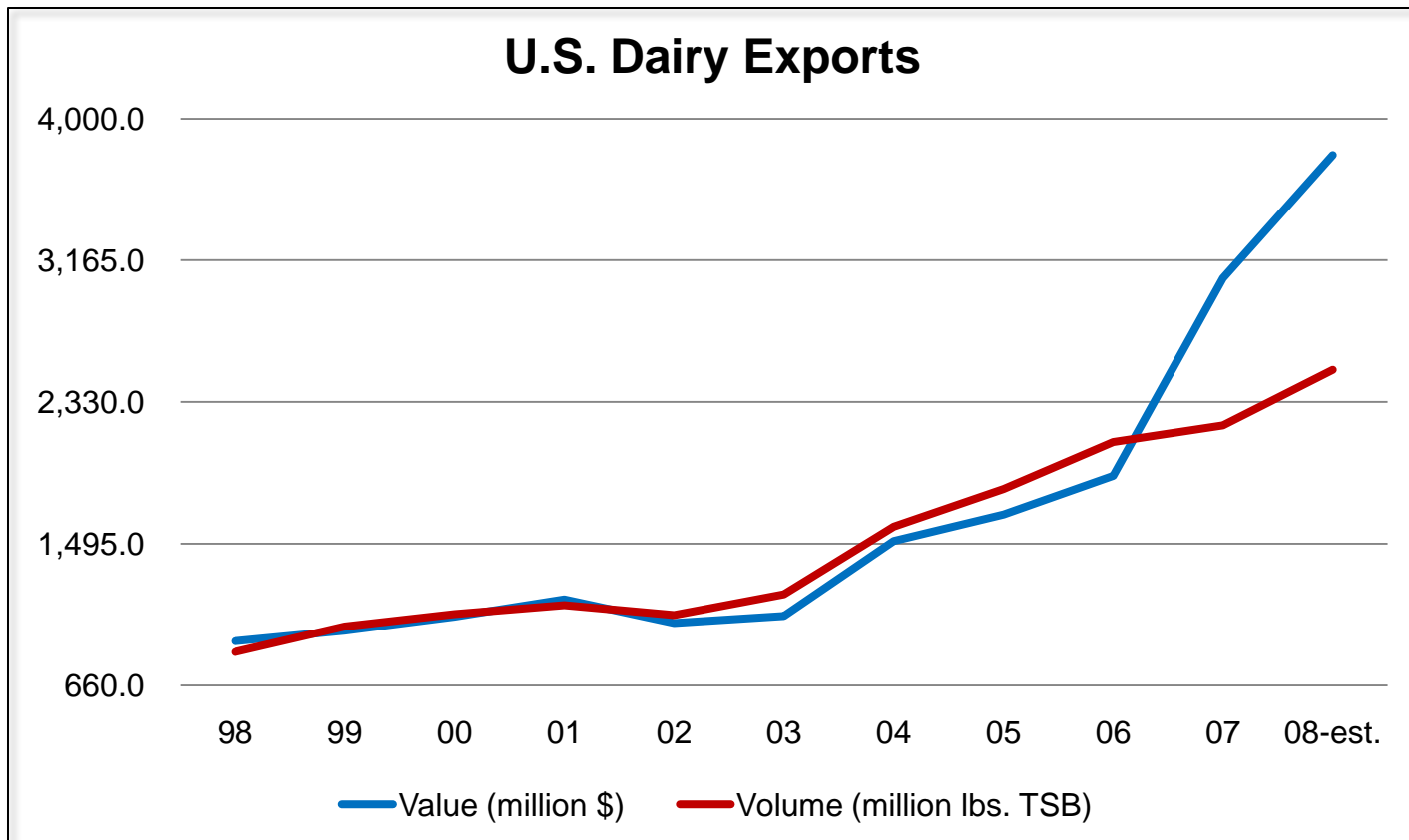


Exports Have Provided Room to Grow



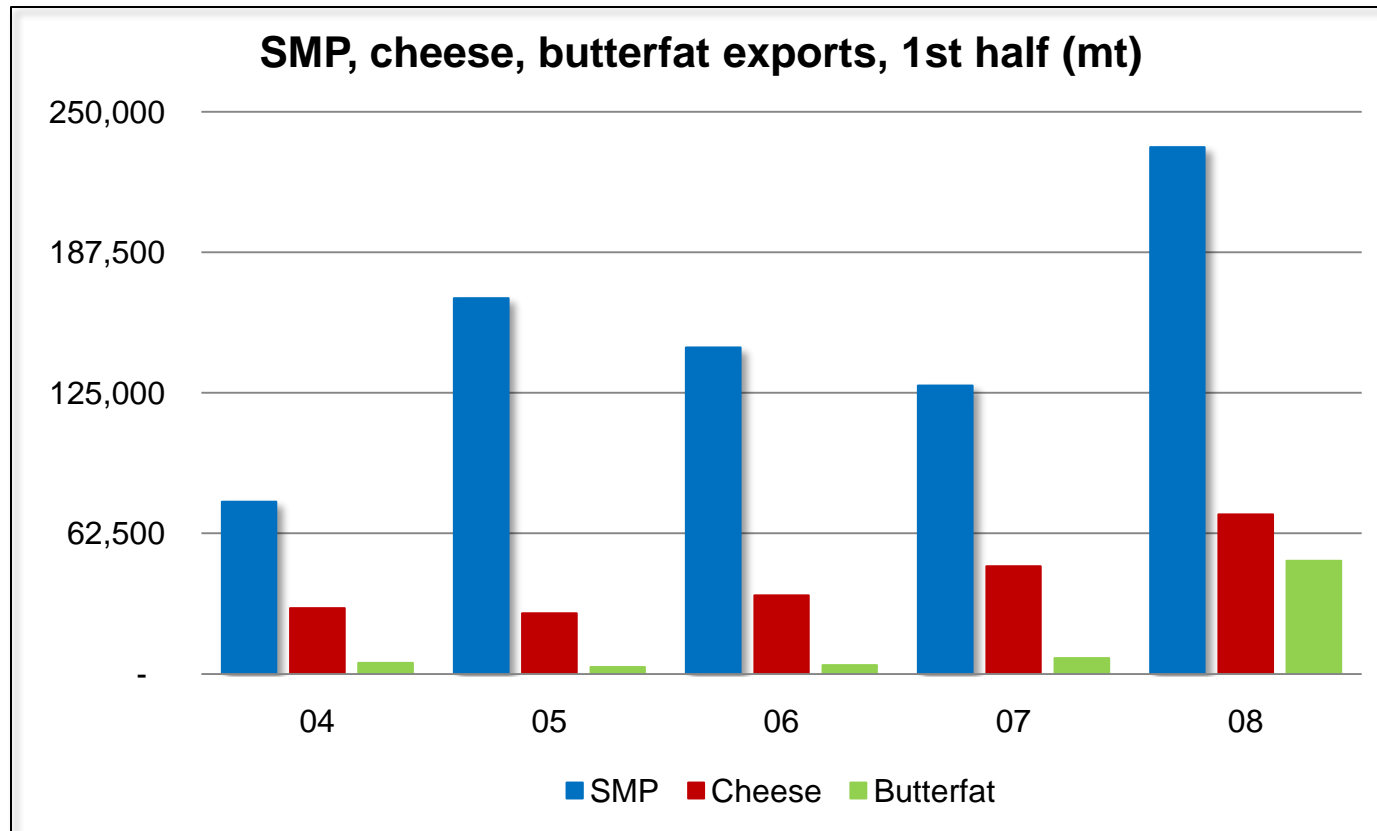


How We Got Here





Very Strong Exports in H1-2008





But Markets Turned at Mid-Year

MAY08 JUN JUL AUG SEPT OCT NOV DEC

Soaring food and fuel inflation

Strong milk production in EU, US

Milk production recovery in Oceania, South America

Demand pushback

Inventory build-up

Crash of oil markets

Global financial crisis

China melamine crisis

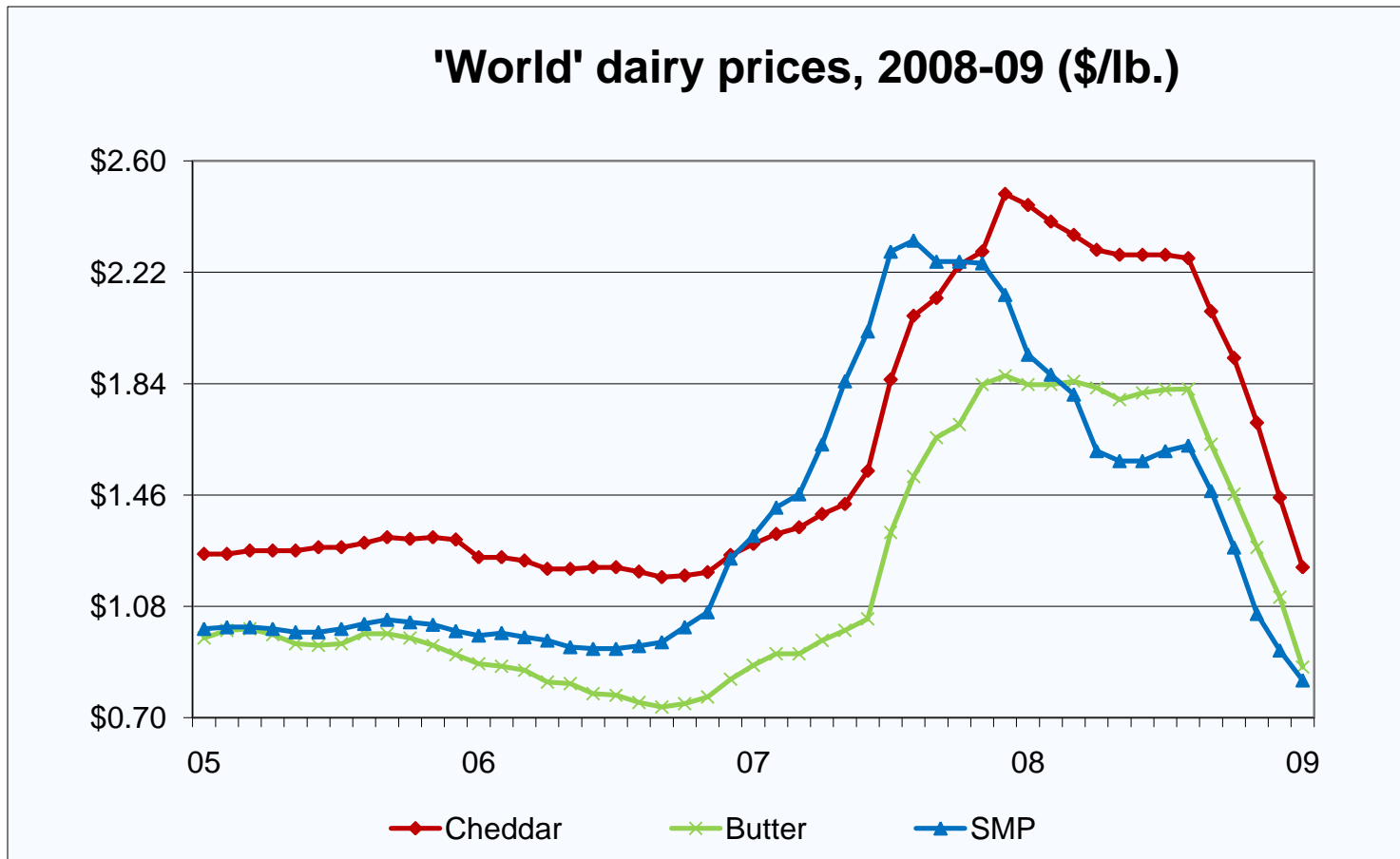
Credit freeze

Demand factors in red

Supply factors in gold



Where We're At Now



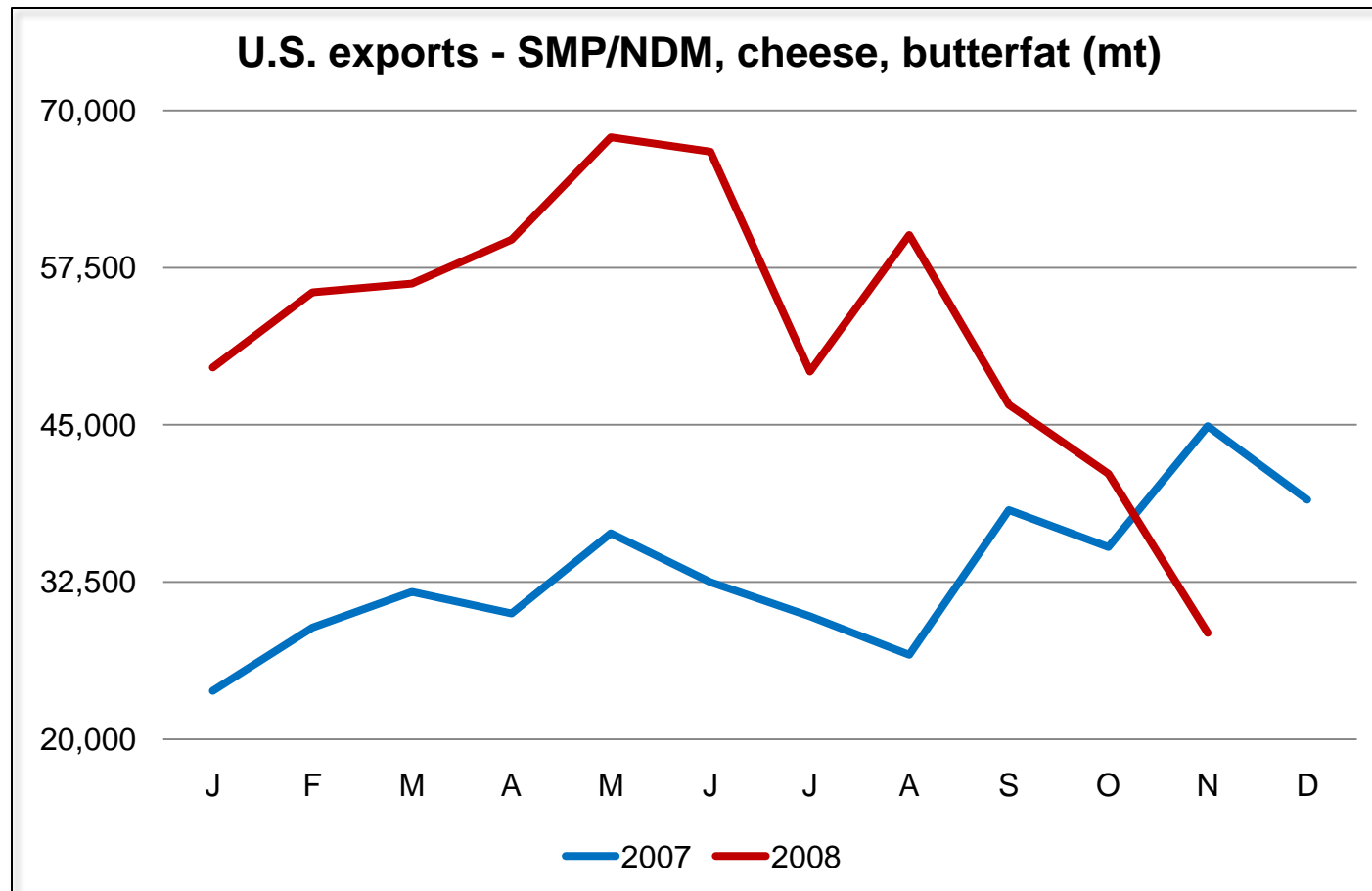
EU Reinstates Export Subsidies

- Brought back after 21 months on the shelf
- Artificially depress world markets, will prolong low prices





Exports Down in Fourth Quarter





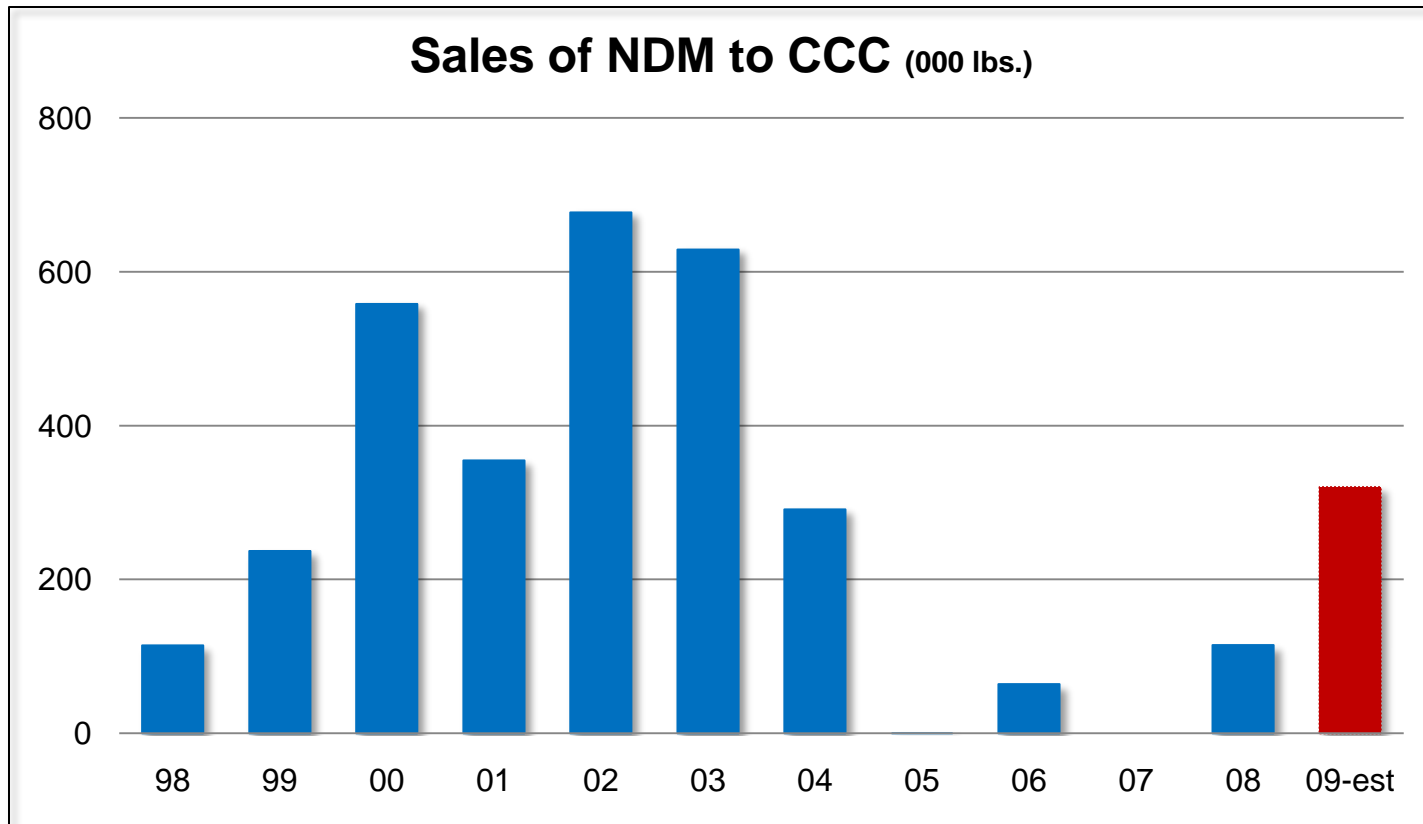
2009 Will Be Challenging

- Exports are expected to be lower in 2009
- Continued demand retrenchment
- Large NZ inventories
- Dairy recovery hinges on global economic recovery





Without Exports, Excess Moves to Gov't

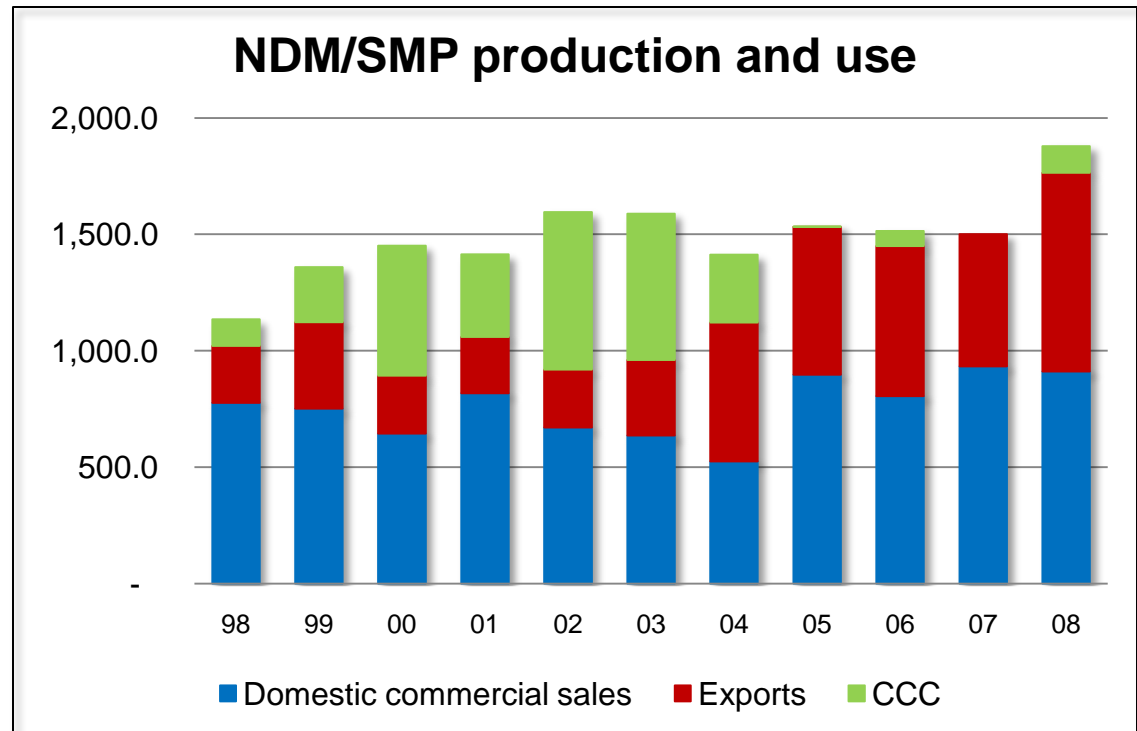


Source: USDA



The Math of NDM/SMP

- We make twice as much as we need for domestic commercial use
- If we don't export our excess, it must go to CCC





EU Subsidies a New Wrinkle

- EU can subsidize up to 600 million lbs. of SMP per year.
- Under DEIP, U.S. can subsidize 150 million lbs.



What USDEC is Doing



Marketing

- Ongoing trade servicing and applications work
- Individualized marketing consultations
- Gouda and other programs to meet unmet demand



Market Access & Regulatory Affairs

- Melamine testing program
- Daily member assistance



Member Relations

- Educate and motivate U.S. industry
- Enhanced communications
- Webinar, stakeholders call



Conclusions

- Turnaround depends on recovery of global recession
- Continue to push value-added products
- Long-term supply/demand fundamentals intact



Conclusions

- Still need exports: they enable us to grow our business
- USDEC prepared industry to move when markets needed product
- U.S. dairy producers will benefit when world markets come back





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Thank You



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