Export opportunities for the EU dairy sector

Dairy Forum in Tallinn
"Overproduction as the breeding ground for export"

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"In 2015, with almost USD 500 bios in global revenues, dairy was the biggest revenue generating and the fastest growing category in the food and beverages sector. Analysts project 10% annual growth over the next 5 years. Milk and cheese will account for 50% of the market".

"Emerging markets are expected to account for 75% of industry growth by volume over the next 5 years. China alone is projected to represent roughly 55% of that growth"
The world will produce more milk
The world will produce more milk: +93 mio t 2016-2021
EU, IN, US already largest producers and will increase the most

World Milk production 2016, mio tons
(bars denote 2016-2021 total volume change in mio tons)

Source: Gira compilation

Dairy Herd (mio hd) | 2016 | 2021 | 2015/05 | 2021/16
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(excluding India) | | | | |
Dairy Herd (mio hd) | 104.1 | 104.7 | -0.1% | 0.1%
Milk Production (mio t) | 511.7 | 545.8 | 1.7% | 1.3%

* including buffalo milk

2016-21 volume change (mio tons)
And the world will need more exports
Links between commodity volumes and their price

No statistically significant links seen to date between annual prices and total world volumes traded

Traded volumes of all 3 commodities continue to grow, probably to around 2.5 million tons each by 2019

But there is no correlation between annual growth of volumes and movements of prices.
What about the EU situation
The EU exported (outside of EU) the equivalent of 18.2 bios litres of milk in 2015 (same as the milk delivered in Eastern Europe).

The Central EU is and will remain a major world exporter. Estonia will also have to export more in the future.

113.1%: EU Self-sufficiency in milk equivalent by region, % of consumption in 2015 (112.7% in 2014)
EU dairy consumption trends 2000 – 2020 (lmeq)

*Cheese, whey and cream will continue to grow*
Estonian Milk and cheese exports

Cheese exports: +6% p.a. during the last 10 years

Liquid milk exports: +26% p.a.

Estonian milk and cheese exports, 2005-2015

Source: Gira based on Trademap; milk (HS code 04012099); cheese: 0406
Estonian cheese

Both Production and Export volumes increased between 2005 and 2013 but Exports grew faster

- Share of Exports/Production: 38%
- The share of exports over production grew from 33% (2005) to 47% (2013) and is now at 38% in 2015
- Exports grew firmly from 2004 to 2013 to reach a maximum of 20,700t in 2013
Estonian milk and cheese prices over the last 10 years

Average milk price: 0.28 €/Kg
Average exported milk price: 0.29€/Kg
Average exported cheese price: 3.2€/Kg
What are the main exports destination for the EU

3 examples: cheese, butter and Whey
EU cheese exports by main destinations: 1 mio tons by 2021 (10% of production, was 7.5% in 2015)

The US should remain the N°1 destination for EU cheese, followed by Japan

Source: Gira based on Comext
The EU already represents 14% of total Chinese cheese imports. Was 10% in 2014.
China: Cheese Balance (2005-2021f)

*Cheese demand to see robust growth for next 5 years*  
*+100'000 tons by 2021*

- Cheese demand: still small volumes but fast and steady growth (+16.7% in 2016)
- 80% for restaurant (pizza, burger, pasta…) and bakery; 20% for retail
- Domestic production is only of processed cheese  
  - Made from imported hard and semi-hard cheese

Note: (1) The production is all of processed cheese; (2) The imported natural cheese re-processed in China is moved from the total consumption.
MENA: cheese imports pulled by growing demand in 2015, imports already represent 296'000 tons

Increases in imports have not been stable and react rapidly to price spikes

Serious issues around Halal certification (require microbial rennet)
- Leads to preference for Islamic origins (notably Turkey and Egypt)

Main use of imports is for further processing or use in food service, often both.

A key area for future growth, driven by growing demand for fast food.

By 2019, we are expecting +89'000 tons more imports
World Cheese imports

**Rapid increase of China’s weight**

(4% in 2016 to 8% in 2021)

- Russia is expected to become the largest importer (11%), followed by Japan (10%) and USA (10%)
- They will be followed by China, whose share is expected to increase from 4% in 2016 to 8% in 2021
EU solid dairy fats (butter+AMF) exports by main destinations. Already 10% of total prodn. in 2016

Exports to China will continue to grow and will start to be significant (14% of total exports by 2021)

Source: Gira based on Comext
EU cream exports: 150KT tons in 2016 (+9% p.a. 2007/2016); 5.6% of total production

*China already represents 33% of total exports in 2016 (+46% p.a. over the last 9 years)*
China is expected to become the largest importer, its weight will increase from 9% in 2016 to 14% in 2021.

Russia (10%), Egypt (7%), Mexico (6%) remain the biggest buyers in 2021.

* For EU countries, only extra-EU imports are taken into account.
China accounted for 30% of EU whey exports in 2016, followed by Indonesia (14%), Malaysia (11%) and Thailand (7%).

Russian imports strongly increased in 2013-14, just before the ban. However, in future years, exports to Russia should remain weak.
- Again China will remain by far the largest importer (40%) – an important part of whey import is for feed
- It will be followed by Russia (10%) and Indonesia (8%)
Conclusions
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All are moving towards industrial production and formal distribution… but some very slowly

- **Milk production will continue to grow**, but much of this will be either consumed liquid, to satisfy a growing population, and / or it will be made into fresh products in the home
  - **It is generally easier (and cheaper) to make fresh products by reconstitution from imported ingredients** than to source often low quality milk from many small farmers.
- So the increase in **EU milk production through 2021 will indeed mean higher exports** of dairy commodities
- **Estonia will have also more dairy products to exports** in the next 5 years

While price pressures will ease, we should see value being added in the medium term in:

- **Reasonably-priced fresh products in developing markets** – made from local milk where possible, otherwise reconstituted
- **Tailored, more service-oriented commodity selling into a wider spread of end-user markets**
- **Cheese – everywhere**; particularly for industry and catering
- **Some technical products:**
  - The nutrition sector shows high potential for new uses of whey: clinical, sport and senior nutrition are growing very fast
  - **Basic Whey Powder is more and more being replaced by WPC.**
- **Credible product safety guarantees**, if not directly adding value, are becoming prerequisites everywhere.
Thank you for your attention.

As you all know milk is building strong bones.