A Global Balancing Act: Dairy Supply & Demand

Tetra Pak Dairy Index Issue 7
30 September 2014
The dairy index report
A snapshot of the major trends driving the dairy industry

► An annual snapshot of the major trends driving the dairy industry today and tomorrow

► Explores how the dairy industry is set up to supply the world’s future demand for dairy products
Divergence of milk supply and demand
Growth of demand driven by emerging markets

DIVERGENCE OF DEFICIT AND SURPLUS

Tons

Year

0 20,000 40,000 60,000 80,000 100,000 120,000 140,000

2012 2018 2024

Convergence Period

Surplus growth  Deficit growth

Tetra Pak Research, 2014

CHINA
The deficit growth is forecast to grow from 9,119 tonnes in 2012 to 32,520 tonnes in 2024

RUSSIA
The deficit growth is forecast to grow from -217 tonnes in 2012 to 5,245 tonnes in 2024

EU28
Surplus growth is forecast to grow from 27,799 tonnes in 2012 to 49,329 tonnes in 2024

USA
Surplus growth is forecast to grow from 10,724 tonnes in 2012 to 25,602 tonnes in 2024
Agenda
Overview of dairy supply and demand

► Overview of dairy supply and demand

► Opportunities and challenges for the developed markets

► Opportunities and challenges for the emerging markets

► Conclusion
Global dairy consumption expected to rise…
…driven by emerging dairy markets

- 36% growth in dairy consumption in next decade

- Global annual white milk consumption is forecast to grow by 1.8% between 2013 and 2016, from 212 billion litres to 223 billion litres
Growth mainly driven by emerging markets…
..booming demand fueled by Africa, Asia & Latin-America

Increase in Liquid Milk Equivalent 2014-2024

Source: Tetra Pak
Decline in developed dairy markets...
...where traditional white milk consumption is declining

- Changing domestic habits are leading to declining consumption of white milk in developed markets

Western Europe
- white milk consumption fell by 0.8% 2010 and 2013

US
- sales of milk at lowest level since 1984

Australia
- 4 out of 10 people regularly skip breakfast
Dairy, a more globalized business…

…with milk increasingly travelling around the world

**Milk & Milk Powder Trade**

20 Importers & Exporters 2013
By Total Volume (Tonnes)

**Top 10 Importers CAGR % increase between 2004 and 2013**
- Russia: 28.4%
- China: 21.5%
- Venezuela: 15.8%
- Egypt: 15.8%
- Croatia: 15.6%
- Brazil: 14.4%
- Bangladesh: 10.3%
- United Arab Emirates: 6.7%
- Hong Kong: 6.3%
- Oman: 5.0%

**Top 10 Exporters CAGR % increase between 2004 and 2013**
- Nicaragua: 35.9%
- Bonn and Herzegovina: 24.1%
- South Africa: 22.4%
- Pakistan: 17.5%
- Saudi Arabia: 12.5%
- Germany: 11.6%
- Belarus: 9.0%
- Costa Rica: 8.7%
- United States of America: 6.9%
- New Zealand: 6.4%

Source: Zenith International; Global Dairy Imports & Exports Study. July 2014
Agenda

Opportunities and challenges for developed markets

► Overview of the dairy supply and demand

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Milk surplus countries eyeing opportunities...
Huge export opportunities for milk surplus countries

Consumption of ambient milk in Asia pacific set to rise by 3.1% from 2013 to 2016

Demand for liquid milk in Indonesia fuelled by the growing purchasing power of the middle class

More affluent Chinese consumers willing to pay a premium for high quality milk

An opportunity for developed dairy markets to export higher-value branded UHT

DJ/30 Sept 2014
Many dairy companies gearing up for export…

…to meet increasing demand when EU milk quotas lift

► When the EU milk quotas lift in April 2015, production will be unrestricted for the first time in more than 30 years

► The size of farms in the region will grow in an effort to boost milk production

► EU countries are expected to increase raw milk production by 11% from 2012-2023
As dairy companies respond to anticipated expansions in milk production, the total market for milk powder processing equipment is expected to rise by 5% between 2014 and 2020.

Source: Tetra Pak Cheese and Powder Systems
Potential risks related to export…
…must be considered

► Price volatility

► Increased entry barrier due to protective measures from local government or the local dairy industry

► Political and economic issues
Managing opportunities…
…by responding to new trends and product demands

- **UK**: Demand for flavoured milk to rise by 2.4% by 2016
- **USA**: 5.4% increase in drinking yoghurt consumption by 2016
- **New Zealand**: 7.7% rise in sales of drinking yoghurt since 2010
- **Germany**: Demand for flavoured milk to rise by 0.4% from 2013 to 2016
Product innovation in established markets…
…shifting towards more value-added products

- Dairy companies focusing on innovation and developing other liquid dairy products (OLDP), targeted at younger adults
- Convergence of categories, such as milk and juice or milk and cereal
- Yoghurt and smoothies gaining traction
- Nutritional benefits driving the value-added category
Agenda

Opportunities & challenges for emerging markets

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► Conclusion
As demand grows in emerging markets...  
...a shortage of supply is evident in the long run.

**Graph 1: Divergence of Deficit and Surplus**
- **Surplus growth** vs. **Deficit growth**
- Years: 2012, 2018, 2024
- **Convergence Period**

**Graph 2: Predicted Milk Surplus Growth in Main Export Regions**
- Years: 2012, 2018, 2024
- Regions: New Zealand, Australia, USA, EU 28

**Graph 3: Predicted Milk Deficit Growth in Main Import Regions**
- Years: 2012, 2018, 2024
- Regions: Other Asia, Africa, SSEA, Japan, Russia, China

Tetra Pak Research, 2014
In 2013, prices in the EU rose by €6 per 100kg, and by €10 per 100kg in New Zealand.

Price drop in 2014 not sustainable.

Growing demand expected to drive up prices... and continue to increase over the next ten years.

Source: Tetra Pak

Farm Gate Price for Milk in the EU and New Zealand:
Responding to domestic demand…
…critical for emerging markets

A three-pronged approach will be required from the import markets to secure future supplies for domestic demand:

1. Co-operation and consolidation with exporters of developed dairy markets

2. Investment in technical knowledge, expertise and commercialisation to boost self-sufficiency

3. ‘Stretching’ milk into value-added products by combining it with other ingredients such as juice and cereal
Agenda

Conclusion

► Overview of the dairy supply and demand
► Opportunities and challenges for the developed markets
► Opportunities and challenges for the emerging markets
► Conclusion
Dairy companies must take global view…
…when looking at milk supply and consumer demand

► The dairy industry is facing a new world order in which it must tackle the challenges and opportunities posed by globalisation

► Producers in developed dairy markets need to balance the ‘quick wins’ of exporting to fast-growing economies against the requirement to continue to grow their domestic markets

► On the other hand, dairy companies in import markets must overcome the challenge of securing a sustainable milk supply

► The reaction of dairy companies over the next few years will have a significant and long-term impact on the future of the global dairy market.