



Global consolidation of the dairy industry

A dairy cooperative seminar in Quebec suggests the industry is on the cusp of a strong era of international trade expansion

As tourists wandered the streets of Québec City, marvelling at her fall colours, her calèches and her Tourtières, over 3,000 delegates from 90+ countries gathered for five days in the Centre des congrès de Québec to attend the 2014 Québec International Summit of Cooperatives.

For many, selecting which of the many concurrent sessions to attend was a challenge. Not so for me: Agropur's Forum on Cooperatives and the Consolidation of the Global Dairy

Industry was an obvious choice. I attended (and tweeted - @wendyholm) the entire session, which ran for a full seven hours over two days.

As we head towards the TPP, a solid defense of supply management will be needed. That means farmers need to understand what's happening at the global level. Agropur's forum certainly did that.

Tim Hunt, Global Dairy Strategist with Rabobank - a Dutch cooperative bank founded at the end of the 19th

century by and for farmers - kicked off the sessions with a presentation on the World Dairy Outlook and Implications for Coops.

According to Hunt, the key constraint to market growth will be the ability to produce milk at affordable prices. Investment risk - due to a long production cycle - will preclude dairy from growing supply.

Emerging markets will be unable to satisfy local demand entirely through local milk production.

This will drive a strong era of international trade expansion.

While China will struggle to improve its self-sufficiency in dairy,

Hunt notes that China is also making strategic decisions regarding food products they want to be self-sufficient in; and milk will require a safe supply chain.

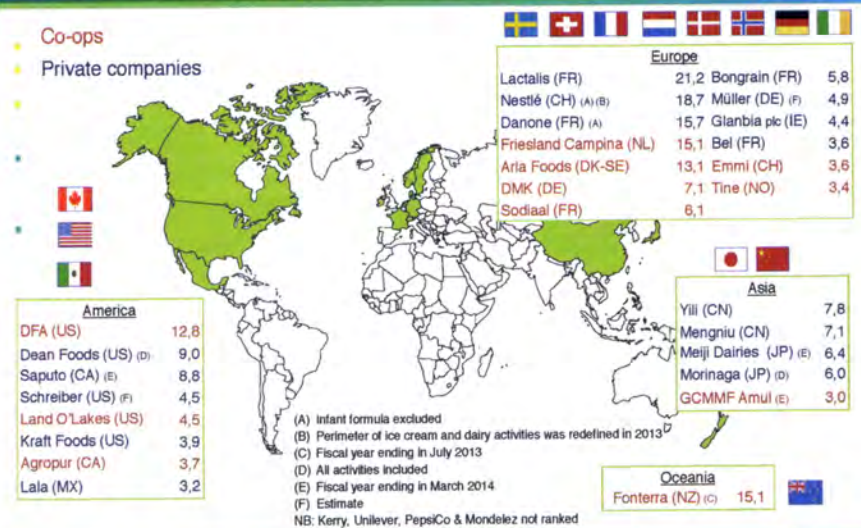
Dairy prices will trade at high levels to attract investments on farm and ration available supply.

Supply chain integrity and security will become increasingly important.

Regulations will continue to change - for example EU quota removal in 2015 - and in some regions milk supplies will continue to grow much larger.

Dairy coops are positioning themselves to defend and prosper in this

Leading global dairy processors in 2013: 27 groups (including 11 co-ops) generating dairy sales exceeding 3 billion USD



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new market era, says Hunt.

In emerging markets, companies are striving to build secure supply bases and tying up with and/or acquiring offshore suppliers. Farmers are also moving downstream to set up their own processing plants.

The future presents considerable opportunities for dairy cooperatives.

According to Hunt, challenges include how can milk farmers raise the capital to realize these opportunities, how can dairy cooperatives avoid being cut out of the supply chain and how do large farmers with large volumes fit into dairy coop's one-farmer-one-vote principles?

The second speaker was Benoit Rouyer, chief economist at CNIEL France. CNIEL is an umbrella organization representing the interests of French dairy producers and processors with a mission "to organize the dairy industry in a coherent manner in order to promote its economic development". His topic was Investment Dynamics in the Global Dairy Industry and the Contribution of Cooperatives.

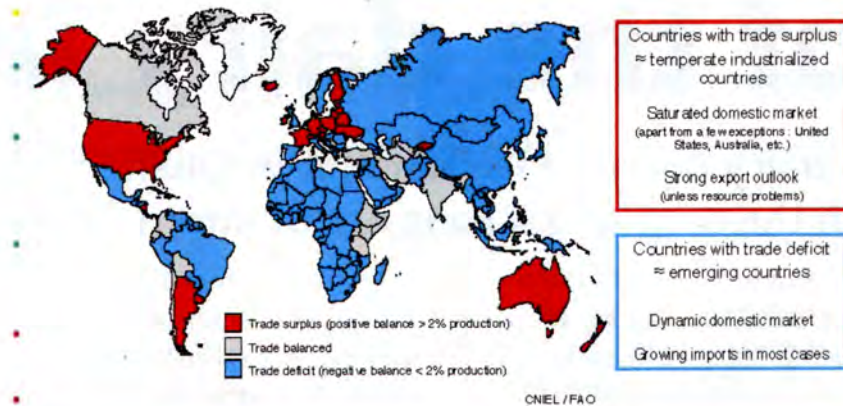
Over the past decade, milk prices in the three main exporting areas (Western Europe, US and New Zealand) have converged dramatically. Pointing to a soaring middle class in developing nations, Rouyer notes a scarcity of natural resources such as water and arable land in many zones have caused milk prices to rise steadily in emerging nations since 2009. Not surprisingly, prices in China show the most dramatic increases.

Investment strategies differ from region to region, says Rouyer. Presenting a world map showing nations classified according to their milk trade balance (deficit, surplus), two countries – Canada and India – stand out as trade-balanced. Also in this category are smaller nations in NE Africa, Latin America and the Middle East.

Investment strategies differ greatly according to area



Classification of countries according to their trade balance for dairy products



CNIEL - Benoit Rouyer October 2014

Trade surplus nations include the US, Australia, New Zealand, Argentina, Uruguay and Northern European nations.

In 2013, 27 global dairy processors reported sales volumes in excess of 3 billion USD. Eleven of these were cooperatives and all show steady growth. They are Friesland Campina (Netherlands, \$15.1 billion), Fonterra (New Zealand, \$15.1 billion), Arla Foods (Denmark-Sweden, \$13.1 billion), DFA (US, \$12.8 billion), DMK (Germany; \$7.1 billion), Sodiaal (France, \$6.1 billion), Land o Lakes (US, \$4.5 billion), Agropur (Canada, \$3.7 billion), Emmi (Switzerland, \$3.4 billion), Tine (Norway, \$3.4 billion) and GCMFF Amul (India, \$3 billion).

Investing to satisfy member's "will to grow", Rouyer notes that since 2012, New Zealand's Fonterra invested in nine new plants, Australia's Murray Goulburn invested in seven and India's GCMFF (Gujarat Cooperative Milk Marketing Federation Ltd; brand name AMUL) built 11 new facilities.

In Europe, some dairy coops are basing growth strategies on high-capacity plant facilities. For example,

since 2012, Veghel (Netherlands), Zeven, Edewecht and Pronsfield (Germany) and Aylesbury (GB) have all added 1-2 billion litre/year plants.

Other coops have set up partnerships with foreign investors. Chinese infant formula giant Synutra teamed up with French coop Sodiaal to build a new drying plant in France; Biostime, a premium Chinese pediatric nutrition and baby care products provider invested with Isigny Sainte Mère Coopérative to build a new infant formula plant in that country. Both investments will produce products destined for China.

Some coops generate a significant part of their industrial activities outside of their homeland. One example is Agropur. In 2013, Agropur merged with Farmers Cooperative Dairy and acquired Coast Mountain Dairy, Cook's Dairy, M Larivee International, fromagerie Damafro in Canada and the dry blending business of Foremost Farm in the US.

In 2014, Agropur acquired the processing and distribution facilities of Northumberland Dairy Coop, the dairy arm of Sobeys and Davisco, a US

cheese manufacturer. A second example is Arla Foods, which through a series of mergers has transformed its member base from Denmark and Sweden in 2001 to one that today includes Germany, the UK, Belgium and Luxemburg.

Cooperation amongst co-ops is also a strategy to build new plants. In Northern Germany, four co-ops jointly invested 85 million USD to build a new dryer with an annual capacity of 570 million litres of skim milk. Arla Foods and DMK came together in a joint venture (ArNoCo), investing 65 million USD to build a new ingredient factory with a productive capacity of 25,000 tonnes per year of whey protein concentrates and dry blend lactose.

Dairy co-ops are also strengthening their position in areas with high development potential. In the past two years, the Swiss group Emmi purchased a Mexican Cheese importer; Carbery (Ireland) invested to process whey in Brazil and Arla foods took a stake in Brazil-based Vigor. In 2012, Arla foods invested 290 million in a 6% stake in Mengnio (China). That same year, Fonterra established a five-

dairy farm hub in China's North Hebei province and announced a second for Shanxi province. Together, these two hubs will produce an anticipated 300 million litres of milk per year.

In July 2014, Fonterra announced a 300 million USD investment with Abbott Laboratories to build a third 5-farm hub in China that will add 16,000 more cows and boost Fonterra's annual production in China to an estimated 460 million litres. In 2012, Dutch cooperative Friesland Campina invested 450 million USD to increase their stake in Alaska (Philippines) from 8.1% to 97.7%.


Investments in Africa include Emmi's 2012 take over – through its Spanish subsidiary Kaiku - of Tunisia's Vitalat and Friesland Campina's 19 million USD investment in a dairy plant on the Ivory Coast.


With the context well set by the first two speakers, next up in the afternoon session was R S Sodhi, Managing Director, GCMMF Amul, India, who spoke about Indian Dairy Cooperatives, the Amul Model). He was followed by Yves Pelle, Partner, PwC, France (Agricultural Cooperatives: Strengthening Competitiveness and

Seizing New Opportunities) and André Martin, Associate Professor and Researcher IRECUS, Université De Sherbrooke, Canada who spoke on Cooperation: An Ethical Asset to Meet Human Challenges of Today.

In next morning's session, Andrei Mikhalevsky, President of California Dairies provided An American Perspective; Simon Reuter, Board Member, Friesland Campina gave A European Perspective: Having Members in More Than One Country; Philip Tracey, Chair of Murray Goulburn, provided An Australian Perspective and Robert Coallier concluded with A Canadian Perspective. The session wrapped up with a panel of selected speakers.

As far as I know, Canadian dairy farmers are the only farmers in the world who have consistently (40+ years) received a return from the market that covers production costs. Supply management is an eloquent example of sovereign and visionary farm policy that supports a safe and stable supply of milk, vibrantly generational family farms and enduringly sustainable communities. Advantage: Canada. **DI**






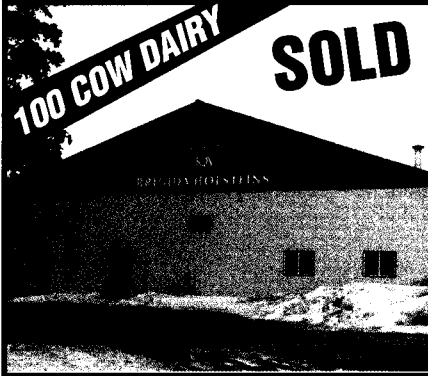
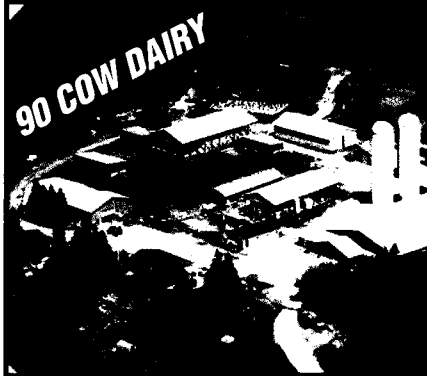
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