

# Global Markets and Response to Demand Changes: An Overview

2008 Global Development Marketplace  
Sustainable Agriculture for Development

*Cultivating Innovation:*

*A Response to the Food Price Crisis*

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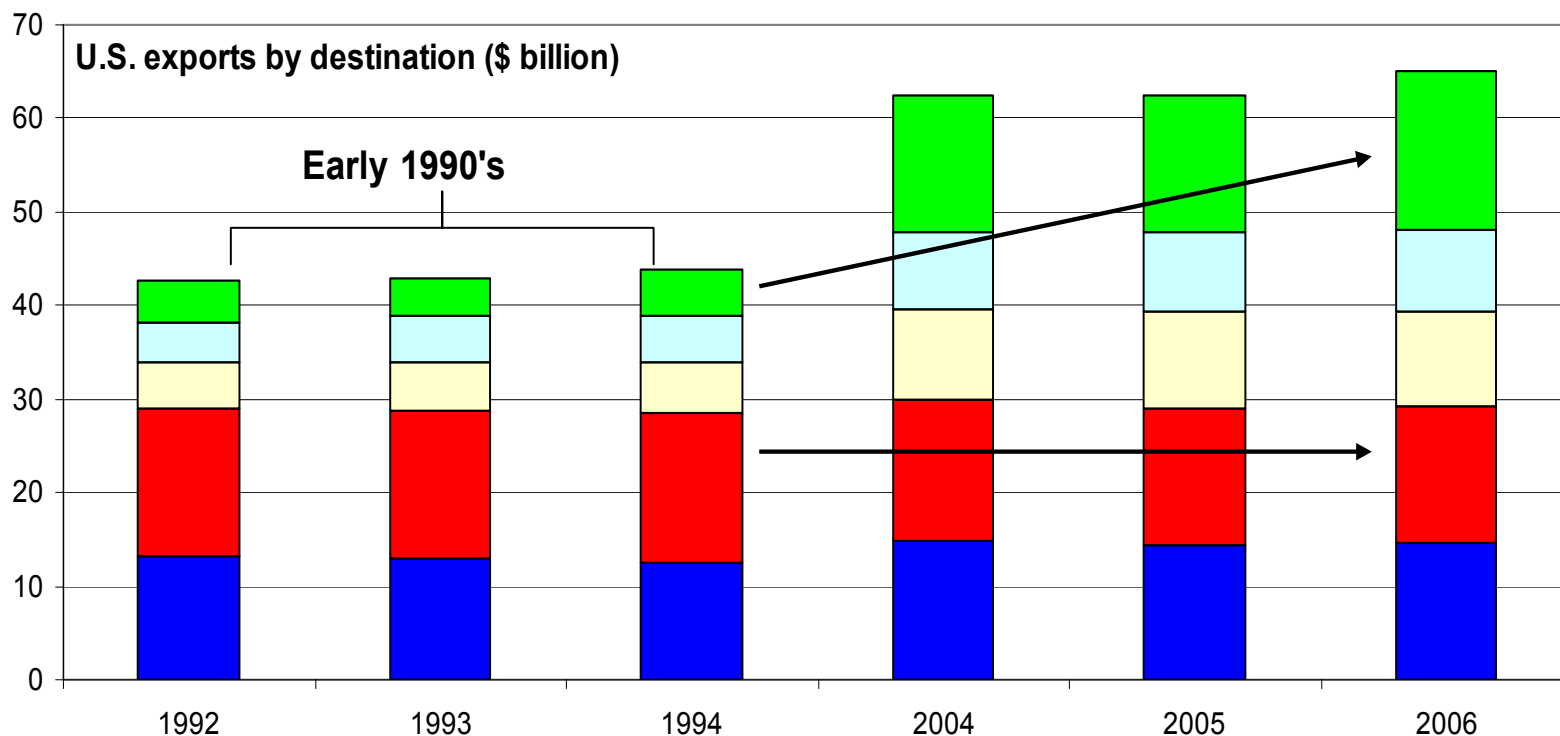
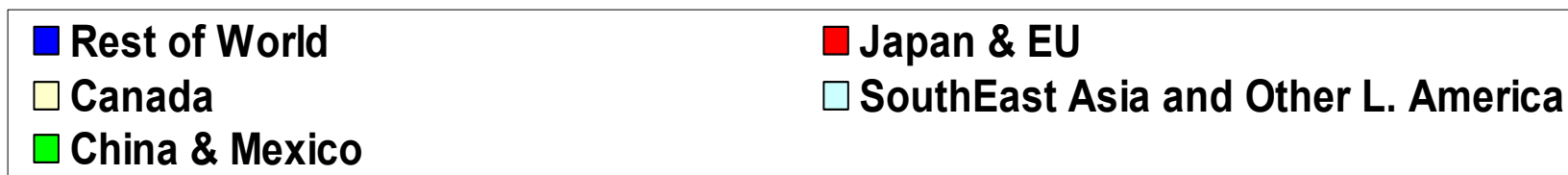
# Presentation outline

- Recent agricultural trade  
opportunity, competition, and market uncertainty
- Response to global demand  
short-term price response versus long-term industry repositioning
- Innovations in product, customization, and coordination  
successful sustainable innovation involves fostering with multiple players  
in market channels
- Global industry, partnerships, joint ventures, clusters, and other  
evolving structures
- Case study and lessons learned

# Overview of agricultural trade and markets

- Trade growth has been unprecedented and sustained since 2005
- Discerning between short-term and long-term demand changes is important for appropriate response
- Competing in global commodity markets *versus* product markets
- Price competition *versus* product differentiation and value-added

# Gradual long-term shift taking place as emerging markets become more important



Source: USDA/ERS FATUS

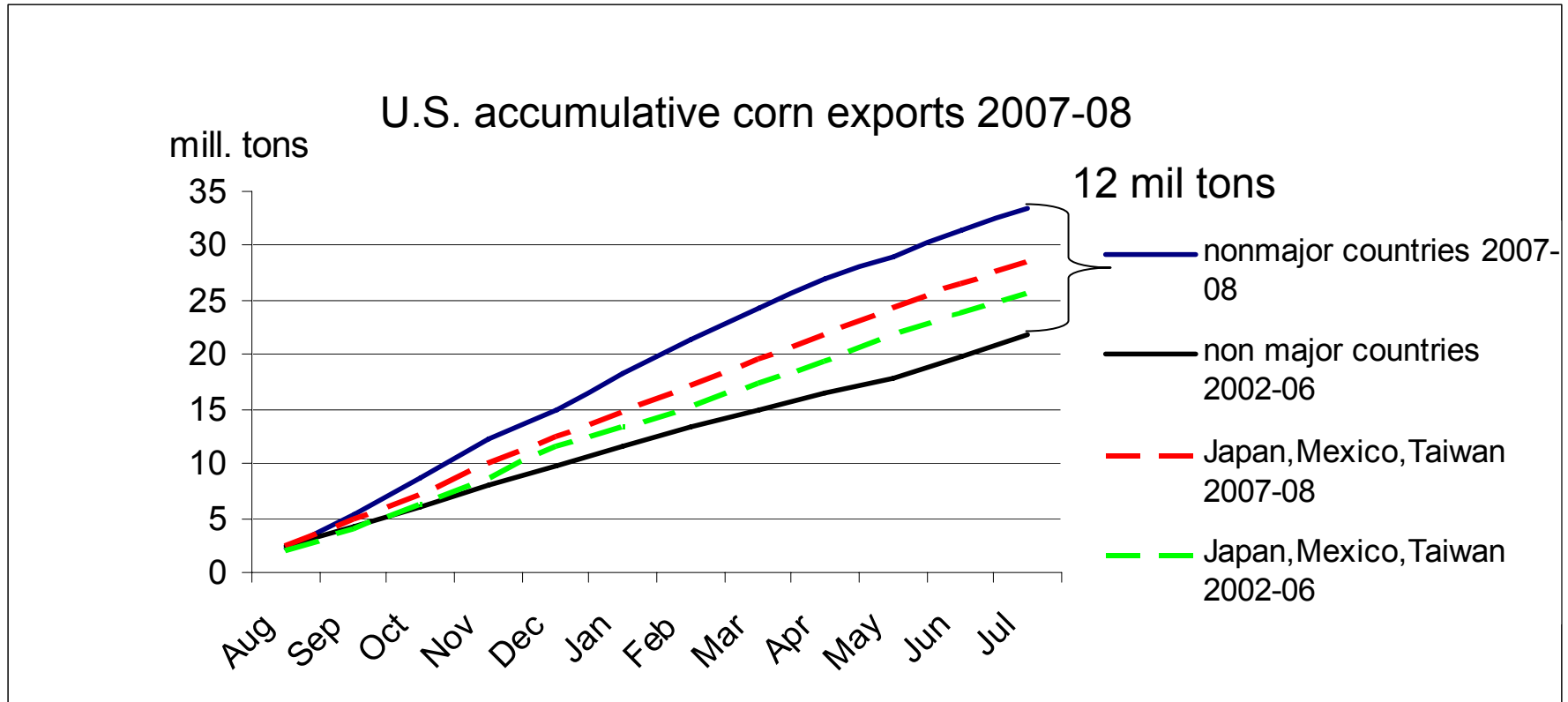
# Bulk commodities are more unstable and slower long-term growth



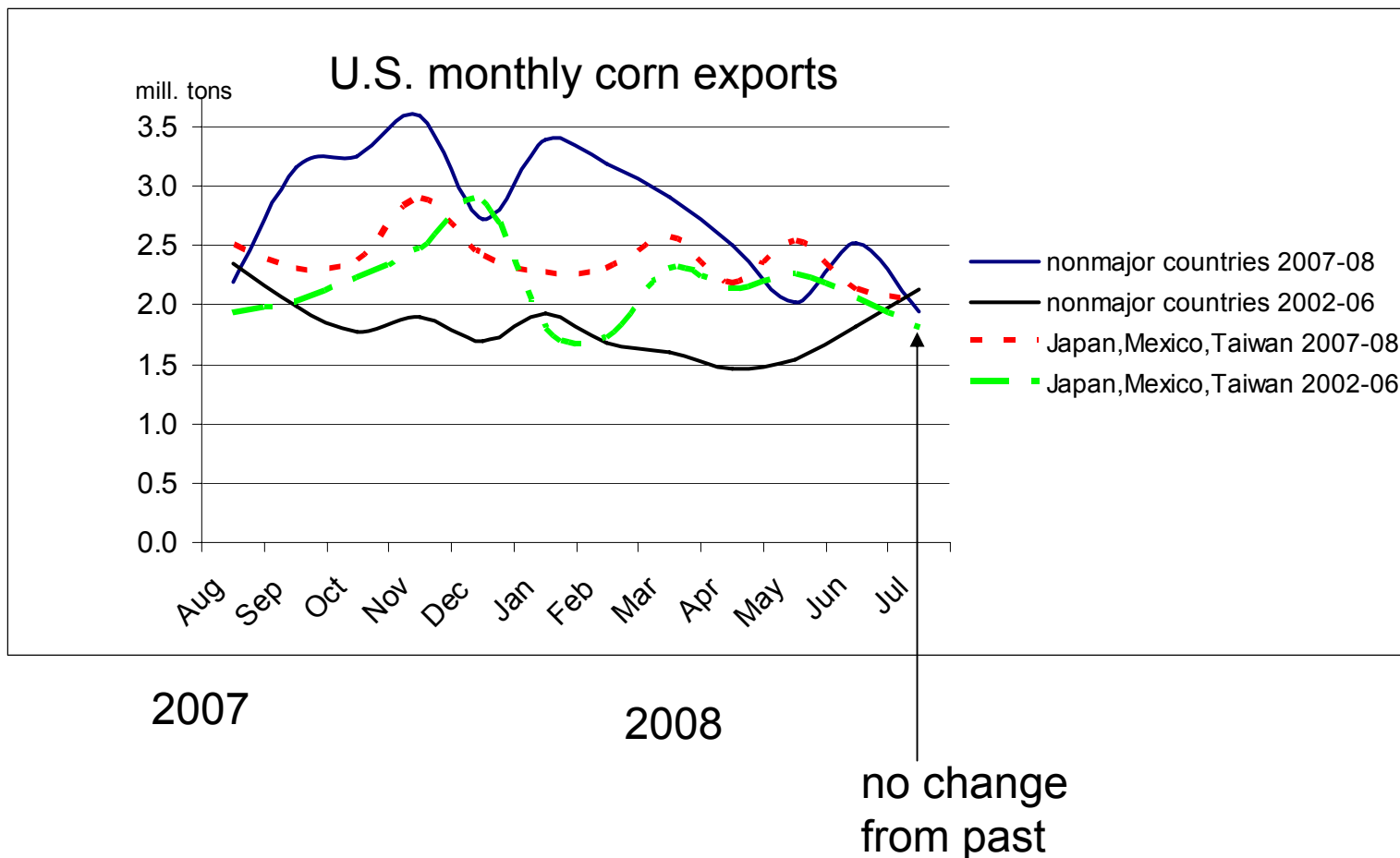
# Short-term reflects immediate imbalances not reflective of consumption growth

- Recent commodity trade growth not consistent with expectations
- Unusual with sporadic import demand
- Knowing the difference between short-term imbalances and a consumption-driven outcome is critical
- Short-term factors dominated 2007-08 period for several reasons

...however recent increase in U.S. corn shipments to non-major markets not reflective of increased consumption growth...



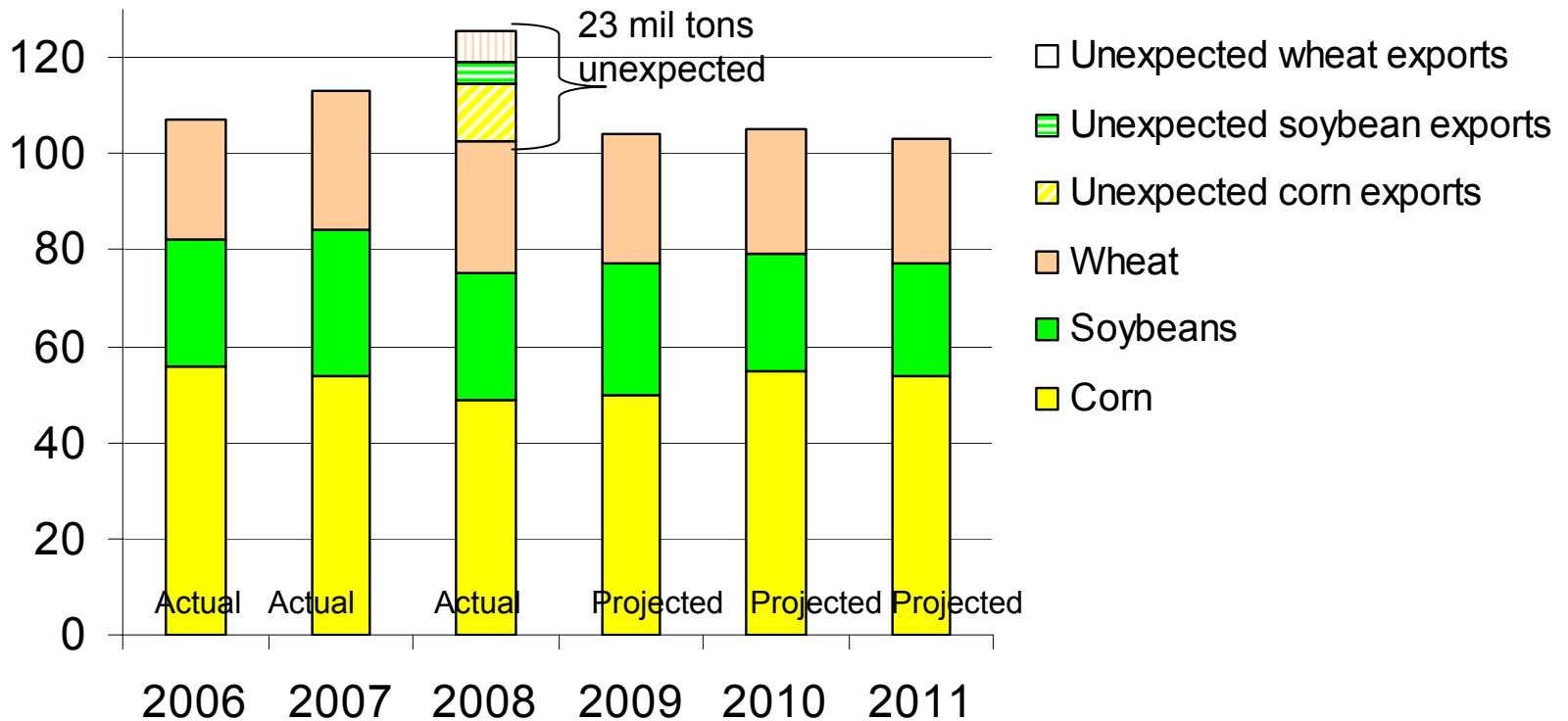
...temporary production short-falls in rest of world  
induced sporadic buying unrelated  
to income-led food demand



# The demand surge subsides as production in rest of world increases

Projected and unexpected exports in 2007-08 for U.S. commodities

mill. tons



# Supply coordination incentives

- Lack of market coordination to sustain marketable innovations can lead to greater uncertainty and can raise transactions cost
- A factor driving the reorientation of industry are the benefits realized from reliable and customized products with improved chain management
- Initiative by private firms are taking place

# Global food industry response to long-term demand factors

- Farm supply of grain and oilseeds has limited supply response in short-term – farm technology driven
- Industry responsiveness involves more than supply response to price
- Long-term response to demand encompasses a reorientation:
  - chain management innovation
  - FDI response to long-term opportunities
  - repositioning with acquisitions and mergers
  - partnerships, clustering enterprises, and joint ventures

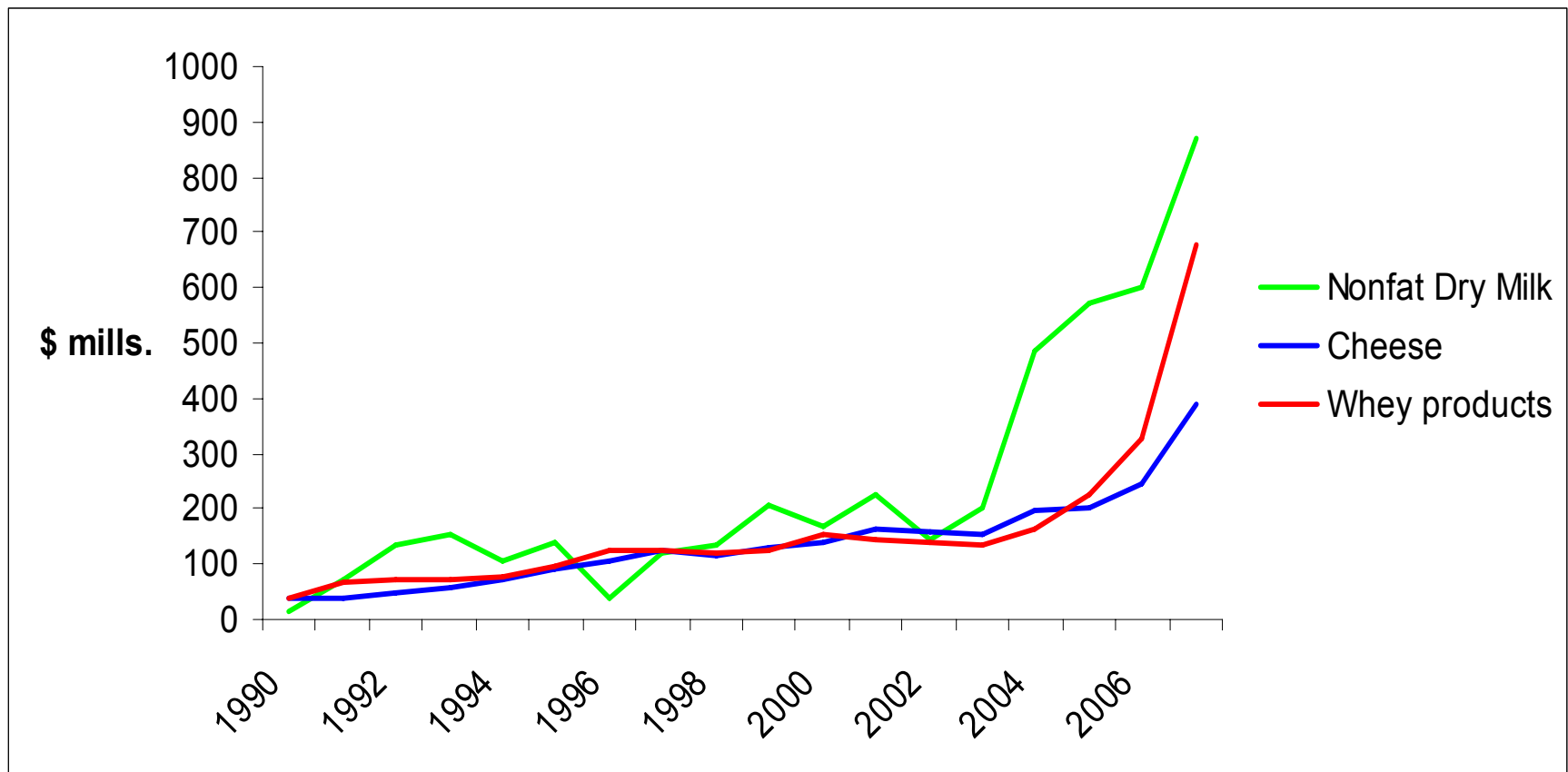
# Industry innovation in response to long-term consumer demand

- Innovation taking place in markets subject to volatility (inelastic demand and high cost of inventory/stocks) is more difficult to coordinate with changing demand
- Product innovation by customization of a commodity allows for differentiation and branding
- Expanding procuring possibilities – possible conflicts between producer owners and external product sources for supply reliability
- Expanding alliances necessary – example “Calavo” a cooperative goes public with avocados sourced from Mexico meeting U.S. standards, viewed as reliable supplier, now exporting to China
- Dairy co-ops working together (domestic and global) to exploit expertise – New Zealand cooperative (Fonterra) handles global marketing as it procures from multiple sources

# Strategies and partnerships in global dairy

- Milk production is confined to areas with favorable natural resources but still subject to supply fluctuations
- Partnerships have evolved to secure milk supplies and customize products for specific markets
- Such change bring about supplier response by firms/organization structure and strategies
- New Zealand-based Cooperative (Fonterra) is example of global firm partnering with local suppliers

# U.S. export growth of dairy products

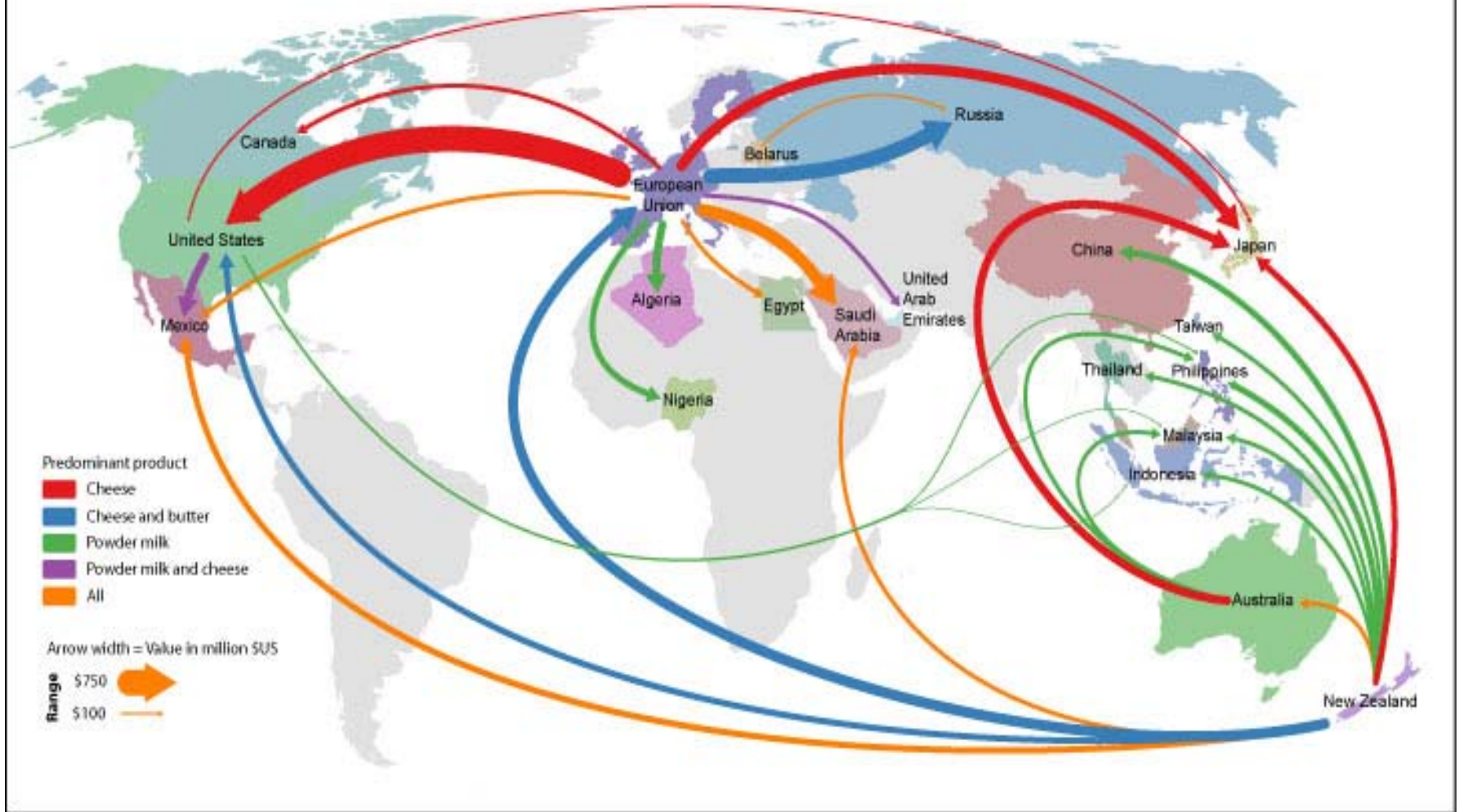


# Dairy industry

an example of product innovation  
with market coordination

- Dominated by few exporting suppliers  
U.S. has always been small country player as supplier to export market
- Import product mix varies substantially by market
- Major shifts currently taking place in global industry to satisfy growing demand
- Nonfat dry milk and whey products are customized to suit new uses and growing consumer demands

## Major Global Trade Flows of Dairy Products in 2004



Source: Prepared by USDA, Economic Research Service using data from United Nations COMTRADE

# Global networks arising from partnerships among major dairy companies

## Fonterra

World's largest dairy exporting company (New Zealand based)

### Europe, Africa, and Asia

#### Arla Foods

Largest European dairy cooperative (Scandinavian based)

#### Arla Foods Fonterra

Joint venture-marketing distribution of branded products

#### Clover Industries

Largest South African dairy company

#### Clover Fonterra Ingredients

Joint venture-marketing bulk ingredients in sub-Saharan Africa

#### Britannia Industries

Leading dairy company in India affiliated with Danone (French based)

#### Britannia/Fonterra

Joint venture to market dairy products in India

#### Nestlé

Largest multinational supplying brands and distribution expertise

### North and South America

#### Dairy Farmers of America

U.S. largest dairy cooperative

#### DairiConcepts

Joint venture -first U.S. Commercial operation for milk protein concentrates

#### Dairy America

Federated marketing company -Fonterra exports U.S. nonfat dry milk

Alliance with 7 U.S dairy cooperatives

#### SanCor/Fonterra

Fonterra exports cheese and powders from Argentina

#### SanCor

Argentina's largest dairy cooperative

#### Dairy Partners America

Joint venture-sourcing fresh milk from South America with ingredients from New Zealand

Source: Prepare by USDA Economic Research Service

# Summary

- Global agricultural trade is driven by multiple influences both in short-term and long-term – value added products greater long-term growth
- Innovation with coordination management in a fast changing environment is critical for all stakeholders
- The food industry is becoming more global not only because of product trade but from greater interactions with international firms
- New partnerships and structures are evolving in food industry as a competitive strategy which can open opportunities for both small and large producers