PERSPECTIVES ON U.S. DAIRY POLICY

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Leprino Foods Company
www.leprinofoods.com
1950s

- 60+ year old privately held company
- Leading producer of mozzarella cheese, lactose, and whey proteins.
- Company built upon innovation; holds over 50 patents for mozzarella cheese-making technologies.

2000s

- Cheese customers include leading pizza, food service, food manufacturing, and retail marketers.
- Lactose and whey customers include leading infant formula and nutrition companies.
• Headquartered in Denver, CO
• 10 U.S. plants
• 2 U.K. plants through strategic partnership with Glanbia Ltd.
• Singapore Business Hub opened in 2011 to support U.S. exports to the Asia-Pacific Region.
THE NEED FOR 21ST CENTURY DAIRY POLICY

• The U.S. only represents 5% of World Consumers
• Implementation of trade disciplines through the Uruguay round of the WTO and increasing animal protein demand in emerging economies have made the U.S. a viable platform from which to serve the global marketplace.

Source: Index Mundi
U.S. vs. WORLD NONFAT DRY MILK PRICE
JANUARY 1999 – FEBRUARY 2013

Dollars per Pound

U.S. NDM   Oceania SMP

Jan-99    Jan-00    Jan-01    Jan-02    Jan-03    Jan-04    Jan-05    Jan-06    Jan-07    Jan-08    Jan-09    Jan-10    Jan-11    Jan-12    Jan-13
U.S. vs. WORLD BUTTER PRICE
JANUARY 1999 – FEBRUARY 2013
US Dairy Trade as a Percent of Milk Production

13.4%
**KEY CONCLUSIONS OF BAIN & COMPANY DAIRY GLOBALIZATION REFRESH**

**US dairy is uniquely positioned** to seize on long-term export growth

**Updated dairy policies are needed**, however, before the US can fully benefit

- Reform regulated milk pricing systems to encourage creation of a forward/futures market to manage price volatility
- Reform price support measures to remove the government as a “backstop” customer and improve incentives for product innovation
- Develop **better mechanisms for risk management** to mitigate the impact of volatility
- **Adapt standards of identity** to encourage innovation and better meet consumer needs
- **Direct milk to the best/most profitable use**

**The reforms**, whatever their details, **must enable key outcomes**

- Enable less confusing, more flexible pricing
- Achieve greater predictability of price and supply within a contracted period, thereby decreasing the cost of volatility to producer, processor and end-users
- Create market incentives to better align product portfolios with customer needs
- Increase investment over the long term in innovation, safety and quality to achieve value-added growth

Source: Bain & Company: Dairy Globalization Refresh; Innovation Center for U.S. Dairy
INDUSTRY AND COMPANY-SPECIFIC ACTIONS WILL BE REQUIRED TO MAKE THE U.S. A ‘CONSISTENT SUPPLIER’

- Invest in cross-border commercial capabilities/partnerships
- Develop capabilities to package/manufacture high value-added products to meet international standards
- Develop mechanisms for risk management/reduction of volatility
- Reform regulated milk pricing systems (Federal and State) and price support
- Develop sales/marketing capabilities
- Develop ability to deliver customer product specifications
- Product & technology innovation (possible with financial incentives)
- Build on existing food safety assurances and traceability as a competitive strength
- Continue pursuit of trade treaties that provide net export benefits
- Export Marketing Board

Priority:
- High
- Low

Cost and productivity

Collective industry

Source: Bain & Company: Dairy Globalization Refresh; Innovation Center for U.S. Dairy
• Changes in dairy farm safety net
  – Replaces Dairy Product Support Program and MILC with Margin Insurance
  – Eligibility for Margin Insurance coverage contingent upon dairy’s participation in “Dairy Market Stabilization”
PERSPECTIVES ON DAIRY MARKET STABILIZATION PROGRAM

- Increases risk of milk production expansion by diverting as much as 8% of producer’s milk income to U.S. treasury.
- Increases risk of developing committed exports due to potential of being priced out of markets.
- Reduces U.S. dairy’s credibility as serious committed supplier to international buyers.
THE BASE ELECTION CONUNDRUM

• For Market Stabilization, producers elect method for calculating base annually
  – vs. same month prior year
  – vs. three months preceding program being triggered

• Normal seasonality put producers who elect preceding three months at risk.

• Changes in feedstuffs and weather-related productivity put those w/ prior year elections at risk.
Dairy farmers serving deficit markets (whether regionally deficit or product deficit) subject to penalties despite growth of market demand for their milk.

Mixed opinions regarding impact on volatility

- SMT perspective: Volatility will likely increase due to time lag between farm stress and implementation of program.
Thank you!