EXPORT STRATEGIES AND DOMESTIC CUSTOMER EXPECTATIONS IN EUROPE

Grand Rapids 1st May 2019

The European Union plays an active role in supplying the world market.

Structure of dairy products international trade* in 2018
(in liquid milk equivalent)

72 million tonnes

9% of world milk production

Main suppliers	(%)
European Union	27
New Zealand	26
United States	16
Belarus	5
Australia	4
Argentina	2

* Excluding intra-EU trade

CNIEL / FAO

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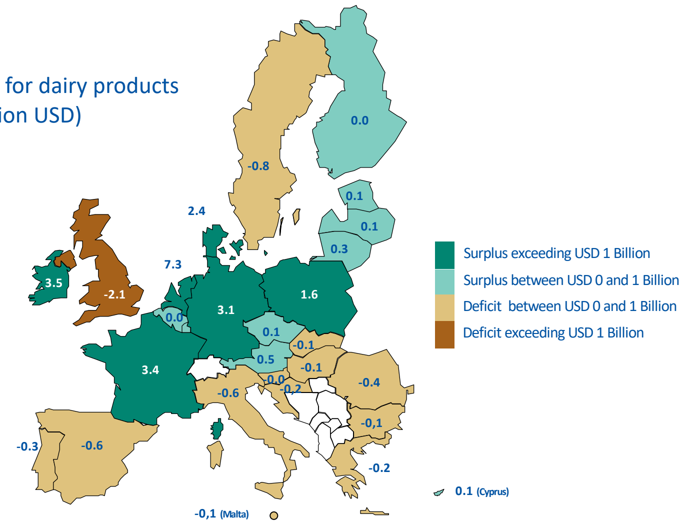
However, the level of trade balance for dairy products varies widely from one country to another.

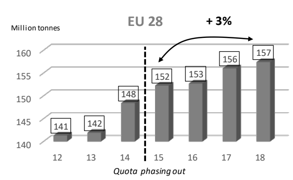
Trade balance for dairy products (billion USD)



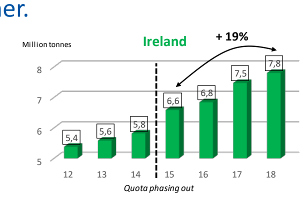
CNIEL / Eurostat

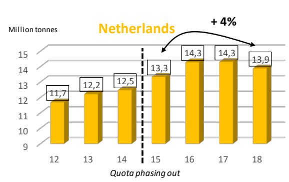
Since the phase out of milk quota in 2015, milk production development has been quite different from one country to another.

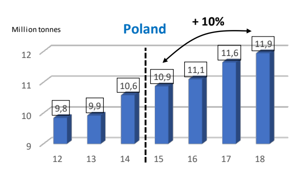
The overall development

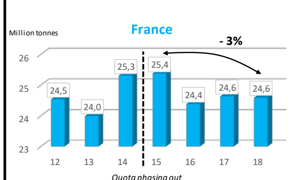


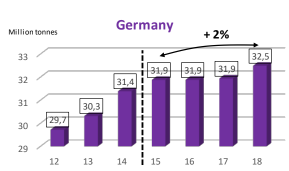
Variations by countries

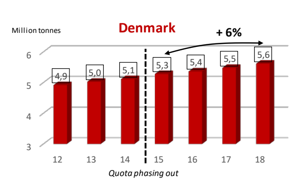












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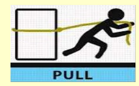
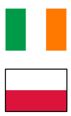
Export strategies varies widely within Europe - For example, the contrast between France and Ireland & Poland

	Values shared by farmers and dairies	Trade consequences	Export strategy
	Attachment to milk volume regulation	Demand drives milk production	 Pull flow system Search for added value
	No constraints on milk volume production ; high tolerance to price volatility	Milk production determines dairy product volumes to sell, whatever the price level	 Push flow system Search for market share

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Main concerns on the European domestic market

Could consumers' new expectations be an engine to create value ?

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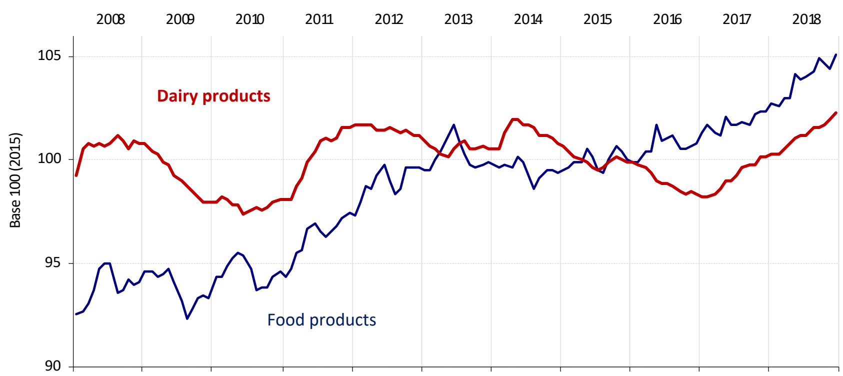
The price of dairy products (for a weighted basket in terms of quantity and quality) has not changed over the last decade.

Retail price index trends



Thus, adding value to dairy products through differentiation is currently the main challenge facing French dairy operators.

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Two major types of differentiation

Public standards	
Official labels of quality and origin	PDO
	PGI
	TSG
	Organic
	Red label*
Reserved terms	'Mountain'
	'Farmhouse'
	'High Environmental Value'

Private standards
Food Safety Management System**
Individual trademark
Collective brand
Certification mark

*: French label

** : ISO, IFS, BRC, etc. : standards useful for ensuring access to major retailers and B2B contracts, but unsuited to direct-to-consumer communications.

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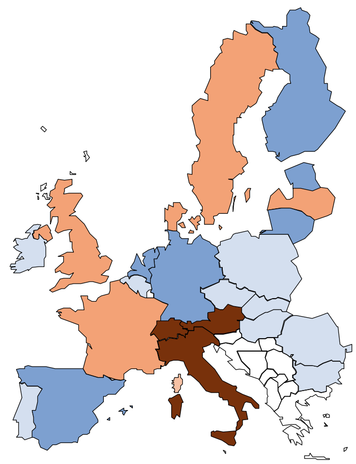
Scope of application of public standard (PDO, PGI, TSG, organic) in Europe

(% total milk production)

- Non determined
- Less than 2%
- From 2% to 5%
- From 5% to 25%
- More than 25%



CNIEL Estimate / AND, Commission, Idele

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The emergence of new private standards of milk differentiation

These standards encompass various issues:

- Regional production and/or support for dairy farmers
- Health/Nutrition
- Grazing
- Proximity to the consumer
- GMO-free
- ....

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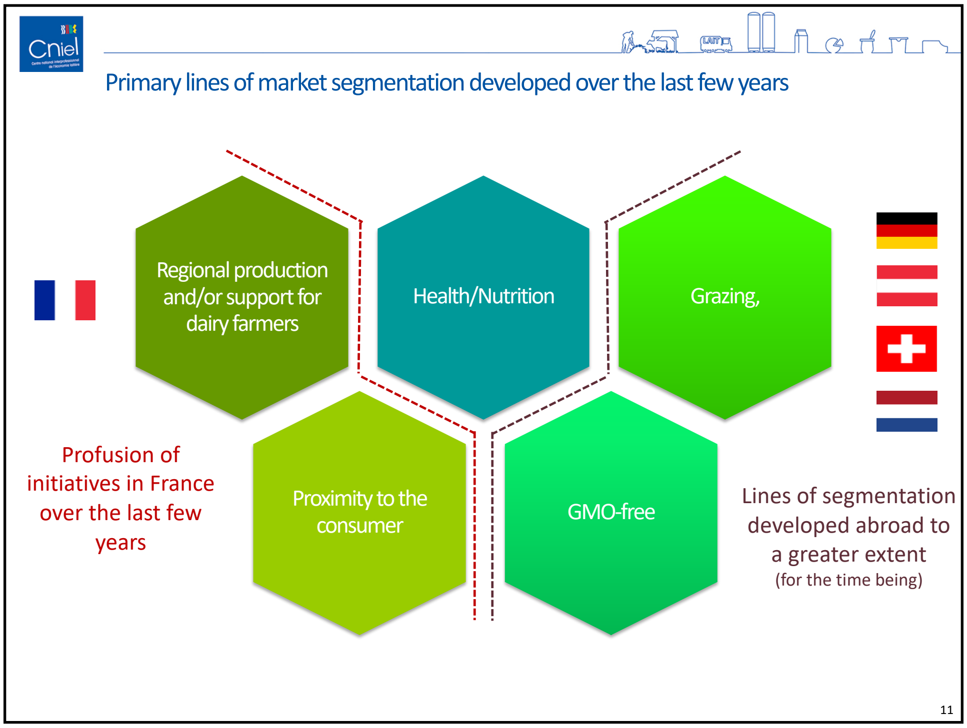
Cniel
Primary lines of market segmentation developed over the last few years
Regional production and/or support for dairy farmers
Health/Nutrition
Grazing,
Proximity to the consumer
GMO-free
Profusion of initiatives in France over the last few years
Lines of segmentation developed abroad to a greater extent
(for the time being)
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Many dairy operators have a long tradition of emphasising their geographical specificities.
coopérative alsace lait
1979
MALO
1948
L'EMPRÉSURE CHOCOLAT
Vaubernier
Depuis 1912
BONS MAYENNAIS
paysan BRETON
1969
La Pointe de Sel
SAVOIE YAOURT
1950
Isigny Ste Mère
1980
(Merger of two local Co-ops)
FROMAGE FRAIS
Le Curé Nantais
Late 19th century
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But new initiatives in support of dairy farmers and regional production have strongly emerged between 2009 and 2016.

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This trend was even reinforced in 2017 and 2018.

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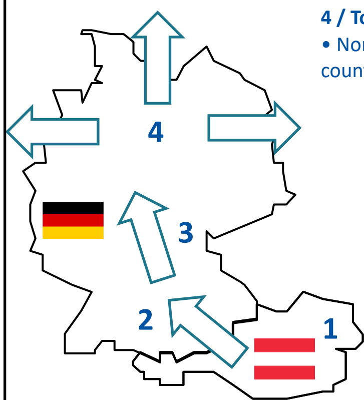
GMO-free milk deployment throughout Europe



4 / Today the initiative extends to Germany's foreign market suppliers
• Non-GMO milk production starts to settle in several North European countries (France, The Netherlands, Poland, etc.).

3 / In 2016 the initiative widens all over Germany
• Several retailers (Lidl, Rewe, etc.) launched non-GMO national private labels.

2 / Southern Germany: The follower
• In 2004-2005 Greenpeace accused several dairies to use 'Gen Milch' (milk sourced from GMO-fed cows).
• In 2008 Campina launched a non-GMO dairy product range.
• VLOG is set up in 2010.
• Non GMO milk production: 800 million litre in 2011 →1,900 in 2014

1 / Austria: The pioneer
• In 1997 a petition against GMO cultivation was signed by one million people; ARGE Gentechnik frei association was set up.
• Since 2011 non-GMO has been a standard for 100% of Austrian Milk.

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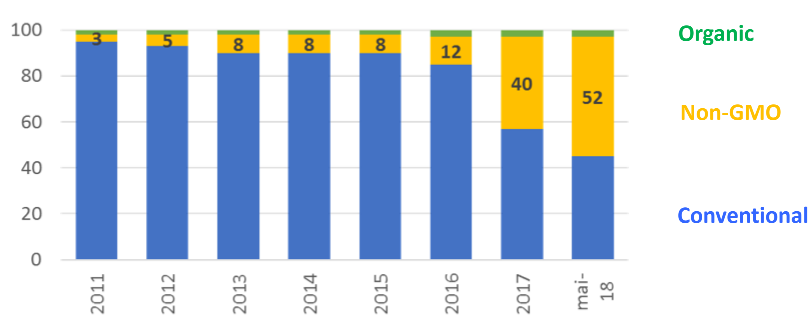
Germany: Non-GMO milk is growing exponentially

German milk delivery breakdown by quality standard (%)



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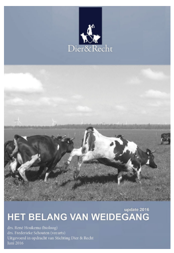
Grass-fed milk deployment throughout Europe

1 / Netherlands: The pioneers



Concept history and structure

- Significant NGO (Dier en Recht) pressure on retailers and their suppliers: animal welfare (notably grazing) during 2005-2010 period
- Collective initiative: common specifications (120 days / year; 6 hours / day), certification procedure and logo

Concept scope

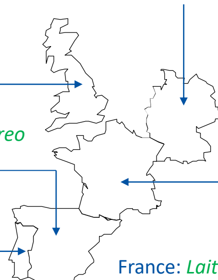
- ~80% of Dutch dairy farms concerned
- Participation of all leading processors: FrieslandCampina, Arla Foods, DocKaas (DMK), Cono, Rouveen, Bel Leerdammer

Grass-fed milk deployment throughout Europe

2 / Today, the concept widens all over Europe, with different specifications between regions and operators

UK: *Free-range milk*
Waitrose: 120 d/y
Morrisons: 120 d/y ; 6h/d
Asda: 180 d/y

Germany: *Weidemilch*
Arla Foods: 120 d/y ; 6h/d ; non-GMO
Pro Weideland (DMK, Ammerland, Rücker): 120 d/y ; 6h/d ; non-GMO
Schwarzwaldmilch : 150 d/y ; 8h/d ; non-GMO



Spain: *Leche de pastoreo*
Larsa: 120 d/y; 6h/d
Leche Celta: ?

Azores (PT): *Leite de pastagem*
Terra Nostra (Bel) : 365 d/y

France: *Lait de pâturage*
Prospérité fermière: 170 d / y ; non-GMO
Lactalis: 200 d / y ; non-GMO
Bel: 180 d / y ; non-GMO
Britanny farmer organisations: 150 d / y
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