



BLIMLING
and ASSOCIATES

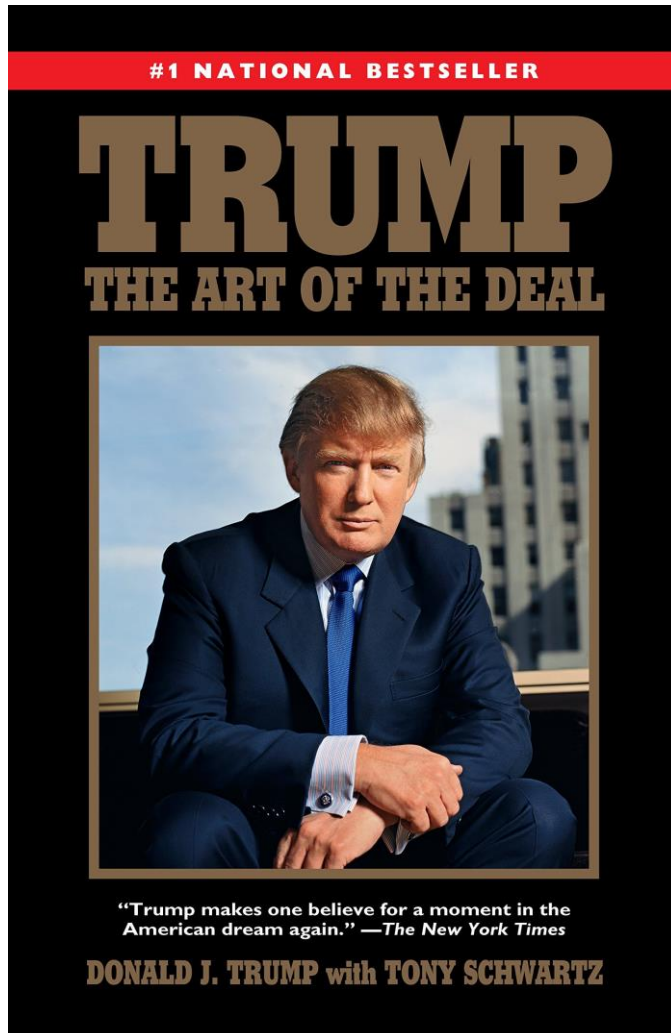
US Dairy Trade: Where Are We Going?

Phil Plourd • March 2020

Back to the Beginning: Two Big Bets

1. The world needs the US more than the US needs the world.
2. President Trump is a master negotiator.

As We Said in 2016: It's All Right Here

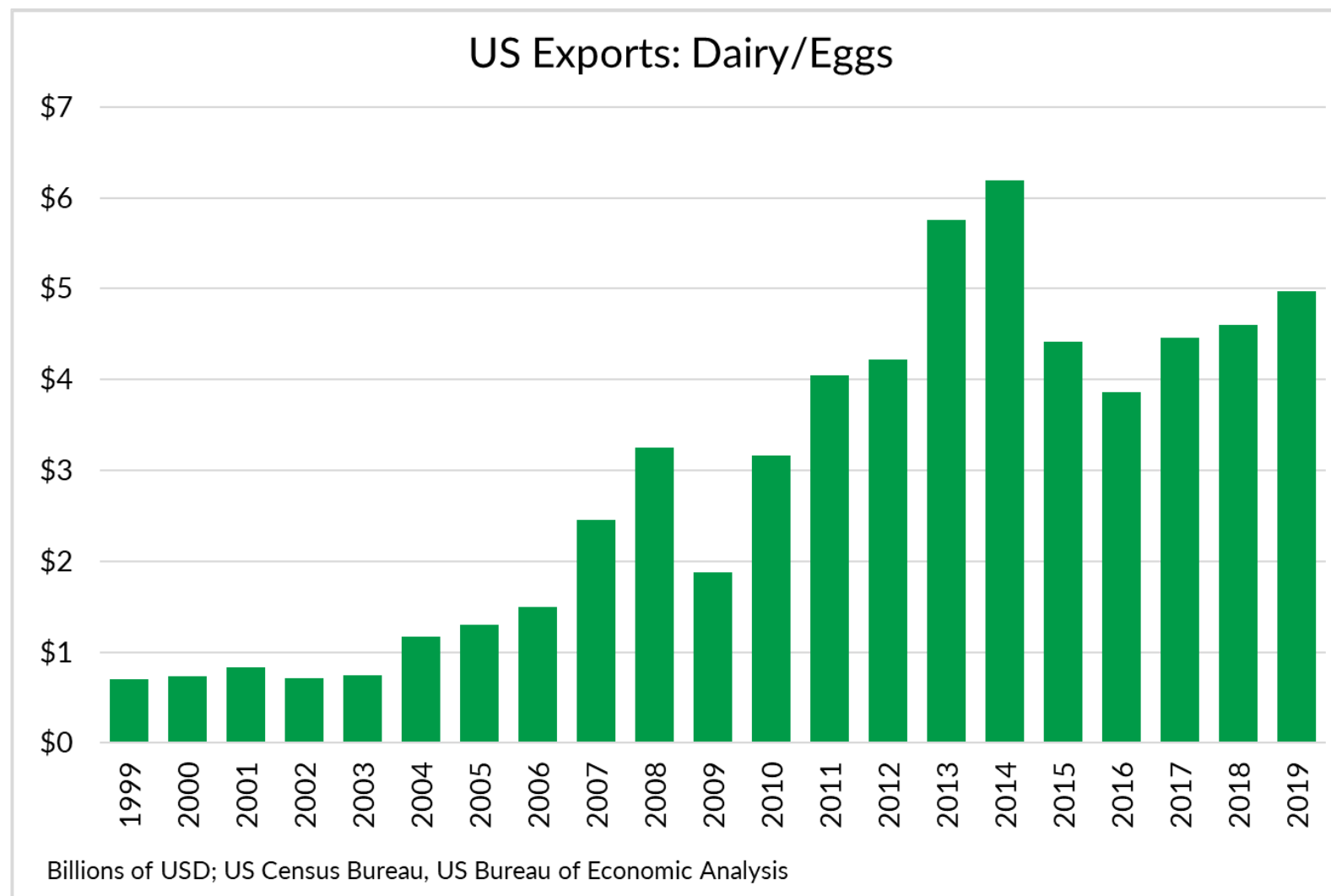


“My style of deal-making is quite simple and straightforward. I aim very high, and then I just keep pushing and pushing and pushing to get what I am after.”

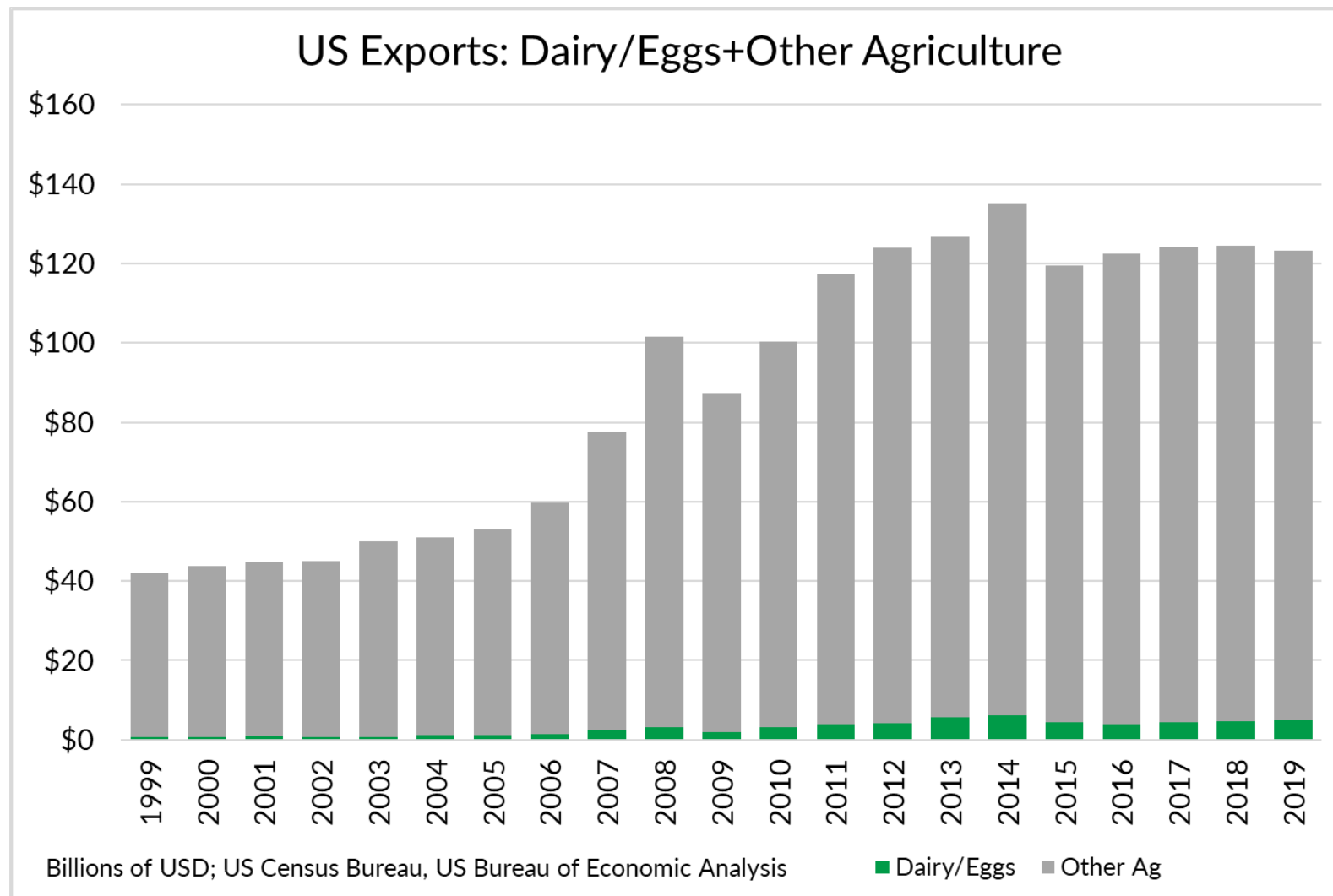
“You might as well think big. Most people think small, because most people are afraid of success, afraid of making decisions, afraid of winning.”

“A little hyperbole never hurts. People want to believe that something is the biggest, the greatest and the most spectacular.”

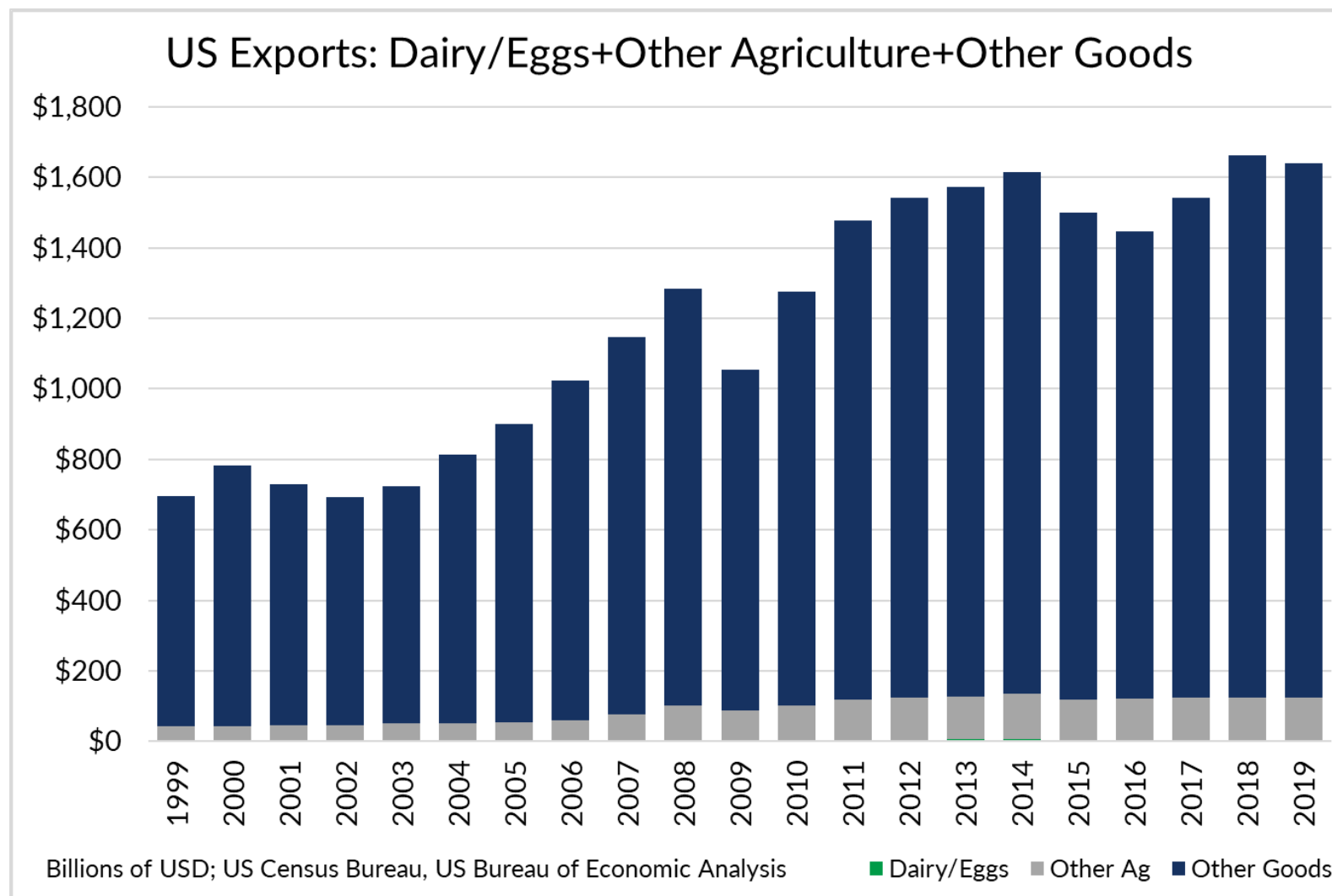
How Big A Priority?



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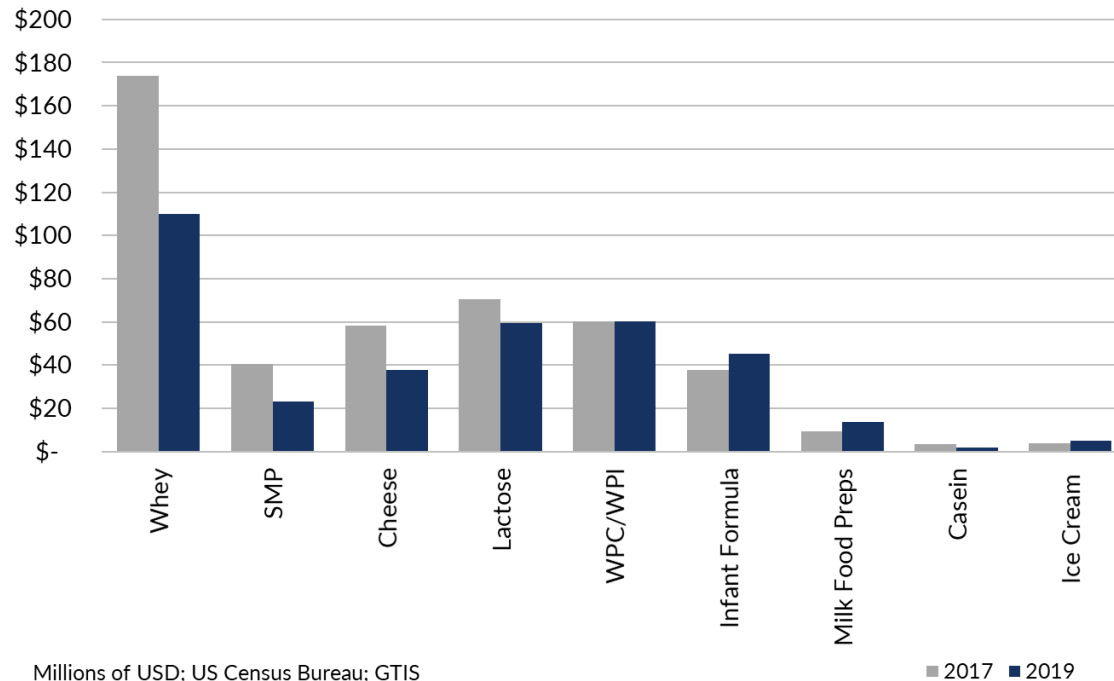
How Big A Priority?



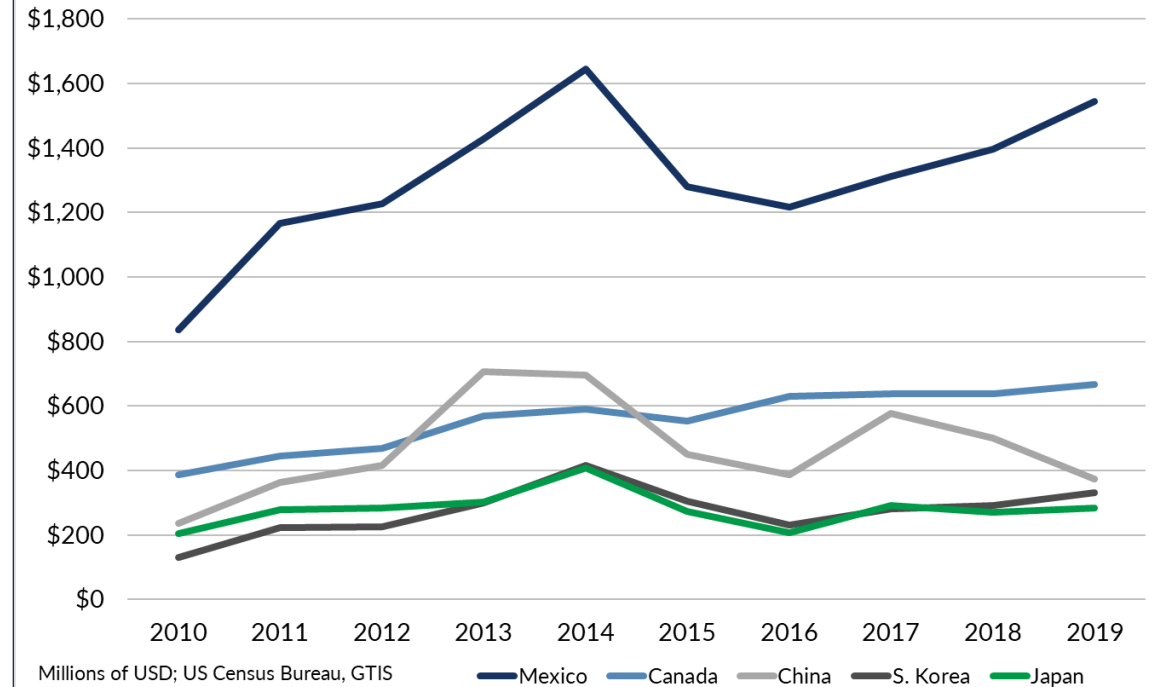
US Dairy Export Performance

- Whey sales into China down 53% in 2019 versus 2017
- All sales to China down 35%
- Mexico and Canada: \$2.21 billion, up 8% in 2019 versus 2018

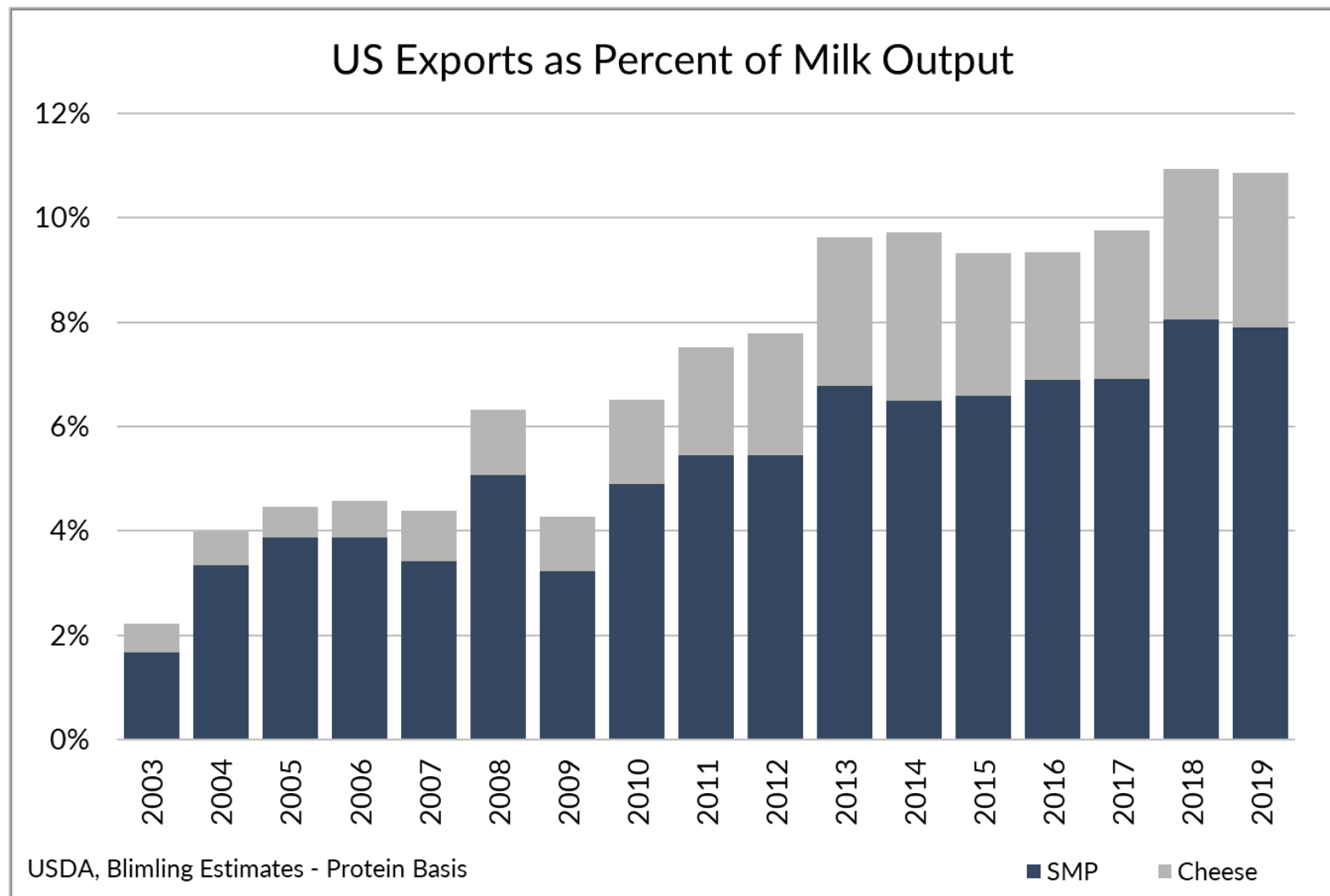
US Dairy Trade With China



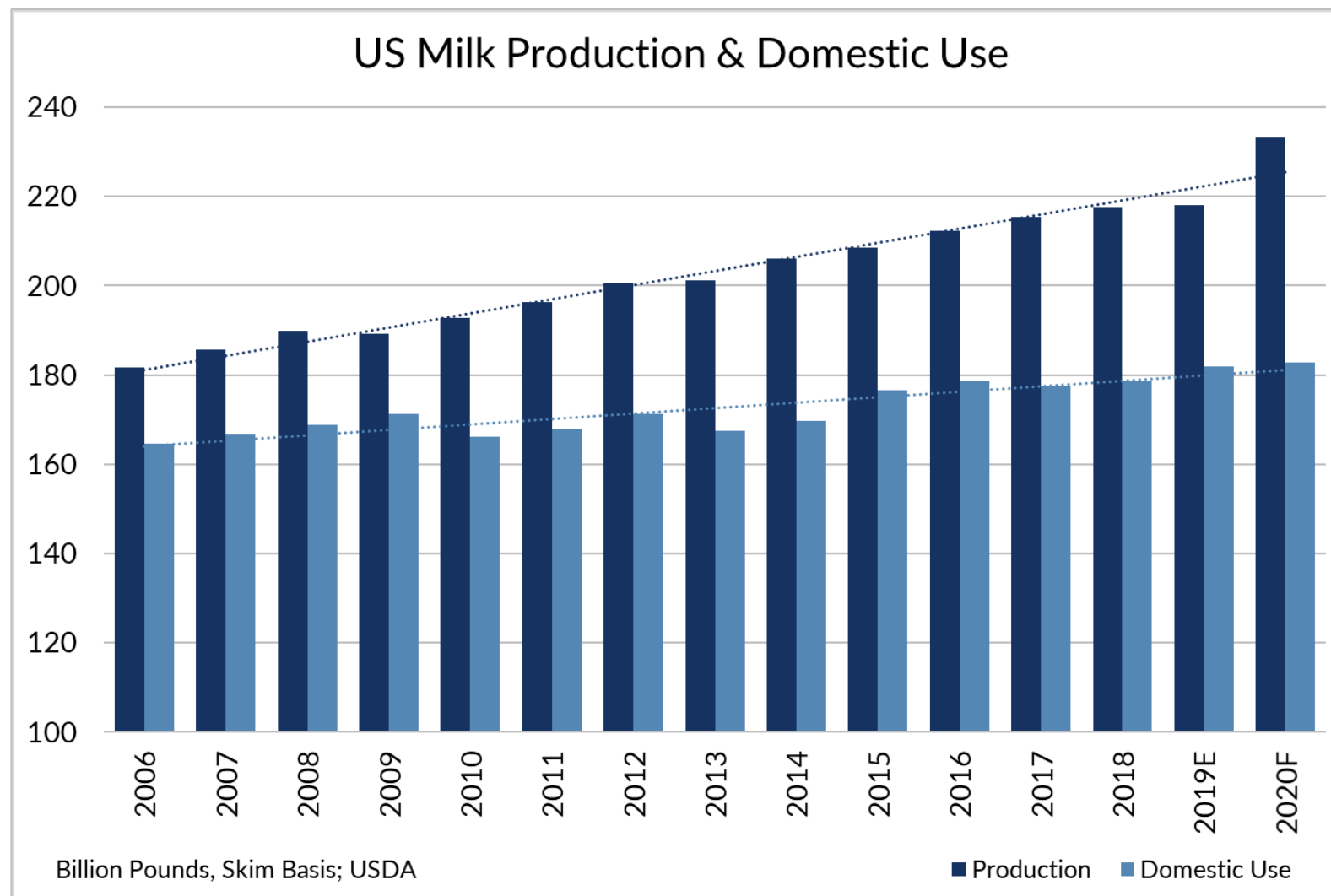
US Dairy Exports



US Dairy Exports Continue To Grow

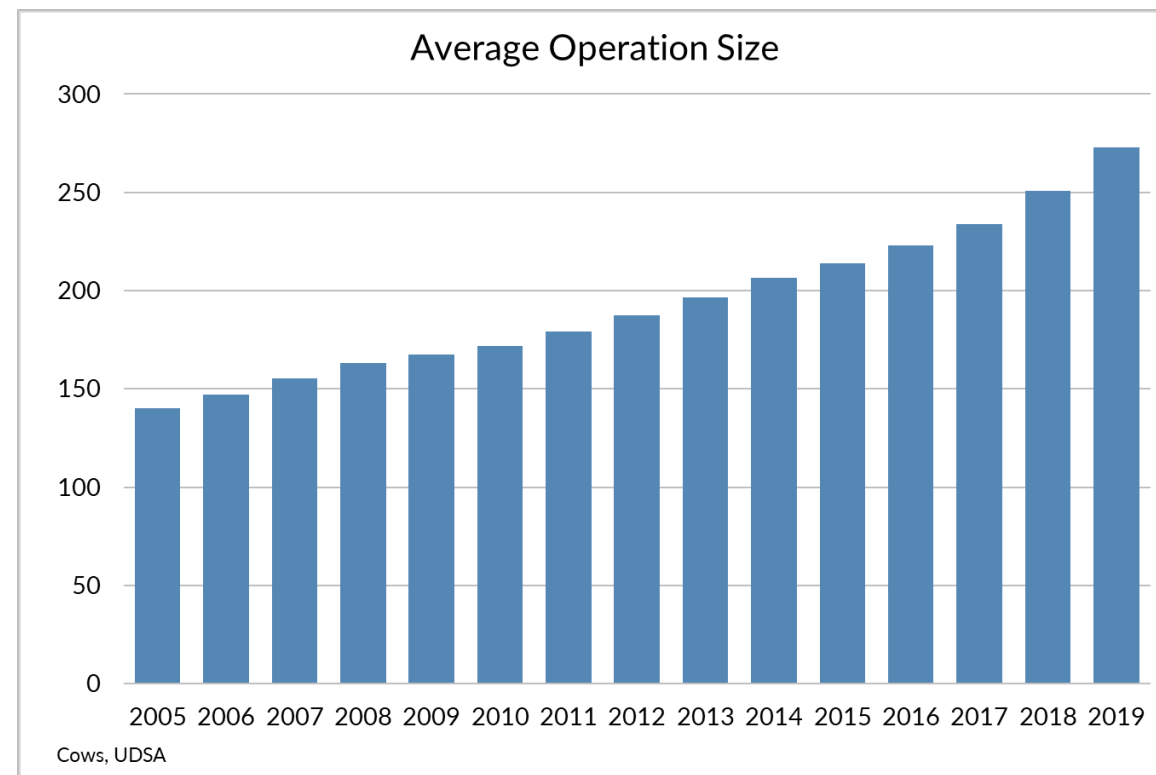
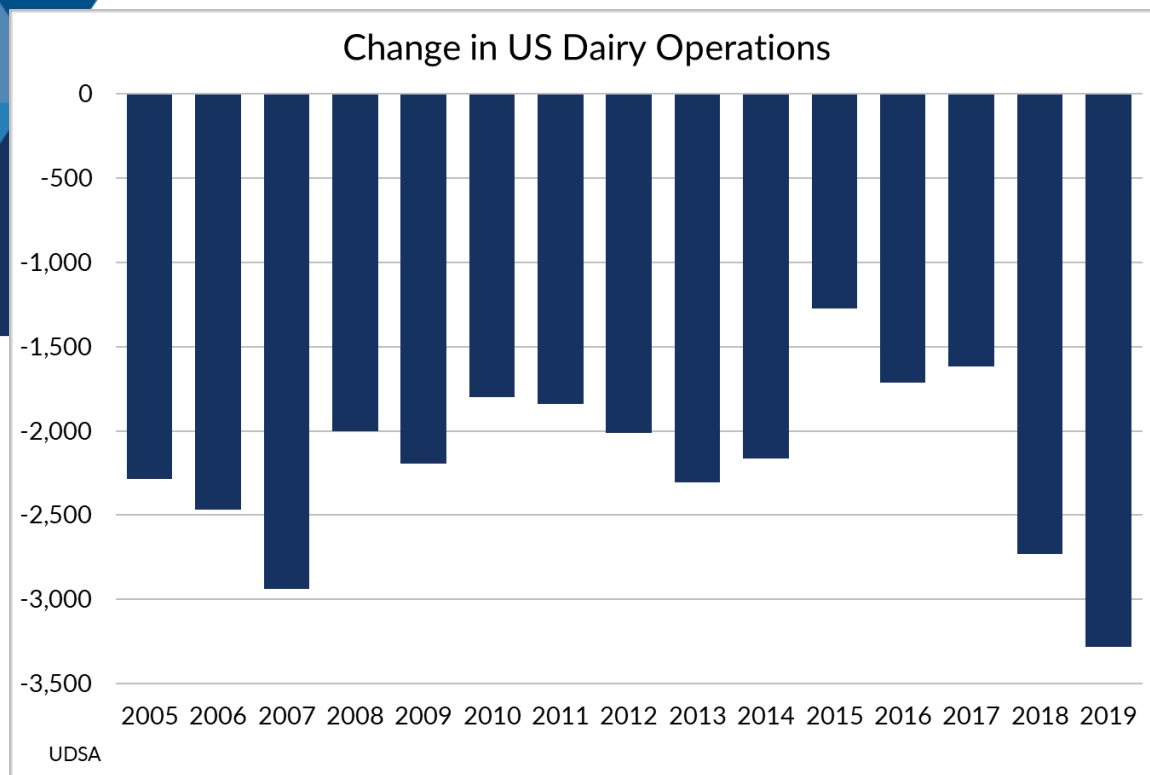


But: US Has to Do More



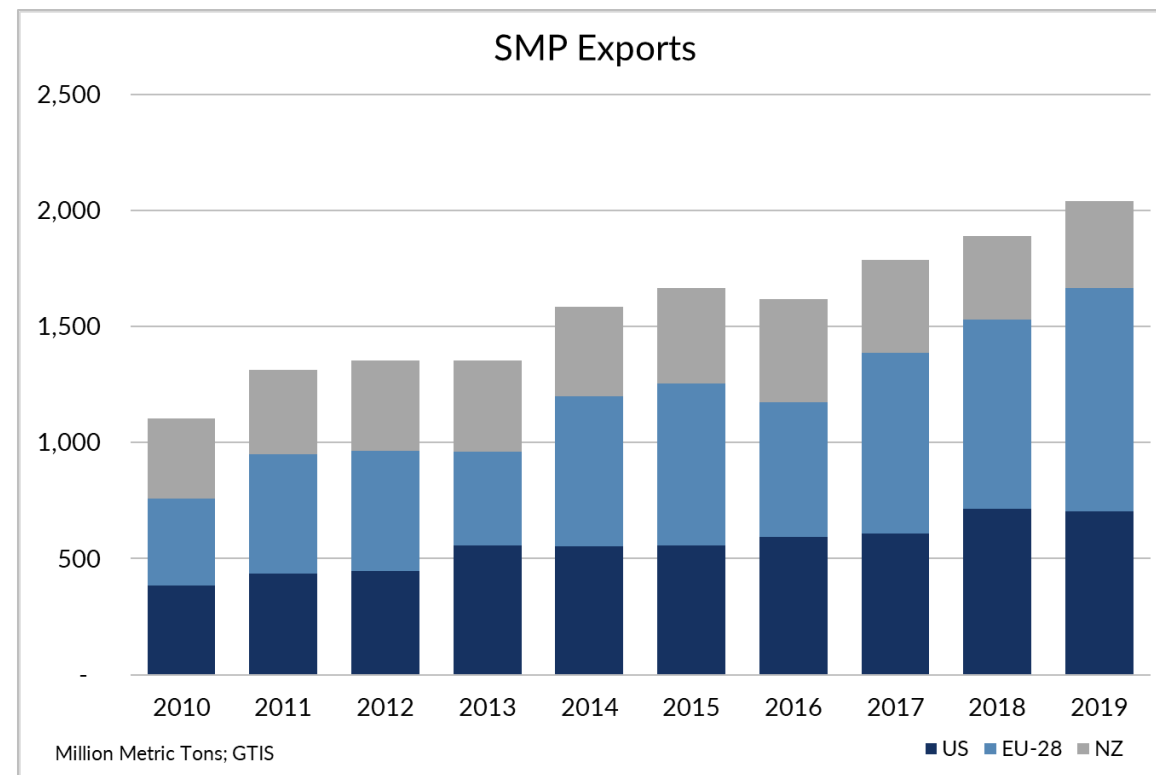
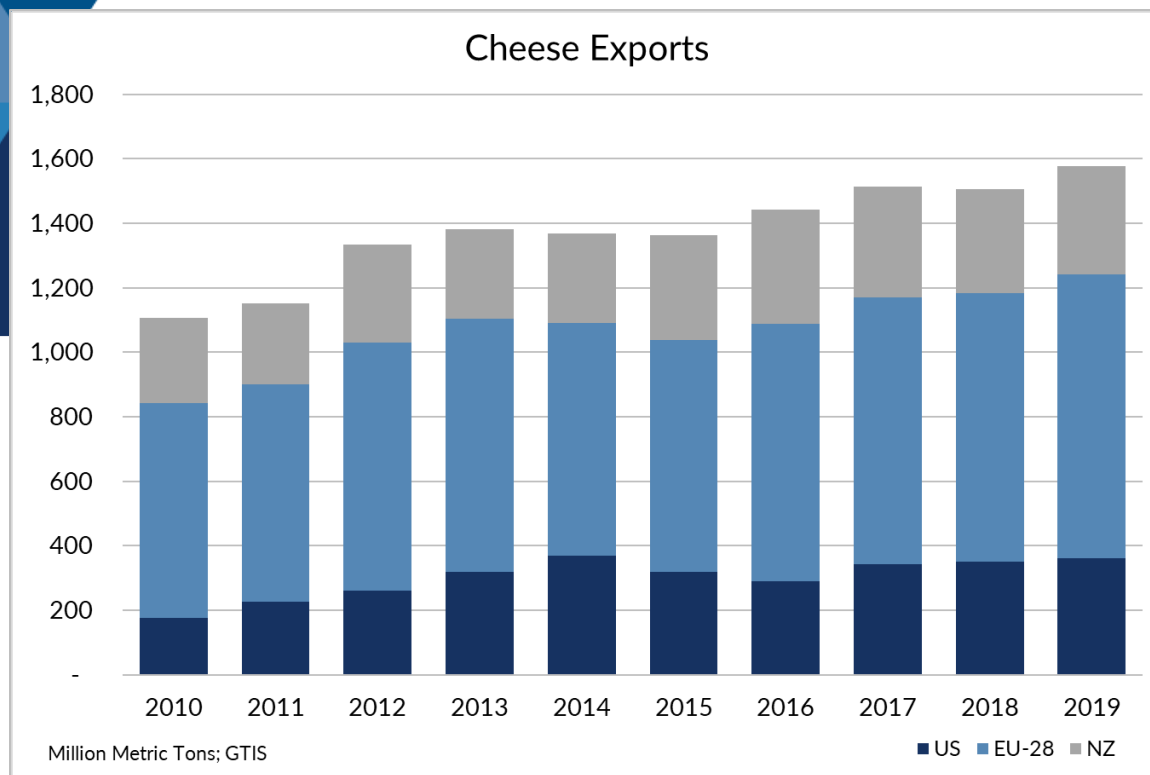
Trends Accelerating

- We've been losing dairy farms for years, but trend definitely accelerated in 2018 and 2019
- Average herd size in 273

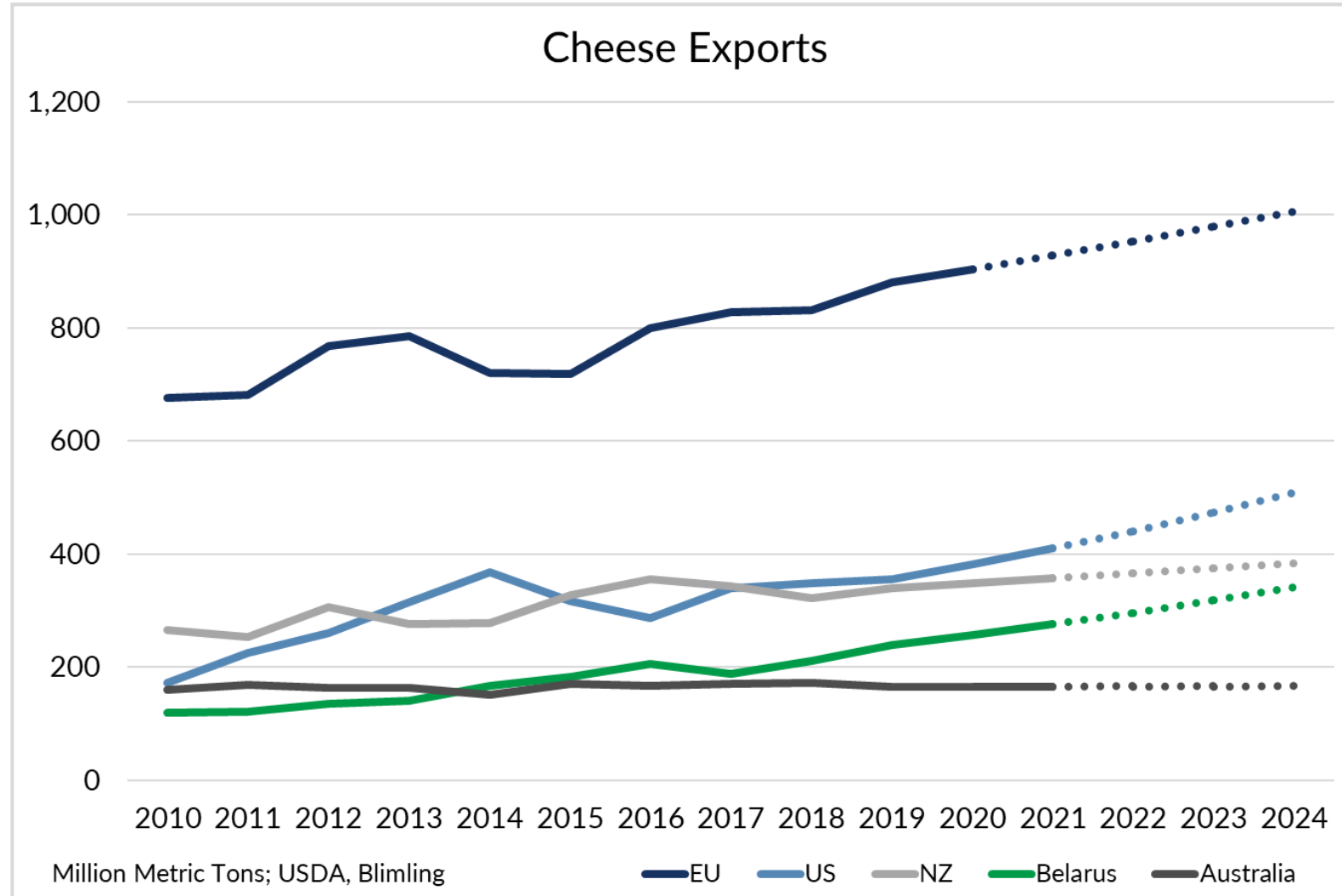


Are We Really Moving the Needle?

- US cheese exports growing at a faster rate than EU and New Zealand, but share has not changed much
- SMP exports +7%CAGR vs +11%CAGR for EU



What's the Size of the Prize?

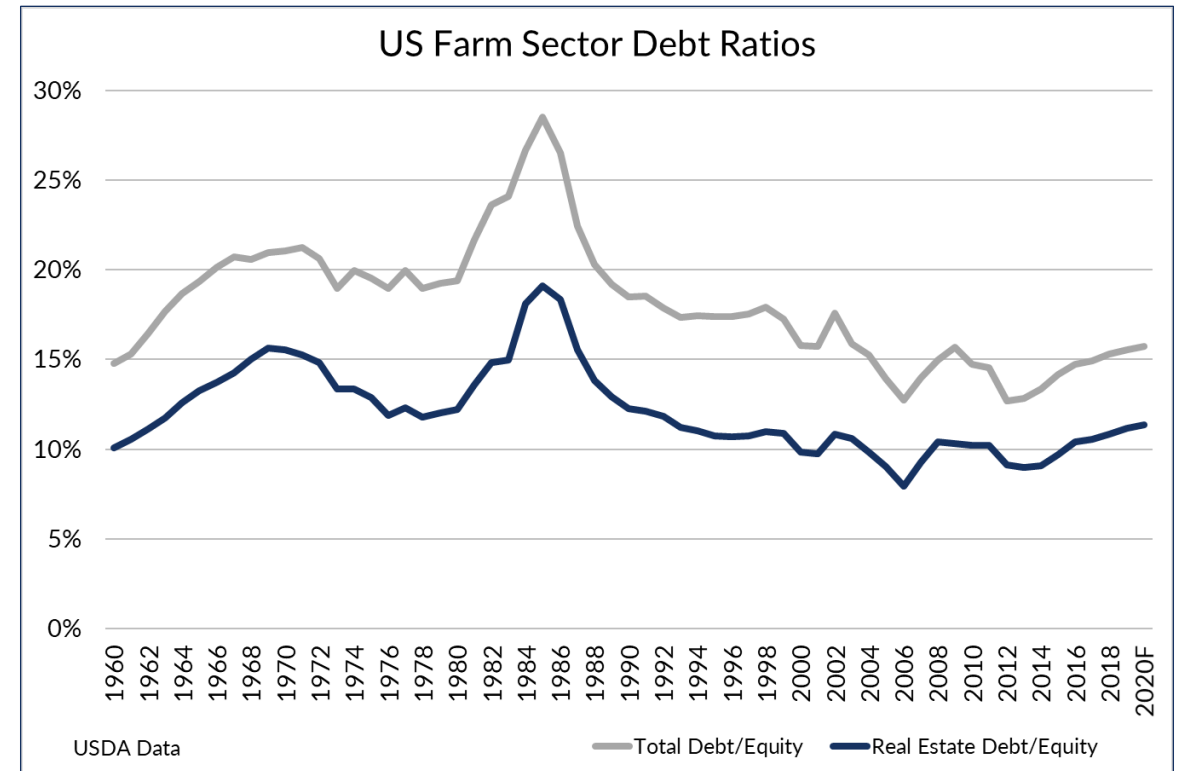
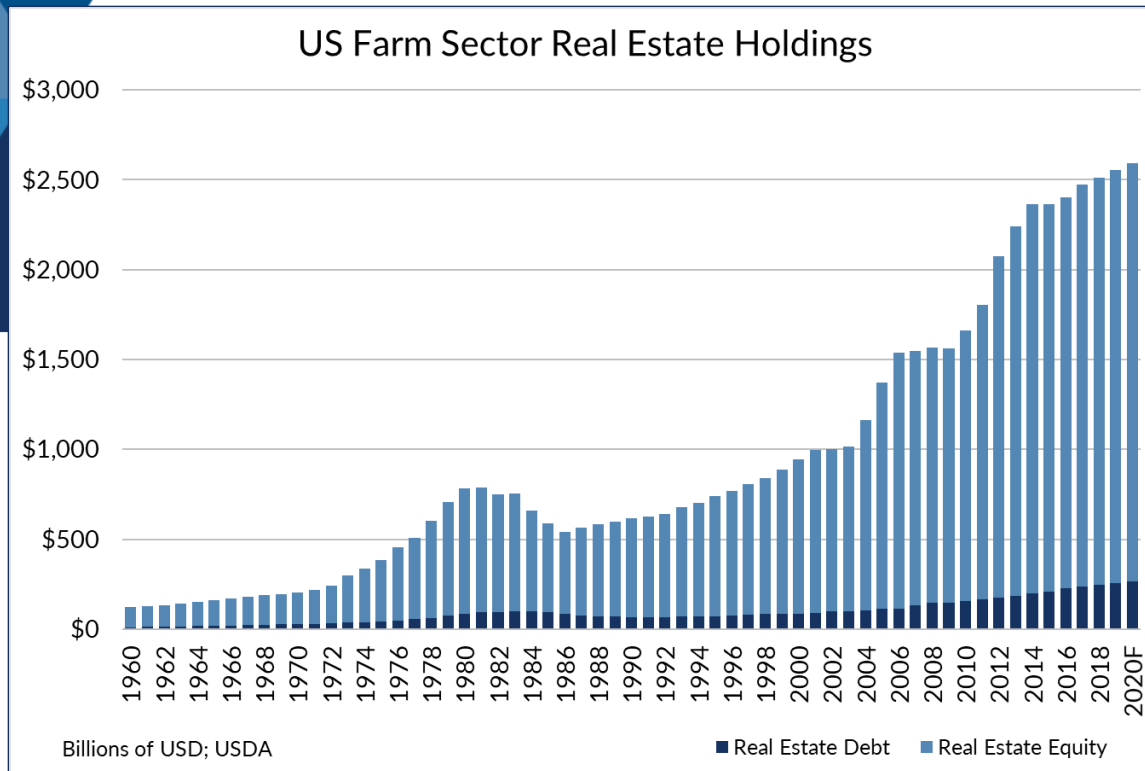


Desperate for Direction

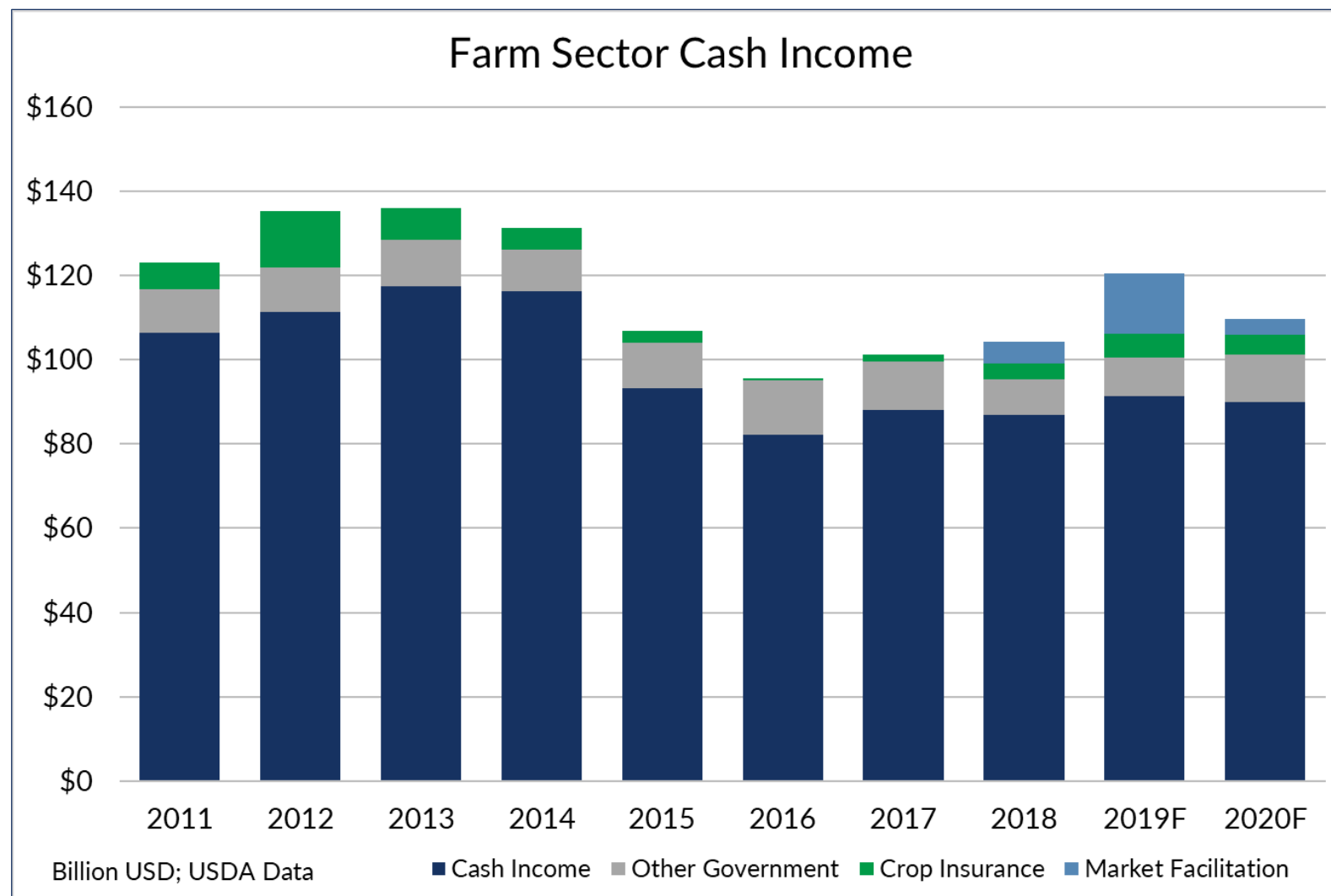
- Hard to get the entire industry on the same page
 - For dairy products manufacturers, cooperatives, growing exports seems crucial
 - But what's the upside for domestic-focused end-users such as fluid bottlers or restaurant chains?
- US FMMO system starves investment
 - Can we get necessary flexibility?
 - Can we get necessary courage?
- Are dairy producers comfortable with risk/reward dynamics?
- What regions? What products?
- Branded or generic?

Overall Farm Financial Health: Solid

- US farm sector owns \$2.5 trillion worth of real estate
- Real estate debt at 11% of equity – one point above long-run average
- Total debt-to-equity at 16% compared to 15% over previous 20 years



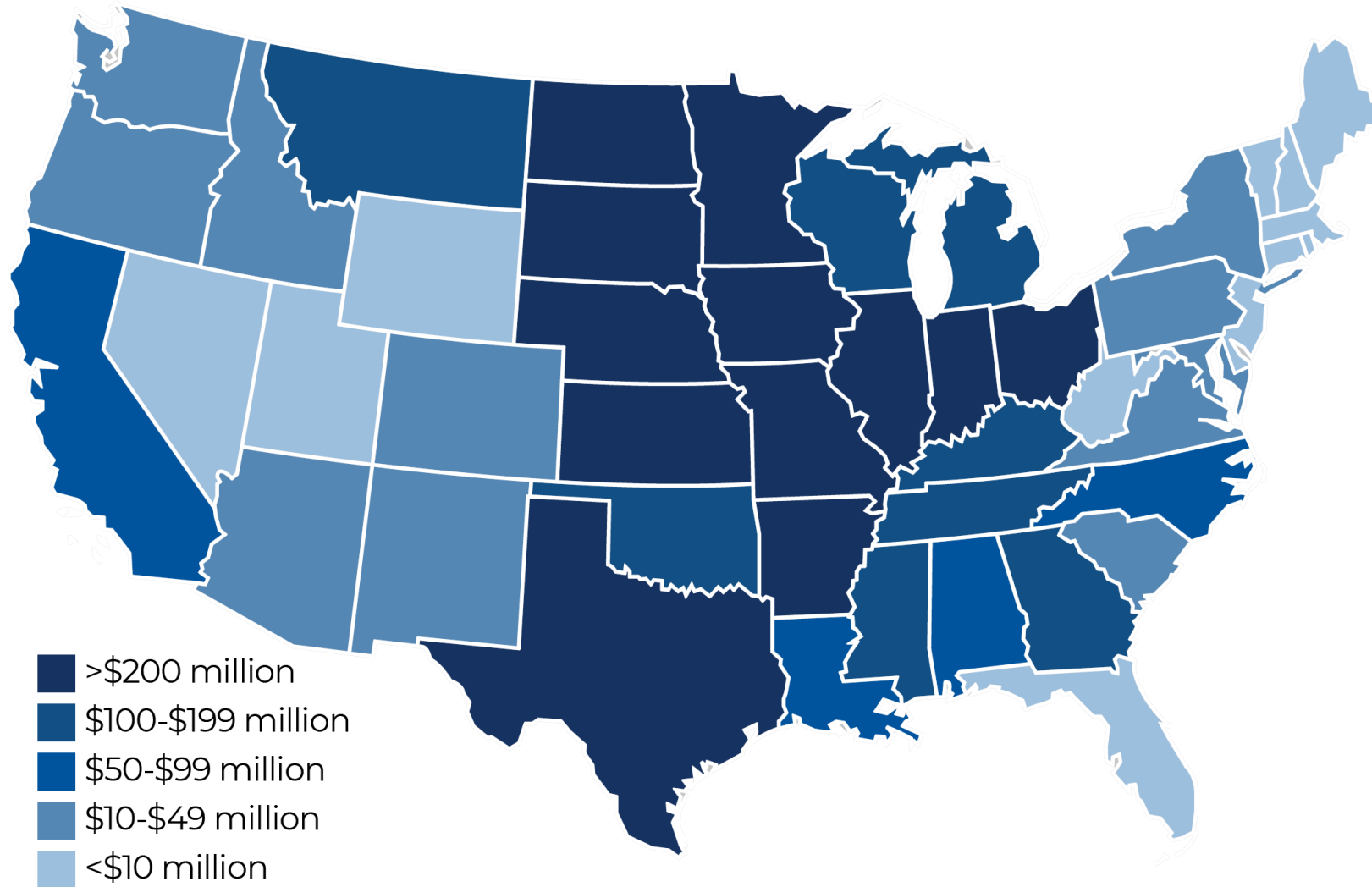
Government Helps Keep Income Flat



Market Facilitation Program: Dairy

- For 2018
 - Dairy farmer payments at \$0.12 per hundredweight capped at \$125,000
- For 2019
 - Dairy farmer payments at \$0.20 per hundredweight with total payments capped at \$250,000 per farm
 - About \$350 million in total
 - announced intention/ability to buy up to \$68 million in dairy products

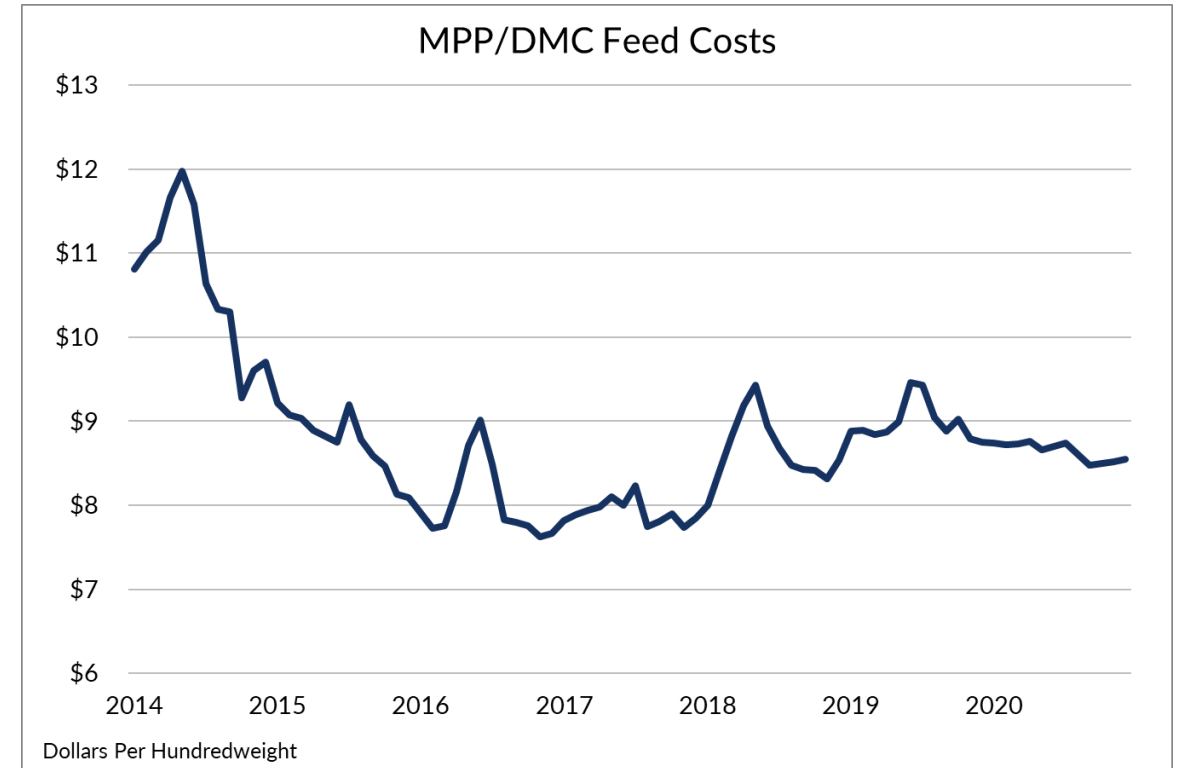
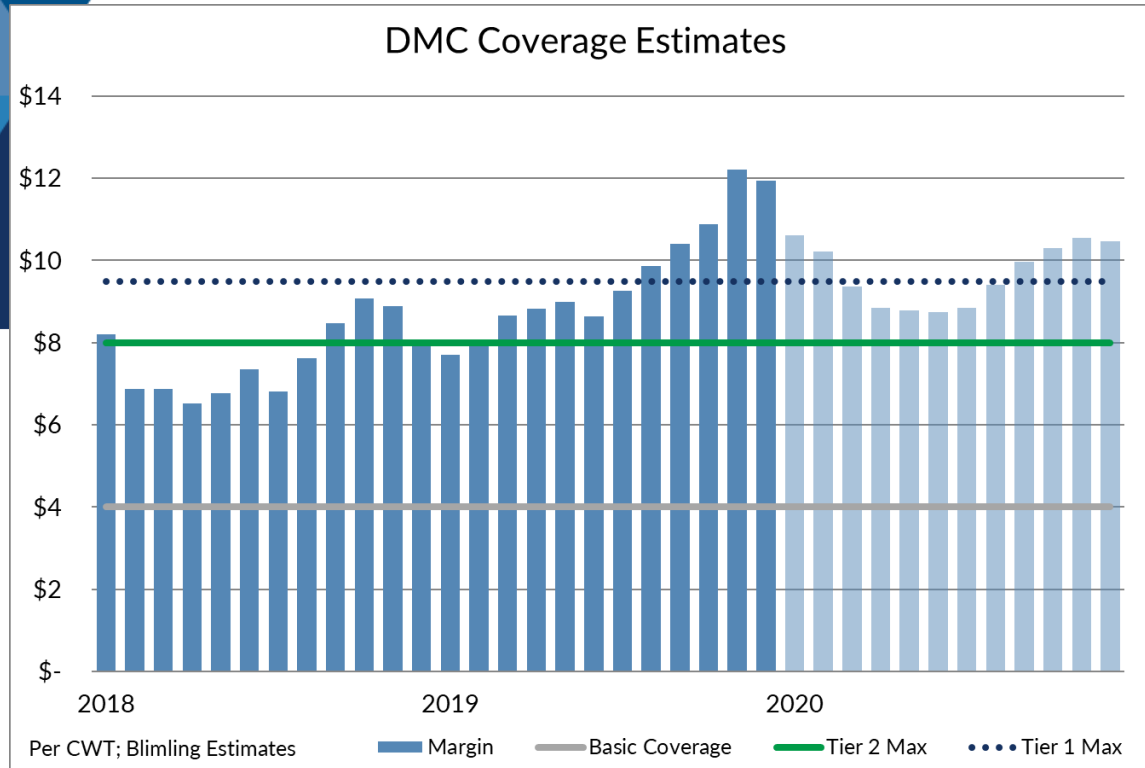
Market Facilitation Program \$\$\$



\$6 Billion Total; 2019 All Programs Through November; USDA Data

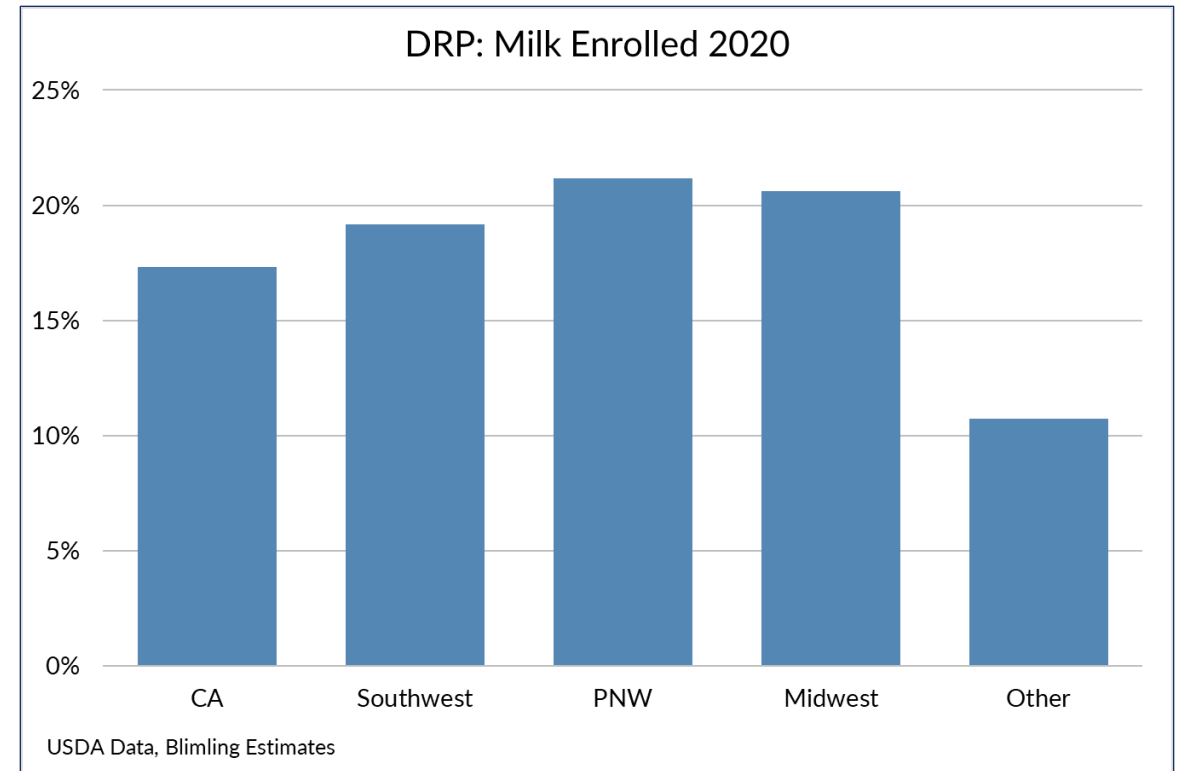
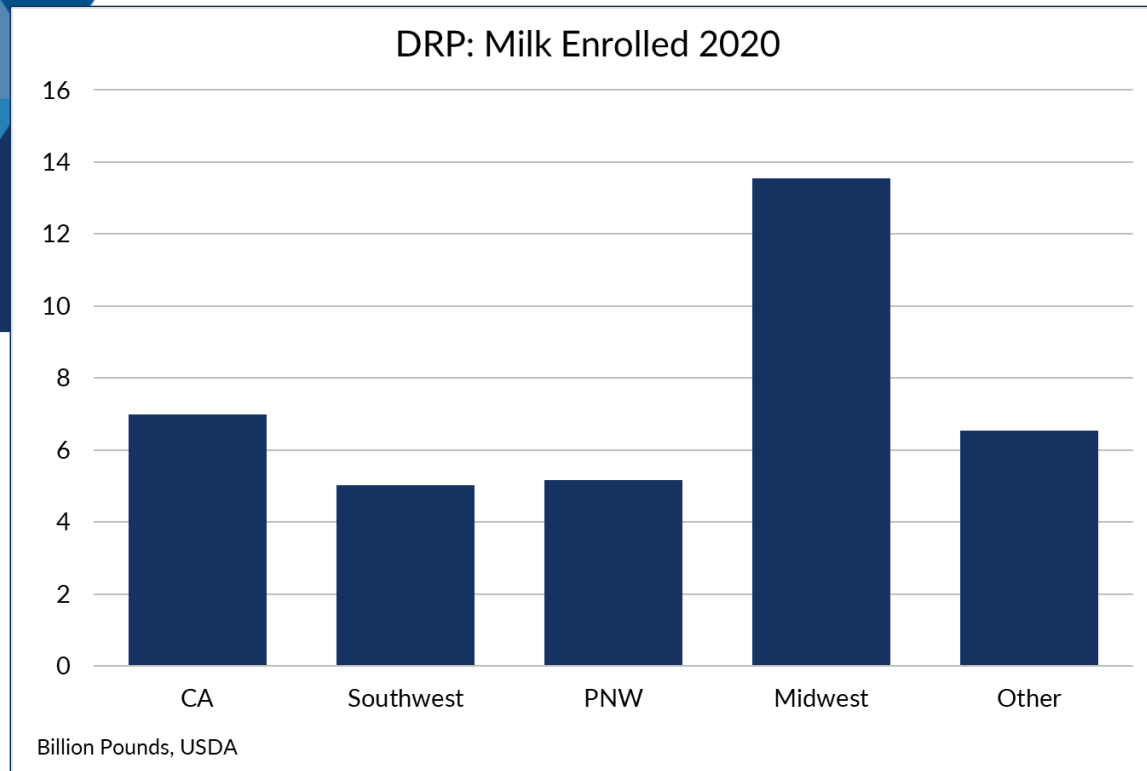
Dairy Farmers Get Some DMC Support

- DMC paid out against \$9.50 per hundredweight in seven months in 2019 – average of \$0.93 per hundredweight
- For 2020, model suggests six months below \$9.50 with a \$0.50 payout

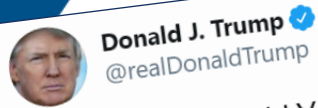


Dairy Revenue Protection Program

- Essentially offers low-cost put options to dairy producers
- Operates as part of government-subsidized crop insurance program
- More than 37 billion pounds enrolled for 2020



What's Next on Support?



Donald J. Trump
@realDonaldTrump

IF OUR FORMALLY TARGETED FARMERS NEED ADDITIONAL AID UNTIL SUCH TIME AS THE TRADE DEALS WITH CHINA, MEXICO, CANADA AND OTHERS FULLY KICK IN, THAT AID WILL BE PROVIDED BY THE FEDERAL GOVERNMENT, PAID FOR OUT OF THE MASSIVE TARIFF MONEY COMING INTO THE USA!

9:24 AM · Feb 21, 2020 · [Twitter for iPhone](#)

25.6K Retweets 117.9K Likes

It's clear that the Trump administration's trade assistance payments pick winners and losers rather than help the farmers who have been hit the hardest by this president's trade policies. This investigation will shed more light on what has been happening, and bring accountability and fairness to a program that has spent billions of taxpayer dollars.

-- Senator Debbie Stebenow, D-MI

The New York Times

U.S. Watchdog to Investigate Trump's Farm Bailout Program

The Government Accountability Office will review how the \$28 billion farm bailout aimed at cushioning trade war

The New York Times

Farm Bailout Paid to Brazilian Meat Processor Angers Lawmakers

Lawmakers want to know why a Brazilian-owned company got payments from a program aimed to help American farmers weather President Trump's trade war.



A meat-processing center owned by JBS in Beardstown, Ill., in July. Whitney Curtis for The New York Times

Concluding Thoughts

- Phase One deal with China is nice, but promises seemed outsized even before coronavirus
- Hard to believe that tomorrow is going to look like yesterday – supply chain changes, China's new challenges
- At some point, Administration is going to have to deliver a trade deal?
- In the big picture, \$10 to \$20 billion in farm payments is not a lot of money (especially to assure cheap food)
- Dairy: still not clear that the US has a plan/purpose beyond “we have to export more”

A better way of doing business.

Dairy.com

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