
The New decade of volatility and adjustments 2010s

Challenges and Opportunities for the Dairy Industry

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The New Decade of volatility and adjustments 2010s:

Challenges and Opportunities for the Dairy Industry

1. Introduction

The next decade will be a huge challenge for the dairy industry with fundamental changes in the international environment. The companies that understand and adapt to the new situation will be the winners whereas those who act defensively to protect the markets and products from the 1990s and the 00s will be the losers. In the next decade, the dairy industry will be exposed to international changes both political and economic as all other sectors – there are no longer protected by dairy policies with direct support, price guarantees and high tariffs. The focus has to broaden significantly to identify the future possibilities and threats. The changes will occur faster than earlier and the dairy companies have to act faster to both contractions and expansions of the world economy to be able to utilize the opportunities instead of losing market shares.

1.1. Objectives and scope

The analysis seeks to identify the mega trends that will occur in the next decade and the impact on the economic, political, demographic and other factors. This creates the future framework and the future agenda for the dairy industry.

The aim is to relate the external developments to the dairy sector and analyze the consequences for dairy sector in relation to the development in supply and demand for milk and dairy products. The report analyzes the impact on the dairy industry and identifies the future opportunities and threats for the dairy industry and on this basis characterize the future winners and losers. Finally, the report outlines future scenarios, strategies, and recommendations for the world dairy industry.

1.2. Content and methodology

The report is divided into two major parts where Part I outlines the general expectations to the developments in the next decade and Part II focus on the impact on the dairy sector.

Part I focuses in **chapter 1** the general framework from 1990 to 2020 and identifies the characteristics for each decade, and in **chapter 2** the mega trends for the next decade are outlined. In **chapter 3** the general economic, political, demographic and other factors are analyzed and this lead to the conclusion about the general expectation to the development in the 2010s in **chapter 4**.

Part 2 is devoted to analyzing the impact and consequences for the world dairy sector. In **chapter 2** the expected development in the supply side is analyzed in relation to the world milk production until 2020 and the factors affecting the milk production are also included. This implies analyzing:

- The production costs
- Milk price development
- Structural development
- Deregulation of the dairy policies
- Climate change
- Other factors

In **chapter 3** demand side is evaluated by assessing the development in world demand for dairy products from 2010 to 2020. The price development is estimated and the regional/national market developments are analyzed. This includes also the future consumer trends in respect to volume and quality based demand. Finally, the growth products of the next decade are identified.

Chapter 4 analyses the impact and consequences of the future development on the dairy industry. The basis is an evaluation of the performance of the dairy products in the current economic recession. A SWOT analysis is used to identify the future possibilities and threats for the dairy industry compared to the strengths and the weaknesses of the sector. The dairy structure in the 2010s is outlined and the major dairy companies in the world are evaluated.

Chapter 5 set up different scenarios for the development in the dairy sector in the 2010s and as for the general development the world dairy situation will be very volatile with fast changes in demand and market opportunities. On this basis the strategies of the last decade has to be revised and adjusted to the new situation. The analysis also identifies the profile of the potential winner dairy companies in the 2010s.

Finally, **chapter 6** concludes the analysis and sets up recommendations for the dairy industry to be able to meet the challenges of the next decade.

1.3. Time scale

The report covers the period from 2010 to 2020 with estimates and prognosis for the general economic, political development, and the specific developments for the dairy sector. To understand the future developments the report focuses on the developments for the essential parameters in the last two decades to identify the major changes and characteristics.

1.4. Report sources

The report is based on PM FOOD & DAIRY CONSULTING research of the elements in the new world order, the supply/demand situation in the past and the future, and the political situation and the main sources are:

- International statistics: United Nations, EU Commission, EUROSTAT, USDA, OECD, FAO, FAPRI, World Bank, IDF, IFPRI, IFCN, ZMP and others
- National agricultural statistics
- Professional publications and reports
- Dairy and farmer organizations
- Embassy enquiries
- Interviews with key business and political actors

PM FOOD & DAIRY CONSULTING is responsible for the analyzing schemes, prognosis, scenarios and political recommendations.

Extracts from the report

I: General Part global analysis

1. General framework 1990-2020

The general framework for the global economy has changed significantly since 1990 and with periods of dynamic growth as well as recessions. The political agenda has been altered complexly from a cold war scenario and a dualistic security to a global focus on terrorism.

The major characteristics from 1990 to 2010 and the prediction for 2020 are:

Table 1: Characteristics for the different decades

Decade	Characteristics
1990`s The decade of surplus	<ul style="list-style-type: none"> • End of the Cold War • Globally income growth • Penetration of the information technologies • WTO I agreement
2000`s The decade of exaggeration	<ul style="list-style-type: none"> • IT bubble bursts • 9/11 – new international agenda • Expansive fiscal and monetary policies – heating the economies • Food/hunger/energy imbalances • Climate problems • Deepest economic recession since Second World War
2010`s The decade of volatility and adaption	<ul style="list-style-type: none"> • Population growth and scarce resources • New world order • Increasing demand for food/energy etc. • Emerging economies continue to gain economic and political power

Source: PM FOOD

The last two decades have been characterized by large changes in the overall agenda for the world economy and the dairy industry. The 1990's began with the dismantling of the communist regimes in Eastern Europe and the collapse of USSR and the cold war ended. The basis for uniting Europe existed now and the first step was the unification of Germany in 1990 and throughout the decade the CEEC countries were connected closer to Western Europe. The economic situation in CEEC and CIS were terrible in ruins and the milk production and dairy consumption was reduced with more than 50% due to the disappearance of governmental support for both the production and consumption. The result was declining milk prices combined with increasing consumer prices in a situation where the average income per capita also declined.

The world market for dairy products entered a process of liberalization with the WTO I agreement that has been implemented since 1995 with restrictions on export subsidies and increasing market access to the high price markets.

In the 1990's, the EU dominance on the world market for dairy products was surpassed by New Zealand and Australia due to the impact of WTO I and the milk quota system.

The 2000's initiated a new beginning also in respect to the global economic growth. After the burst of the IT-bubble in 2001 and the 9/11 shock the world economy began to recover. With the BRIC countries in the lead the period from 2002 until 2008 was one of the most dynamic since the Second World War with two-digit growth rates in the new economies. From 2004 EU was enlarged from 15 to 25 member states and the CEEC countries entry reunified Europe after more than 50 years of separation with an iron curtain. From 2007 the picture was completed with Bulgaria and Romania joining the EU. The EU membership has already in the short term generated growth and this is expected to continue in the future – although these economies are also affected by the global economic situation.

The period from 2004 to 2009 was extremely volatile with extreme shifts in the global agenda. The global demand for dairy products increased significantly and at the same time the demand for arable land and products for producing bio-fuel squeezed the possibilities to expand the supply of milk. The over-heating of the global economy peaked in 2007 and 2008 with record high world market prices for milk, beef meat and arable products. The world was on the edge of a new hunger-crisis according to FAO and the World Bank. The high prices created problems in the poorest developing countries. However, the situation changed very fast during the second half of 2008 and 2009 where the deep economic recession caused a large reduction in the world market price for dairy products. Supply and demand was again in a miss match and the stocks of SMP and butter returned and this depressed the prices further. The dairy farmers around the world went from the highest milk price and profits in 2007/08 to the deepest economic crisis in the last three decades because the input costs remained higher than the decline in milk price.

The problems with climate change were high on the international agenda in the last decade but the economic recession from 2008 the focus vanished and the COP 11 in Copenhagen in December

2009 failed to deliver an agreement. The economic problems limited the possibilities to make a comprehensive agreement. For many industries including the dairy industry this can be a relief and secure more time to reach balanced solutions without forced and substantial governmental regulations.

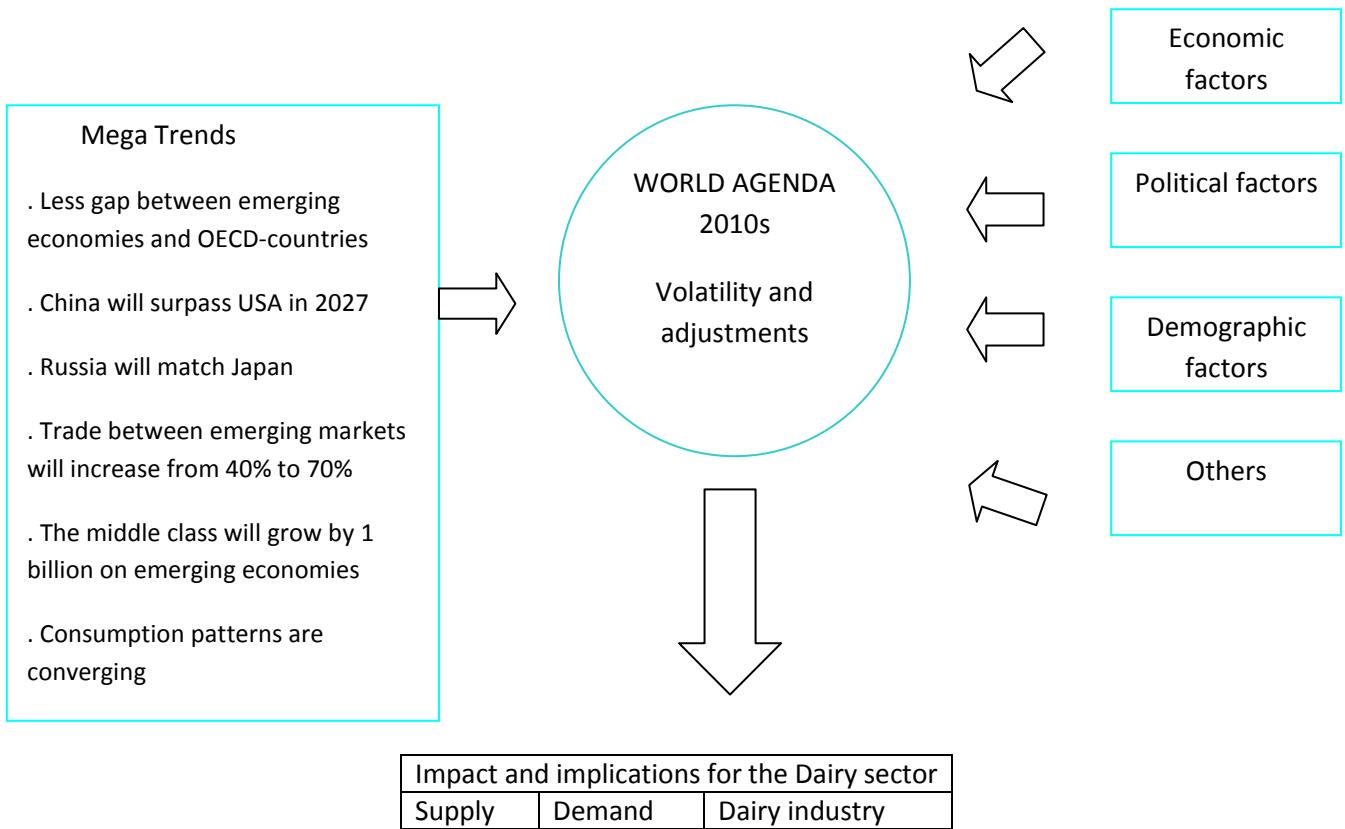
Extracts from the report

Part 2: Dairy sector analysis

1. Introduction

The next decade will be very challenging for the dairy industry with significant changes in both the supply and demand for dairy products. The directions for the future development have already been formed since the change of the millennium. In the last decade the dairy industry experienced the emerging of new markets in Asia, South America, and Africa and the increasing demand led to rising prices for milk and dairy products with more than 100% for several products. This extreme situation lasted only from 2007 to mid 2008 where the world wide economic recession lead to a dramatically drop in demand for all commodities including dairy products. The milk sector in most OECD countries experienced serious economic problems both in the milk production and the dairy processing segment. The development since the change of the millennium has shown how fast things are changing and how volatile the prices for dairy products develop compared to the 1980s and 90s where the world market and the domestic prices were protected by a comprehensive dairy policy in most developed countries. What are the prospects and the challenges for the dairy industry in the next decade?

Figure 2: Analysis model



Source: PM FOOD & DAIRY CONSULTING

The analysis focus on the development in the global supply and demand in the next decade in the light of the external changes predicted in Part I.