



# GLOBAL DAIRY OUTLOOK

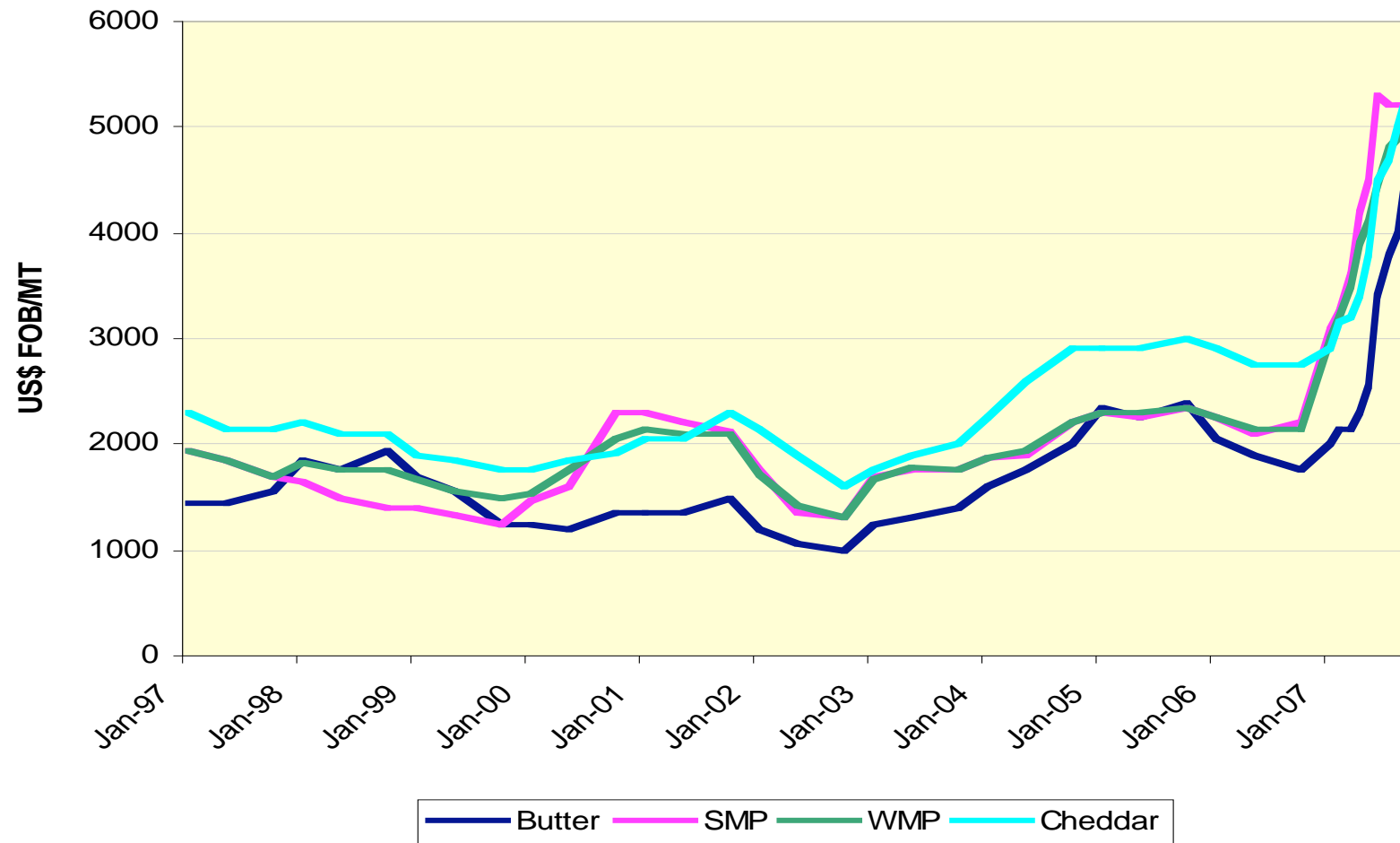
**Brian Willis**  
**Director – International Trade**  
**Fonterra Cooperative Group**

10<sup>th</sup> Pan American Dairy Congress  
San Jose, Costa Rica  
April 8 – 10<sup>th</sup>, 2008

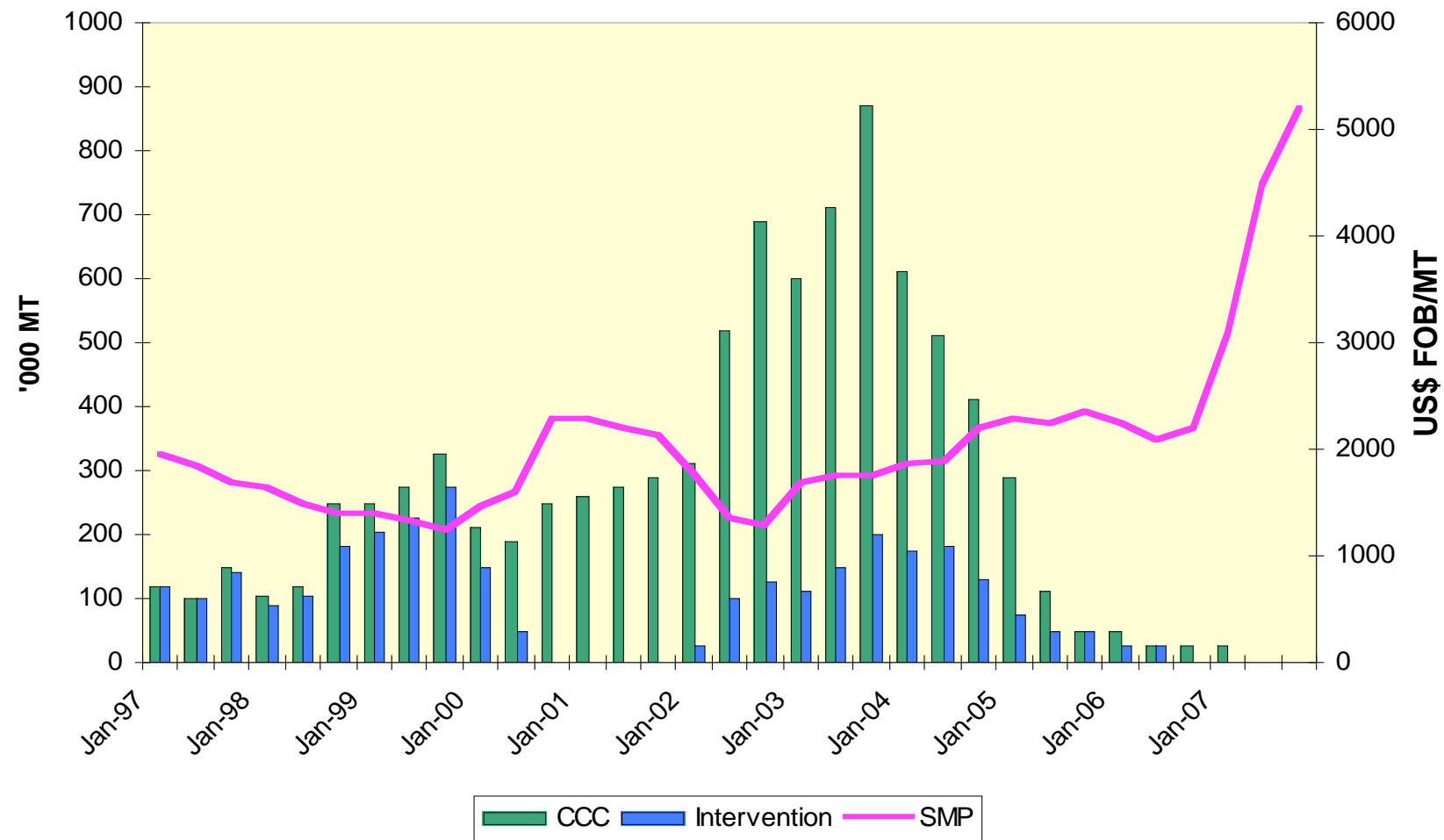


**Dairy for life**

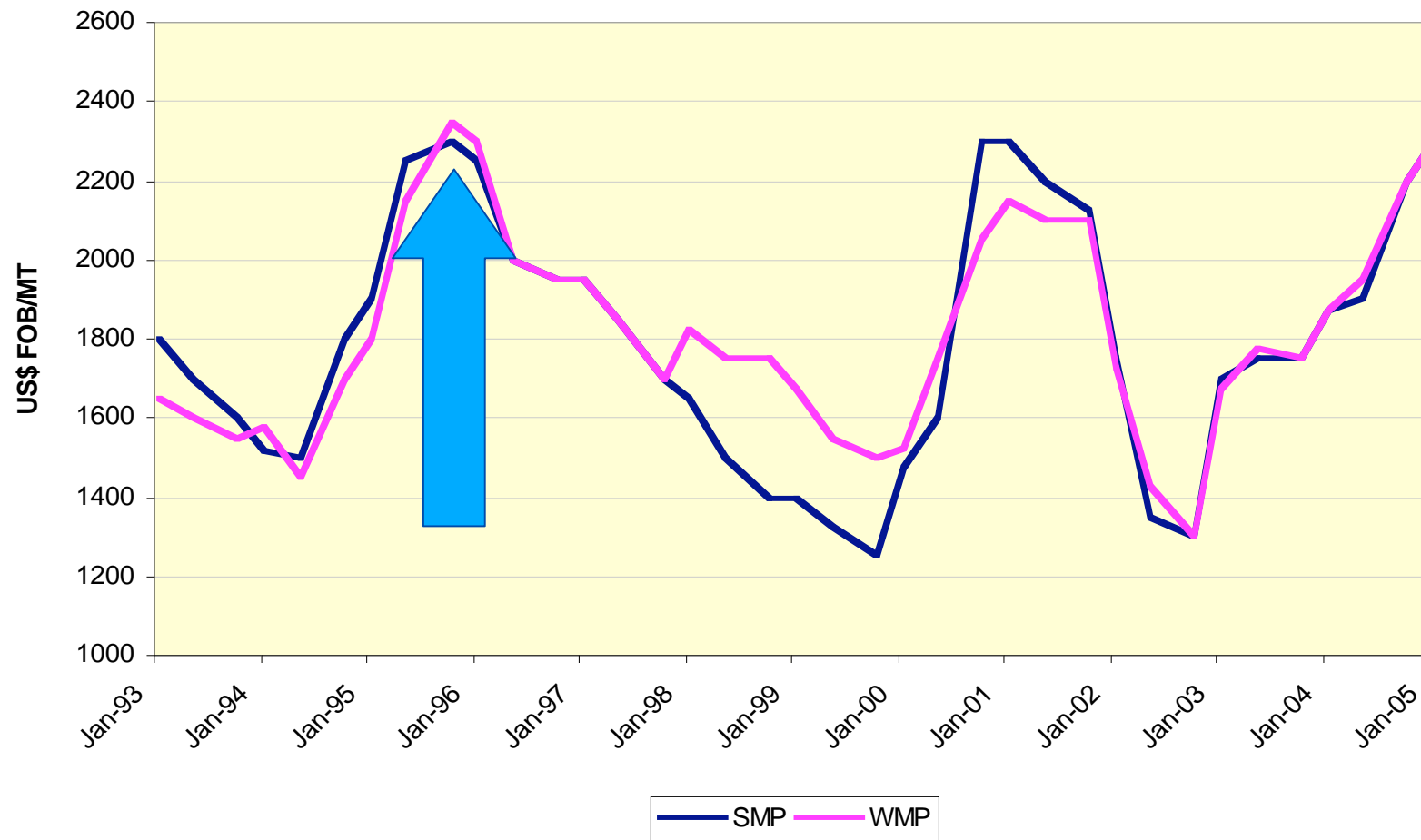
The global dairy market has changed significantly over the course of the past year



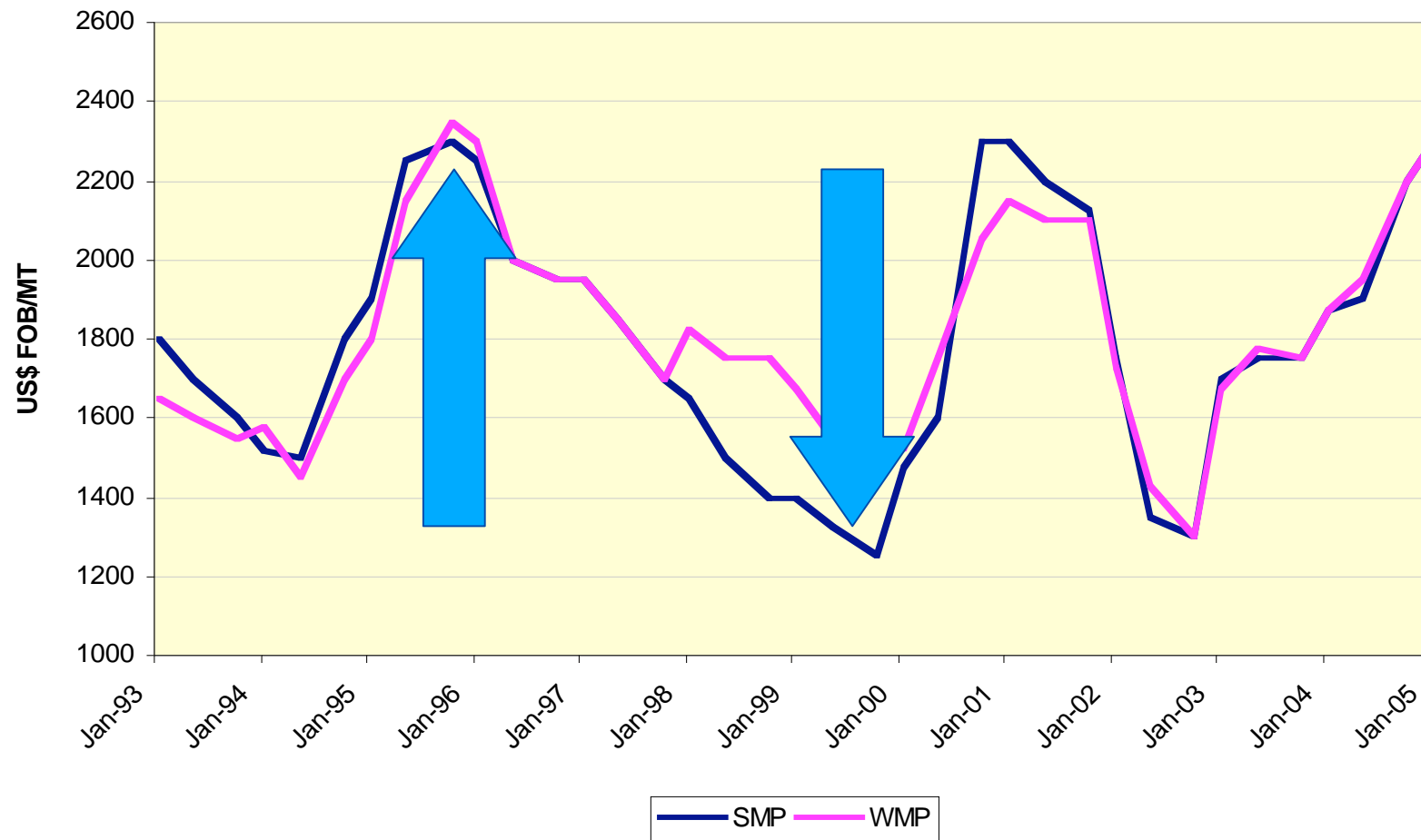
# Government stocks arguably delayed the impact of market forces



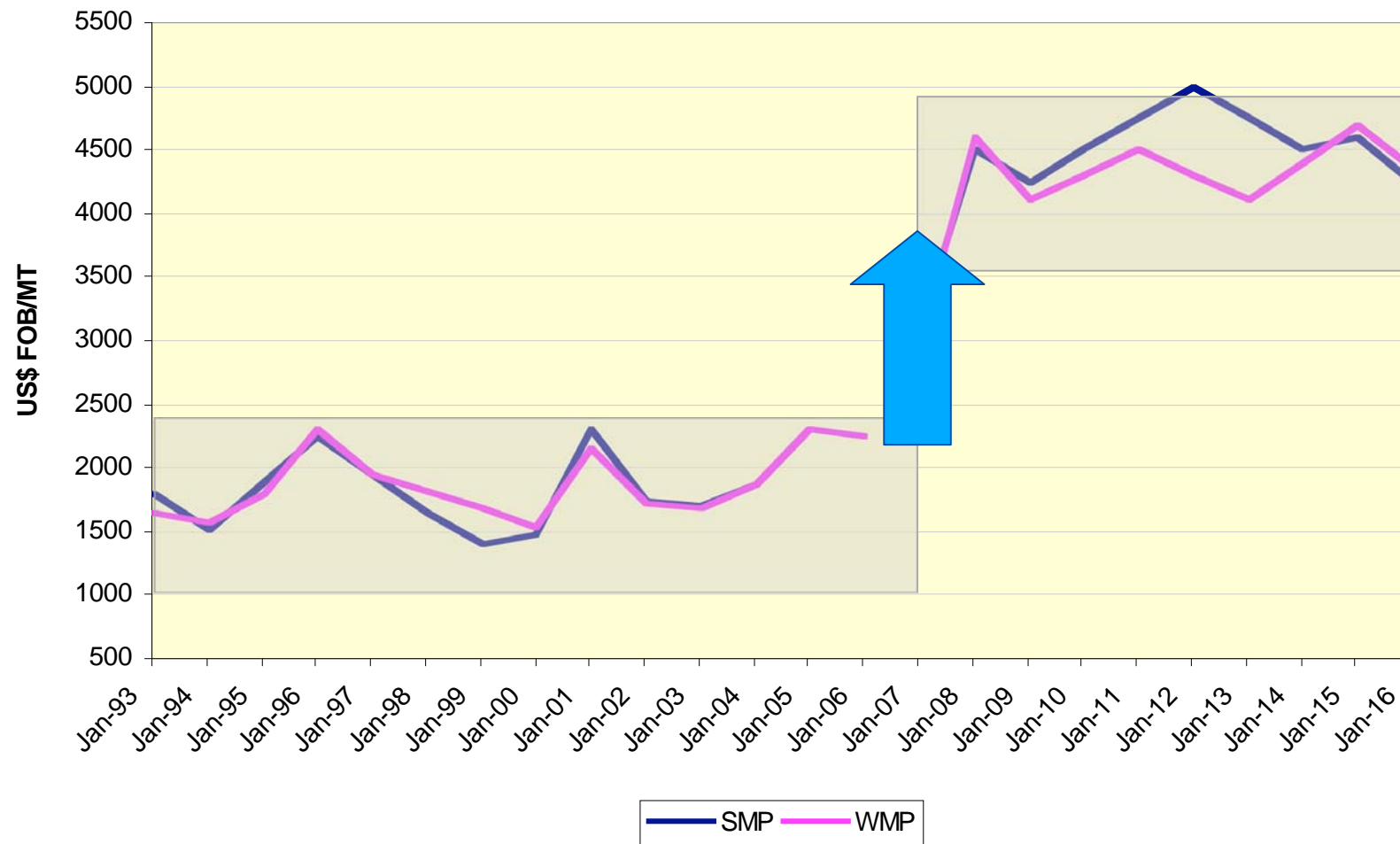
## Scenario 1: what goes up.....



# Scenario 1: what goes up..... must come down



## Scenario 2: the operating environment has fundamentally changed and so have price expectations





# Global Supply



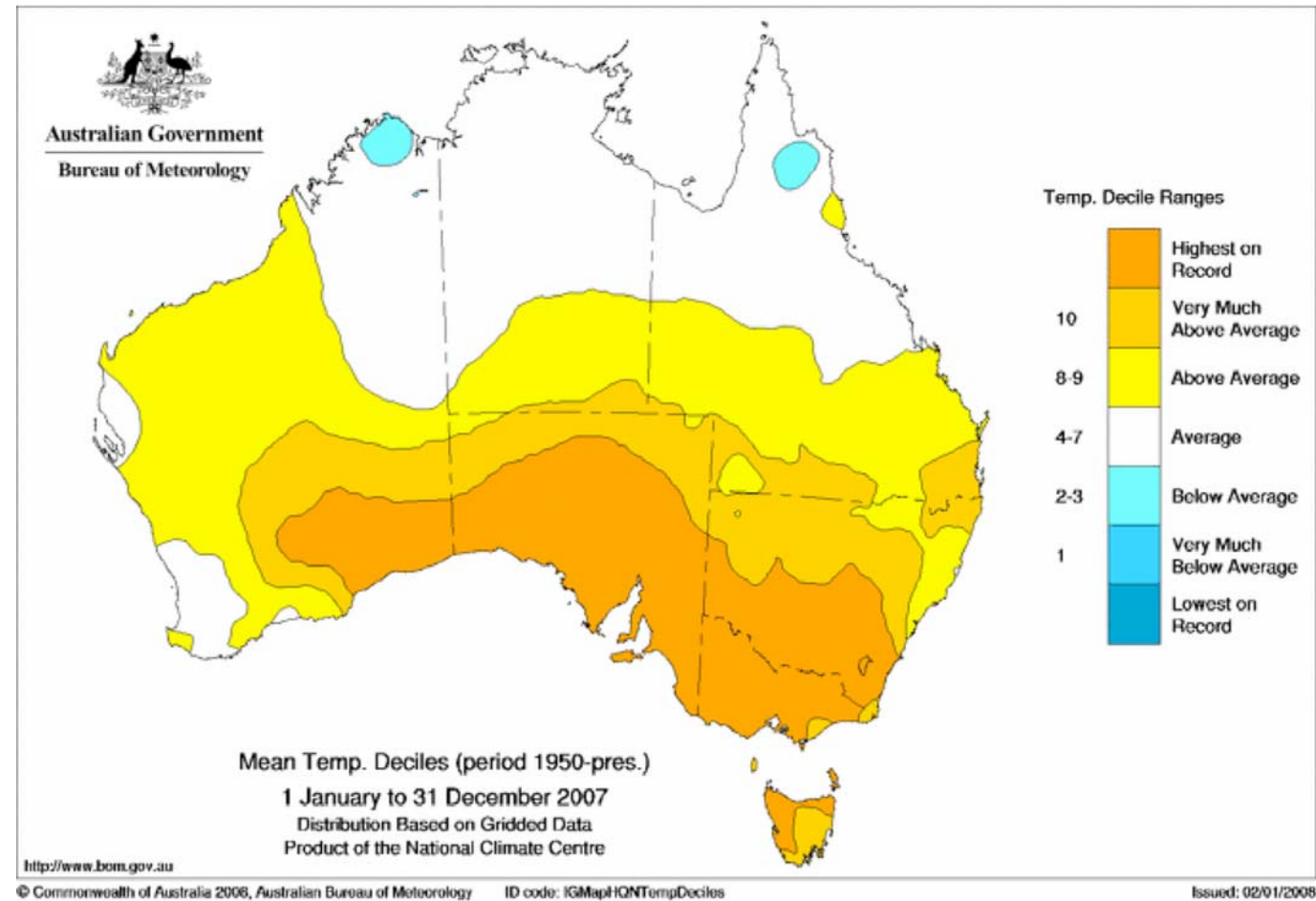
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Australia in decline, NZ limited in its ability to grow



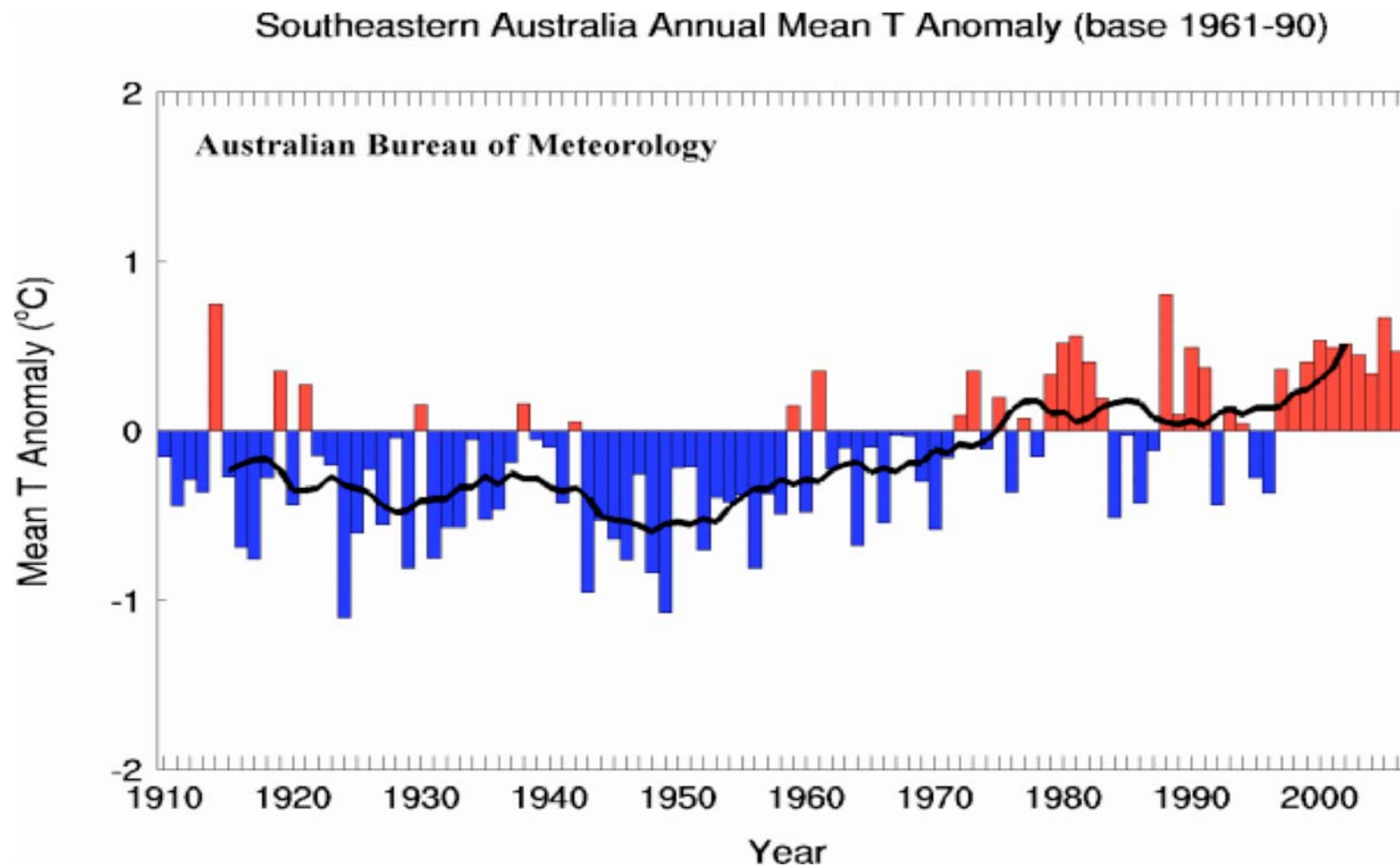


# 2007 Annual Temperature



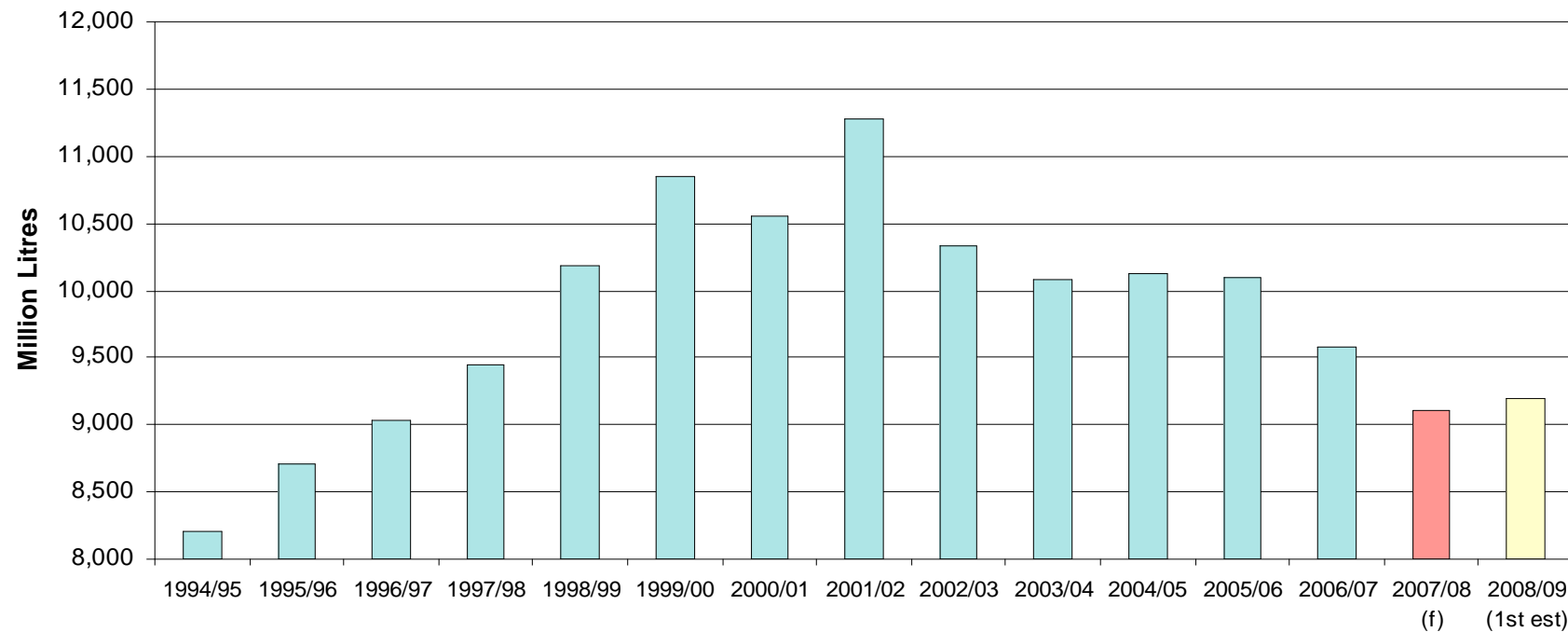
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# Temperature History



# Australian Milk Production

Australian Milk Production

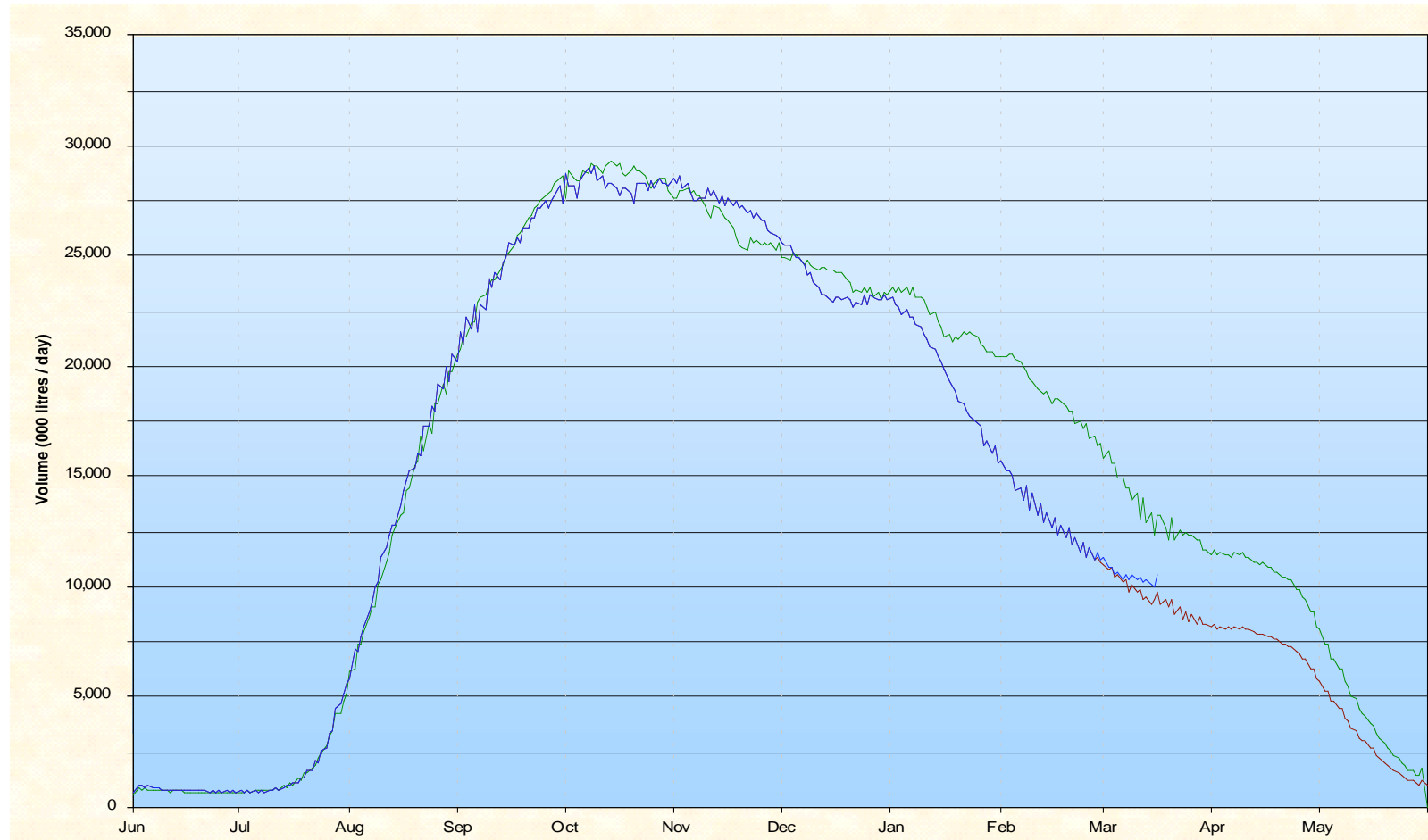


Dairy Australia:

Current forecast 07/08 production: 9.1 billion litres, 5% decline on 06/07

Very early estimate for 08/09 is for a 1% increased

# Central North Island Milk Collection as at 24<sup>th</sup> March 2008



EU a moving target primarily due to CAP reform



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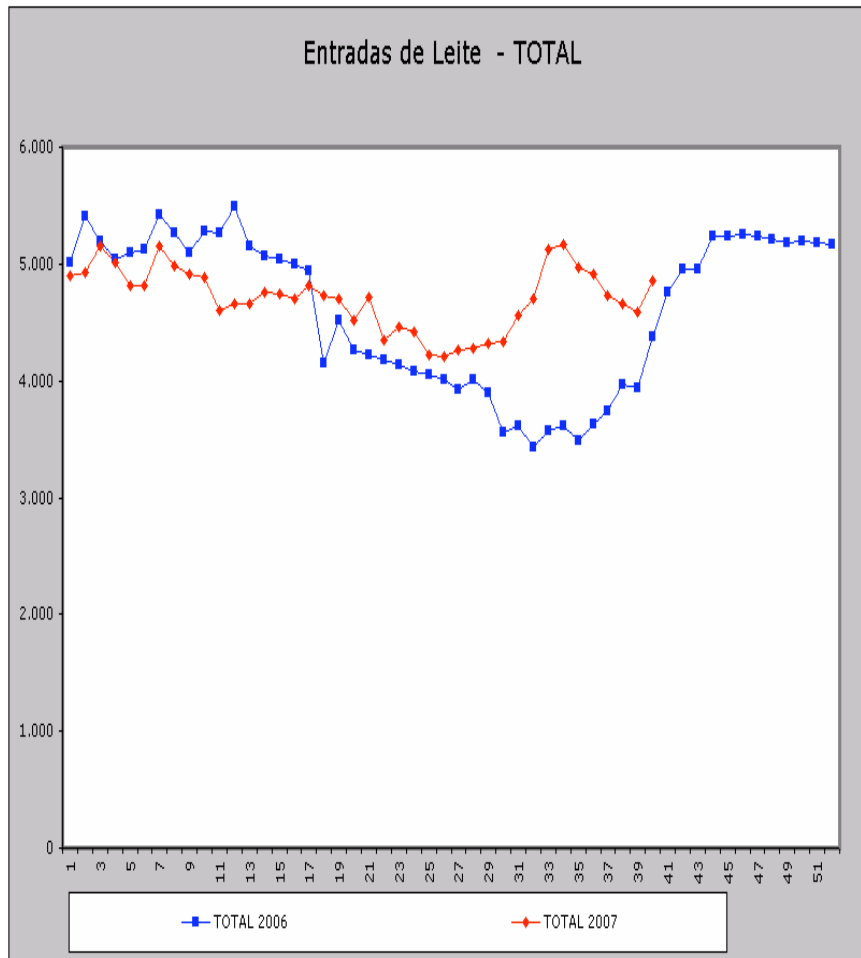
Brazil looks likely but money in other commodities,  
Argentina focused internally





# Brazil

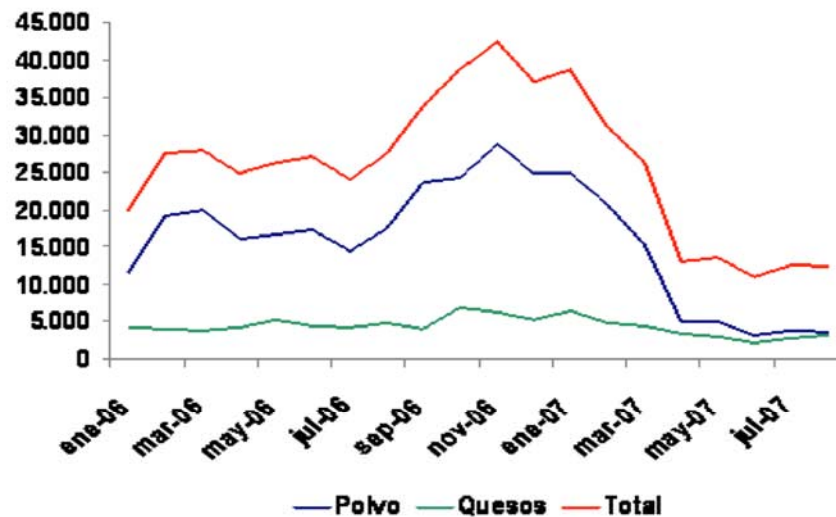
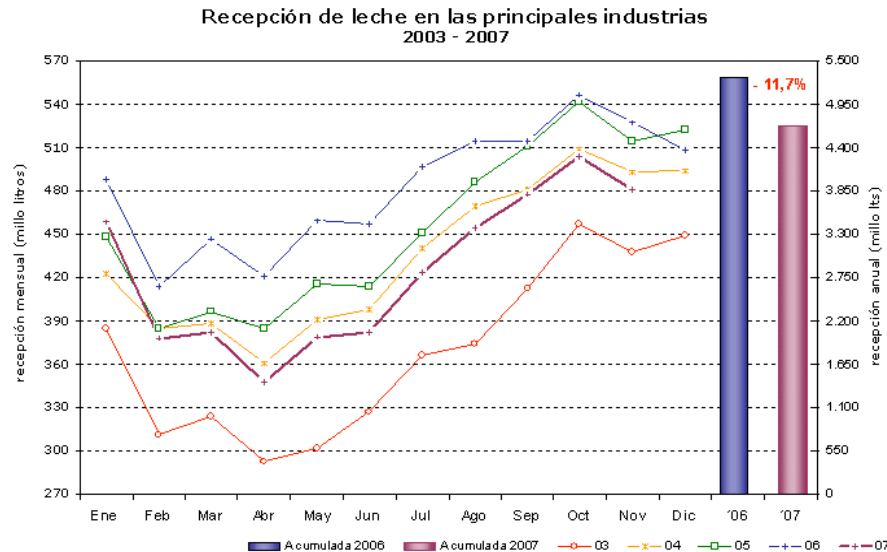
- *real potential and exports will continue to grow*



- 2007 milk production + 5% on 2006 and similar growth forecast for 2008.
- High domestic milk prices and attractive export returns have driven investment in the sector.
- The economy is improving as is domestic demand which tempers export growth
- The strengthening Real also tempers export growth
- Raw milk quality is variable and not well suited to a long export supply chain

# Argentina

## - *troubled by political intervention*



- 2007 milk flow to end of November were 11.7% lower than 2006.
- Domestic demand is +5%, but driven by politically controlled prices.
- Exports continue to be negatively impacted by the tax regime.
- Delays with government certification and export licensing have all contributed to WMP exports being 50% below 2006 levels.
- No major improvement expected in 2008.

India and Russia have huge potential but quality and large domestic markets inhibit export growth



China will continue to grow at breakneck speed...but so  
will domestic consumption

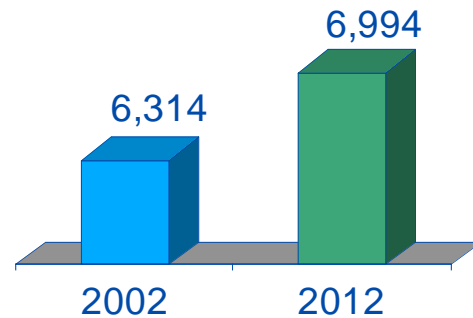


US supply response is of most significance for the global market in the short term

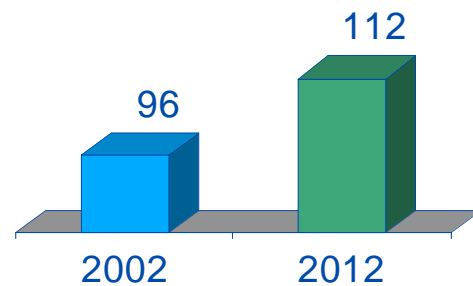


Global dairy consumption forecast to grow at 3% p.a.  
but impact of new pricing is unclear

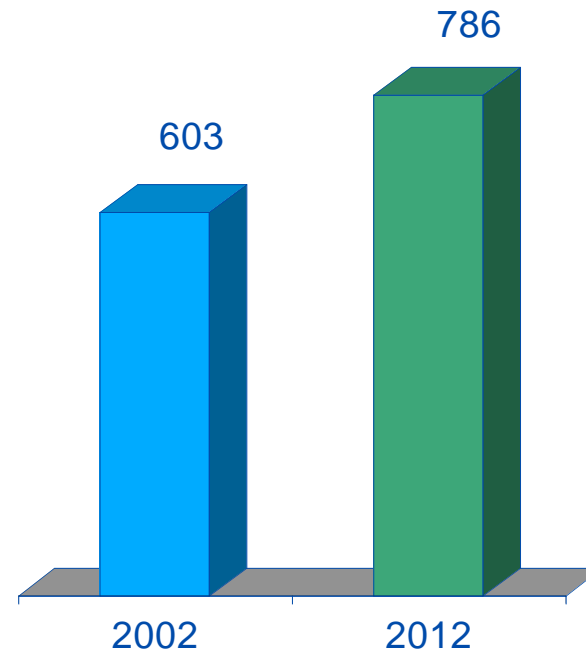
**Population**  
(Millions of People)



**Per Capita Dairy Consumption**  
(Litres Per Year)



**Total Dairy Consumption**  
(Million Tonnes Milk Equivalent)



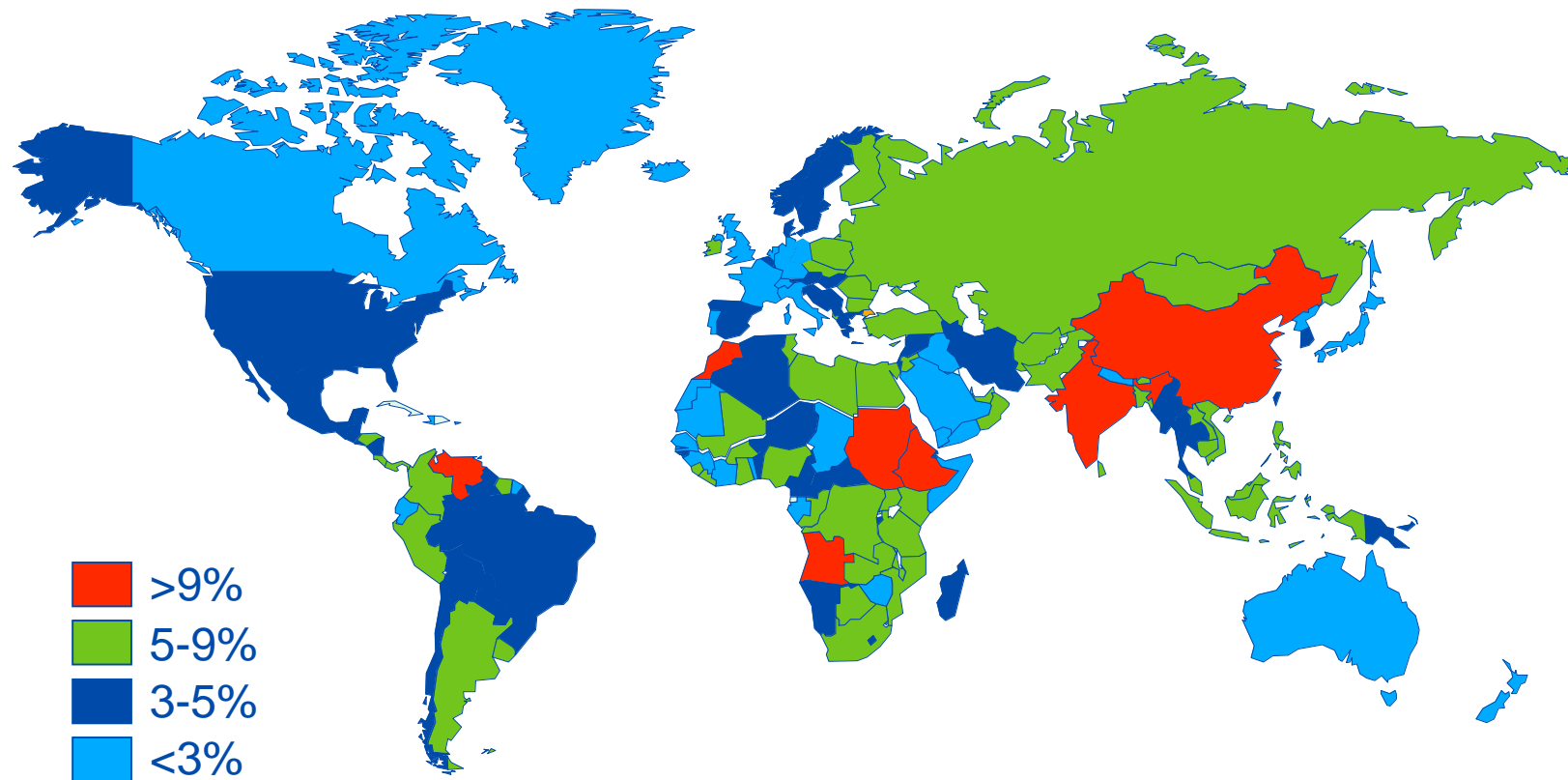


# Global Demand



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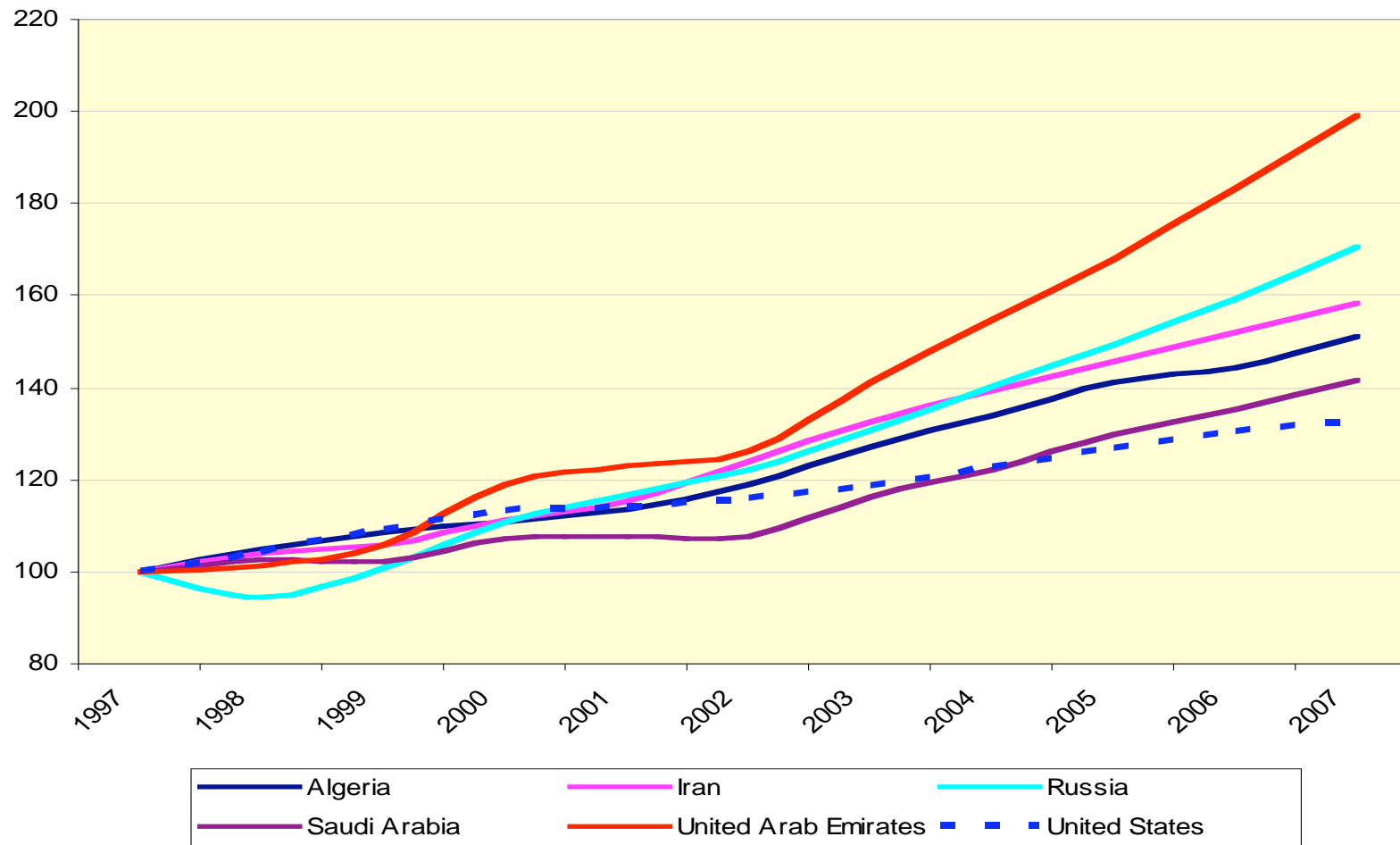
Global GDP growth rates are driving demand for, and affordability of, dairy



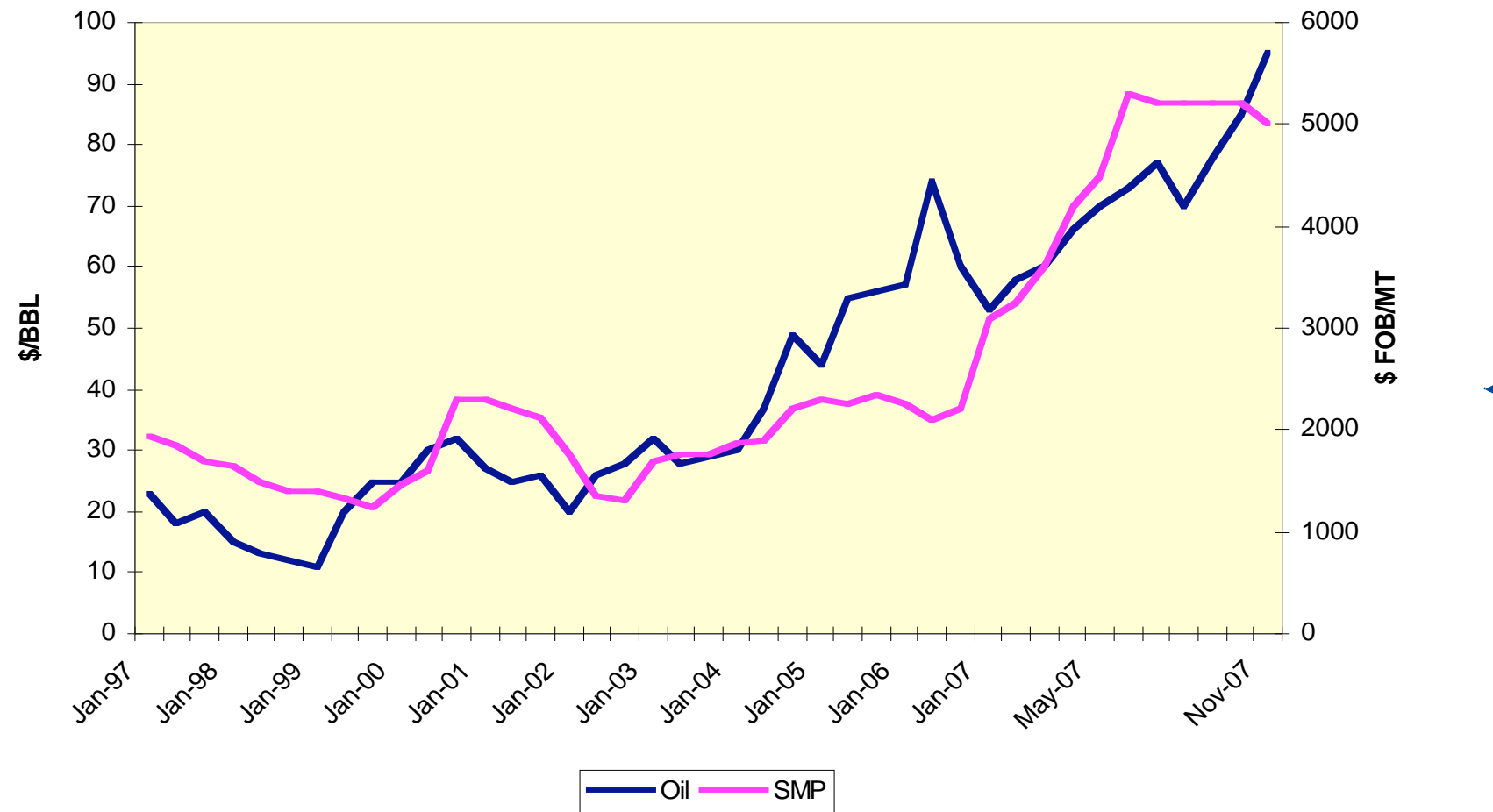
High oil prices a major factor in the sustaining demand at current prices....



High oil prices means growing developing world economies, many are major dairy importers....



As a result, high oil prices can be directly linked to dairy prices





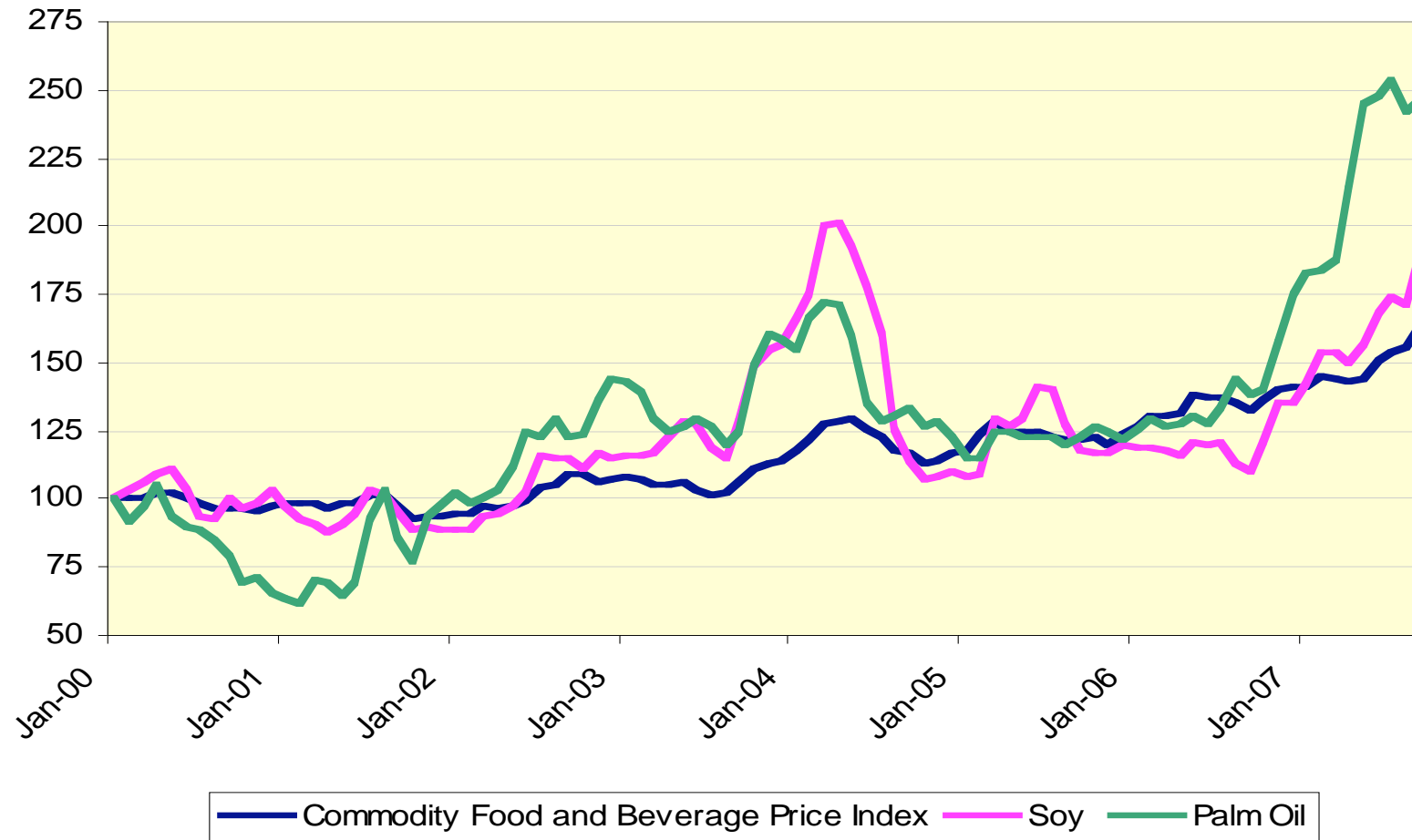
# Conclusions

1. If we assume that GDP growth will continue and that high oil prices are here to stay then we can assume that demand for dairy will continue to grow despite higher prices





Ingredient costs are going up across the board, limiting ability to replace dairy with lower cost protein and fat



# Conclusions

1. If we assume that GDP growth will continue and high oil prices are here to stay then we can assume that demand for dairy will continue to grow despite higher prices
2. If we assume the price of dairy substitutes will also remain at historically high levels then we can assume that consumers will persevere with dairy despite higher prices



# Governments in the developing world are reacting to higher food costs through regulatory change

Import Tariff Cuts  
Egypt, Vietnam, Russia,  
Sri Lanka, Morocco



Retail Price Controls  
China, Thailand, Russia,  
Sri Lanka, & potentially  
Vietnam, Taiwan



Tougher Export Controls  
Argentina, India

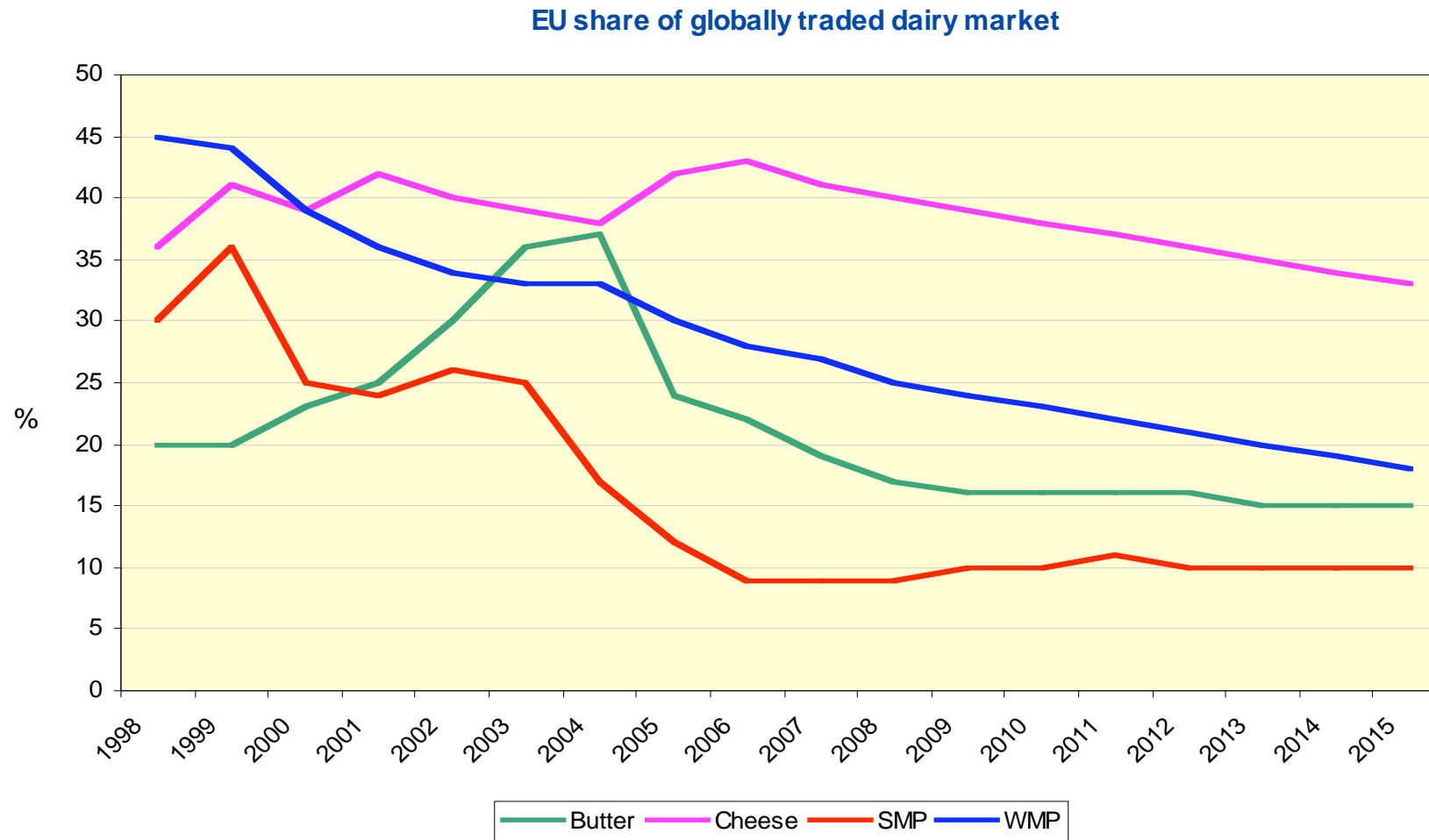


# Conclusions

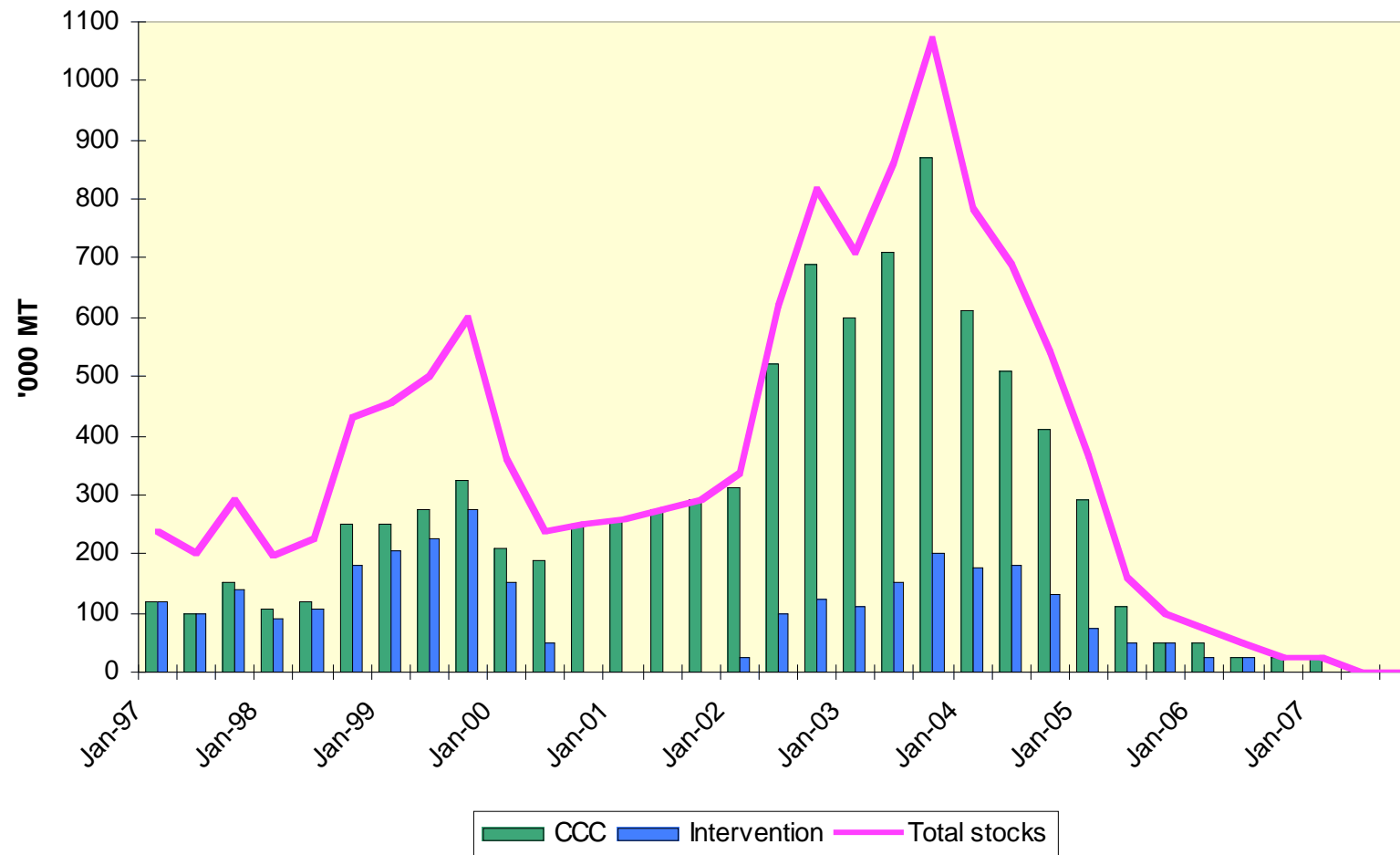
1. If we assume that GDP growth will continue and high oil prices are here to stay then we can assume that demand for dairy will continue to grow despite higher prices
2. If we assume the price of dairy substitutes will also remain at historically high levels then we can assume that consumers will persevere with dairy despite higher prices
3. Government intervention in the developing world will ensure consumers can afford to pay for dairy despite higher prices



# Global dairy policy is changing. The EU is an industry in transition with exports expected to stagnate



The disappearance of government stocks may mean more volatility but within a higher band





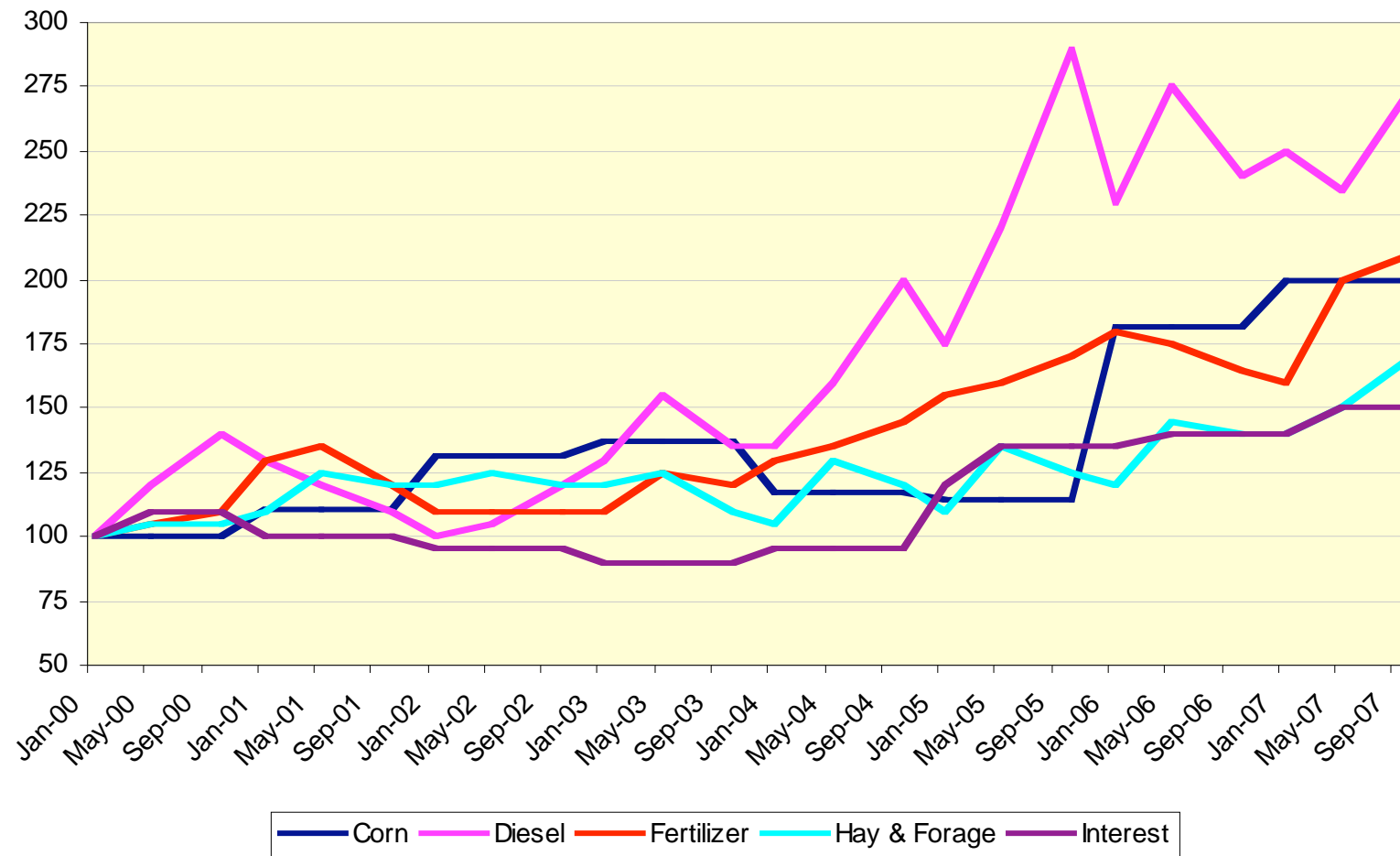
# Conclusions

4. Deregulation of the EU and removal of buffer stocks means market limits will not be set by governments but by markets



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# Input prices are having a major impact on the profitability of farming

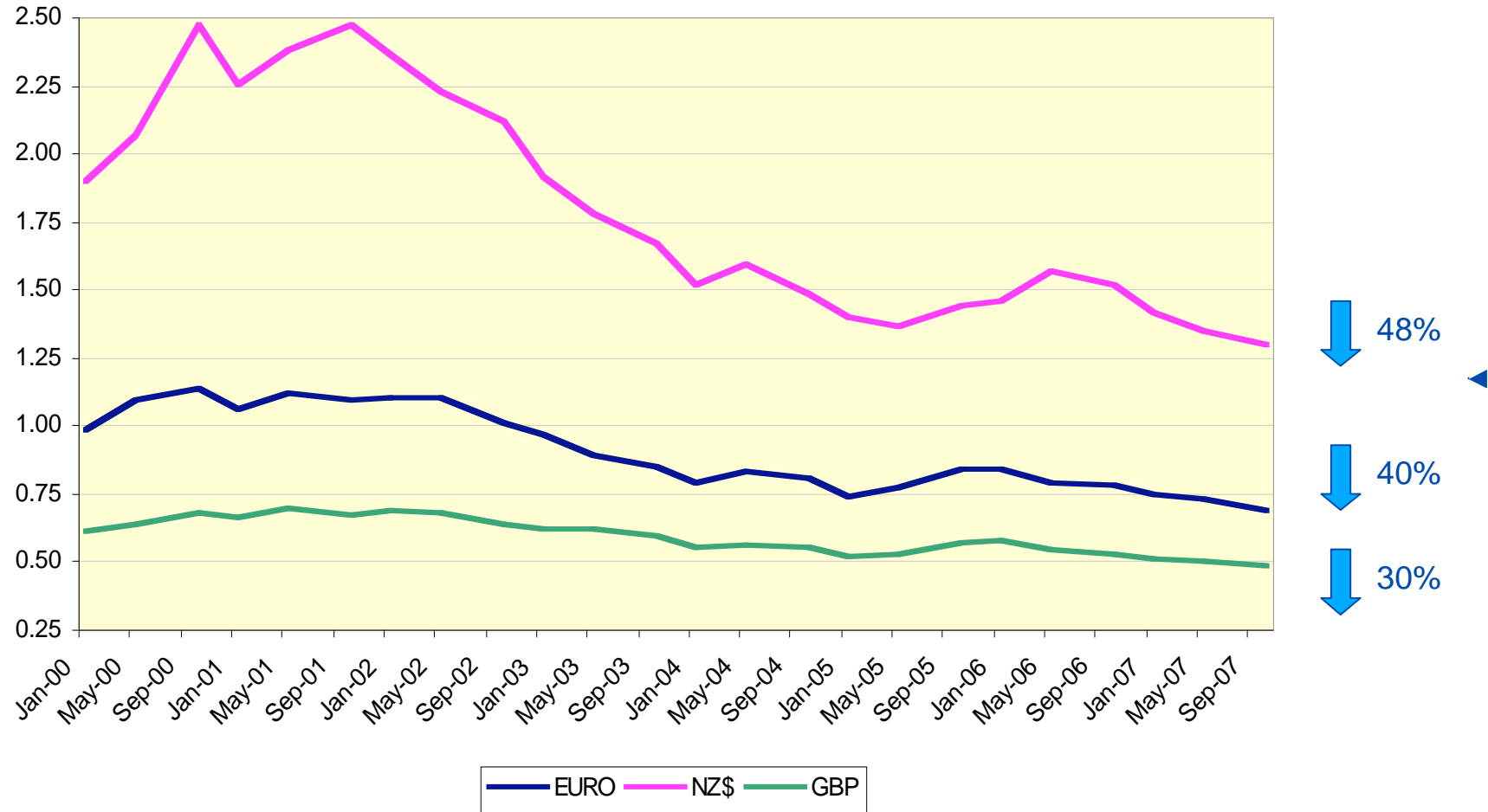


# Conclusions

4. Deregulation of the EU and removal of buffer stocks means market limits will not be set by governments but by markets
5. If we assume that the cost of farming will only increase then we can assume that the price of milk will have to meet those cost increases or else supply will diminish



# A weak US\$ is helping dairy affordability in many parts of the world (and helping US exports)

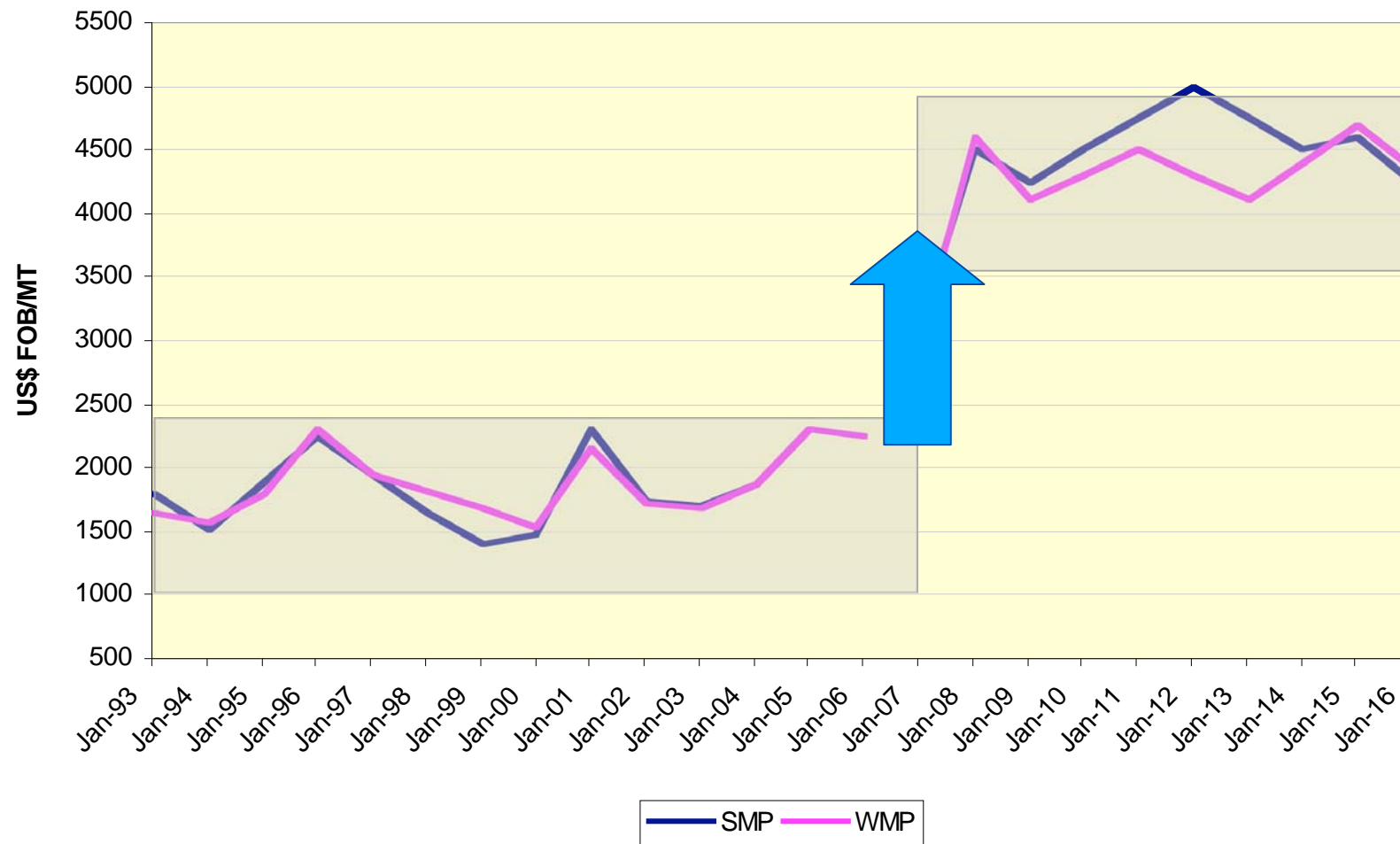


# Conclusions

4. Deregulation of the EU and removal of buffer stocks means market limits will not be set by governments but by markets
5. If we assume that the cost of farming will only increase then we can assume that the price of milk will have to meet those cost increases or else supply will diminish
6. If we assume that the US\$ is not going to strengthen considerably in the short to medium term then we can assume that US exports will remain competitive and consumers will still remain able to purchase dairy despite higher US\$ prices



## Scenario 2: the operating environment has fundamentally changed and so have price expectations





## In summary

The supply equation is fluid with US and emerging suppliers likely to grow over varying timeframes. Don't underestimate the impact of change in the EU

Demand will be tested but fundamentals remain very strong:

- Global/developing world economic growth
- Oil prices
- Ability to substitute out of dairy is limited
- Regulatory and policy changes both in the EU and developing world
- Removal of traditional buffer stocks
- Higher farm input costs
- Weak US\$





# There are still important variables beyond our control



Weather  
(supply)



Forex  
(supply & demand)



Financial Markets  
(demand)

# Despite these variables the world market should maintain prices far higher than historical norms

We have already seen some correction in global prices during 2008 as the impact of consumer price increases starts to pinch on demand and as additional global supply becomes available

As CY2008 continues, the factors affecting fundamental demand and supply will ensure any short term price shock will be mitigated and we will return to business as usual within our new operating environment





**Thank You**



**Dairy for life**