Dairy Trade
Offensive Interests

Eucolait
25th June 2007

Mr Jack Baines
President

Presentation structure

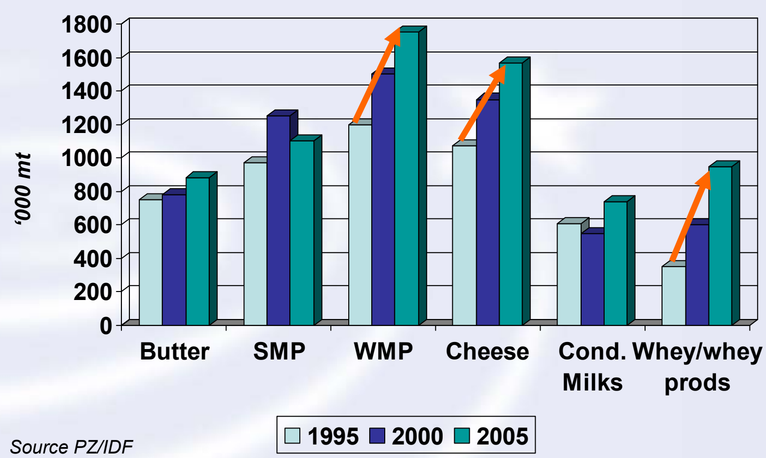
- Brief overview of world dairy market :
  - > the EU and its competitors
  - > products and their markets
- Eucolait's wish list & FTA priorities
- Comments on targeted third markets

The Basics

- The Global Dairy Trading Environment
  - **Positive environment**
    (consumption rising faster than production)
  - **Average prices expected to rise over the next decade**
  - **World market only 7% of total production**
    most trade is local and regional (eg EU)
  - **Market dominated by NZ (Fonterra)**
  - **EU's share of world market is declining**

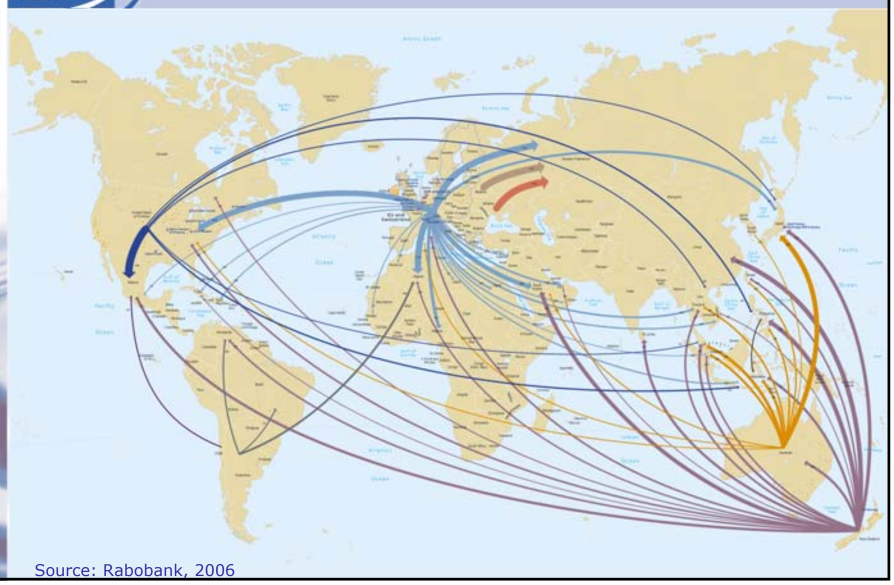
Growth in world dairy trade

WMP, cheese and whey are the main growth products



Source PZ/IDF

World Trade Flows

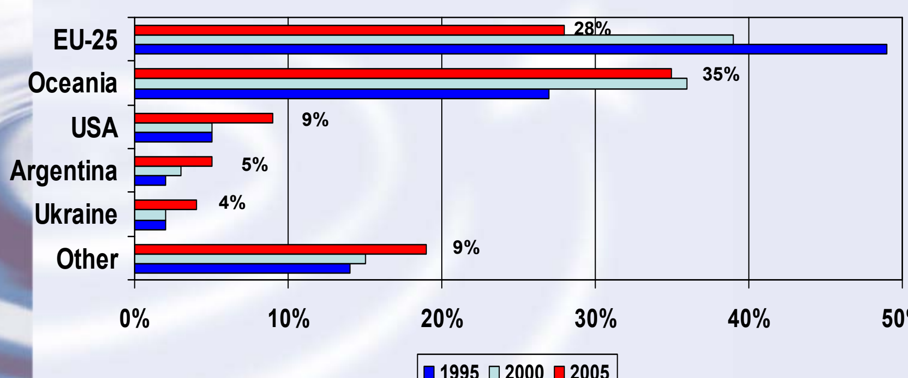


Source: Rabobank, 2006

The Competitors

- EU's share of world market has fallen over last decade (and will fall further)

Shifts in World Trade Flows over past Decade

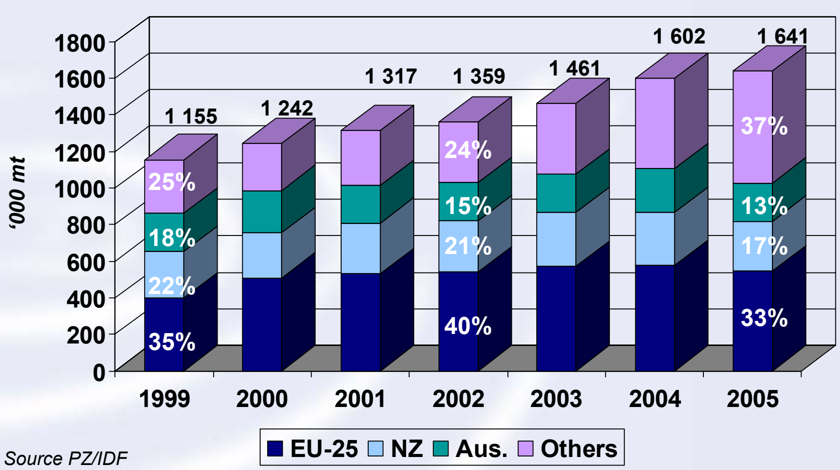


Cheeses

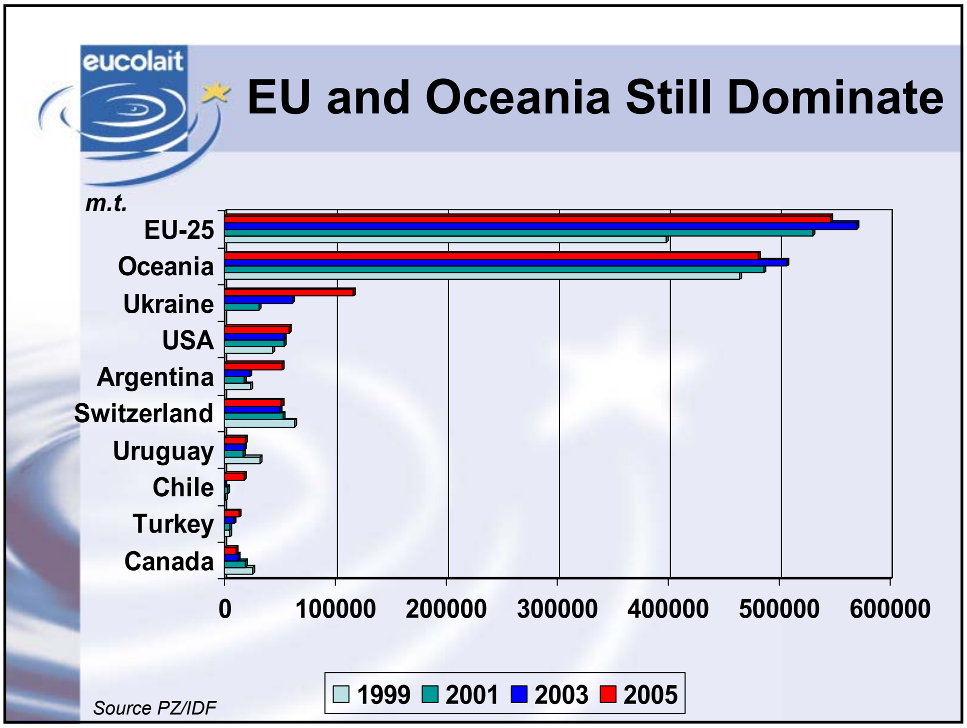
- Growing demand worldwide
  - Russia, Japan and US to remain largest cheese importers
- EU still the largest exporter
  - Encouraging growth of unsubsidised exports (but still less than 50%)
  - Value added business
  - But declining market share
- Dramatic rise in new suppliers
  - Impressive growth in Ukraine and Argentina

World Cheese Exports

World cheese market growing. Attracting new cheese suppliers. EU market share is on the decline. More markedly for Oceania.



Source PZ/IDF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EU and Oceania Still Dominate
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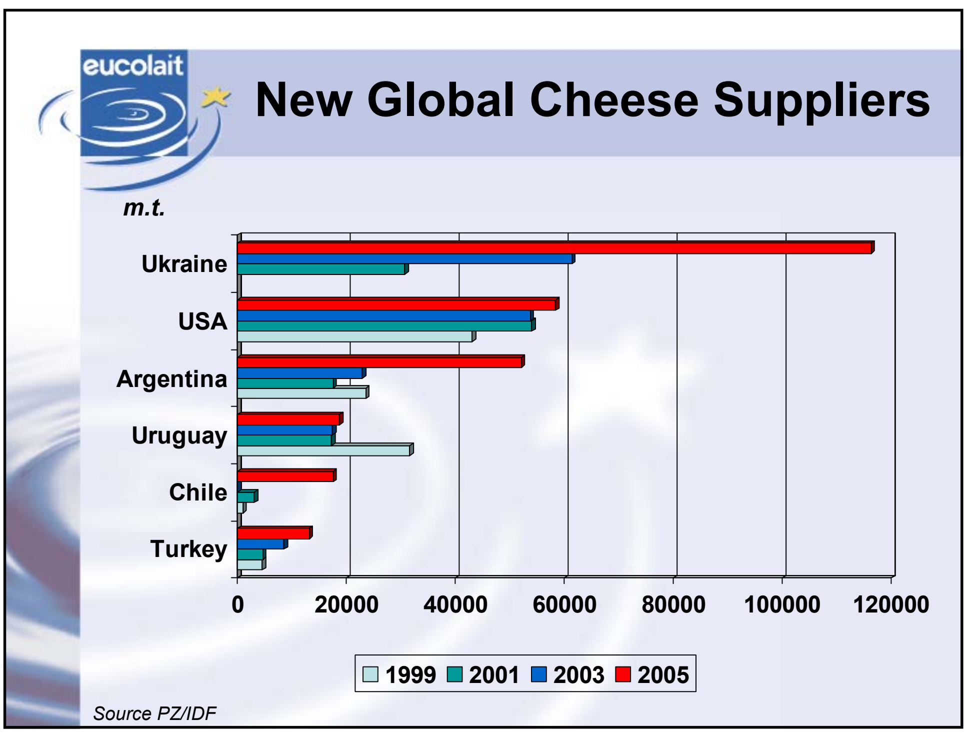
Source PZ/IDF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New Global Cheese Suppliers
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Ukraine
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Uruguay
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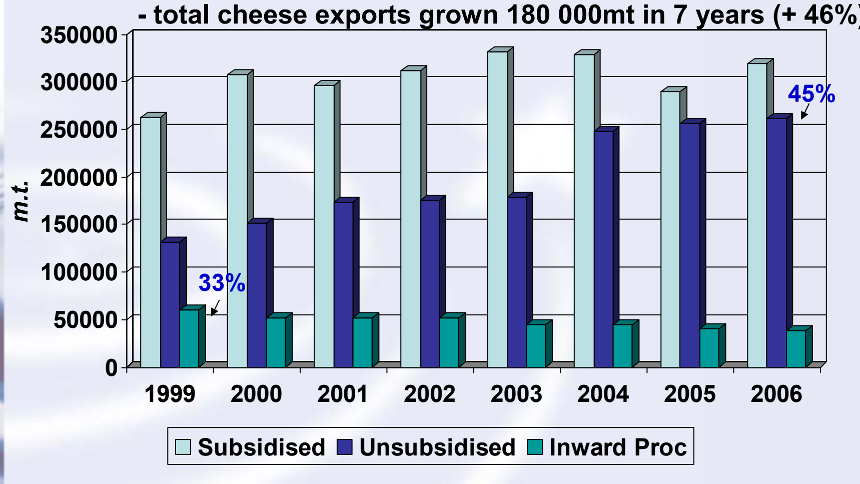
Source PZ/IDF

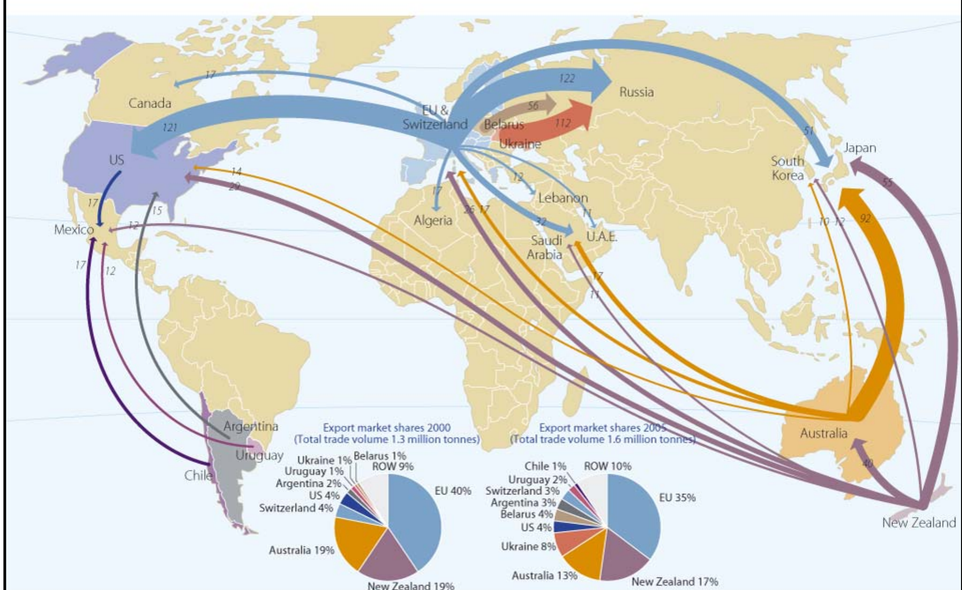
EU unsubsidised cheese exports

Unsubsidised exports accounted for 45% of total exports in 2006

- total cheese exports grown 180 000mt in 7 years (+ 46%)

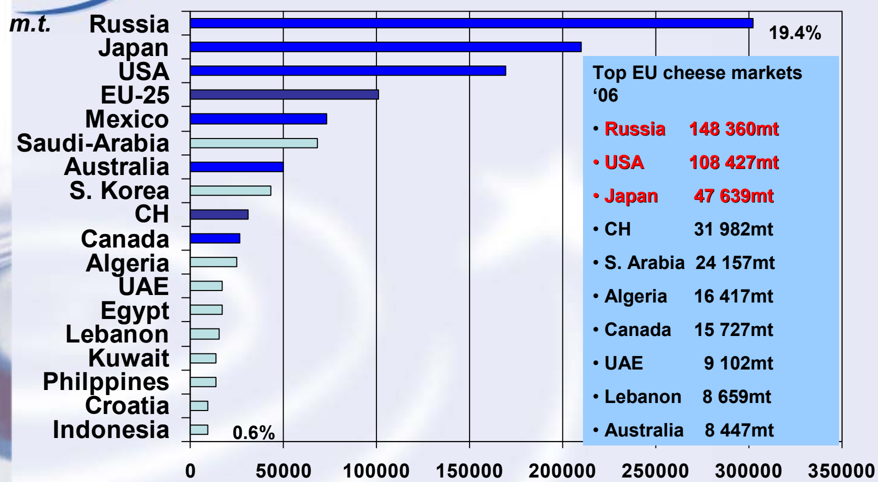


Cheese trade flows >= 10,000 tonnes



Source: Rabobank, 2006

Global Cheese Importers '05



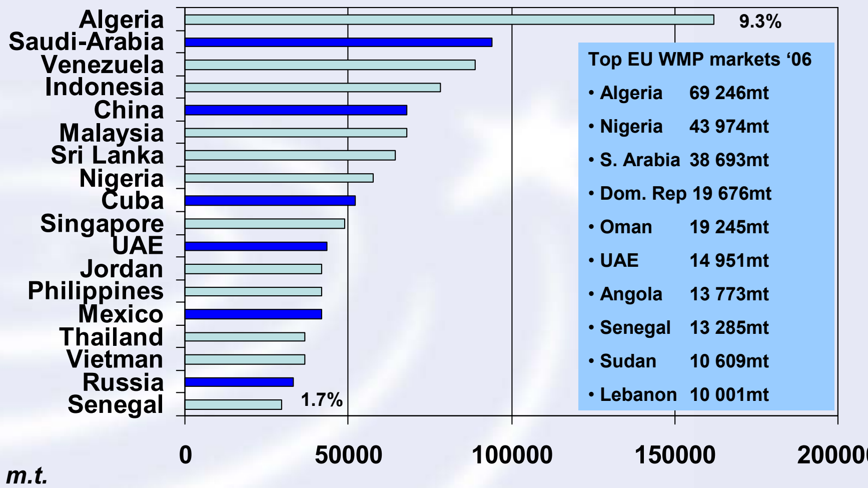
Russia, USA and Japan are key strategic markets for the EU

Milk Powders

- Most important traded dairy commodity
  - Dominated by Oceania (NZ) and market share to grow
  - Latin American presence (Argentina) growing
  - Fragmented import markets
- Key products for Asia (ASEAN and S. Korea)
  - Consumer of half the world's dairy products
- Middle East and N. Africa important for the EU
- Unsubsidised EU WMP exports not competitive in lower price environment

Global WMP Importers '05

WMP demand growth concentrated in developing markets - strongest in Africa, followed by Asia and Latin America



Butterfat

- EU surplus product
  - reliant on subsidies for past 40+ years
  - future export business without refunds?
- Oceania will remain the world's largest exporter (50% of market)
- EU share predicted to decline from 38% 2003-05 to 22% in 2015 (OECD-FAO)
- India is the single largest consumer (and producer)
- Russia is the largest importer

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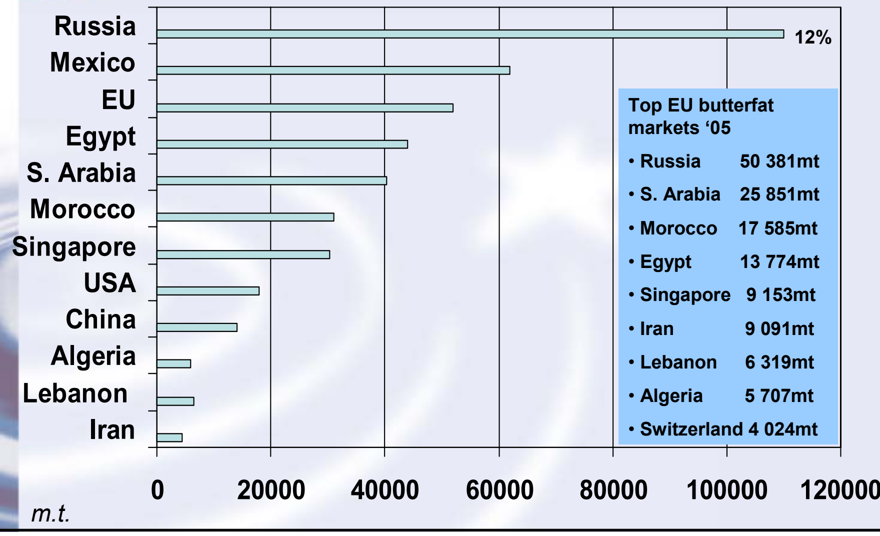
Global butterfat markets '05



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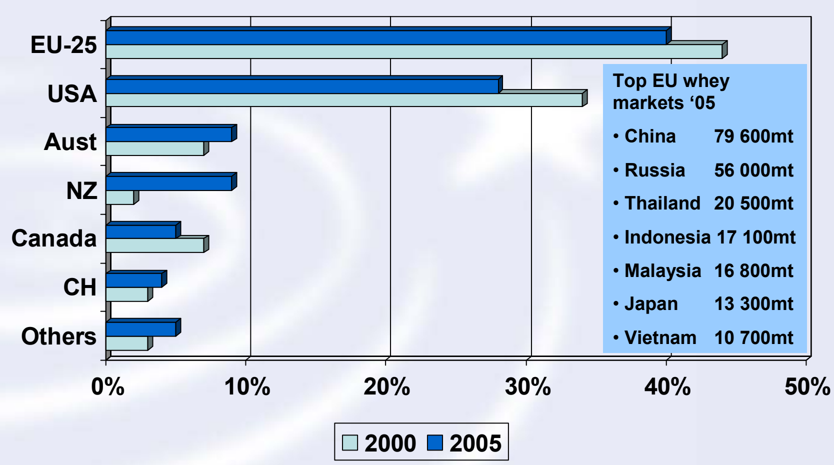
Whey products

Whey (dynamic product and will grow – by-product of cheese production)



EU exports declining but ...

EU exports still account for a quarter of total milk production

Source: PZ/IDF

EU's future export potential

Quota restrictions and growing consumption maybe reducing export volumes now

BUT WE NEED TO LOOK AT THE FUTURE

- Further CAP reform and WTO will determine our export potential (climate change/biofuels ?)
- Clear demand for EU products on export markets
- Growth of unsubsidised cheeses and whey products shows our potential, but new market access essential
- Risk of stagnation if focus exclusively on home market (globalisation, stay competitive and innovative)

Eucolait Wish List

- EU to develop a new dairy export policy
  - unsubsidized environment (refunds, milk quota?)
  - new market conditions (higher world prices)

  Policy = Clear, Offensive, Long term, Targeted (COLT)

⇨ improve market access (FTA's)

⇨ market EU origin USP (GI ?)

⇨ ------

⇦ offensive interests in imports

The GI Debate

- Important not to exaggerate trade benefits
- (In dairy) only relevant for cheese
- Covers a minority of products, of markets and of consumers
- Serious lack of data on volumes traded
- Not a substitute for export refunds or preferential market access
- Should not be a precondition for preferential market access

Improve Market access

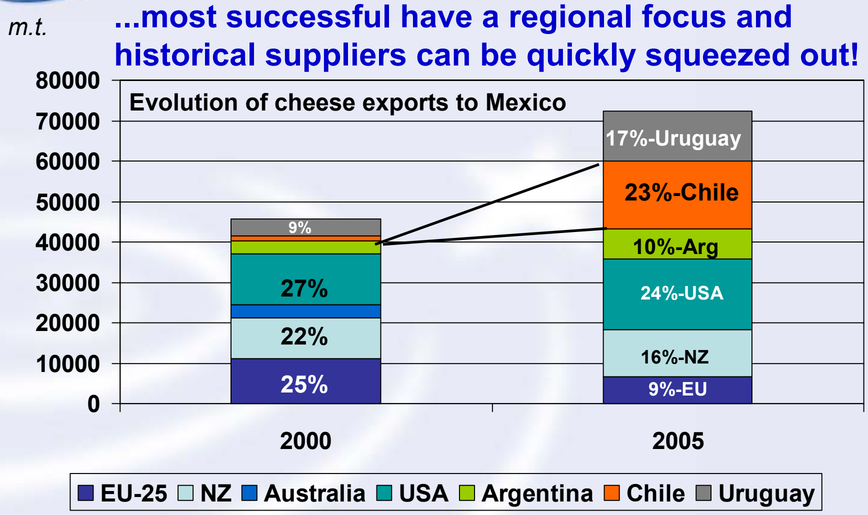
- Have equal if not better access than our competitors in key markets

  - raft of bilateral agreements under negotiation or targeted; EU cannot be left behind

  - don't give up on multilateral process

Bilateral Agreements can work but …

...most successful have a regional focus and historical suppliers can be quickly squeezed out!



Source PZ/IDF

Priority FTA's for dairy

1. Highest priority for EU dairy is for improved market access in Russia, USA and Japan

2. Categorisation of other trade blocs

Priority high	Priority medium	Priority low
✓ Mediterranean ✓ Western Balkan ✓ ASEAN ✓ S.Korea	✓ Mercosur ✓ Ukraine ✓ India ✓ ACP ✓ South Africa	✓ Andean Comm. ✓ Central America

- Neighbouring countries

- Mediterranean region
  - High tariff region
  - Need to deepen existing concessions (expand TRQs and reduce in-quota tariffs)
  - Preference for EU product but price sensitive
  - Demand for milk powders to grow – some growth potential for cheese
  - Strategic interest, particularly in Turkey, but region also growing in importance for NZ
- Western Balkans (strategic)
  - FTA a key priority
  - Market for dairy-related NAI goods
    - Tariff-related?
  - Potential to grow cheese and butter
    - Exports to Croatia twice TRQ volume

South East Asia

- ASEAN
  - Growing consumption and strong reliance on imports
  - Important market already (particularly for milk powders, whey and butteroil)
  - Milk proteins to remain dominant import
  - NZ dominant supplier but cannot cover the whole market
  - Several bilateral FTA’s already (with USA and NZ in particular)
  - Tariffs need to be harmonised and reduced (preferably) to zero
- South Korea
  - 2nd largest dairy market in SE Asia (after Japan)
  - Commercial opportunities for full spectrum of dairy products – high duties currently applied
  - Cheese imports to increase 48% over 10 years to 2015 to meet growing demand
  - Emphasis on quality (and well-being) and prepared to pay for it
  - Has several FTA’s already or under negotiation with EU’s competitors

- Other dairy countries

- Mercosur
  - Limited exports, mostly whey (Brazil) and WMP (Venezuela)
  - Competition from local suppliers
  - Complicated Venezuelan import licencing and product registration system
  - Brazilian (milk powders) and Venezuela (cheese) anti-dumping rules (what does this mean for an EU-Mercosur Agreement?)
  - Abolition of refunds should not be a precondition for new accord
  - Some potential for milk powders, value-added products (speciality cheese, WPC, NAI products)
  - Less EU interest in the past in an accord because of export refund issue
    - A more offensive interest for Mercosur (Argentina, Brazil) ?
- Ukraine
  - Market for dairy-related NAI products
  - Duty-free access for former Soviet states
  - Significant producer and trader in own right
  - Potential supplier for EU market
- India
  - Self-sufficient producer/protected market
  - Growing middle class: target for EU value added products
  - Estrogenic treatment certification requirement should be challenged

- ACP & South Africa

- ACP*
  - Tariffs generally low
  - Price sensitive
  - Market for commodities and dairy-related NAI products (food preparations)
  - Limited opportunity to grow unsubsidised products
- South Africa
  - Positive outlook for EU products
    - Food preparations, whey, cheese and butter
  - RSA refuses to grant preferential access to subsidised EU cheeses

* ***Countries analysed: Senegal, Mauritania, Nigeria, Angola, Ivory Coast, Ghana, Kenya & Mauritius, Dominican Republic, Trinidad & Tobago, Barbados, Jamaica***

- Andean & C. America

- Difficult competitive environment
  - Price sensitive
  - Regional suppliers and CAFTA (and NZ!)
- Some opportunities for cheeses, Ch 19 and Ch 21 blends
- Andean duties calculated on c.i.f value (including freight and insurance)
- Pre-export product registration requirement in several countries
- Peruvian cheese certification difficulties for EU internal transit consignments
- On-going requirement for individual EU factory approvals

To Conclude

- EU's future trade will be more targeted
  - Preferential access will help facilitate longer-term development
- Improved market access needed most especially in our key markets (Russia, USA and Japan)
- Order of priority in our FTA (dairy) offensive interests
- Demand growing fastest for cheese, WMP and whey but no product should be discounted (including NAI)
- Benefits of PDOs/GIs for dairy trade should not be over-estimated
  - Urgent need to analyse current level of PDO exports
- Limited SPS problems generally
  - Could deteriorate in a more liberal environment

Thank You !