



Northeast Dairy Leadership Team

October 13, 2010

Ruth Saunders
International Dairy Foods Association



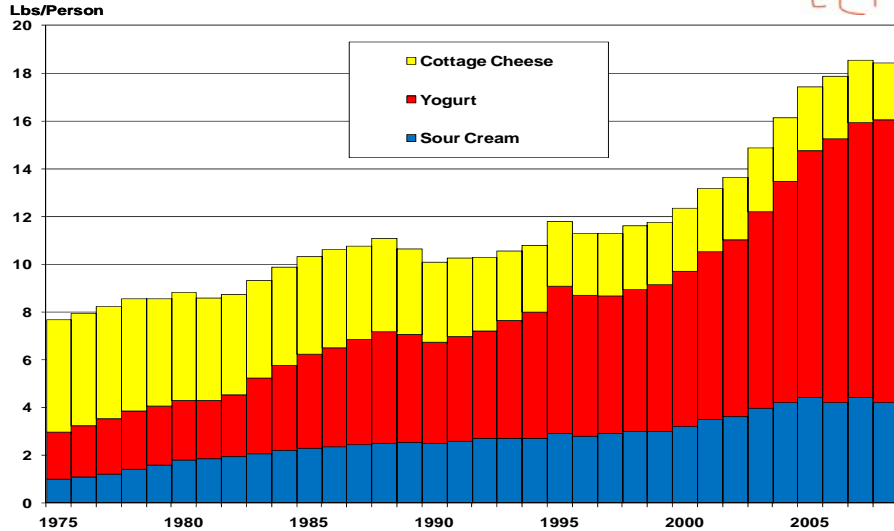
MY PREDICTIONS....

Market Opportunities Abound

**Agreement on FMMO Reform
and Margin insurance**

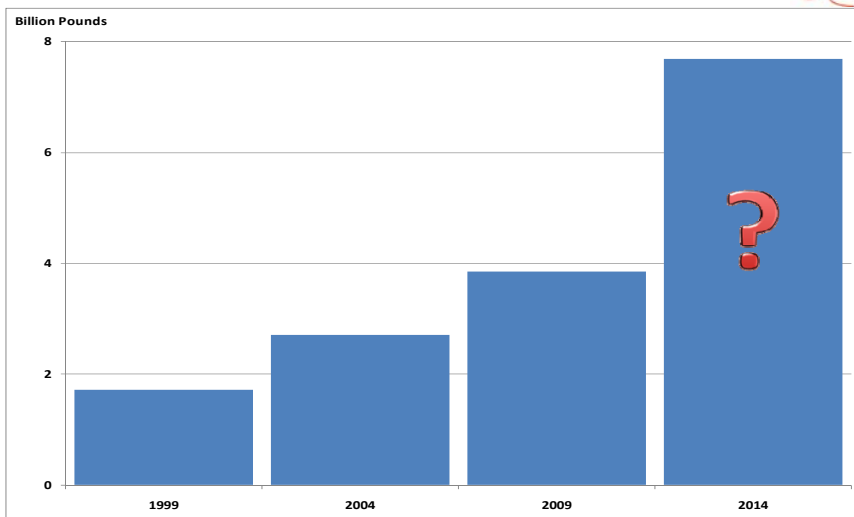
Supply Control will Erase the Gains

Per Capita Production of Cultured Products Is Rising.



Source: USDA, ERS

How High Will Production/Consumption of Yogurt Products Go?

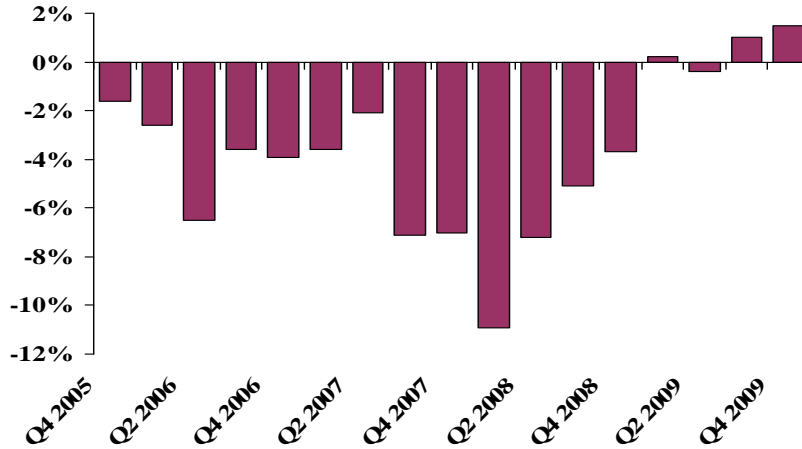


Source: USDA, NASS and Gustavo Valle, Dannon

Cottage Cheese Retail Sales Were POSITIVE in 2009!

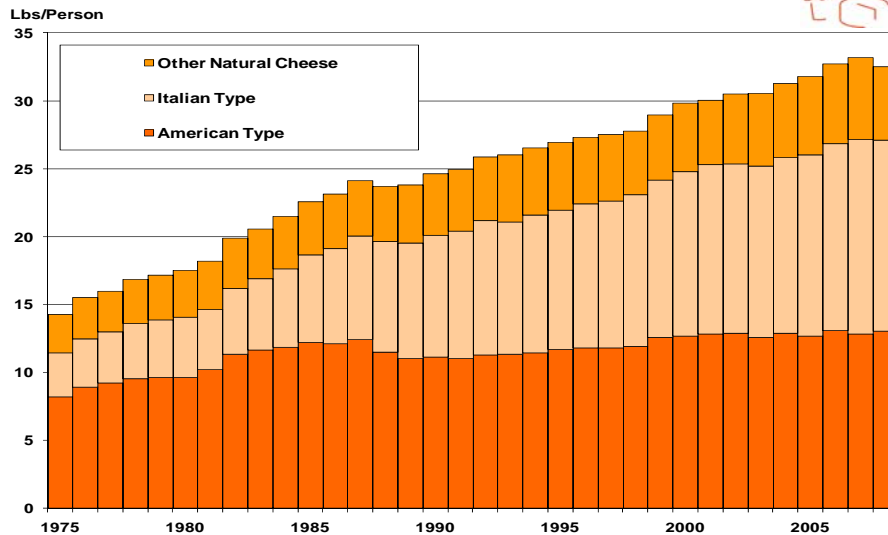


- The positive quarterly compared to year-ago retail sales volume growth in 2009 was its first in four years.



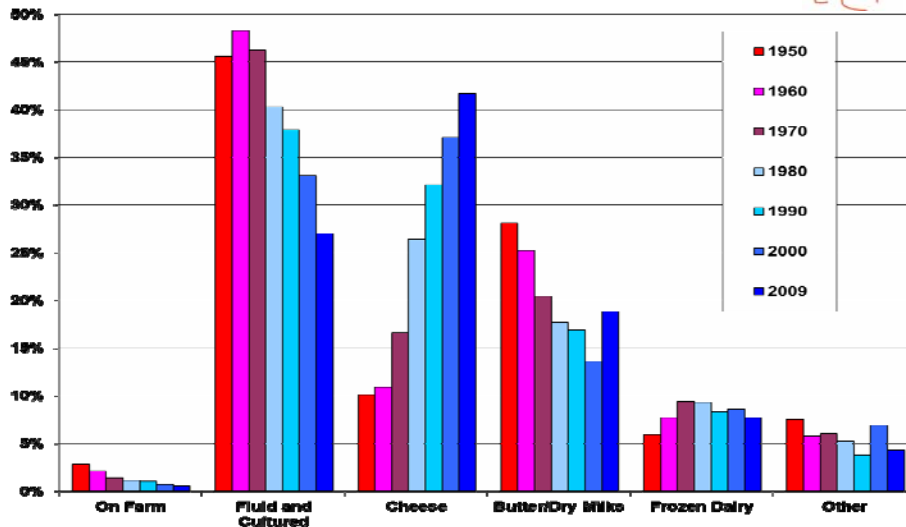
Source: Information Resources Inc., Total Food ending Q4 2009
December 28, 2009

Per Capita Cheese Consumption Is Growing, Mostly for Non-American Types.



Source: USDA, ERS

In the last 60 years, more milk is going into cheese, but many categories are growing.



Source: USDA, NASS

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

Will pay more for Quality and Innovation.

New Food Policies may impact how Consumers View Dairy



LOW FAT
7.7g per serving

LOW SATURATES
2.0g per serving

HIGH SUGAR
42.2g per serving

MED SALT
2.0g per serving

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

Dietary Guidelines, Marketing to Kids, First Lady's Let's Move Campaign, Schools



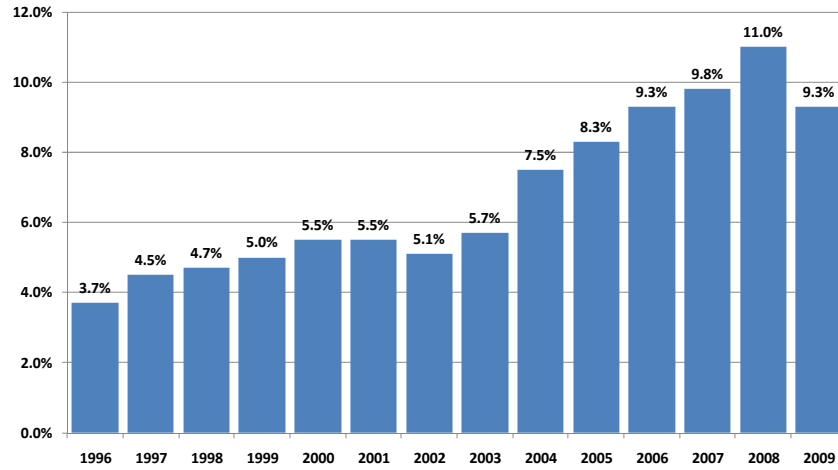
Protein ingredients in demand -- will dairy or other proteins serve that market?



The Percentage of U.S. Production Exported Fell in 2009, but Remains High Historically.



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

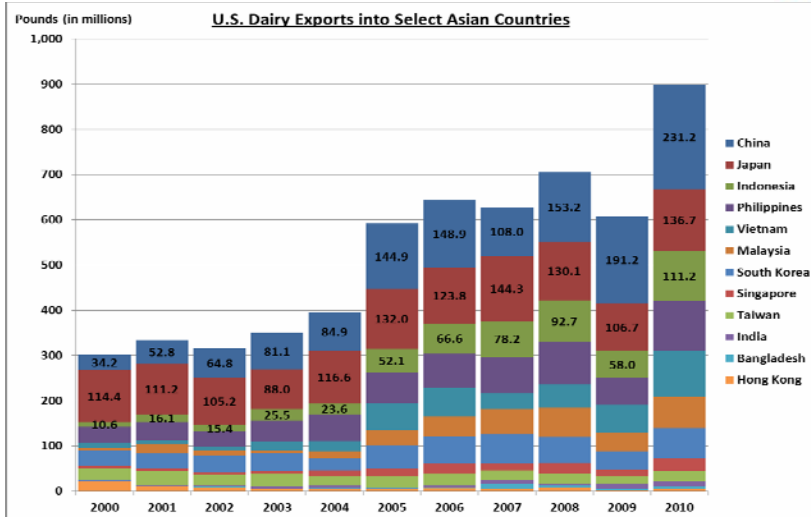


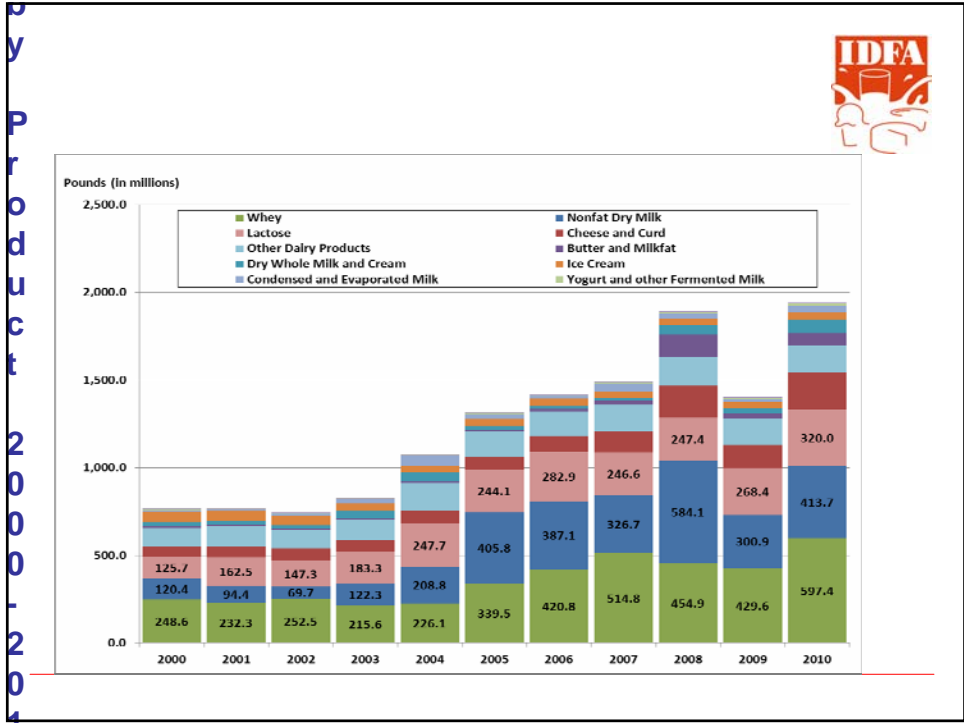
Source: USDEC

2010
to
Select
Asian
C



U.S. Dairy Exports into Select Asian Countries





IDFA

IDFA/NMPF Task Force

- FMMO Reform
- Margin Protection Program

Reforming this should be simple...



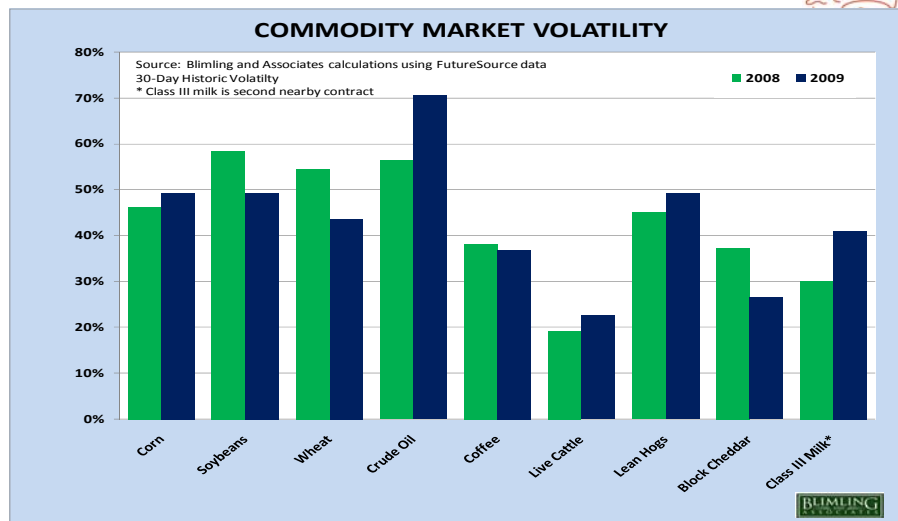
Class I Price = (Class I skim milk price x 0.965) + (Class I butterfat price x 3.5). Class I Skim Milk Price = Higher of advanced Class III or IV skim milk pricing factors + applicable Class I differential. Class I Butterfat Price = Advanced butterfat pricing factor+ (applicable Class I differential divided by 100). Note: Advanced pricing factors are computed using applicable price formulas listed below, except that product price averages are for two weeks.

Class II Price = (Class II skim milk price x 0.965) + (Class II butterfat price x 3.5). Class II Skim Milk Price = Advanced Class IV skim milk pricing factor + \$0.70. Class II Butterfat Price = Butterfat price + \$0.007. Class II Nonfat Solids Price = Class II skim milk price divided by 9.

Class III Price = (Class III skim milk price x 0.965) + (Butterfat price x 3.5). Class III Skim Milk Price = (Protein price x 3.1) + (Other solids price x 5.9). Protein Price = ((Cheese price – 0.2003) x 1.383) + (((Cheese price – 0.2003) x 1.572) – Butterfat price x 0.9) x 1.17). Other Solids Price = (Dry whey price – 0.1991) times 1.03. Butterfat Price = (Butter price – 0.1715) times 1.211.

Class IV Price = (Class IV skim milk price x 0.965) + (Butterfat price x 3.5). Class IV Skim Milk Price = Nonfat solids price times 9. Nonfat Solids Price = (Nonfat dry milk price - 0.1678) times 0.99. Butterfat Price = See Class III. Somatic Cell Adjustment Rate = Cheese price x 0.0005, rounded to fifth decimal place. Rate is per 1,000 somatic cell count difference from 350,000

Do Dairy Farmers Manage Volatility?

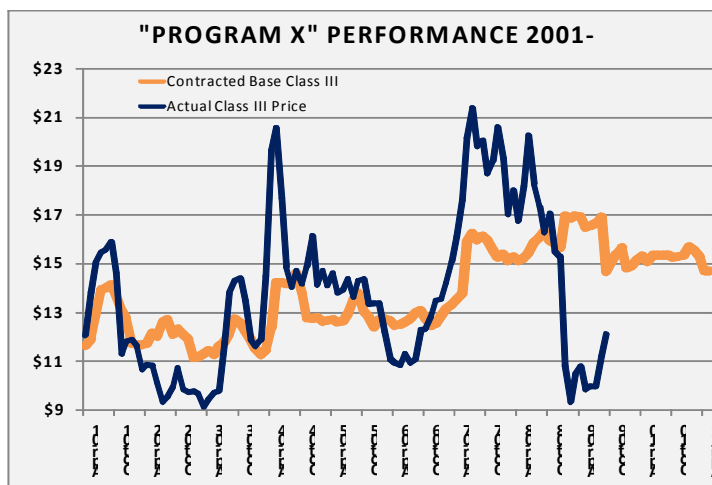


Dairy Does not get Federal Share of Subsidized Insurance



- **Total USDA insurance premium subsidies were \$5.42 billion in 2009.**
 - *Corn: \$2.04 billion*
 - *Soybeans: \$1.19 billion*
 - *Wheat: \$1.09 billion*
 - *Dairy: NONE*
- **No USDA premium subsidies offered for LGM-Dairy.**

Producers using forward contracts experienced less price volatility



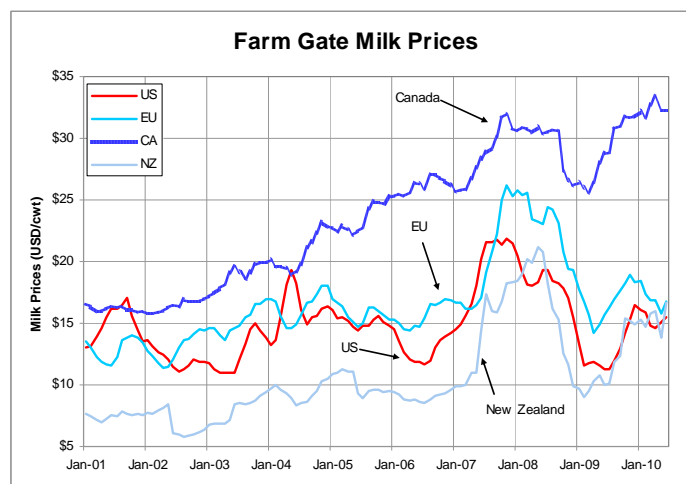
Source: Blimling and Associates

What have we learned?

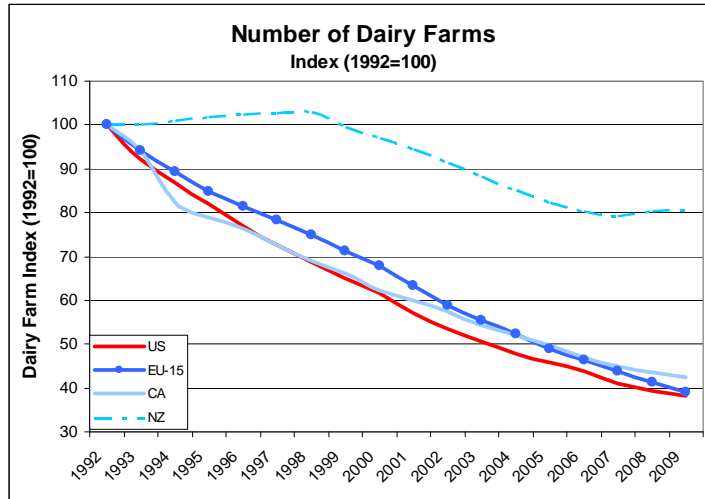


- ❑ An International Comparison of Milk Supply Control Programs and Their Impacts
- ❑ By Informa economics, Inc.

Farm Gate Milk Prices Fell in All Countries in 2008/2009



Number of Dairy Farms

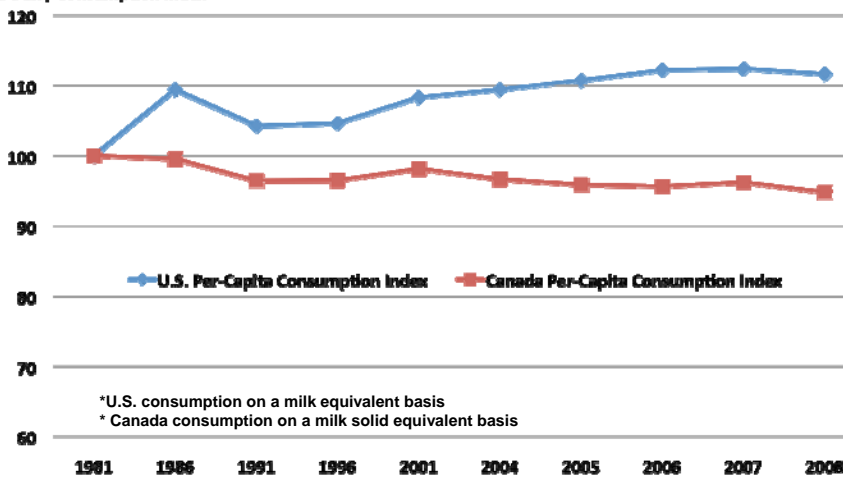


Sources: Eurostat, DG Agri, USDA, CDC, MAF, Informa Estimates

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



Per-Capita Dairy Consumption Index

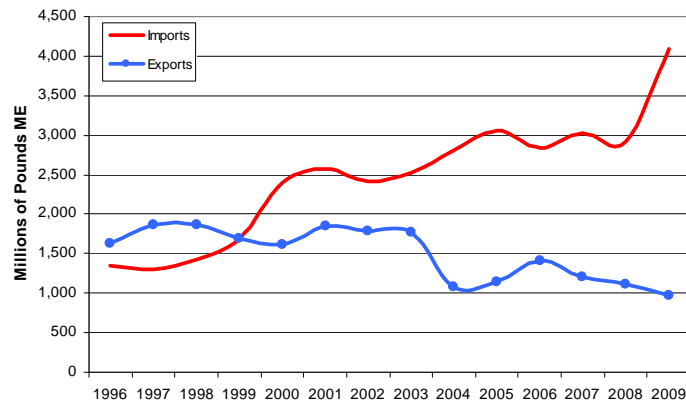


Source: USDA and Statistics Canada

Canada Imports and Exports



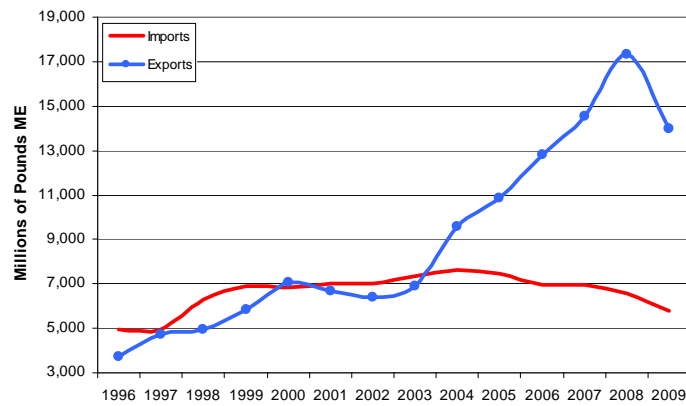
CA Milk Equivalent Imports and Exports



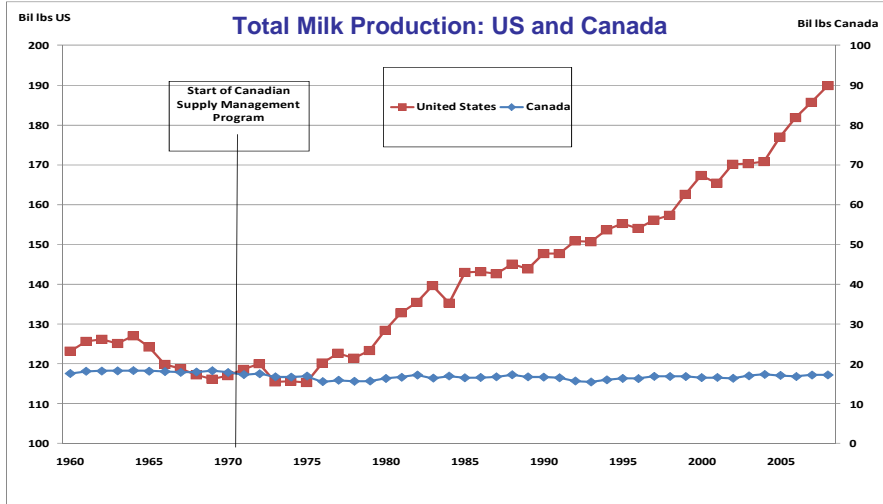
U.S. Imports and Exports



US Milk Equivalent Imports and Exports



Why are Canadian dairy companies moving south to invest?



Source: USDA and Statistics Canada