



The EU dairy sector: Developing beyond 2015

3rd Dairy Conference, Lajosmizse – Geréby Chateau

21st November 2013



Introduction

Hoogwegt Dairy



VISION. VALUE.



The Hoogwegt Group – numbers

world wide sales: > € 2,7 billion (in 2012)

volume: > 1,300,000 tons

sold & shipped to >140 countries around the world

purchases from 31 countries on 5 continents

intra-eu vs. export: 50/50

employees: 350



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Core Business

global b2b-marketing, sales and distribution of dairy products and ingredients, originating from all major dairy producing regions in the world.



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Products

liquids (cream, smc, skimmed milk, whole milk, whey)

milk powders (full cream, skimmed, butter milk)

butter / butter oil / amf

whey derivatives (whey powder, wpc's, lactose)

permeate & caseinates

fat filled (based on coconut and palm oil)

ingredients (including vegetable based)

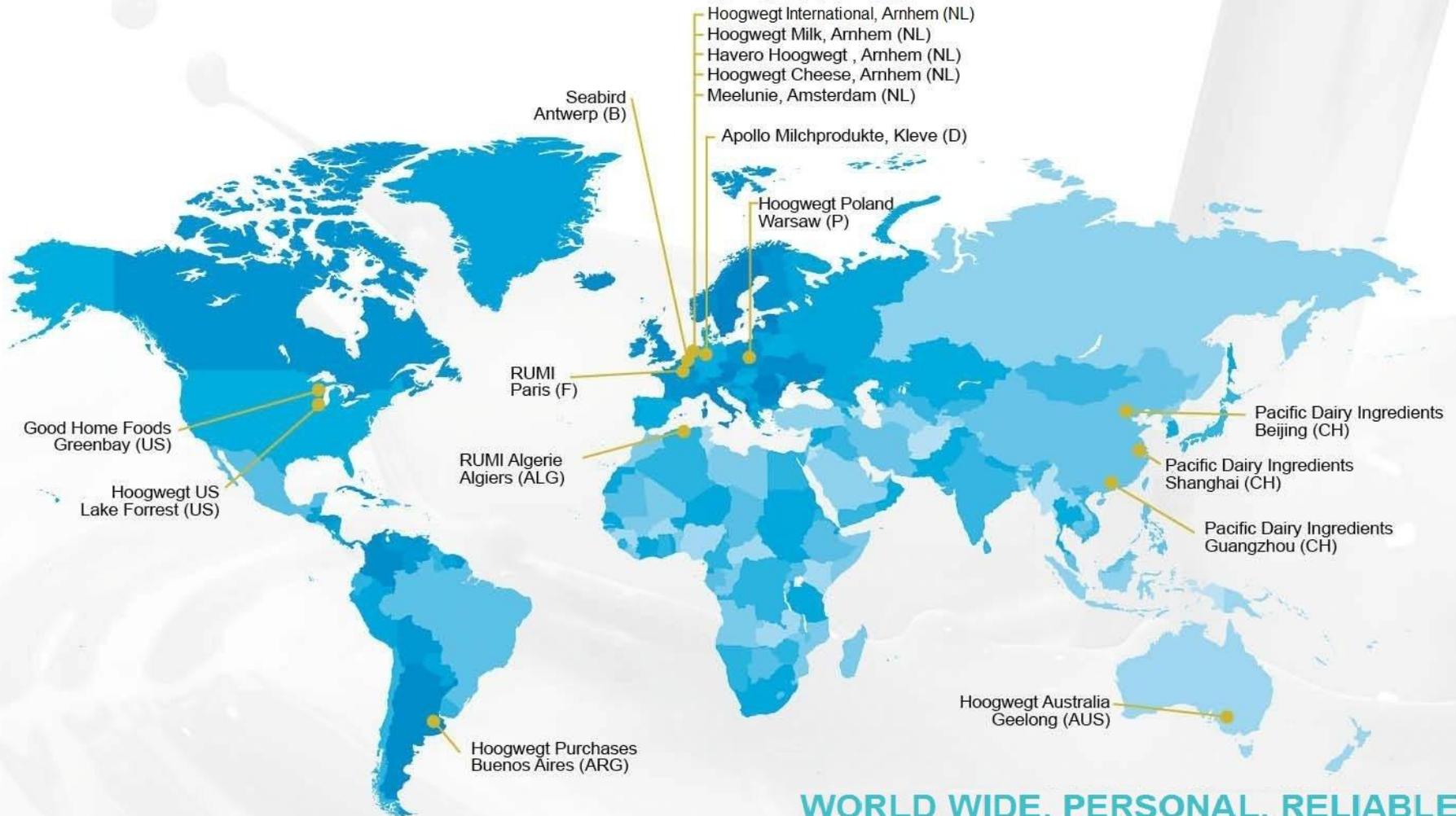
cheese



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HOOGWEGT GROEP– Operating Companies



WORLD WIDE. PERSONAL. RELIABLE.



Developments Dairy

post 2015



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EU dairy market post 2015

Fact

- European dairy farmers aspire to grow milk output by 10 – 15 bn kgs after 2015
- Recent investments suggest: about 2/3 of this milk will end up in dried milk products for the international market
- Global market demands more milk
 - Total annual imports by milk deficit countries will be 24 bn kgs higher by 2020 (Source: Rabobank)
- Post 2015 challenges accelerates consolidation at the processor level

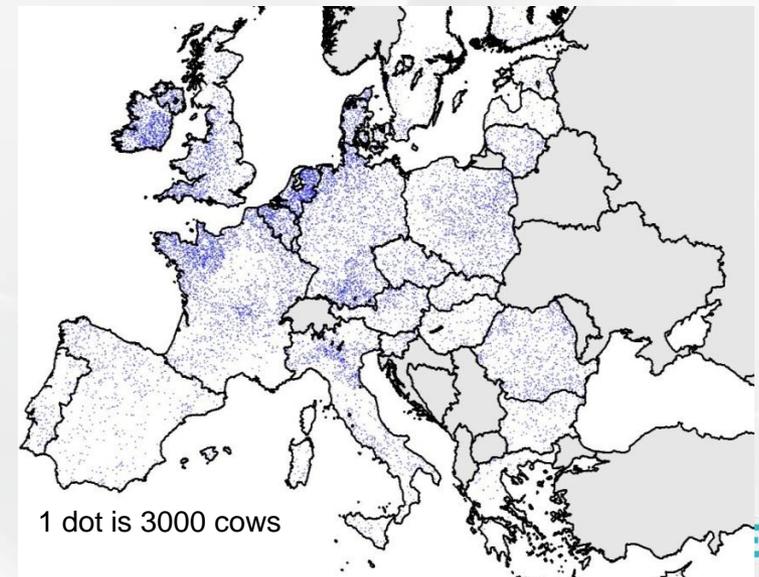
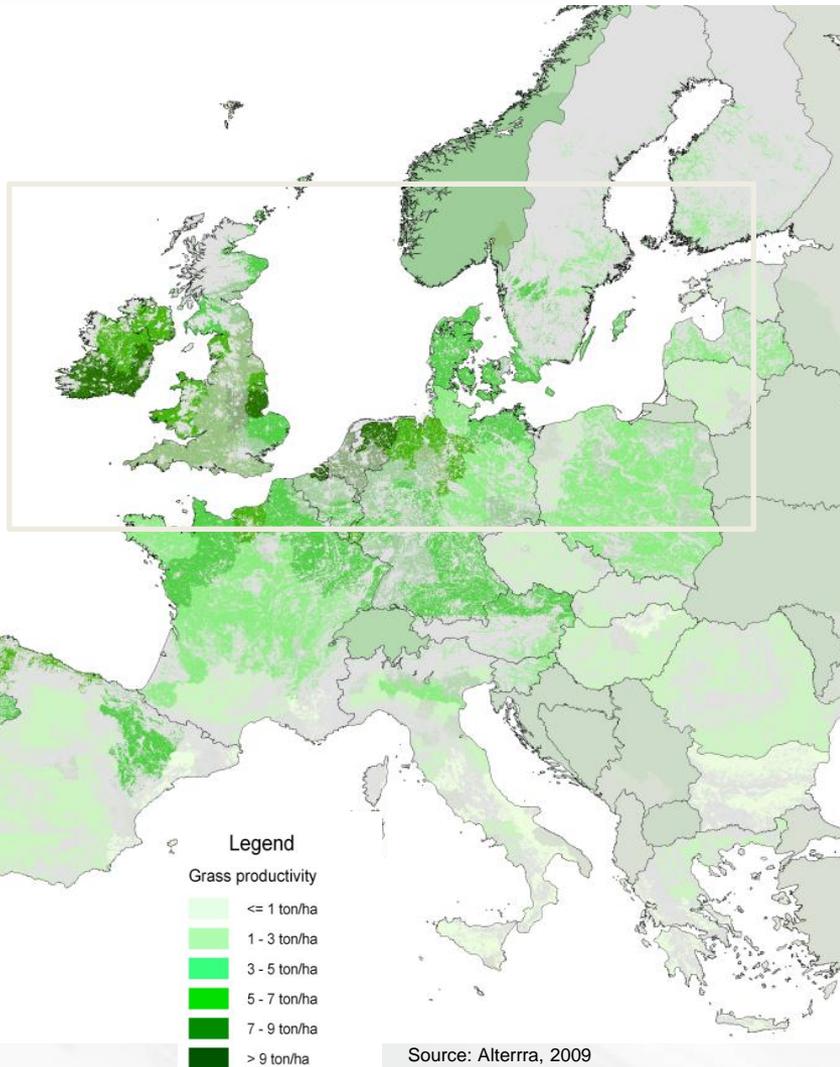
Uncertainty

- How quickly will this growth be achieved
- How much of these new product volumes still have to find a new home
- How will the EU's role in the global market change
- How will this affect the role of traders in the value chain



Comparative favourability of milk production

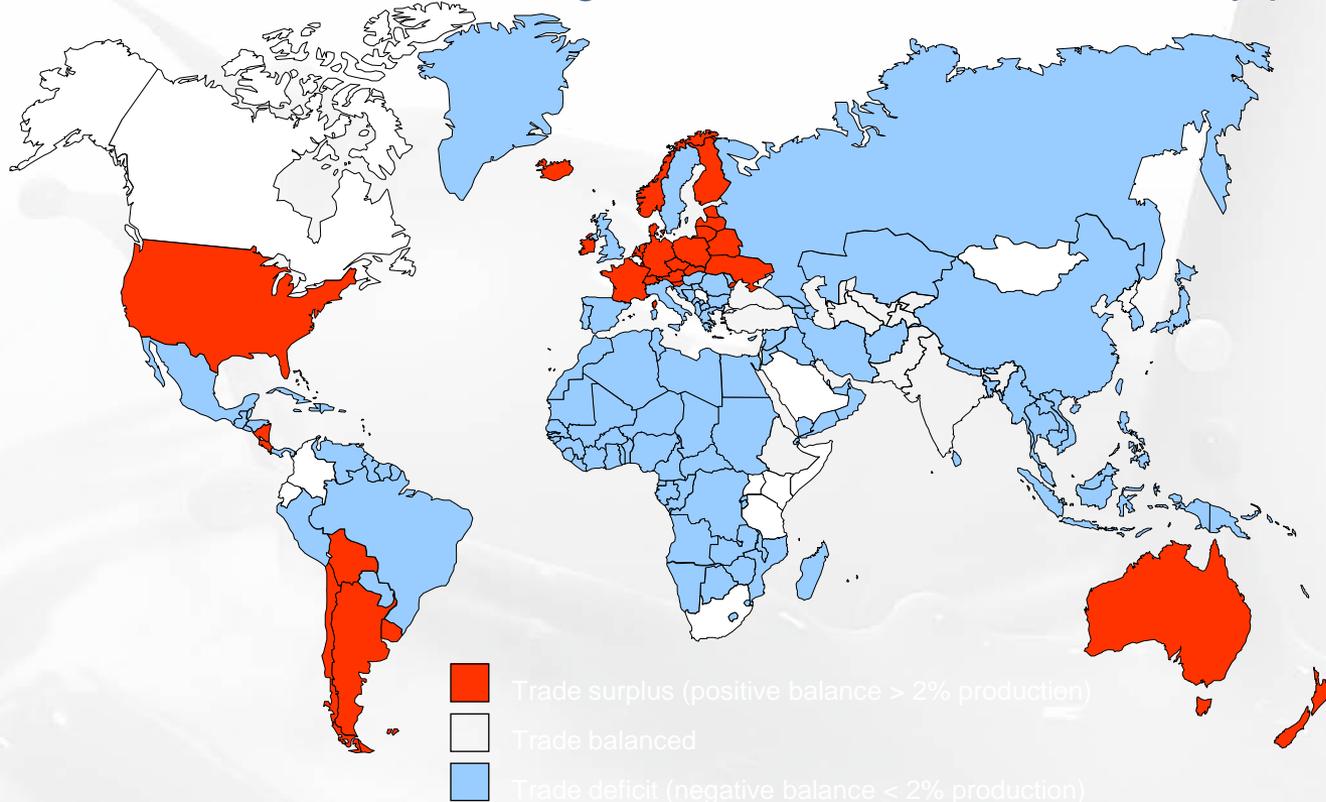
- A liberalisation of the EU milk supply regime will cause a reallocation of milk production that will be more in line with comparative cost advantages
- Grassland productivity is driven by a combination of precipitation, land quality, sun hours and land structure
- Current cow distribution across the EU is largely in line with physical favourability





Most emerging countries, especially in Asia and Africa, present a trade deficit for dairy products.

Classification of countries according to their trade balance for dairy products





Direction for dairy processors

Milk (as food in general) becomes more valuable

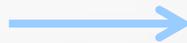


The dairy sector attracts newcomers

Upstream strategies deployed by dairy processors

No dairy basin is neglected

World demand is more and more focused in emerging countries



Western dairy leaders invest massively in emerging countries

New national leaders arise in emerging countries. They grow rapidly and invest abroad.

Demand for dried dairy products increases rapidly



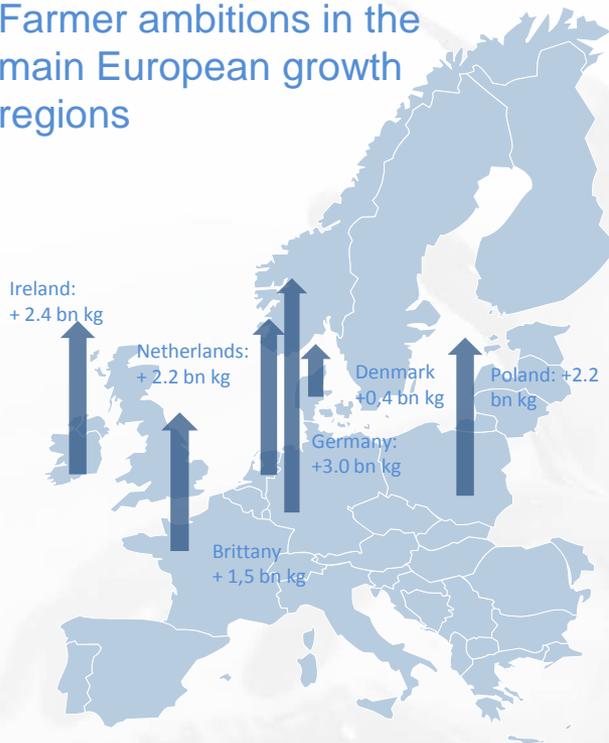
Heavy investments in new driers

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Farmer ambitions in North Western Europe are high

Farmer ambitions in the main European growth regions



- 10 -15 bn kgs of aspired growth implies roughly **5-10 bn kgs** of milk that **needs to find a home outside Europe**
- **New milk in North Western Europe may displace milk volumes in less competitive Southern European regions**
- What is the expectation for **Hungary**?



Pace of production growth will be determined by economic reality

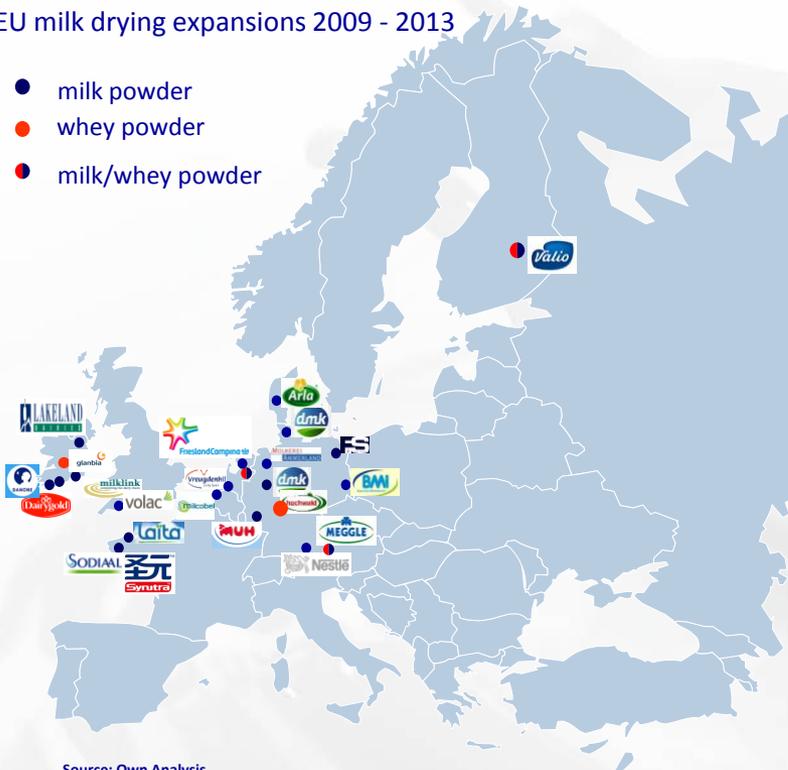
- **Milk price levels** as determined by the global market in 2014 - 2016
- **Willingness of banks to fund** capital intensive growth
- Political flexibility to **allow certain regions to be non compliant** with enviromental guidelines
- **Weather influences** will make it hard to grow milk production year after year



New investments target dried milk products mostly

EU milk drying expansions 2009 - 2013

- milk powder
- whey powder
- milk/whey powder



- Total investments in dried products are about € 1.2 bn
- Remaining investments mainly target cheese (+/- € 600 mln)
- Additional capacity to deal with new milk post 2015 is largely there
- Have the markets also been developed?

The speed of milk production growth will determine the free tradeable volumes in in the initial years after 2015



Some volumes are already part of designated contracts

Examples of direct investments by buyers

Danone: upto 70,000 mts. of additional capacity in base powder



BIOSIME

Biostime: 20,000 mts. of IMF



Xian Consummate: +/- 20,000 mts. of IMF



Synutra: +/- 50,000 mts. of ingredients for IMF

- Not all of the output of the new investments will be at the disposal of traders
- The need for supply security pushed several Asian buyers into direct investments in Europe



Some challenges as well: processor consolidation

Share of the top-8 milk powder manufacturers in total EU powder production



NB: 2020 estimate is based on publicly announced capacity investments and realistic milk supply developments

- Post 2015 market turbulence will accelerate processor consolidation
- Top-8 powder manufacturers are also the main investors in new powder capacity
- Buyers increasingly aim for supply security by structuring direct supply contracts with large processors
- A growing number of processors have multiple valorisation options within the company
- Internationalisation of European processors continues

Top 8 producers expected to control 44% of EU milk powder output in 2020



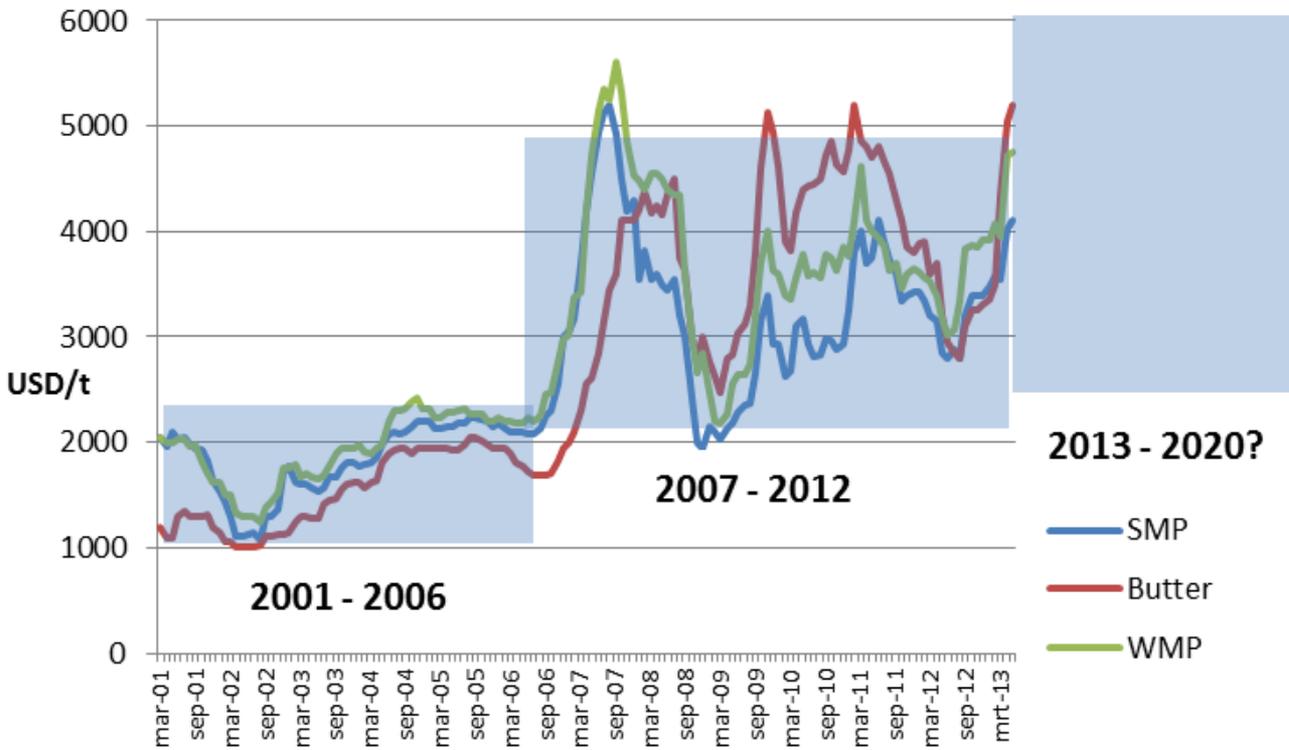
Global market impact on EU will grow

Challenge for farmers and processors, but opportunity for traders

- Removal of the upper limit of EU milk production will increase the frequency and magnitude of EU market imbalances
- Global market prices will increasingly drive local retail pricing
- Milk prices will to a larger extent be determined by global market valorisation
- Short term differences in valorisation levels of domestic and international companies will become more frequent
- Traders have the capability to provide solutions for these challenges



Trading range for prices continues to expand



- Increasing price volatility provides **risks as well as opportunities**:
 - Traders generally benefit from lively markets
 - Unpredictability and speed of price change requires critical mass in trading volumes and spread of risk



Requirements for success for European traders change

- Impact of trade regulations on trading business will further diminish
- A strong global network generates a strong competitive edge
 - Geographical spread is required on the sourcing side as well as the selling side
- Quality control and tracking and tracing systems are becoming increasingly important
- Commodity trade remains the core business, but opportunities in tailored blends and specifications are growing



Conclusions

- EU milk supply will expand and will shift towards Northern Europe
- Expansion to cope with additional processing requirements is already well advanced
- Europe's share in global trade will increase again
- Impact of the global market on EU price development will further increase
- Initial years after 2015 will be important for traders to prove their value to suppliers
- A fast and strong increase in milk production will strengthen the role of trade in finding new markets for this new supply
- General outlook for EU traders is very positive, but adjustments to the new reality will be required



Thank you for your attention!

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