



PERSPECTIVES ON U.S. DAIRY POLICY

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A WORLD LEADER IN DAIRY INGREDIENTS



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.

LOCATIONS



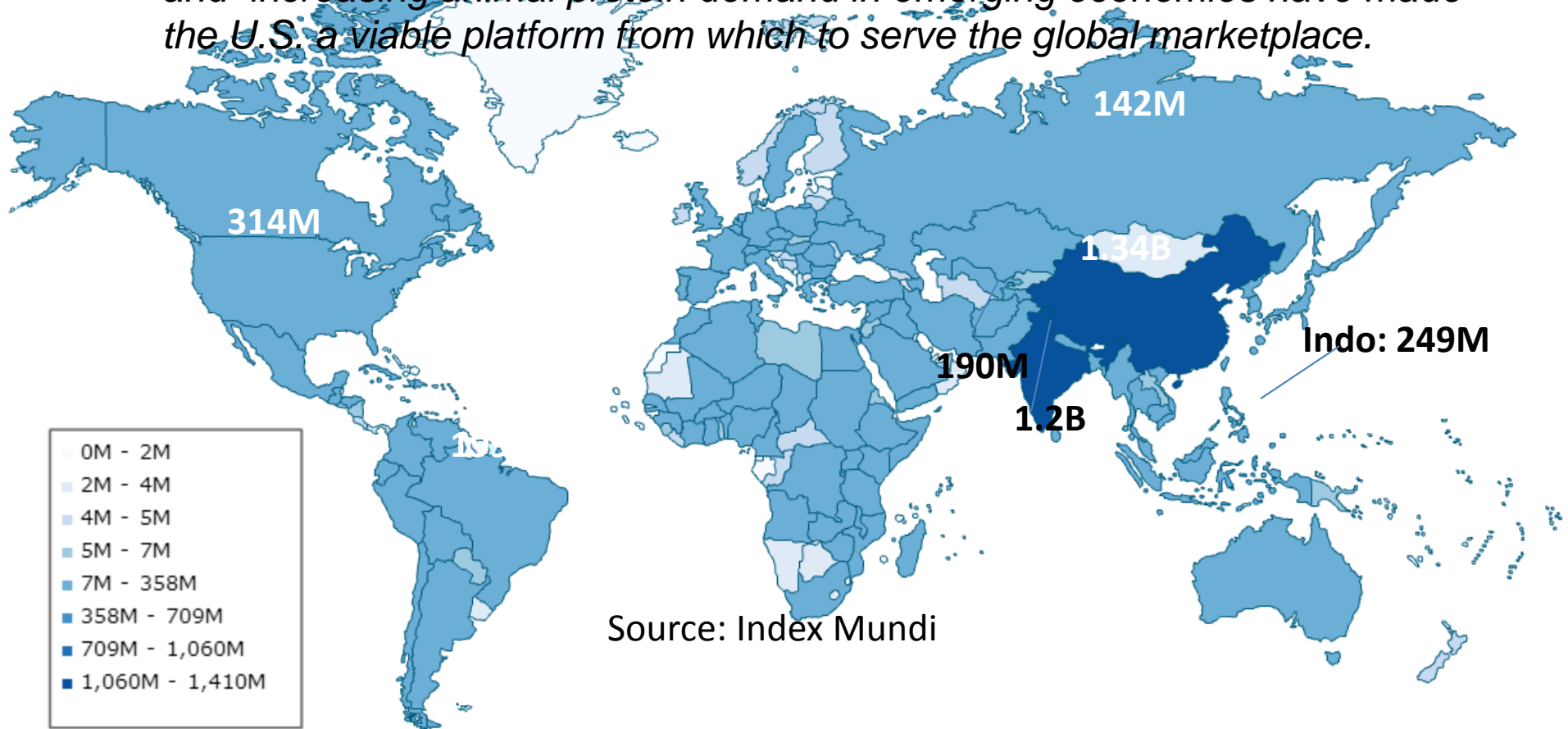
- Headquartered in Denver, CO
- 10 U.S. plants
- 2 U.K. plants through strategic partnership with Glanbia Ltd.
- Singapore Business Hub opened in 2011 to support U.S. exports to the Asia-Pacific Region.



THE NEED FOR 21ST CENTURY DAIRY POLICY

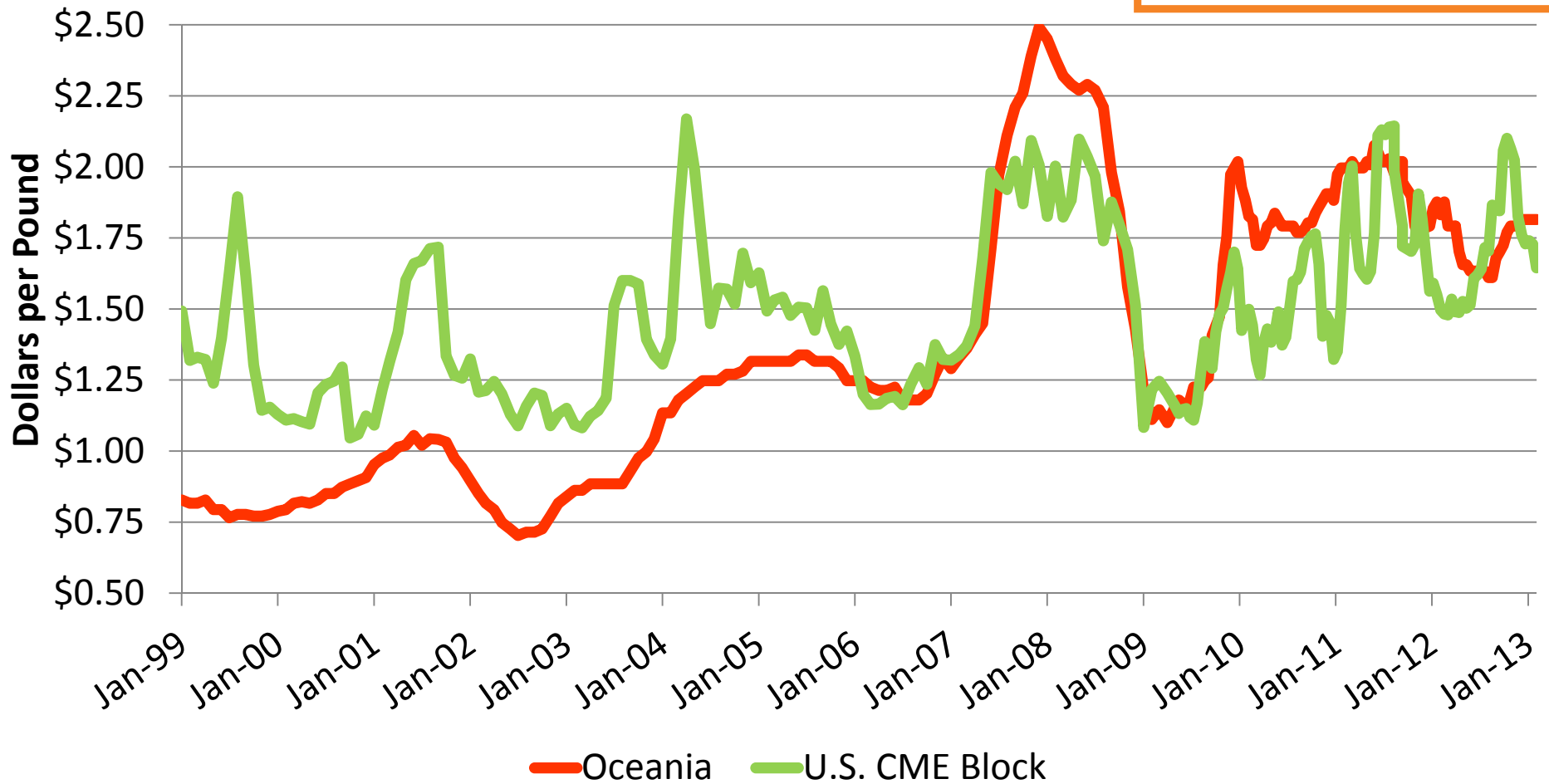


- *The U.S. only represents 5% of World Consumers*
- *Implementation of trade disciplines through the Uruguay round of the WTO and increasing animal protein demand in emerging economies have made the U.S. a viable platform from which to serve the global marketplace.*



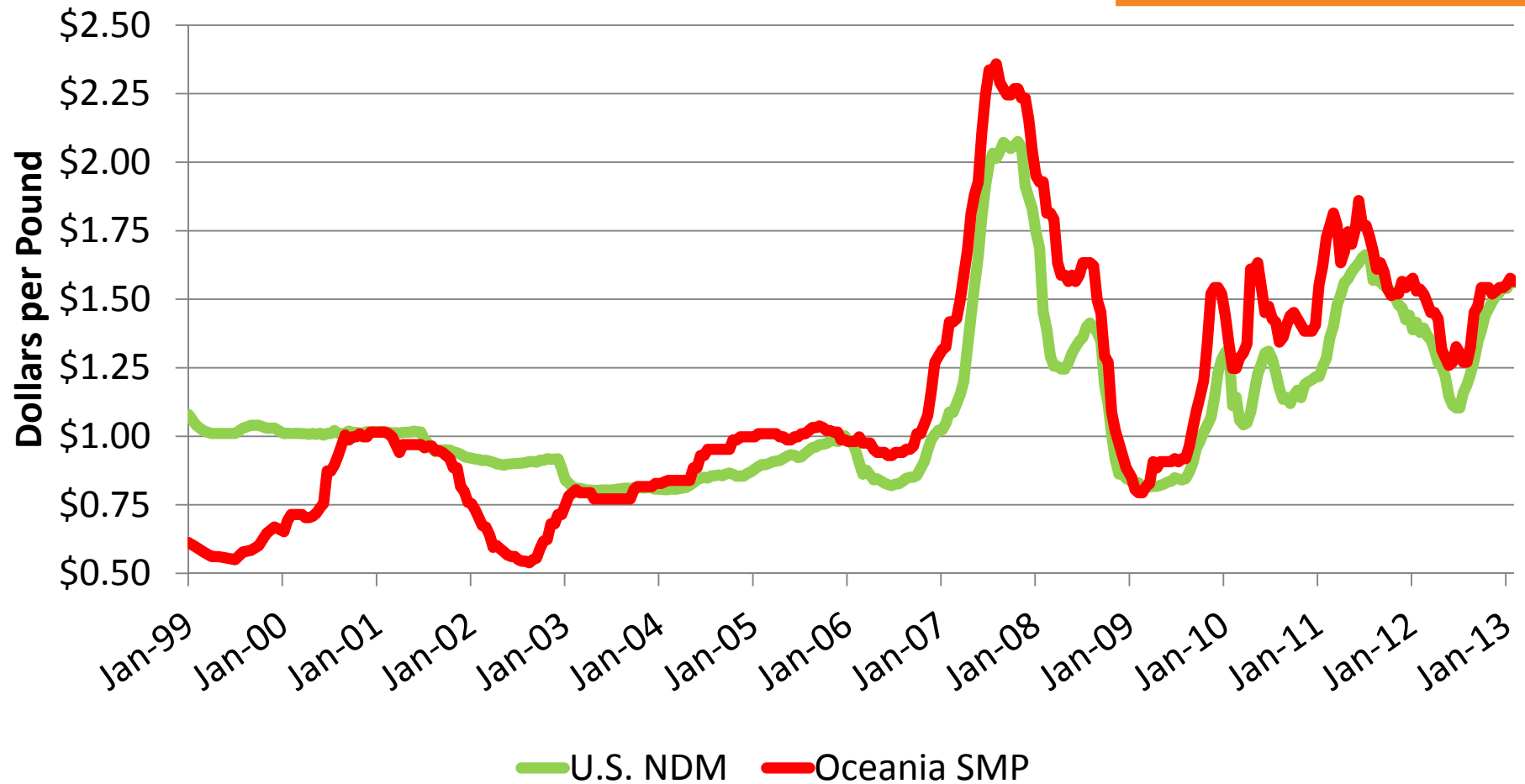
U.S. vs. WORLD CHEDDAR PRICE

JANUARY 1999 – FEBRUARY 2013



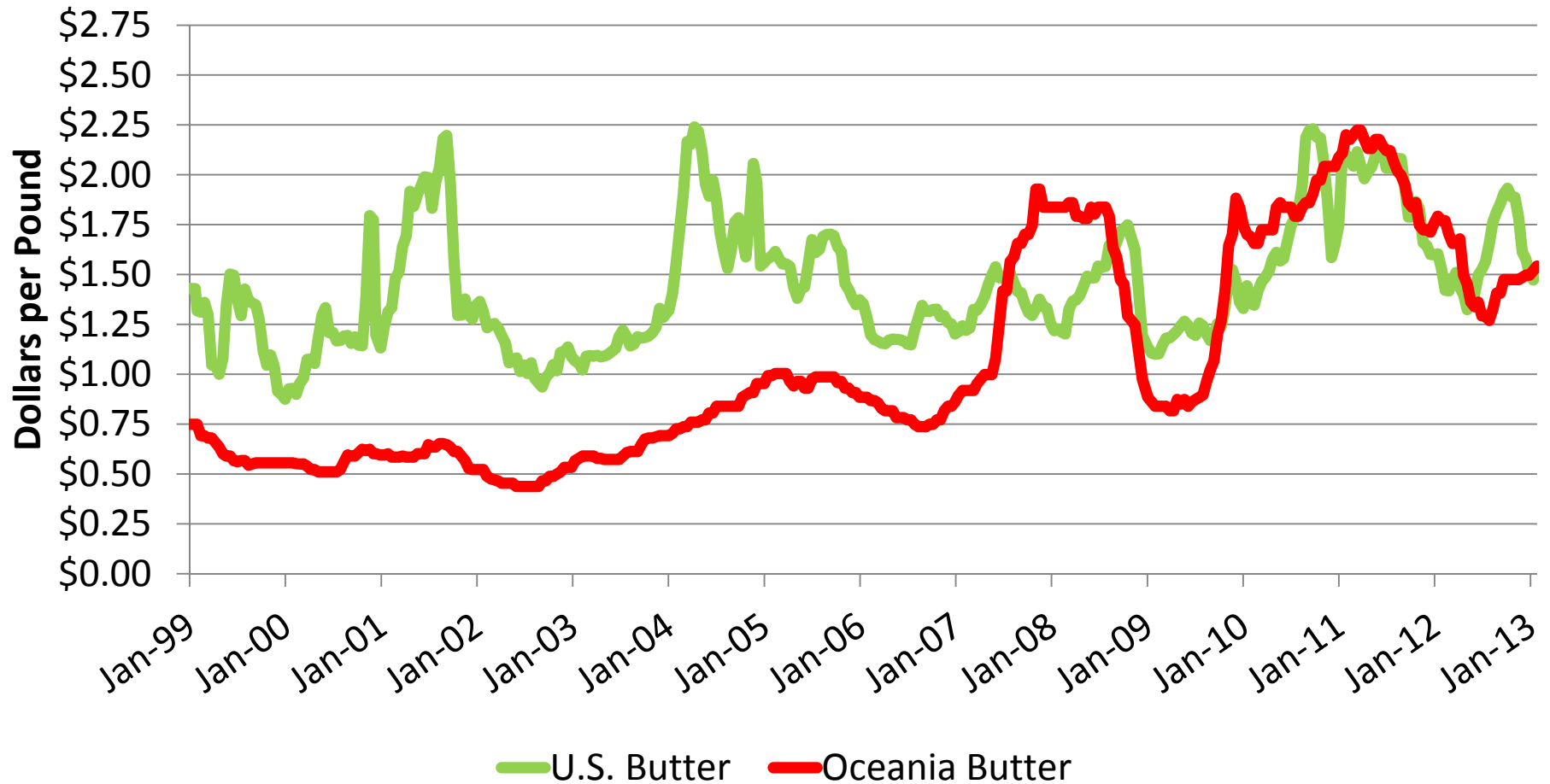
U.S. vs. WORLD NONFAT DRY MILK PRICE

JANUARY 1999 – FEBRUARY 2013

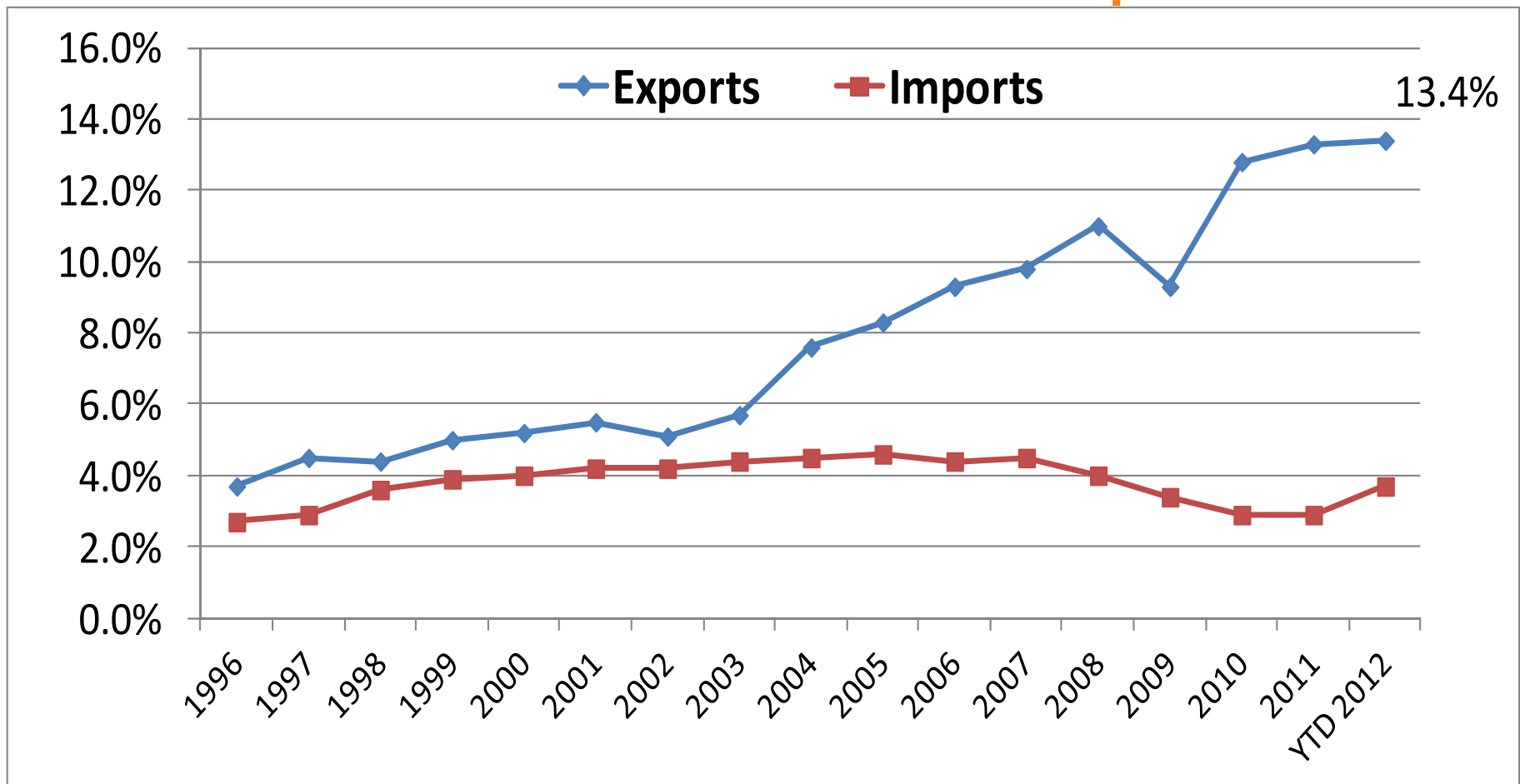


U.S. vs. WORLD BUTTER PRICE

JANUARY 1999 – FEBRUARY 2013



US Dairy Trade as a Percent of Milk Production



KEY CONCLUSIONS OF BAIN & COMPANY DAIRY GLOBALIZATION REFRESH



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

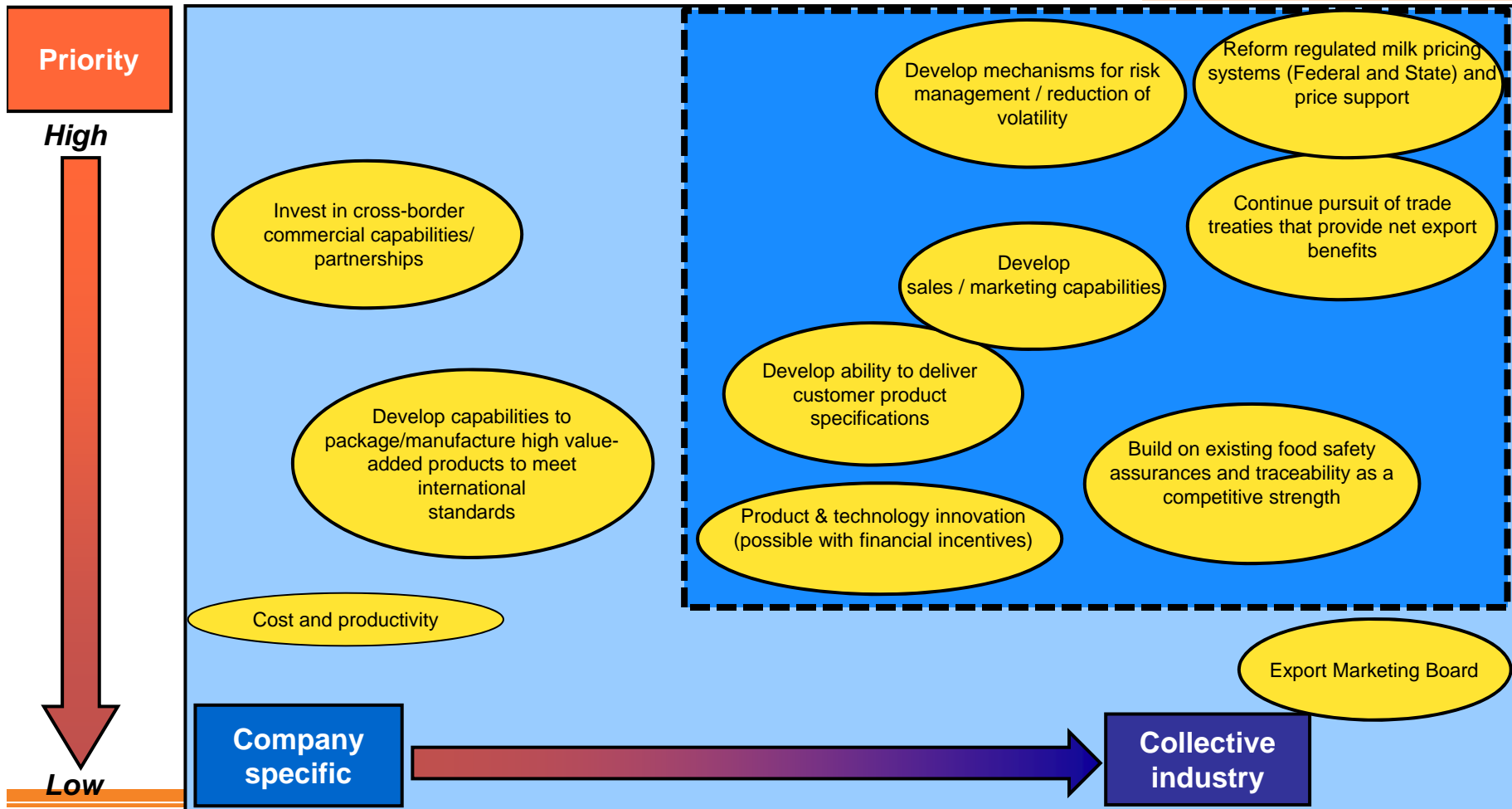
Updated dairy policies are needed, however, before the US can fully benefit

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

- **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**

- 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

INDUSTRY AND COMPANY-SPECIFIC ACTIONS WILL BE REQUIRED TO MAKE THE U.S. A 'CONSISTENT SUPPLIER'



Source: Bain & Company: Dairy Globalization Refresh; Innovation Center for U.S. Dairy

KEY 2012 FARM BILL PROVISIONS



- 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



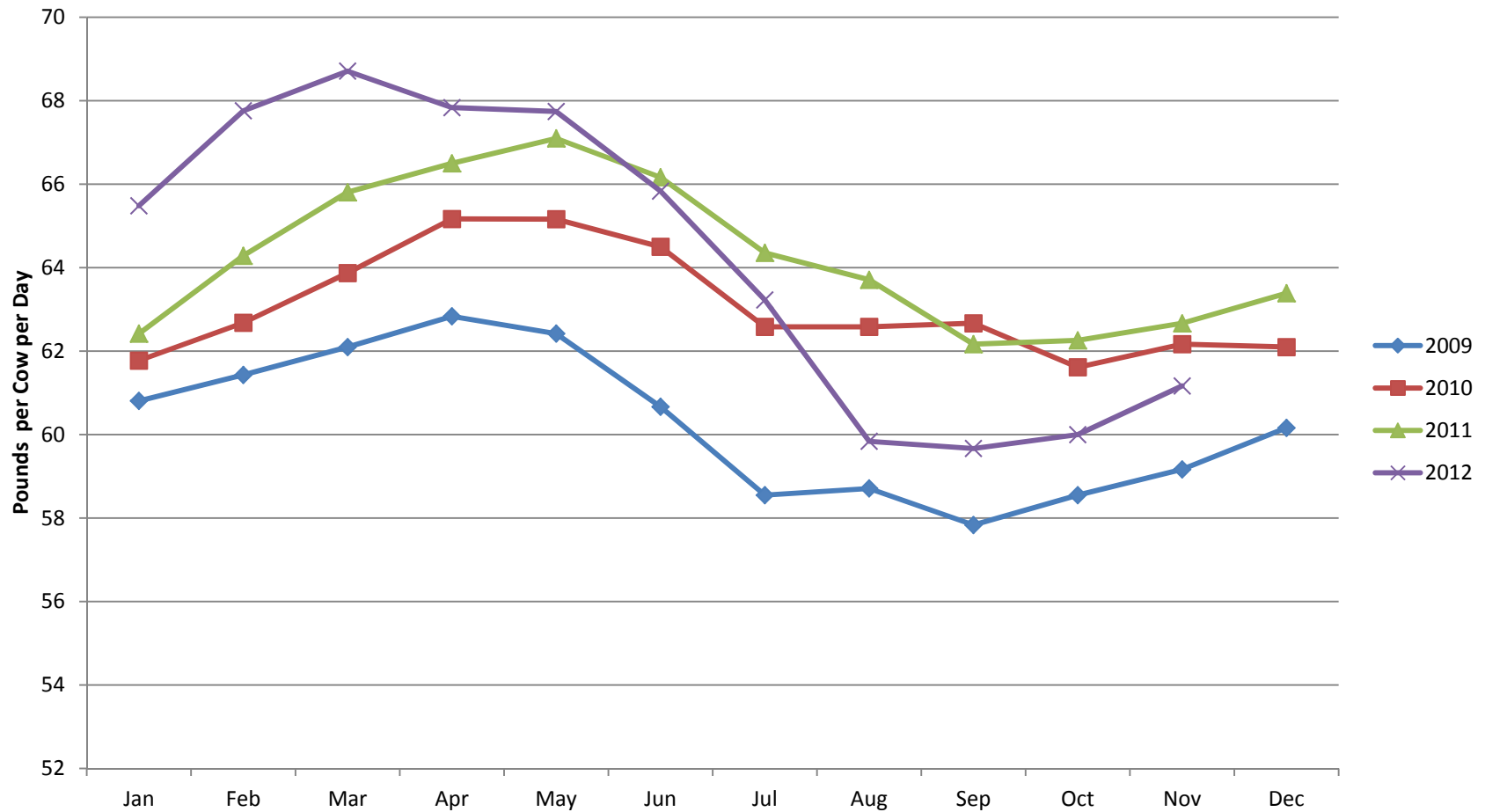
- Increases risk of milk production expansion by diverting as much as 8% of producer's milk income to U.S. treasury.
- Increases risk of developing committed exports due to potential of being priced out of markets.
- Reduces U.S. dairy's credibility as serious committed supplier to international buyers.

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.

FLORIDA MILK PER COW



PERSPECTIVES ON DAIRY MARKET STABILIZATION PROGRAM



- 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!