

Presentation to the Dairy Industry Advisory Committee

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April 14, 2010*



International Dairy Foods Association
Milk Industry Foundation
National Cheese Institute
International Ice Cream Association



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Today's US dairy industry is very different than when dairy policies were enacted



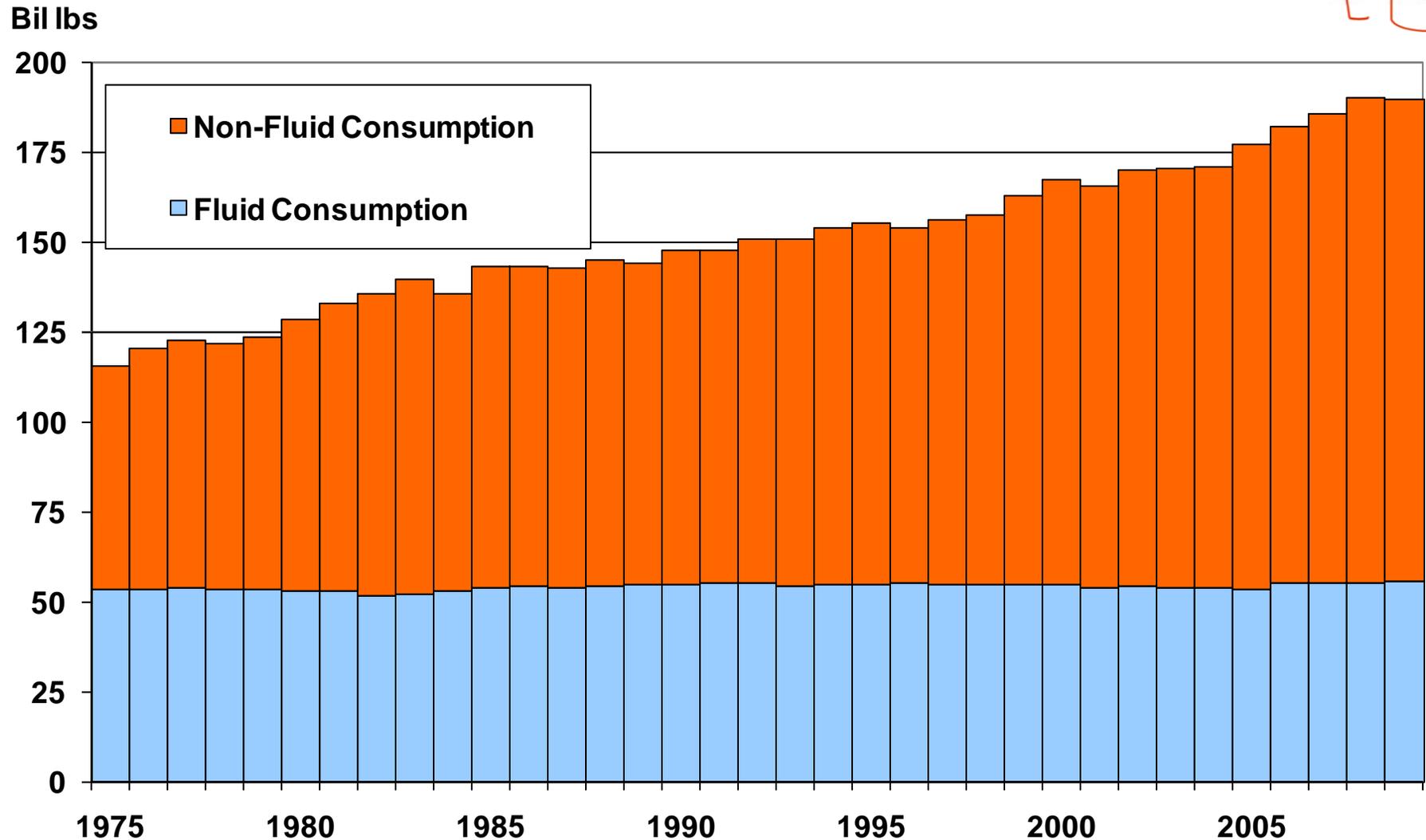
Year	Number of Farms with Cows	Number of Cows	Total Farm Milk Production	Number of Co-ops	Co-ops' Share of U.S. Milk	Number of Processing Plants
1940	4,663,431	22 mln.	120 bln.	2,270	48%	22,000
2008	67,000	9.2 mln.	189.98 bln.	155	84%	1,254



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Milk Production Continues to Grow While Fluid Product Use Does Not

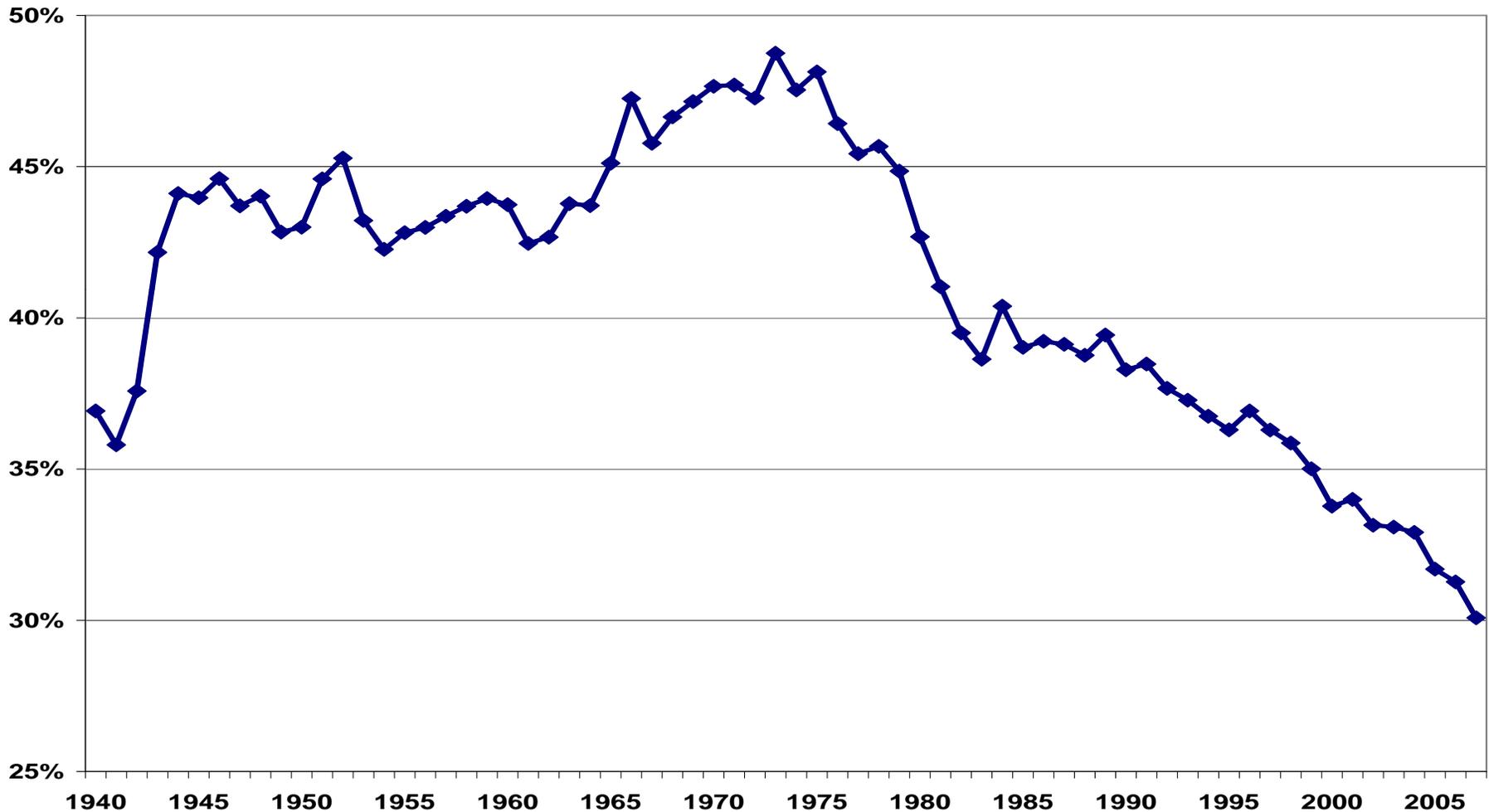


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Source: USDA

The percent of farm milk used in fluid milk products has declined for over 30 years



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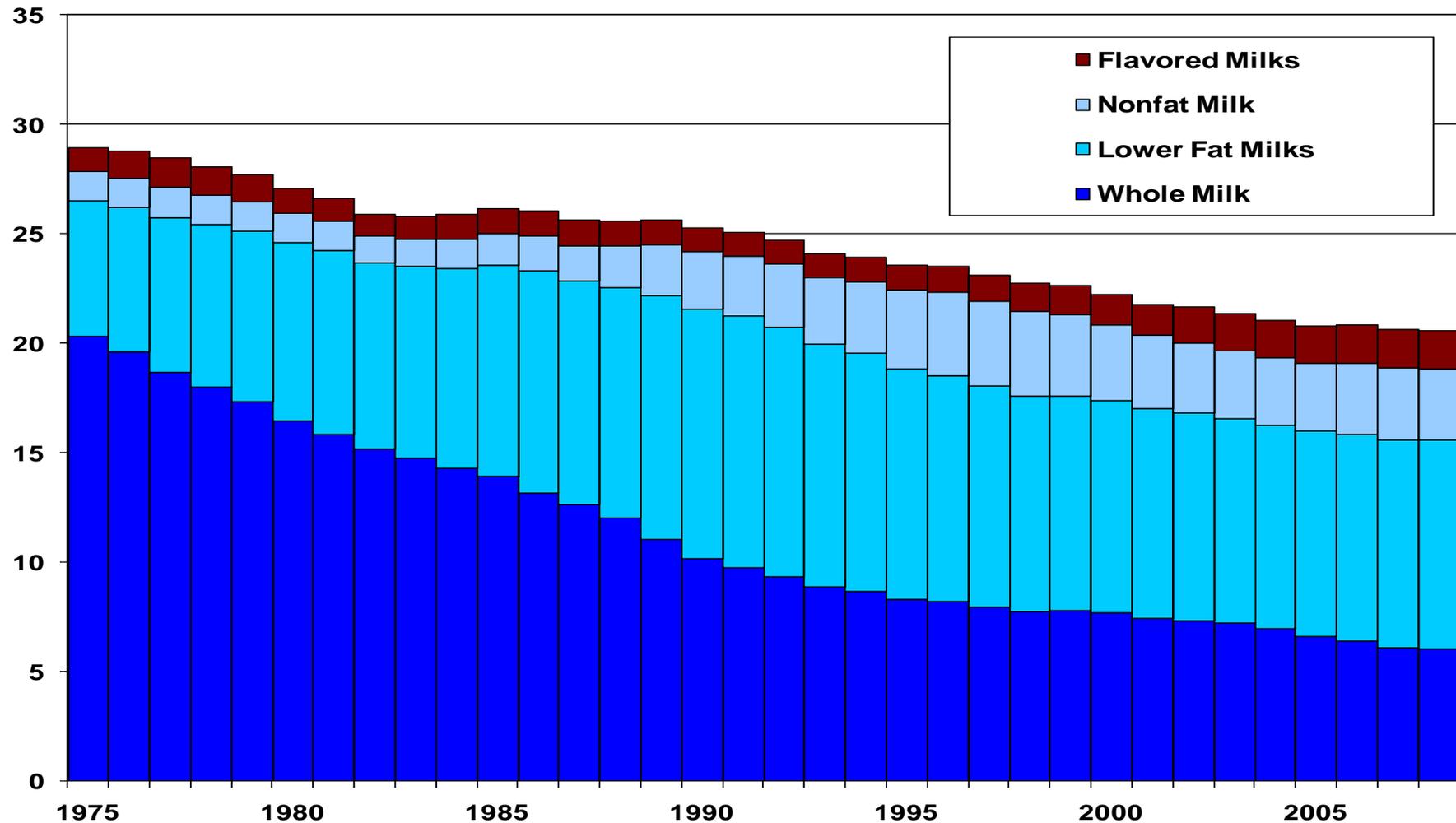
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Source: USDA

Per Capita Consumption of Fluid Milk Products in Long Term Decline



Gallons/Person

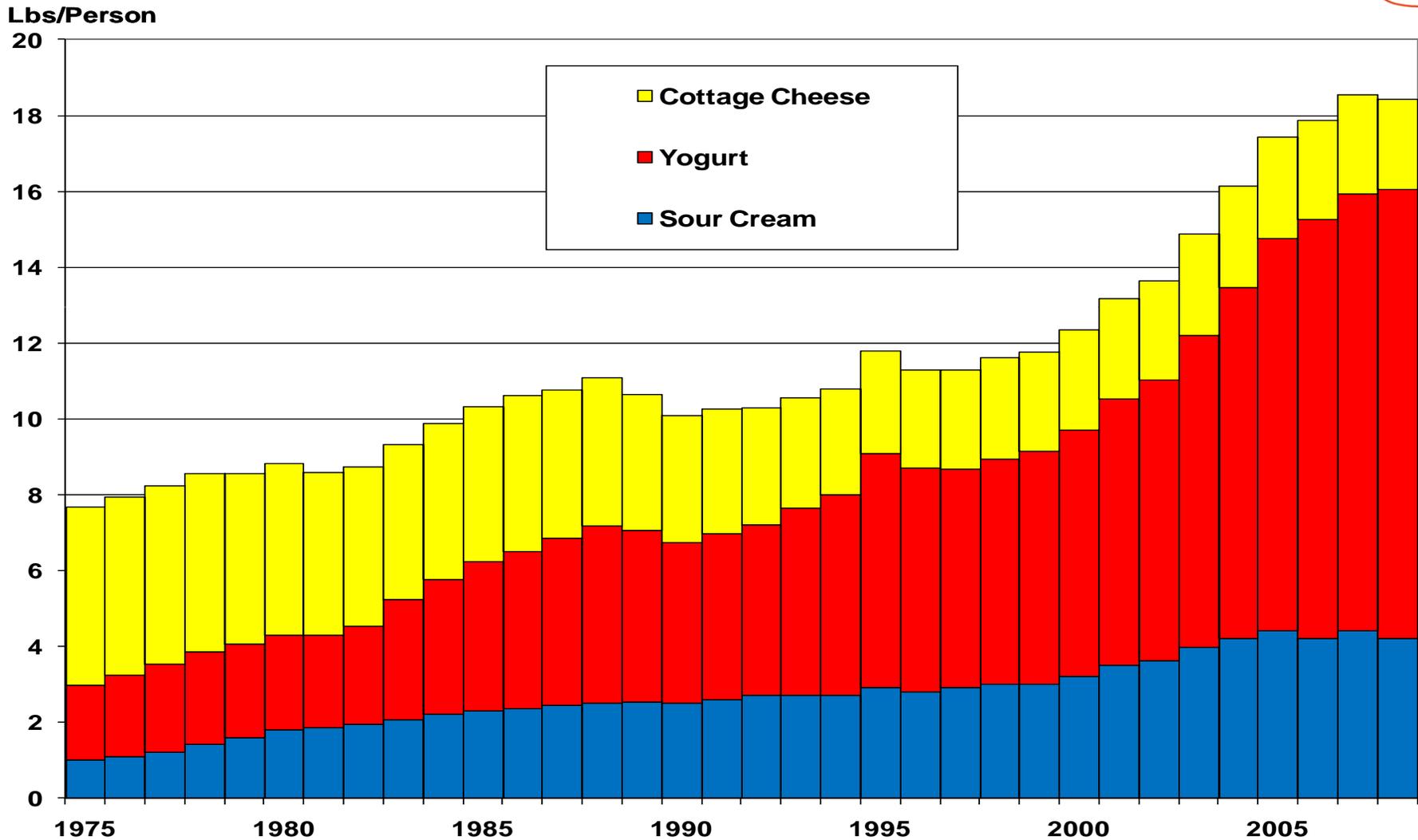


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Source: USDA, ERS

Thanks to yogurt, per capita production of cultured products is rising



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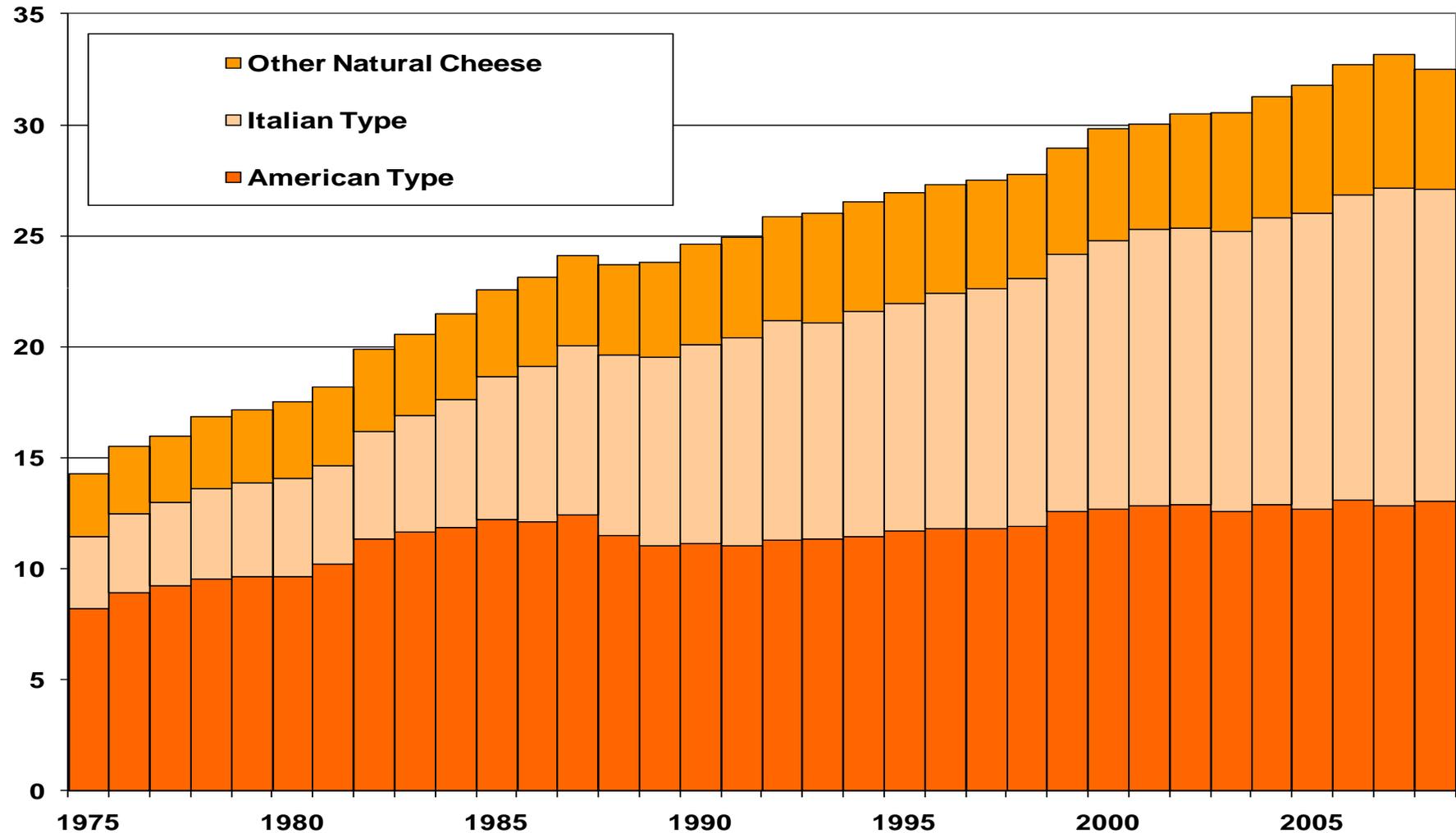
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Source: USDA, ERS

Per capita cheese consumption is growing, mostly for non-American types



Lbs/Person



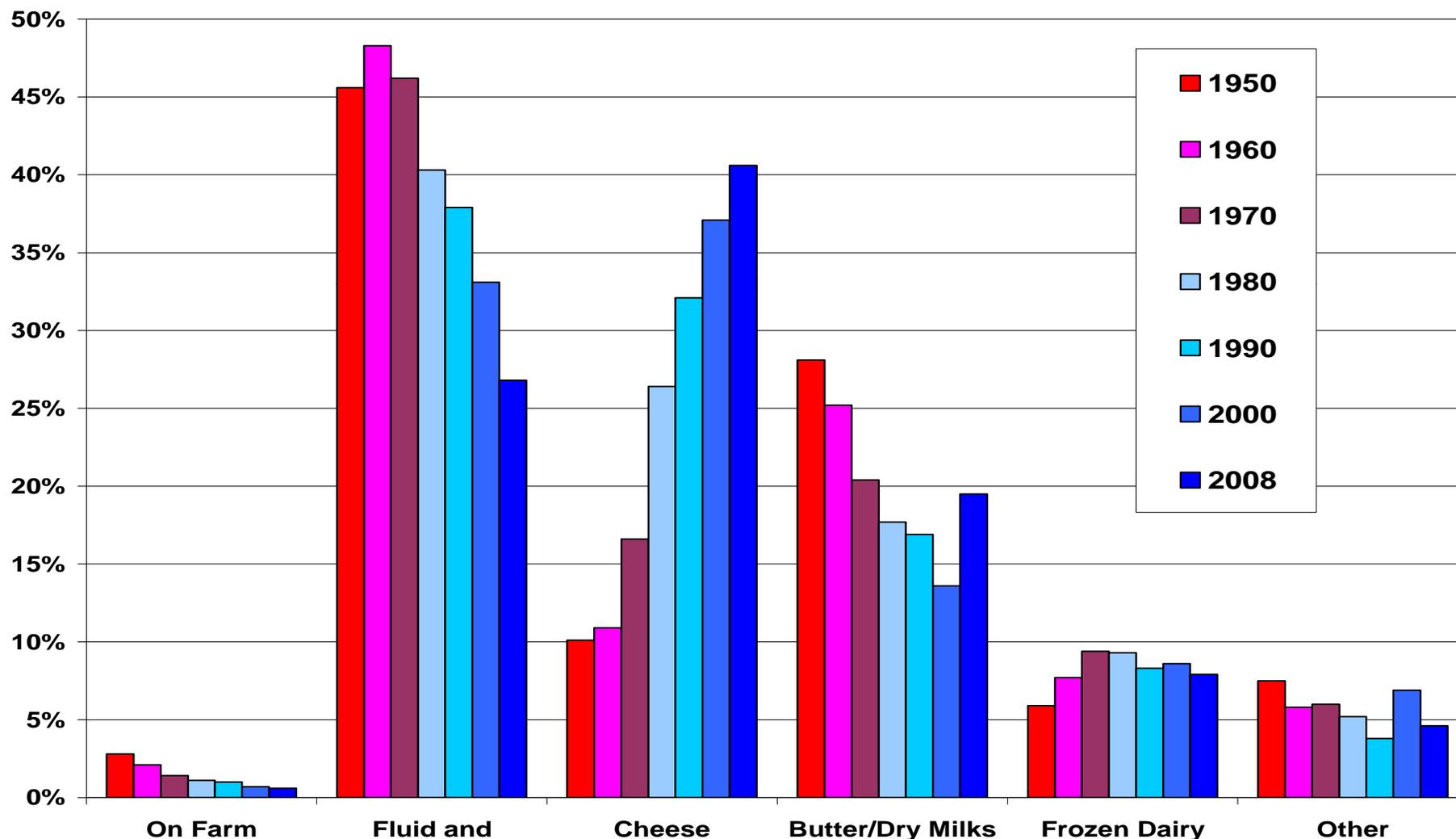
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Source: USDA, ERS



Long term growth for milk used in cheese, more recent growth in dry milks



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Source: USDA, NASS



Consumer perceptions changing



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Food 2020: trends and preferences



Consumers:

Care about how food is produced

Want healthier foods

Care about the cost

Don't want "processed" food

Want to support local farmers

Want a clean environment



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For us, that means understanding...



- **A new market mix**
- **Interest in locally grown products**
- **Consumer expectations for their health and well-being**
- **Consumer interest in sustainability**

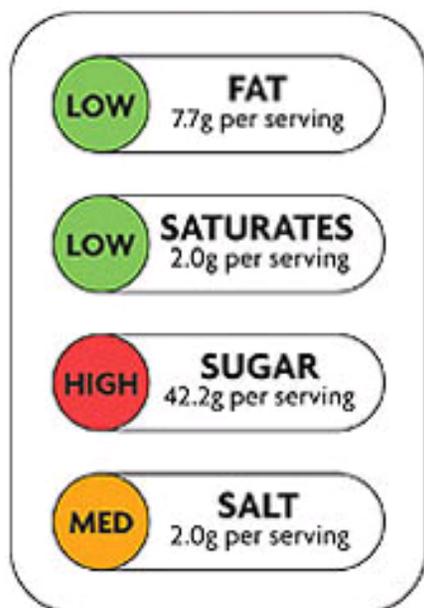


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Today's consumer sees dairy in a different light



Labels may call out what to avoid, instead of what's healthy

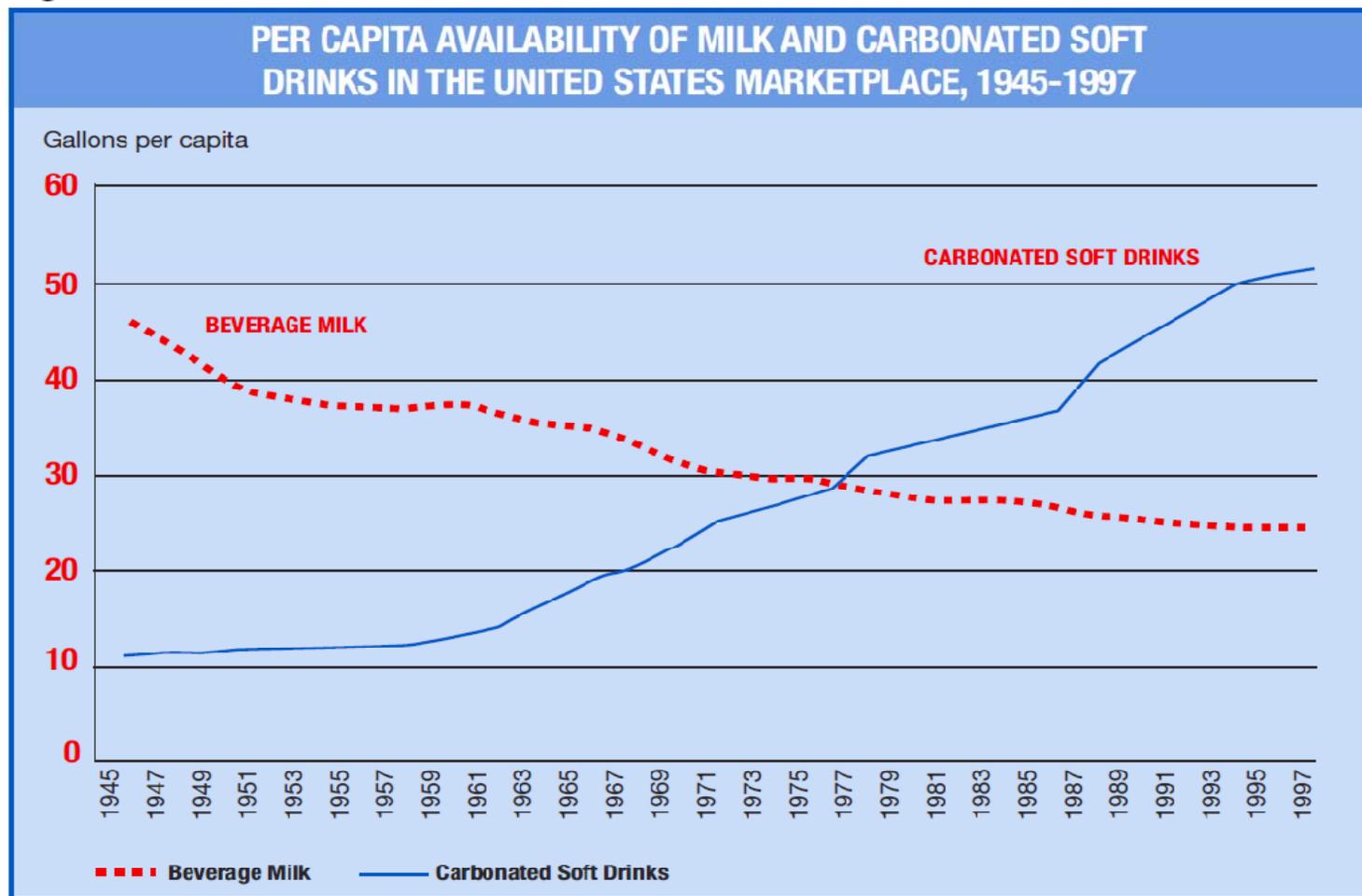
Consumers increasingly equate sustainable eating with eliminating meat and dairy





Competitiveness is the Key for Dairy

Figure 1



Source: Putnam, Gerrior 1999.²

Carbonated soft drinks include regular and diet soft drinks.



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Why Innovate?



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Protein ingredients in demand -- will dairy or other proteins serve that market?



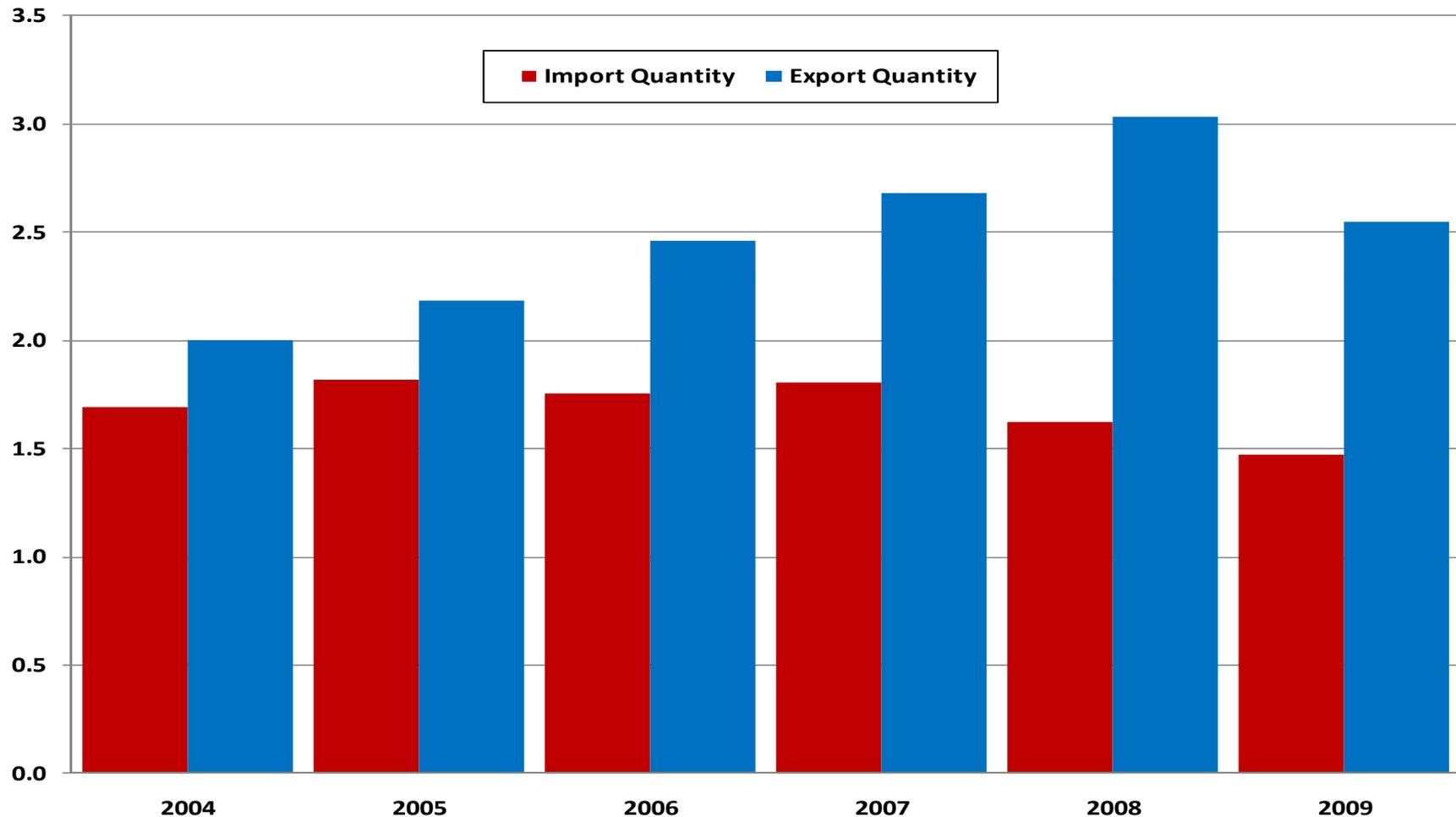
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The market for US dairy products has substantially broadened in scope



Billion Pounds



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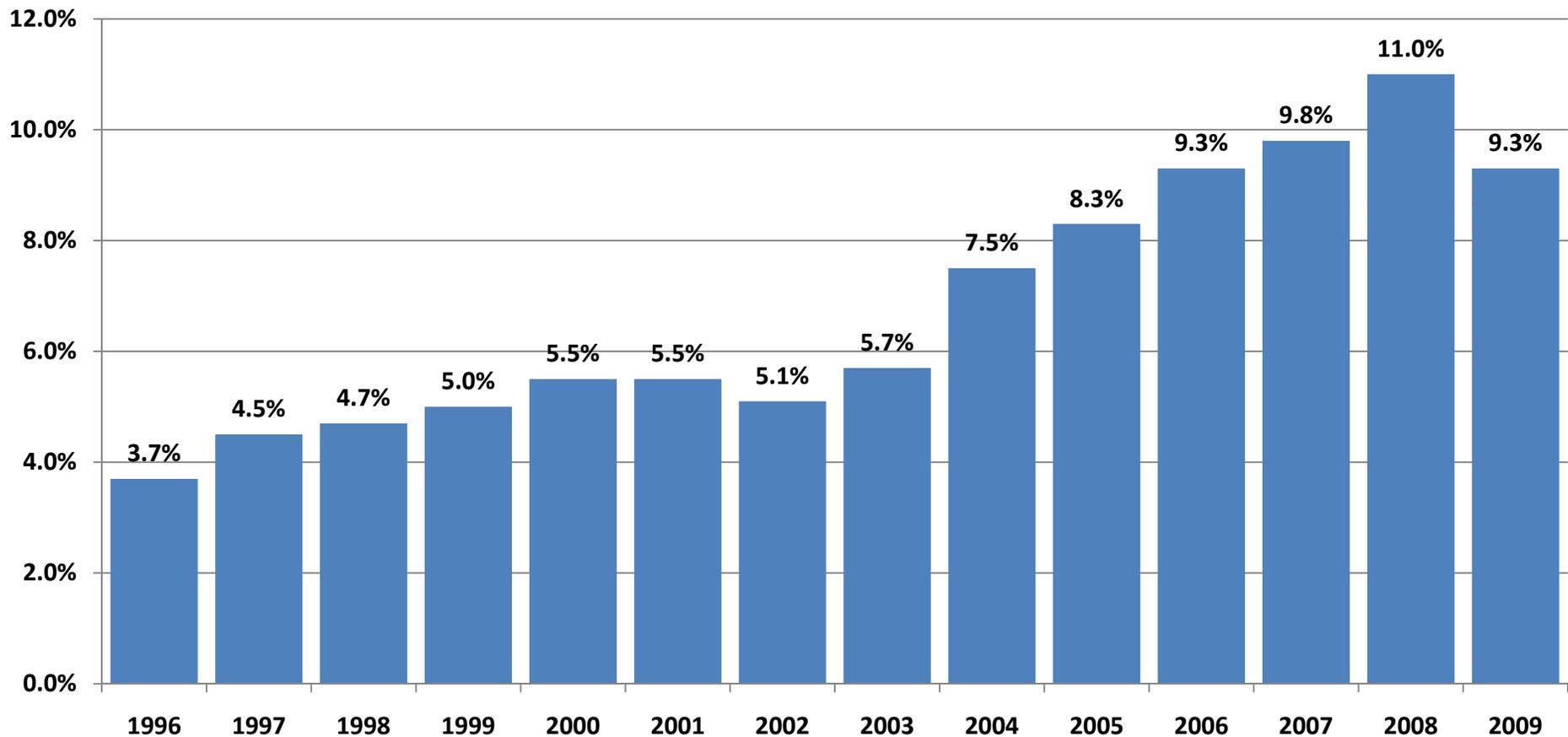
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Source: USDA, FAS

Without commercial exports, where would all our milk production go?



Exports as a Percentage of U.S. Milk Production
(total solids basis)



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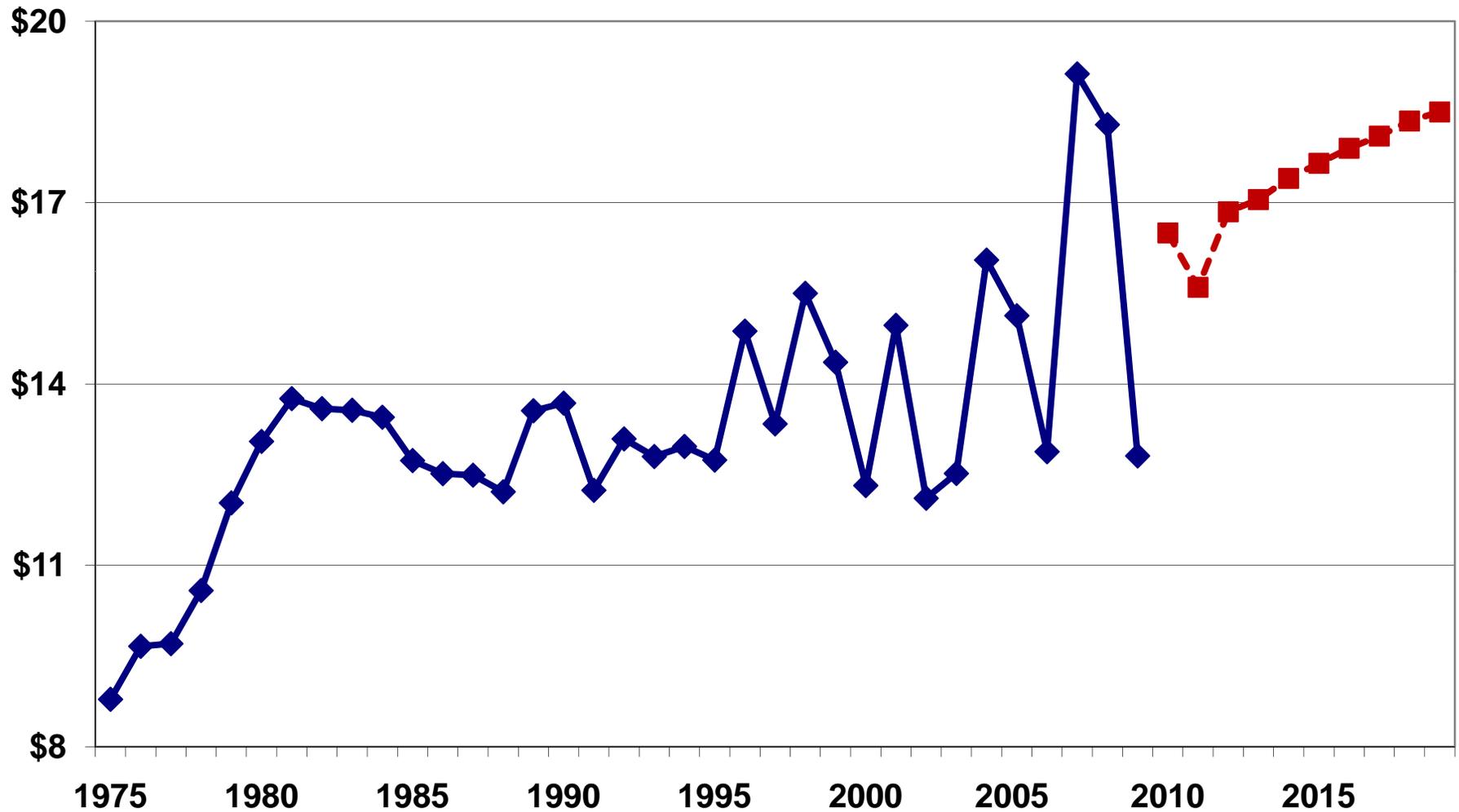
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Source: US Dairy Export Council



Greater price volatility is real, but so are higher annual average prices

\$/CWT

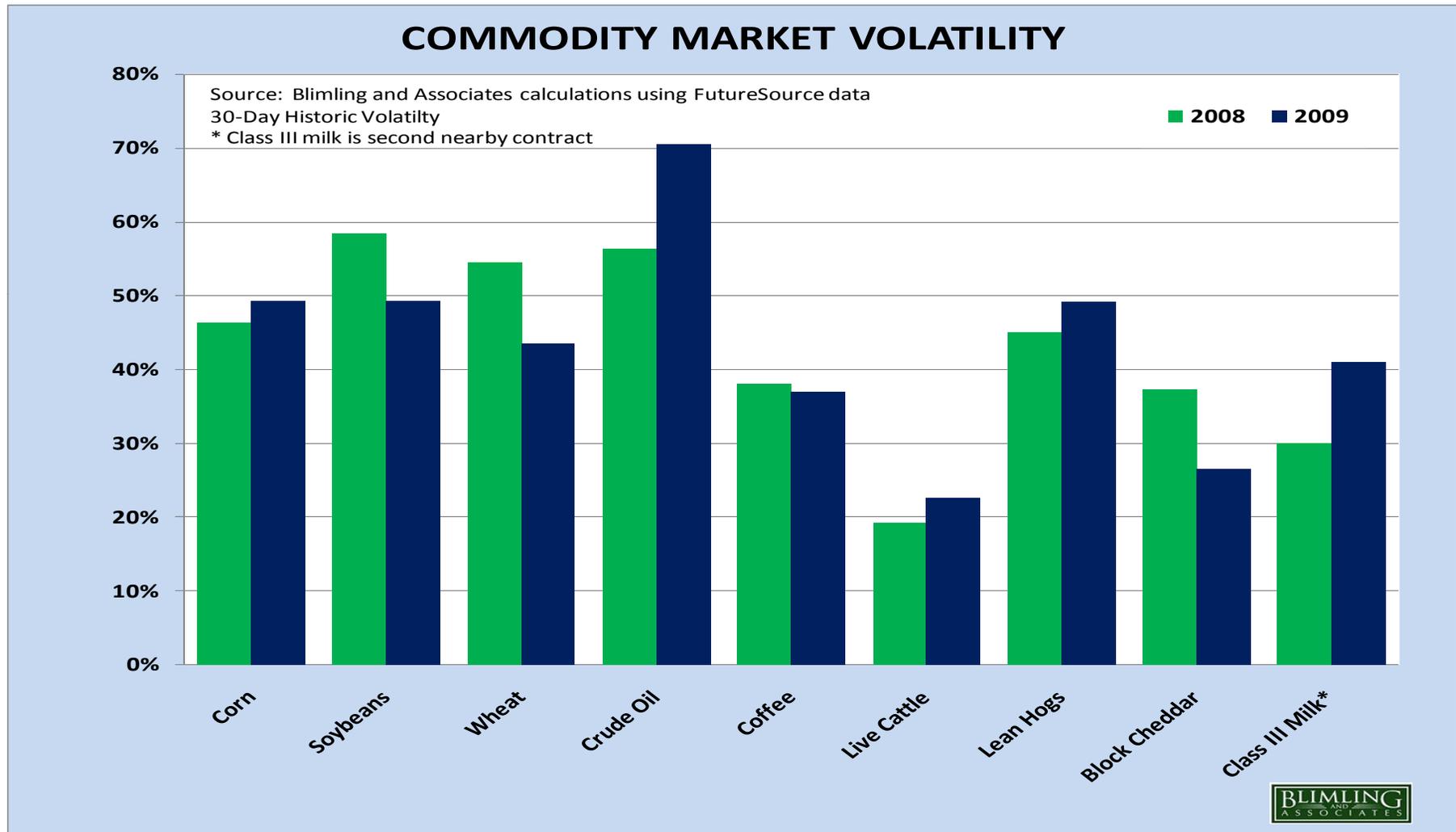


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Source: USDA, NASS and OCE

How does dairy volatility compare?



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Two approaches to manage price volatility

- **Government Intervention on a market-wide level**
 - *Regulated pricing schemes*
 - *Production quotas/supply management*
 - *Regional winners & losers*

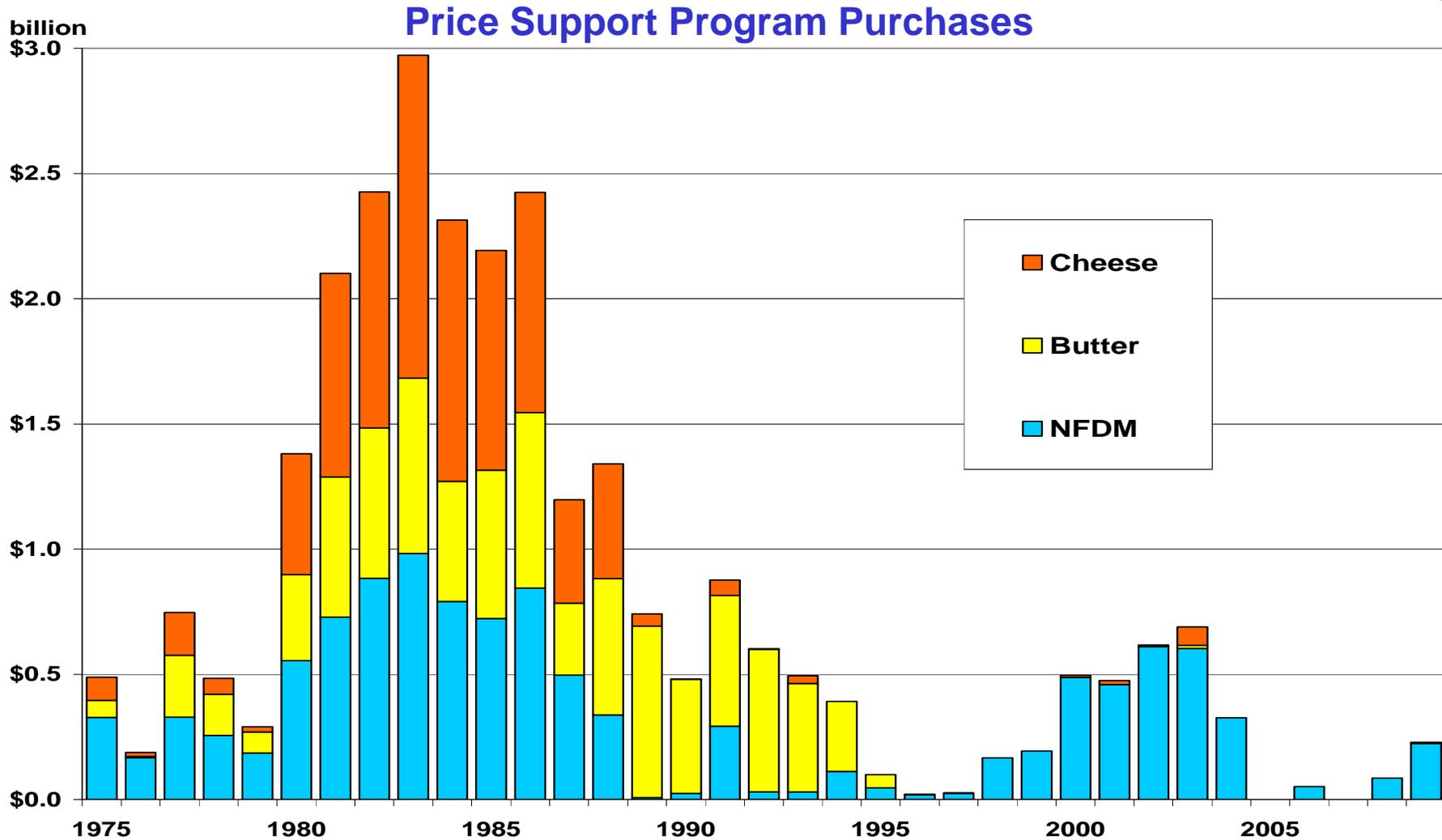
- **Farm and firms manage their own individual risk**
 - *Most agricultural commodities in the US*
 - *Government subsidized revenue protection*
 - *Innovation and dairy demand growth*



How do current dairy policies measure up?

- 1. Do current dairy policies allow the U.S. to utilize our abundant U.S. milk supply and provide a safety net so that producers can operate successful businesses?**
- 2. Do current dairy policies allow producers to manage price risk with the same or better tools available to other commodity sectors?**
- 3. Do current dairy policies encourage innovation and increase demand for the types of dairy products consumers want?**

Should we go back to spending billions to buy butter, cheese, and non fat dry milk?

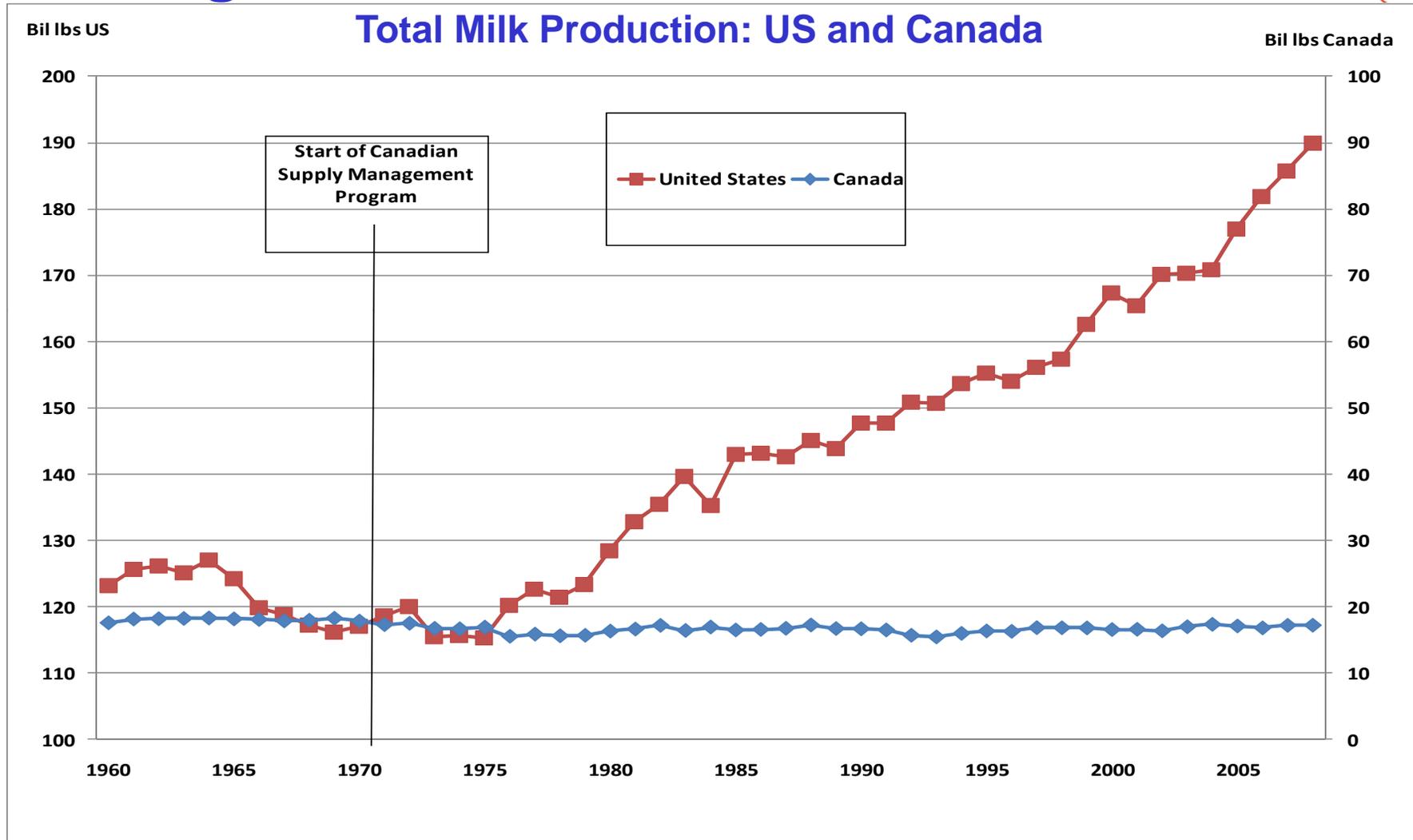


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Why are Canadian dairy companies moving south to invest?



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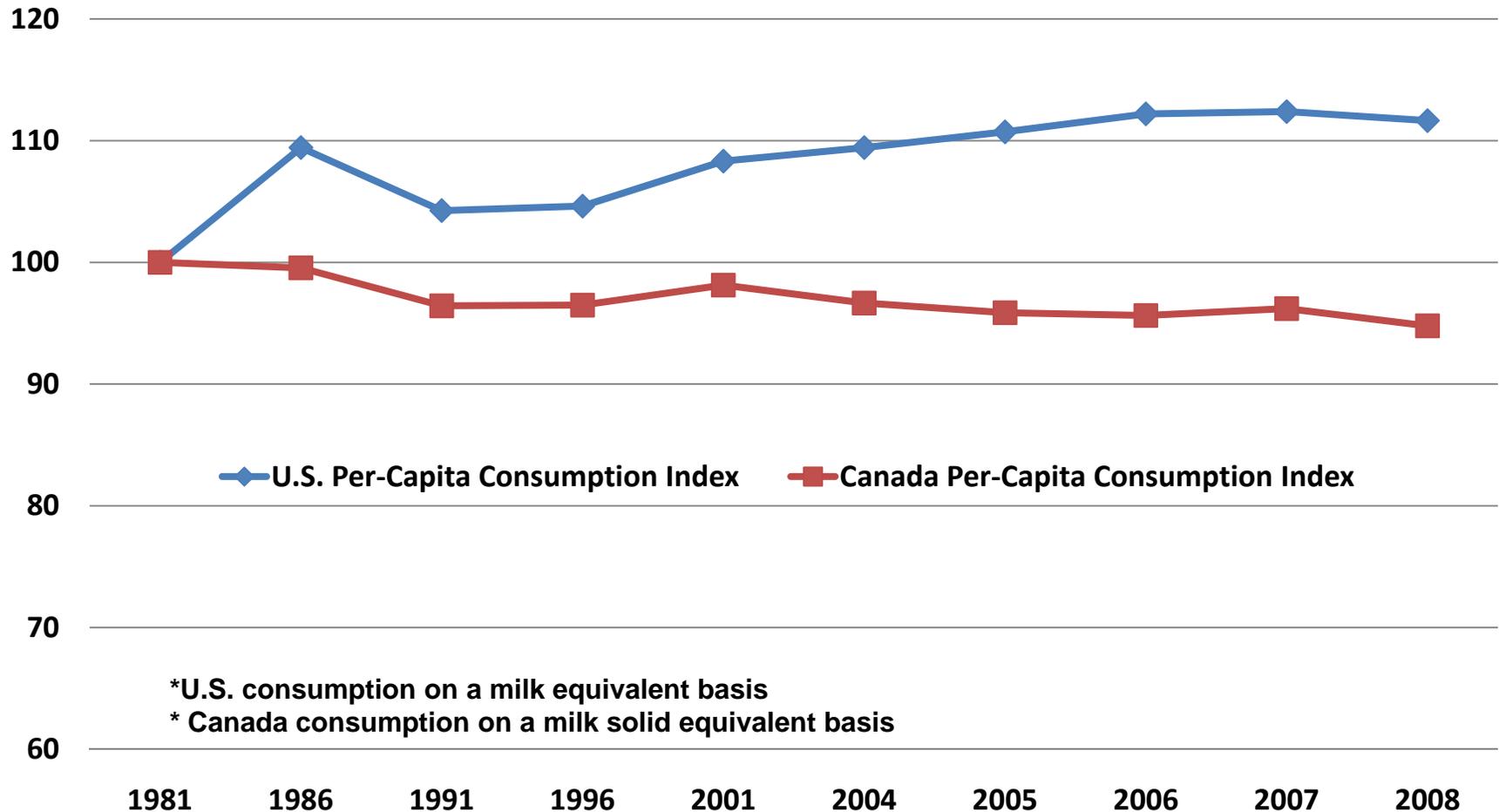
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Source: USDA and Statistics Canada

Canada per-capita consumption of dairy is declining while the U.S. continues to grow



Per-Capita Dairy Consumption Index



*U.S. consumption on a milk equivalent basis

* Canada consumption on a milk solid equivalent basis

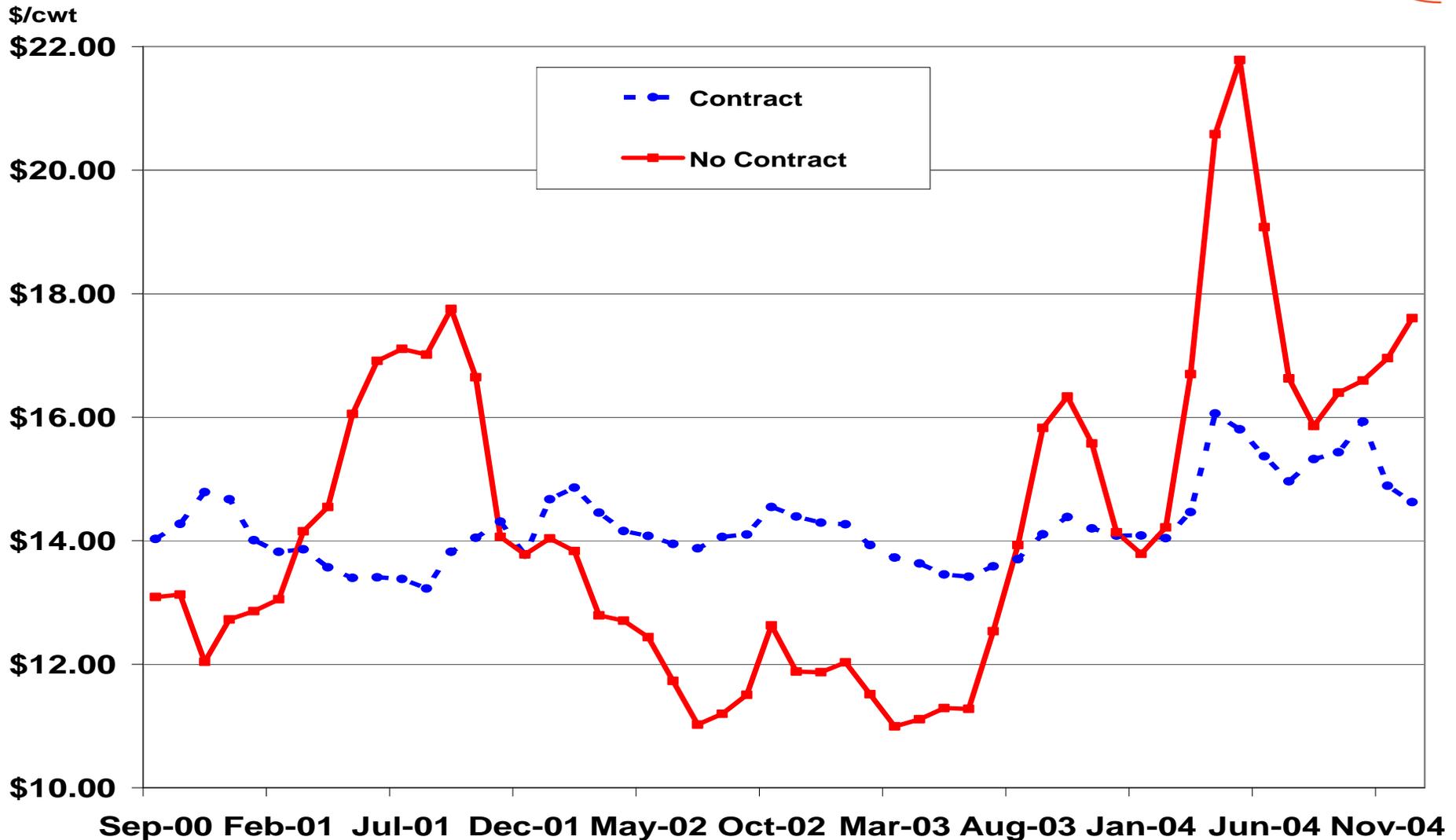


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Source: USDA and Statistics Canada

Dairy producers using forward contracts experienced less price volatility



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Source: USDA, AMS

Policy should support efforts to help dairy industry use risk management tools



- **Subsidize dairy focused insurance programs**
 - *No USDA premium subsidies offered for LGM-Dairy*
- **Other ag commodities receive high premium subsidies**
 - *Total premium subsidies were \$5.42 billion in 2009*
 - *Corn: \$2.04 billion*
 - *Soybeans: \$1.19 billion*
 - *Wheat: \$1.09 billion*
- **Dairy options pilot program**
 - *Something similar needed today*

Greater use of risk management tools is hindered by existing dairy policies



- **Complex price formulas and classified pricing under Federal Orders make it more difficult for farmers and processors to use risk management tools**
- **Dairy product price support program encourages investment in and production of low-value, commodity dairy products, rather than value-added dairy products increasingly demanded by the market**
- **Livestock Gross Margin Insurance for dairy would benefit from some changes and some funding**

Increasing the support prices had little if any positive impact



- **Announced July 31, 2009**
 - *In following months more sales of product to the government were cancelled at the prior lower price than there were new sales at the higher price*

- **Product purchased has been coming back on the market**
 - *Recent sales of NFDM for animal feed use competes directly with sales of whey products for that market*

- **Government owned stocks hang over the marketplace**
 - *International prices slow to increase in recent months due to USDA and EU stocks purchased in 2009*



Elements needed for future dairy policy

- **A safety net for dairy farmers that works and minimizes market distortions**
 - *Insurance program instead of price supports and MILC*
- **The ability for dairy buyers and sellers to forward contract like every other commodity**
- **Simplify milk price regulations to increase ability to innovate and compete both domestically and globally**



Summary points

- **The dairy industry has changed significantly since the Federal Order and Dairy Price Support programs were implemented in the 1930's and 1940's**
- **There is great potential for growth in demand for US dairy products both here and abroad**
- **But we face real marketplace challenges and must find the best ways to position our products, innovate and meet new market opportunities**
- **Our current policies and programs limit opportunities for growth rather than encourage it**



**The dairy industry can be most successful
by working together to develop a new farm
safety net for dairy that works in all market
conditions coupled with tools to manage
price volatility**

Thank you!

**Connie Tipton
President & CEO
International Dairy Foods Association**

www.idfa.org



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