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# ***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**

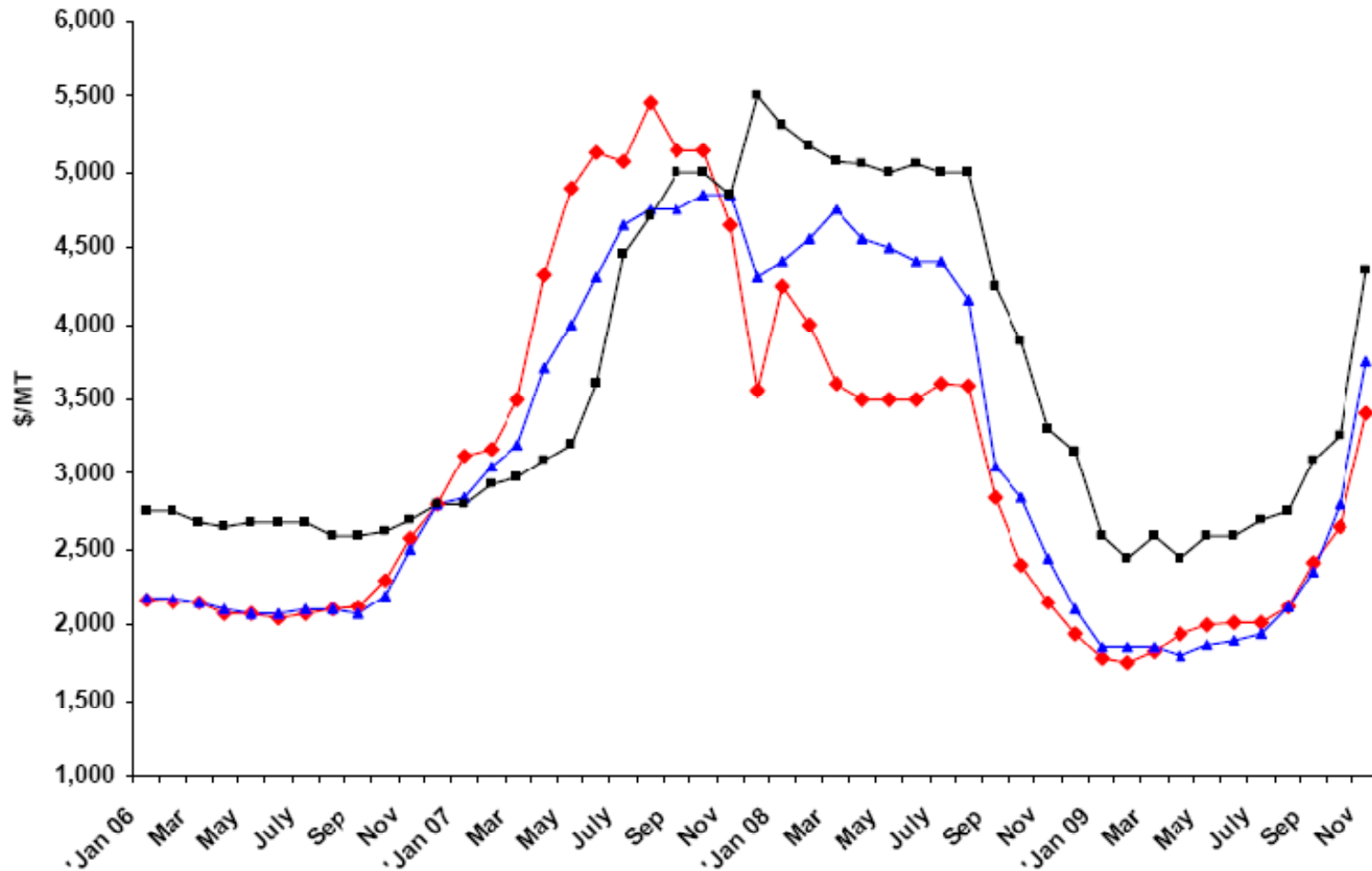
# Not so Fine in 2009

- **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.™***
- ***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!