



IDF World Dairy Summit 2013

Rediscovering Milk

28 October - 1 November YOKOHAMA, JAPAN

Global emerging dairy in context

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Food and Agribusiness Research and Advisory Rabobank's world leading research network

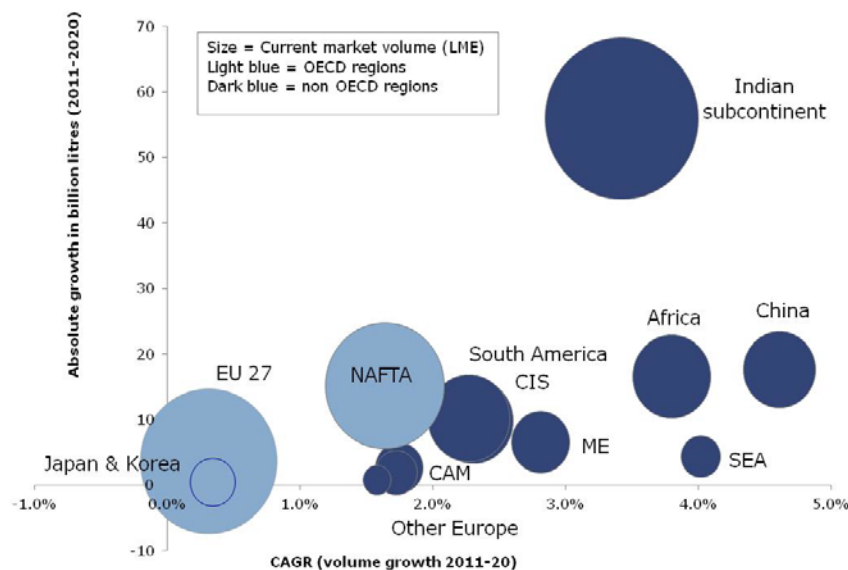


Over 80 research professionals across 18 offices globally - 14 focused on dairy. Entire product chain from farm inputs and primary production to processors and consumers covered

In the next decade the dairy demand will continue to grow - but growth will remain asymmetric

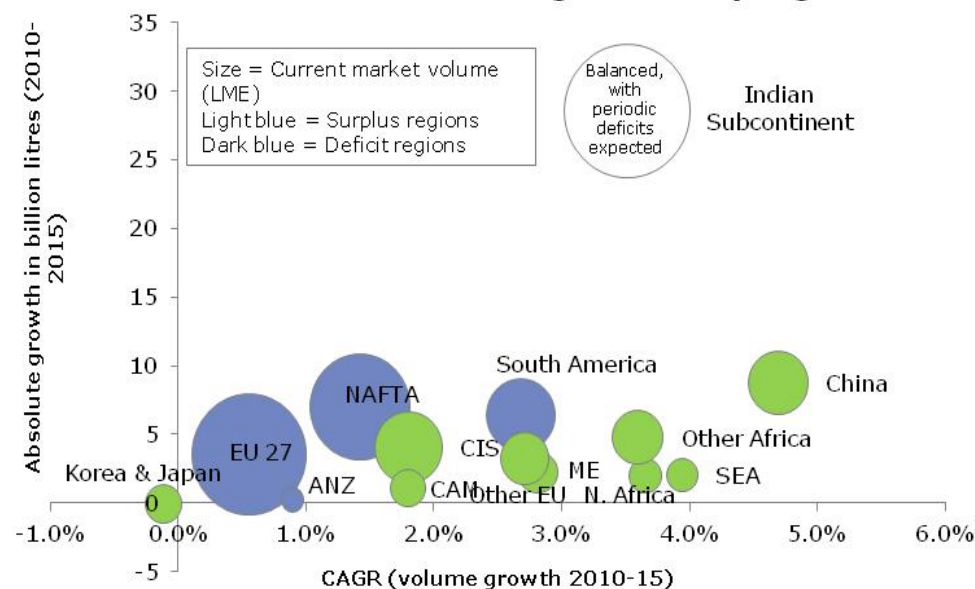
Demand

Market size and forecast growth - by region 2011-20

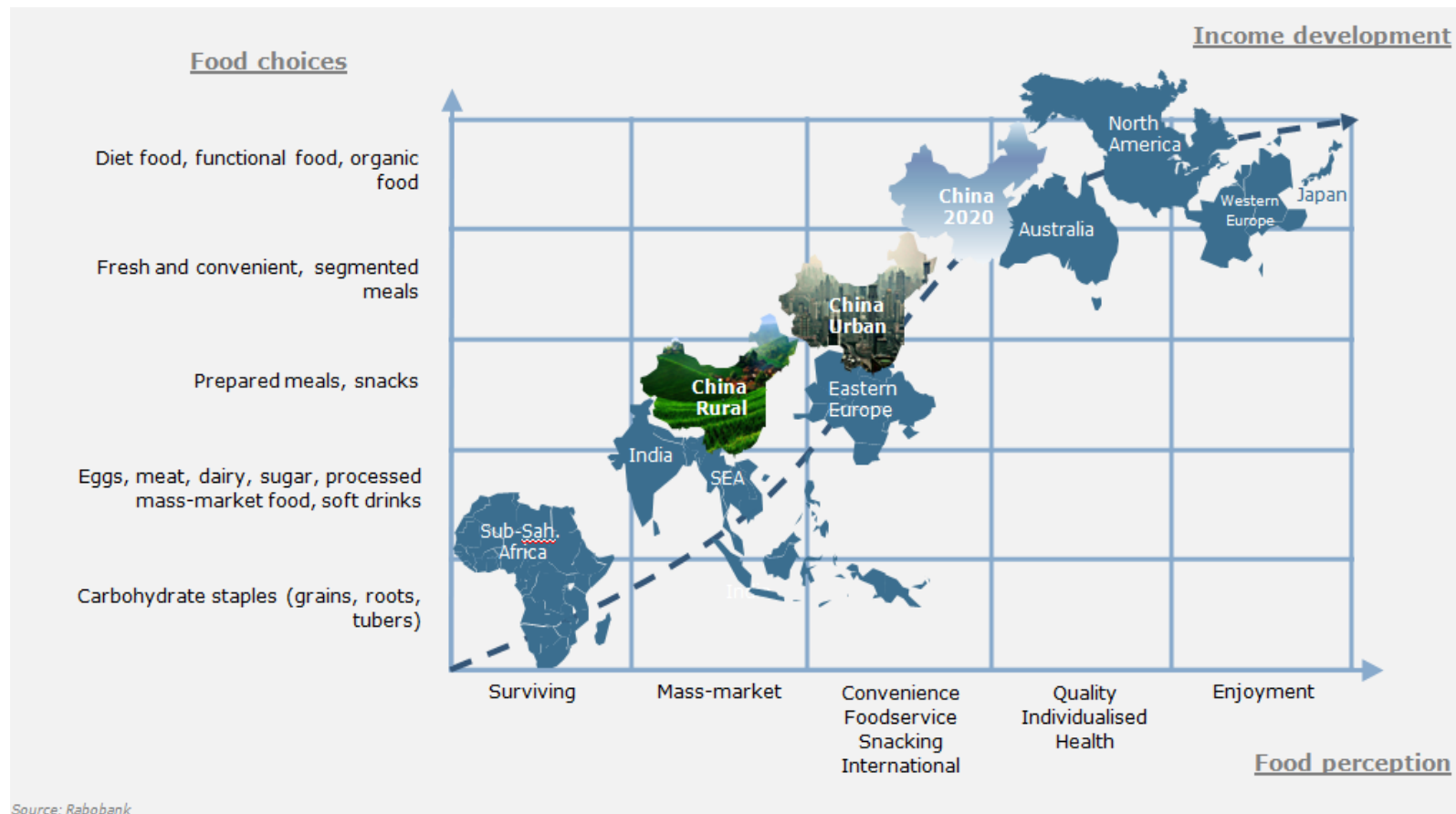


Supply

Market size and forecast growth - by region



This demand growth seems unlikely to reduce in the short term



Developing markets have characteristics making them suitable for dairy

- High birth rates and young populations
- Rising disposable incomes, underpinning the emergence of middle class consumers
- Improving diets and an increasing focus on health and well being
- Gov't support and education programmes, development of school milk programmes
- Growth of modern retailing and food service activities increasing exposure to dairy
- Urbanisation enabling distribution to reach more consumers
- Government support for agricultural development and the support for dairy's ability to impact the economy throughout the year

Dairy companies have a number of market entry strategies available

Milk
Sourcing

Production
type

Farm inputs

Processing

Value-
added
processing

Packaging

Distribution

Import

Establish distribution

Local
Sourcing

Grow
indigenous

Local
sourcing

Local Partner

Develop
new supply

Import

Local acquisition

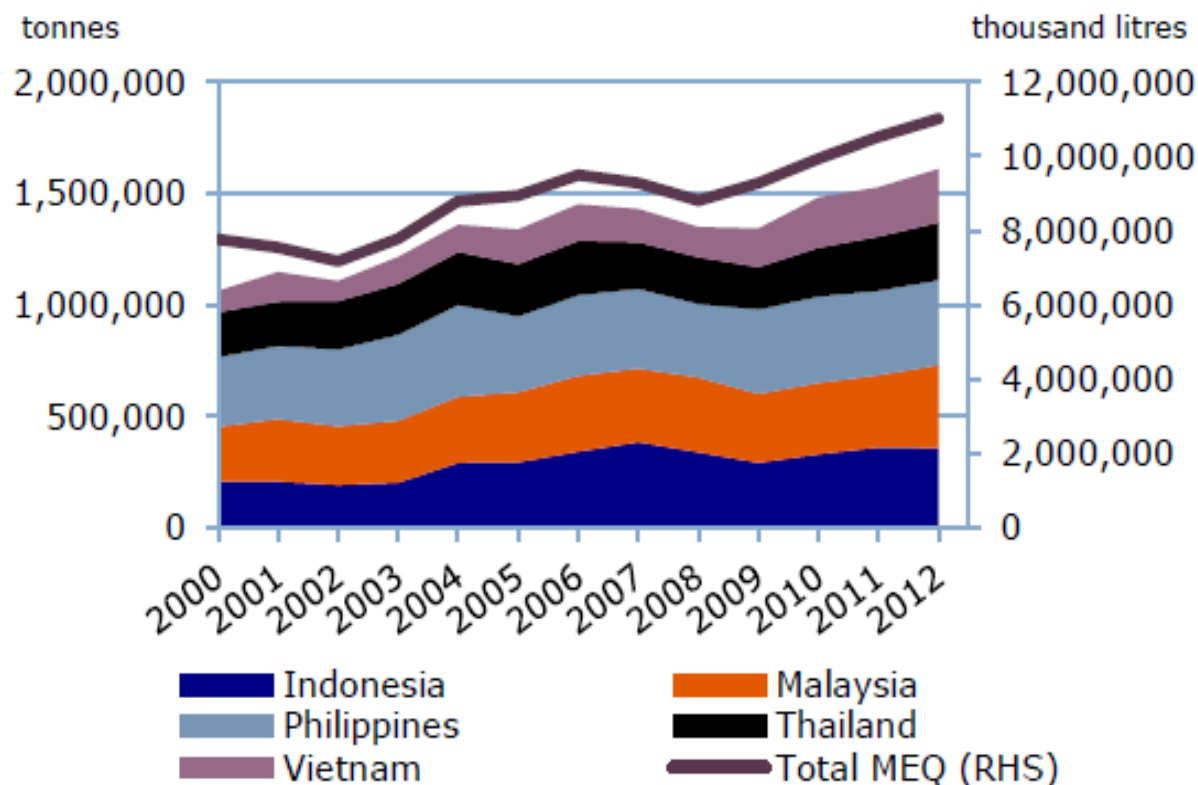
**And.. as a result of asymmetric demand and supply
trade is increasing**

Main dairy trade flows in milk equivalents



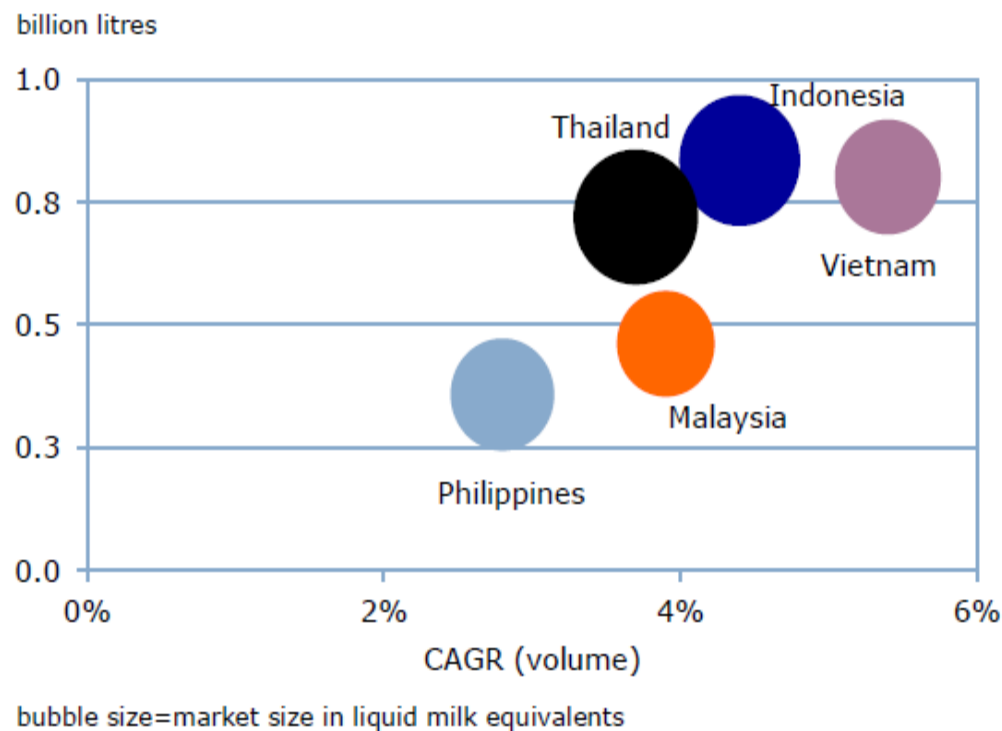
In particular trade flows to developing markets have increased

Dairy Trade flows to SE Asia 2000 - 2012



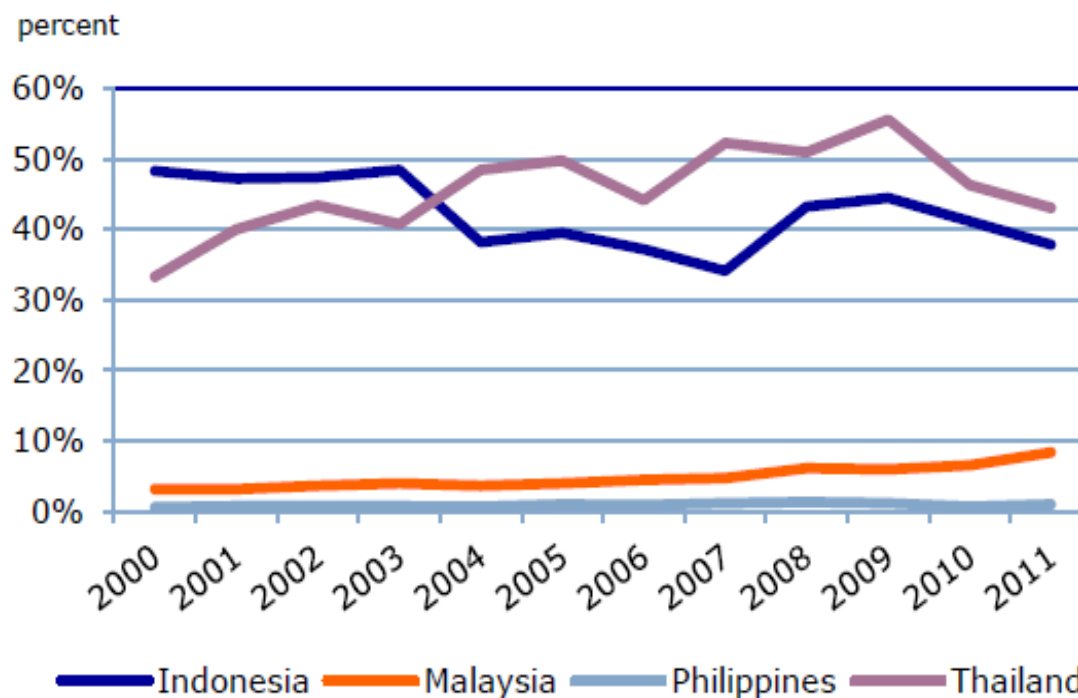
Consumption is set to continue to grow in the SE Asian region

Dairy consumption growth in SE Asia 2012 - 2020



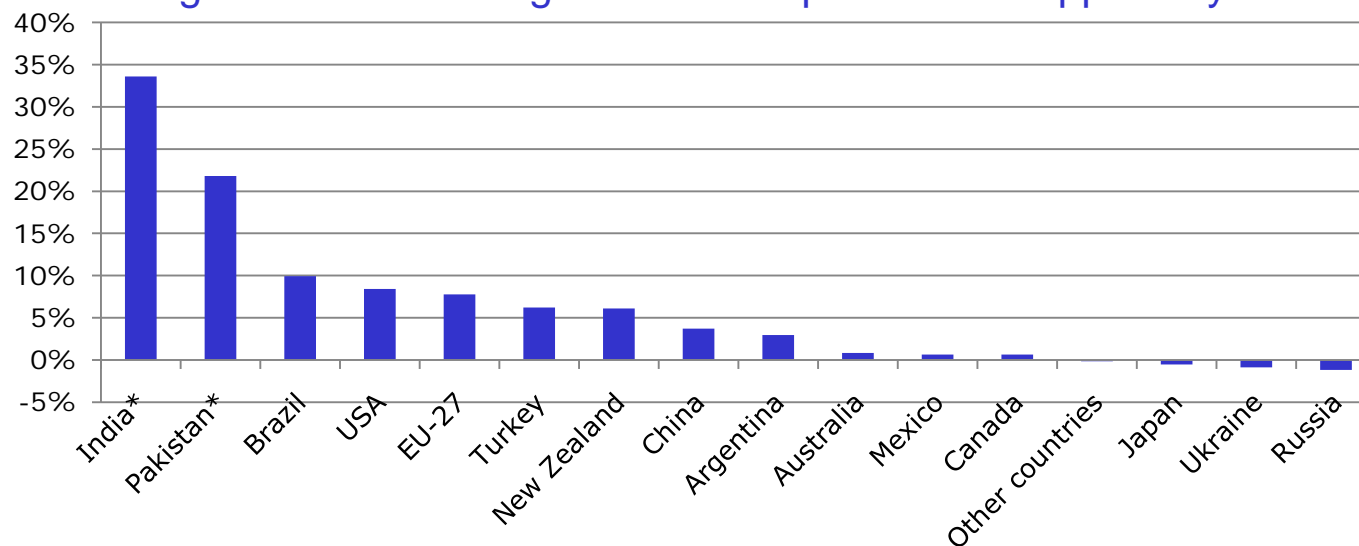
But self sufficiency remains elusive ...

Dairy self sufficiency rates SE Asia 2012 - 2020



Companies also look to produce locally

Percentage of international growth in milk production supplied by country



* Including buffalo milk

Source: IDF World Dairy Situation, FAO, Eurostat, national statistics

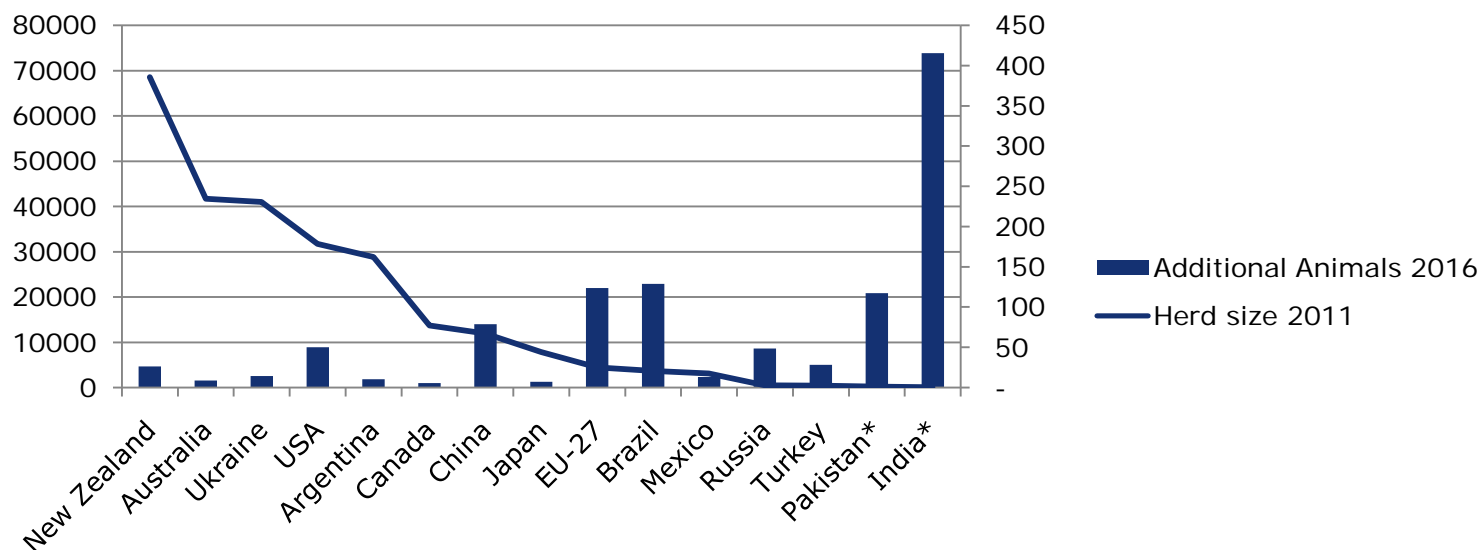
Milk supply grew by 59.6m tonnes between 2009 and 2012

To achieve success there are a number of practical issues to be overcome

- Climates are frequently un-suitability for dairy farming
- Poor farm productivity and lack of indigenous skill-set
- Poor animal genetics
- Scarcity of forage
- Lack of land
- Small farm structure

At current yield levels continued expansion of dairy will need animals in regions with small herd sizes

Scenario of animals required based on (adjusted) extension of current trends



We see a number of different supply chain scenarios developing

Backyard and small-scale dairy farmers

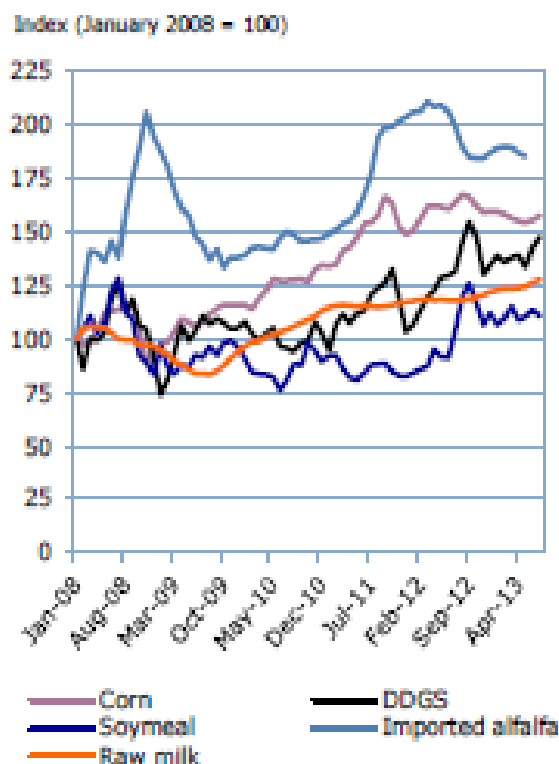


Mid and large-scale dairy farmers



The cost of milk in developing markets and the need for ensuring safe product is having an effect on prices.....

Indexed Chinese Feed and Milk Prices



RECENT CHINA HEADLINES

“China on alert for leather protein in milk supply”

Feb 2011

“Tainted milk kills three babies, sickens 35”

April 2011

“Cancer-causing toxin found in milk “

December 2011

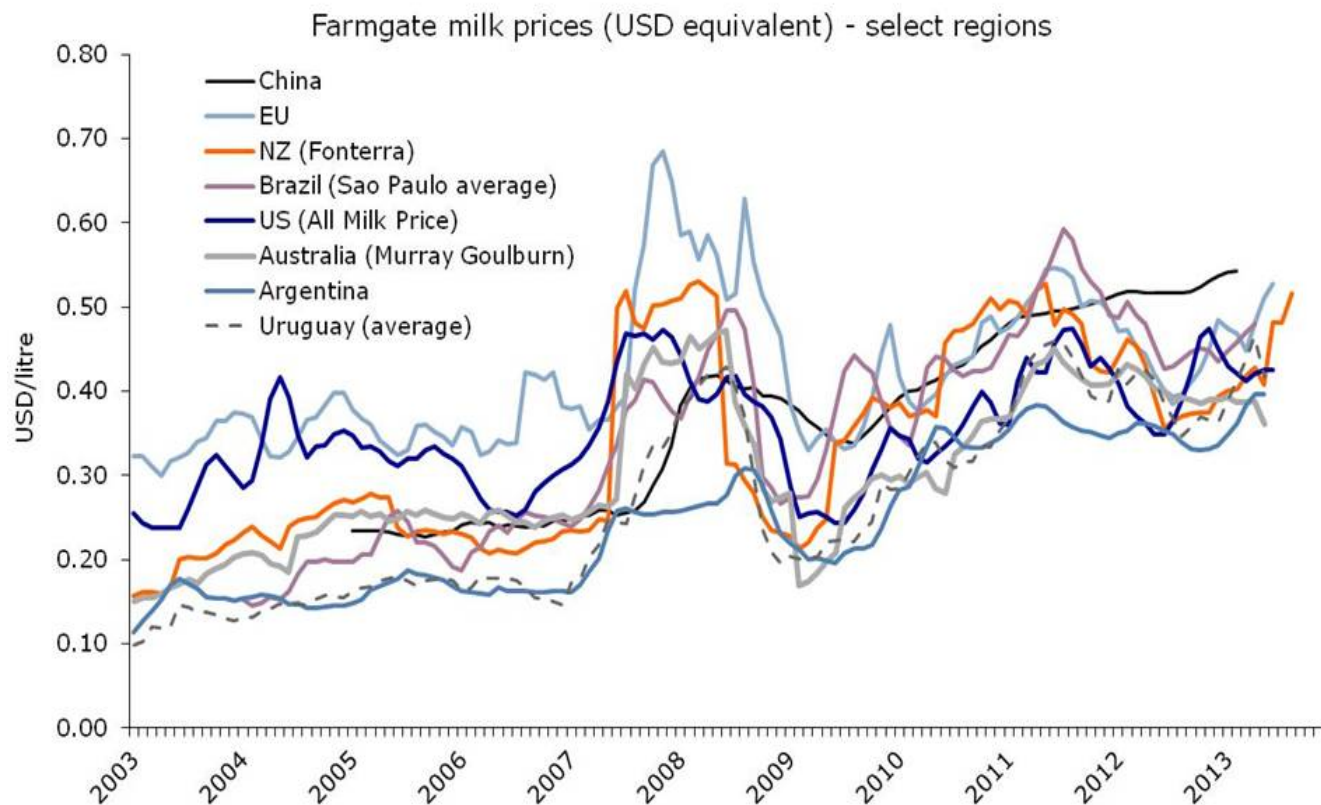
“China dairy producer recalls mercury-laced baby formula”

June 2012

“New baby milk scare hits China “

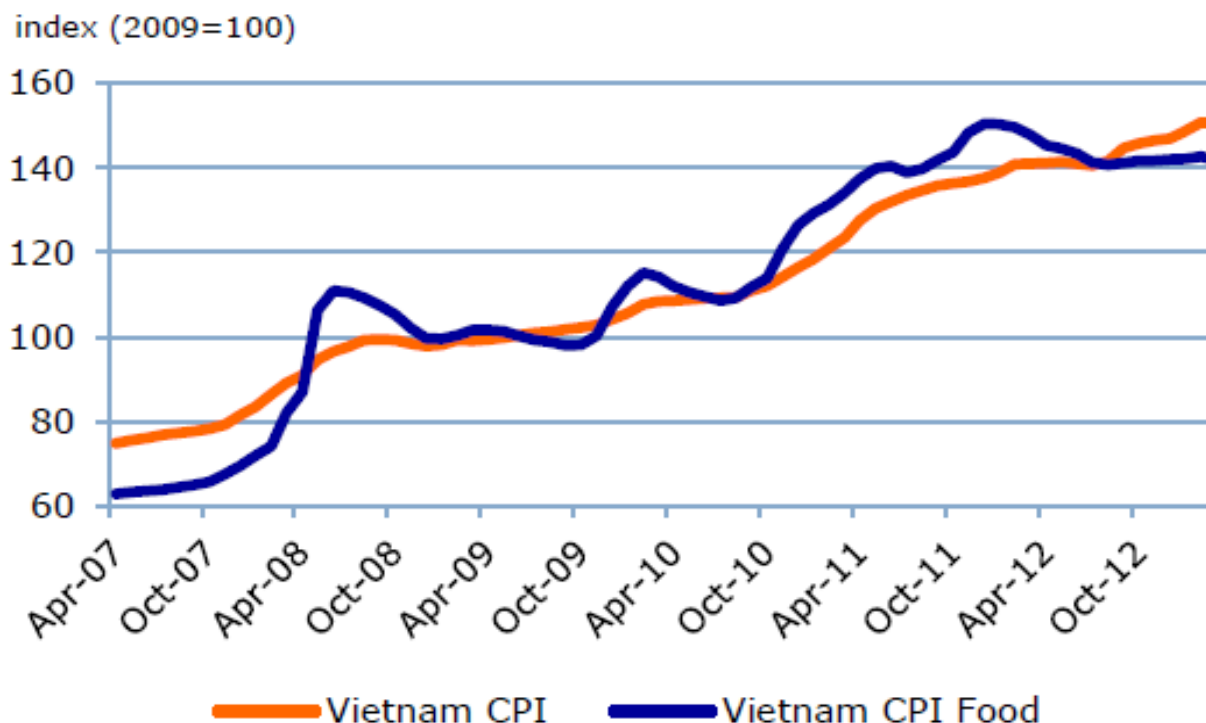
July 2012

Cost of procurement in developing markets is similar to developed markets



Rising costs of production and costs of imports have created food price inflation which acts as a headwind to expansion

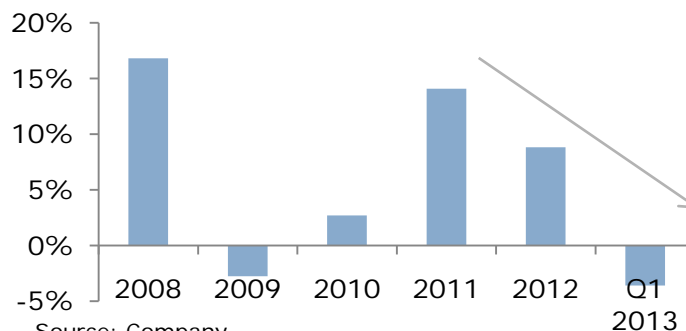
Food price inflation in Vietnam – Food CPI vs Total CPI – 2007 - 2012



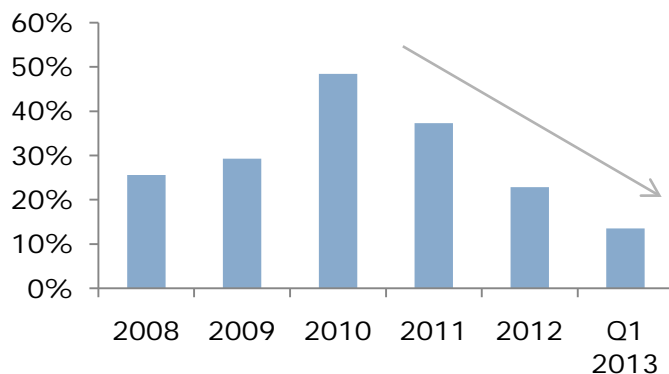
Emerging market demand is still growing but perhaps slower than we are used to....

Reported revenue growth
(select listed dairy companies in emerging markets)

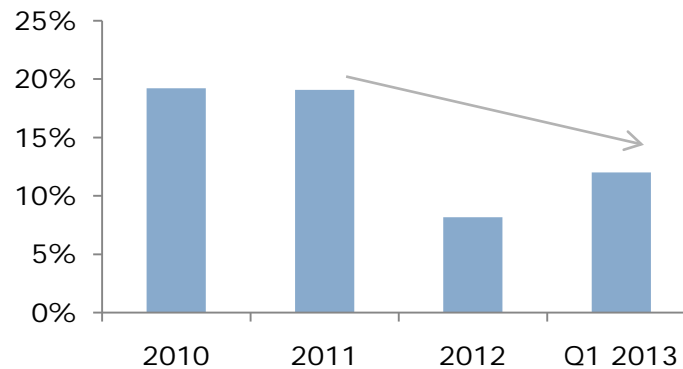
Dutchy Lady revenue growth



Vinamilk revenue growth



Vigor revenue growth



For local development credit required and the availability is determined by a number of factors

- Available credit facilities – available banking networks
- Legal assurance of land ownership/title (for land to act as security)
- Clarity of government intent on regulatory issues
 - Subsidisation of production
 - Tariff barriers, quotas, import permits
 - Food safety mechanisms
- Clarity of government policy on agricultural development
- Stability of economic environment
- Level of corruption
- Physical security

Conclusions

- Developing dairy markets continue to underpin expanding world demand
- Companies will continue to have a choice of import or local production models
- Supply constraint and the need for increased quality assurance is increasing the cost of milk around the world
- As a result developing countries will continue to strive to develop self sufficiency levels
- Companies will often seek to support local production to ensure continued market access
- There are a number of barriers to successfully expanding production
- Business mechanisms within Developing Economies including the availability of normal credit facilities is needing to be developed, but factors required for this will need to be in place

“The financial link in the global food chain”



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