



Global Perspectives on Agri-Food

How do Italian and European dairy farmers compare to New Zealand and the USA

Peter Paul Coppes January 25, 2019
RaboResearch Food & Agribusiness



Rabobank

Globally active in banking with offices in 40 countries

40

Countries



15

International desks



900

Offices



47,000

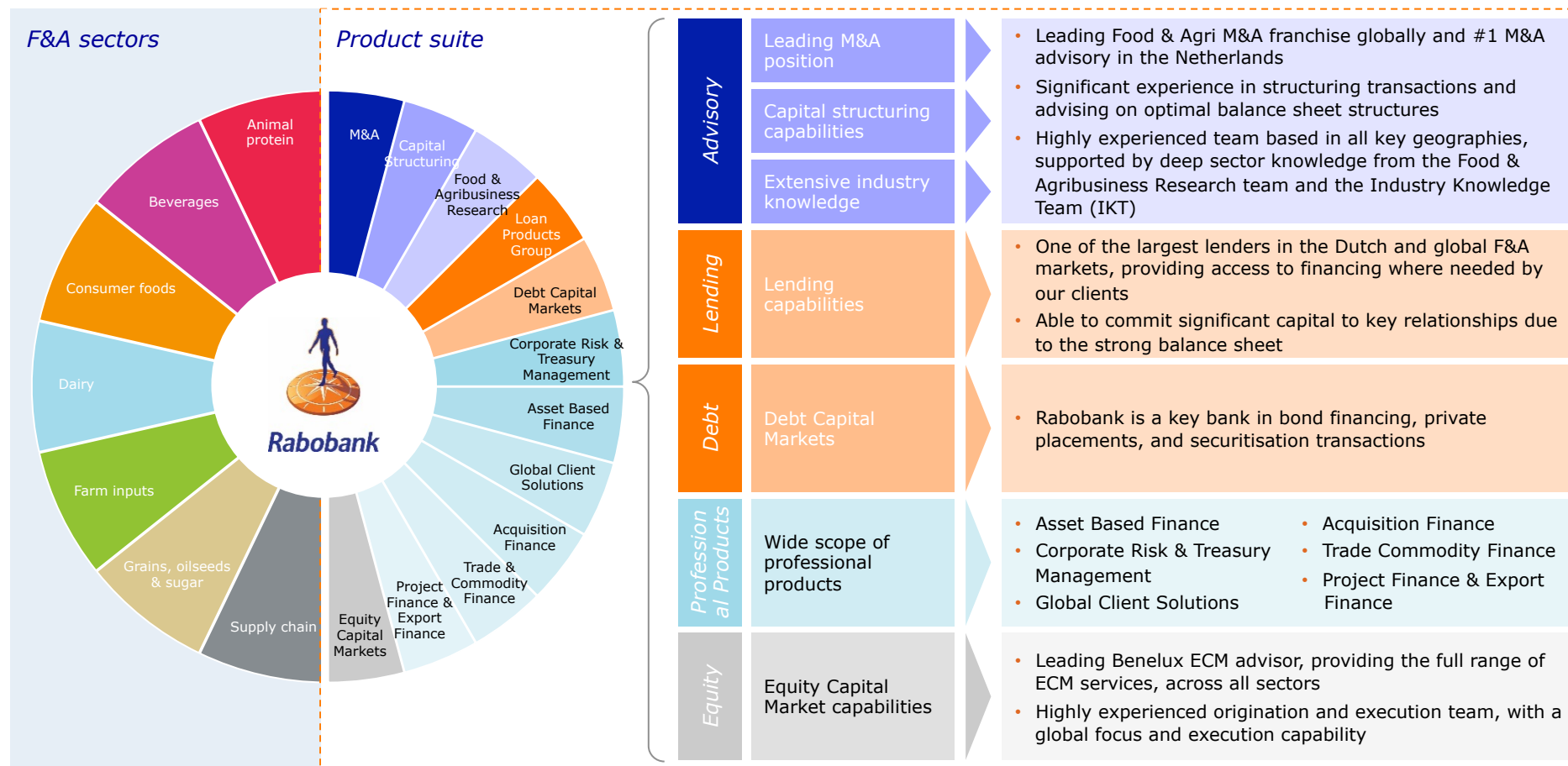
Staff



Deep sector knowledge in combination with comprehensive product suite



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Best Investment Bank
in the Netherlands
(2015 and 2013)



Best Investment Bank
in the Netherlands
(2015 and 2013)



Corporate Finance Advisory:
highest customer satisfaction
(2015)

The Banker

37th of Top 1000
World Banks
(2015)

Significant commitments to almost all major players in the industry



17 / 20

17 of the **top 20** global dairy players are Rabobank clients



16%

of Rabobank's total loan portfolio is committed to the dairy sector















€ 24 billion

outstanding in dairy (rural & wholesale)

Our mission is to be the bank of choice to our F&A clients

F&A Sector Banking

We offer sector-based finance solutions by bringing together our global sector knowledge, our client insights and seamless execution

Animal protein	Beverages	Consumer foods	Dairy	Farm inputs	Grains, oilseeds & sugar	Supply chain
<ul style="list-style-type: none"> Pork & beef Seafood Poultry 	<ul style="list-style-type: none"> Beer Coffee Distribution Juices Soft drinks Spirits Wine 	<ul style="list-style-type: none"> Food services Bakery Confectionary Grocery Other value-added processing 	<ul style="list-style-type: none"> Dairy 	<ul style="list-style-type: none"> Agro chemicals Animal nutrition & health Equipment Fertilisers Seeds 	<ul style="list-style-type: none"> Grains Oilseeds Sugar 	<ul style="list-style-type: none"> Food Logistics Packaging
 	 	 	 	 	 	 



Sector knowledge

- Fundamental sector knowledge covering the entire F&A chain supported by extensive research from macro-themes, impacting a particular F&A industry, to micro-level analysis of individual companies
- Over 80 dedicated research professionals across 20 offices globally, covering 11 sub-sectors, working closely with Rabobank's professionals

Client insights

- We champion innovative thinking and idea generation, driven by our knowledge of the clients and their sector, to bring forward-looking deals and solutions to our clients
- Rabobank Group operates in 42 countries around the world

Seamless execution

- Our Global Sector Heads bring together the local, regional and global network of our bankers and our product suite to support client ambitions and provide disciplined execution of client agendas

Today's Agenda



- The **agricultural policies and farmers' support**
- The **costs**, and forecast of feed price
- The **creditworthiness assessment**

The Agriculture policies and farmer's support



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Subsidies in EU

- 1 38% of EU Budget is CAP (Common Agriculture Policy)
- 2 72% of that is direct support via Agriculture Guarantee Fund per hectare farmed
- 3 20-30% of income farmer is EU Subsidy
- 4 Average EUR 25,000 per farmer (not dairy farmer)
- 5 Specific support (Green Payment, Young Farmer, Small/Mid-size farms, natural constraints, voluntary support)

Talking of Government, what about the EU commission?

- *Yes there are still subsidies for production through the single farm payment*
- *Yes they are used to subsidise production costs - even though they're not meant to be*
- *Yes in some cases they are the difference between profit and loss*
- *But*
- *The commission hasn't completely come to the rescue*



Future of European Dairy Production

- *Post quota Europe has increased production - it was expected too*
- *This increase has come in the middle of extremely challenging conditions for the global market and has gone some way to prolong the slump.*
- *Looking to the future*
 - Further investments are unlikely
 - The removal of regulation will level the playing field and EU farmers will need to be more market orientated - any further farmer support is unlikely
 - Consolidation will grow in Europe but will be limited
 - Europe will compete - but only when it pays too
- *Therefore, the opening of floodgates is unlikely and growth will slow*
- *But, the EU (or parts of it) will be competitive – Italy needs to be ready*

Subsidies other parts

- *Europe*
- *United States*
- *New Zealand*
- *Other countries*

The costs and forecast of milk production



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We can classify dairy farm into 3 socio-economic categories



Household farms

Key characteristics: Small farms 1-3 cows, dairy is one income source,
50% of the milk is consumed on the farm, 50% sold.

Key driver: Selling milk provides daily cash for family needs.

Family farms

Key characteristics: Work is mainly done by the family,
Size in developed countries 10 up to 100/300 cows?

Key driver: Generate an income.

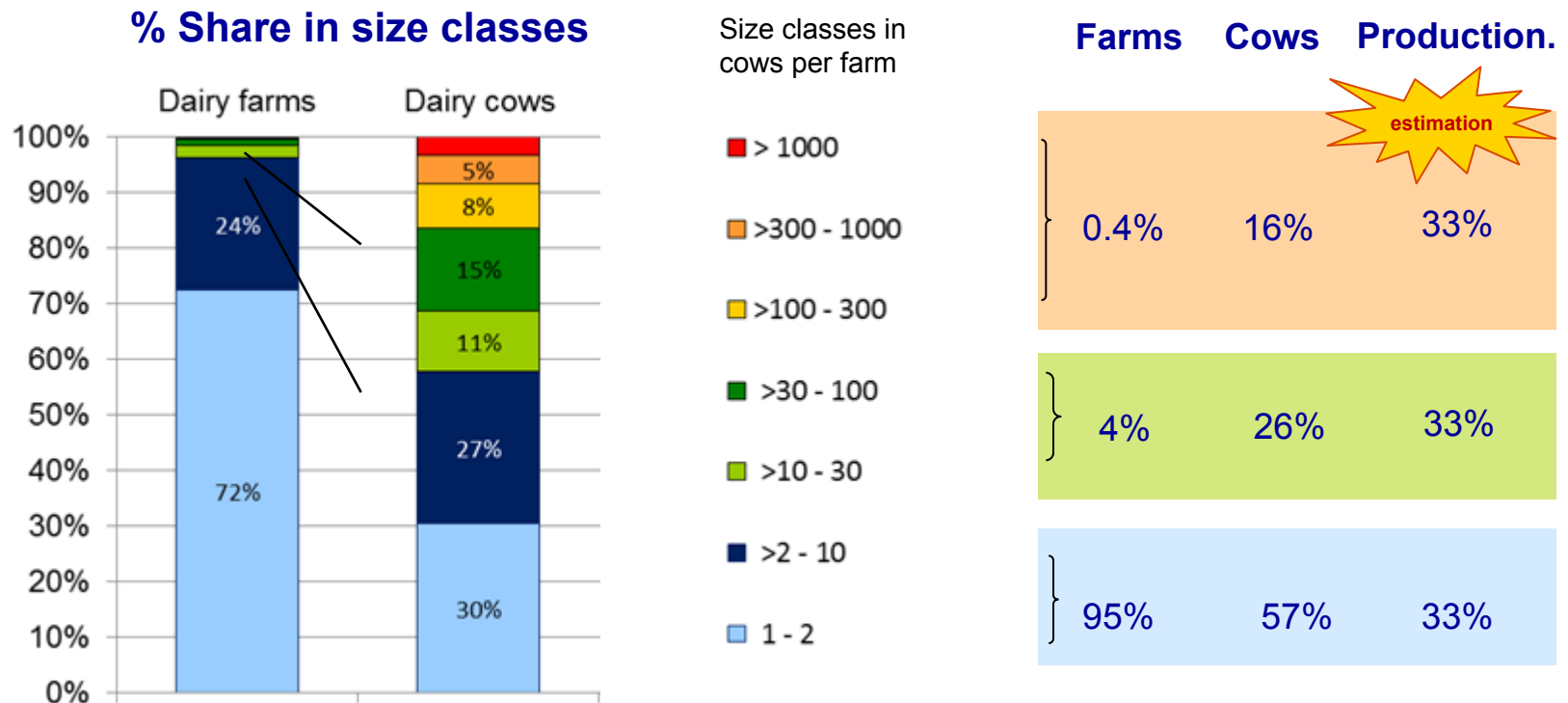
Business farms

Key characteristics: Work is mainly done by employees,
Size in developed countries > 300 cows?

Key driver: Generate the expected ROI.

Structure of dairy farming world wide

IFCN Standard Classes for world aggregate 2012 - estimates

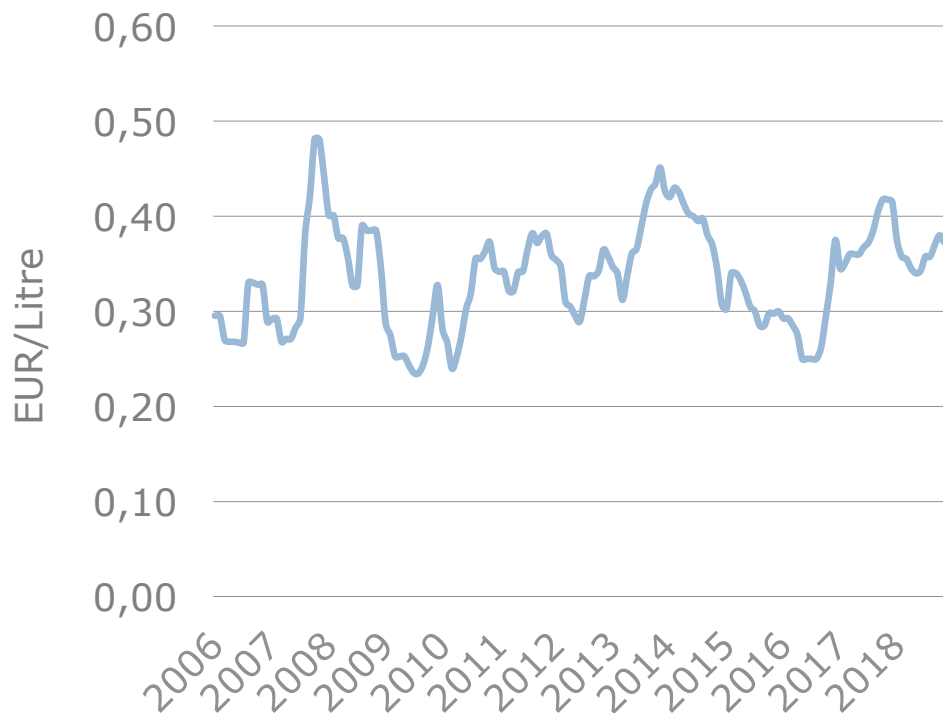


Data: Farms in Standard Classes based on 91 countries, cows in Standard Classes based on 83 countries. Estimated milk production per standard size class representing 85% of cow & buffalo milk production. 2012 data preliminary or estimated for selected countries.

European farm-gate milk prices remain high, but now falling.



RFC milk prices



1

Price levels still strong

2

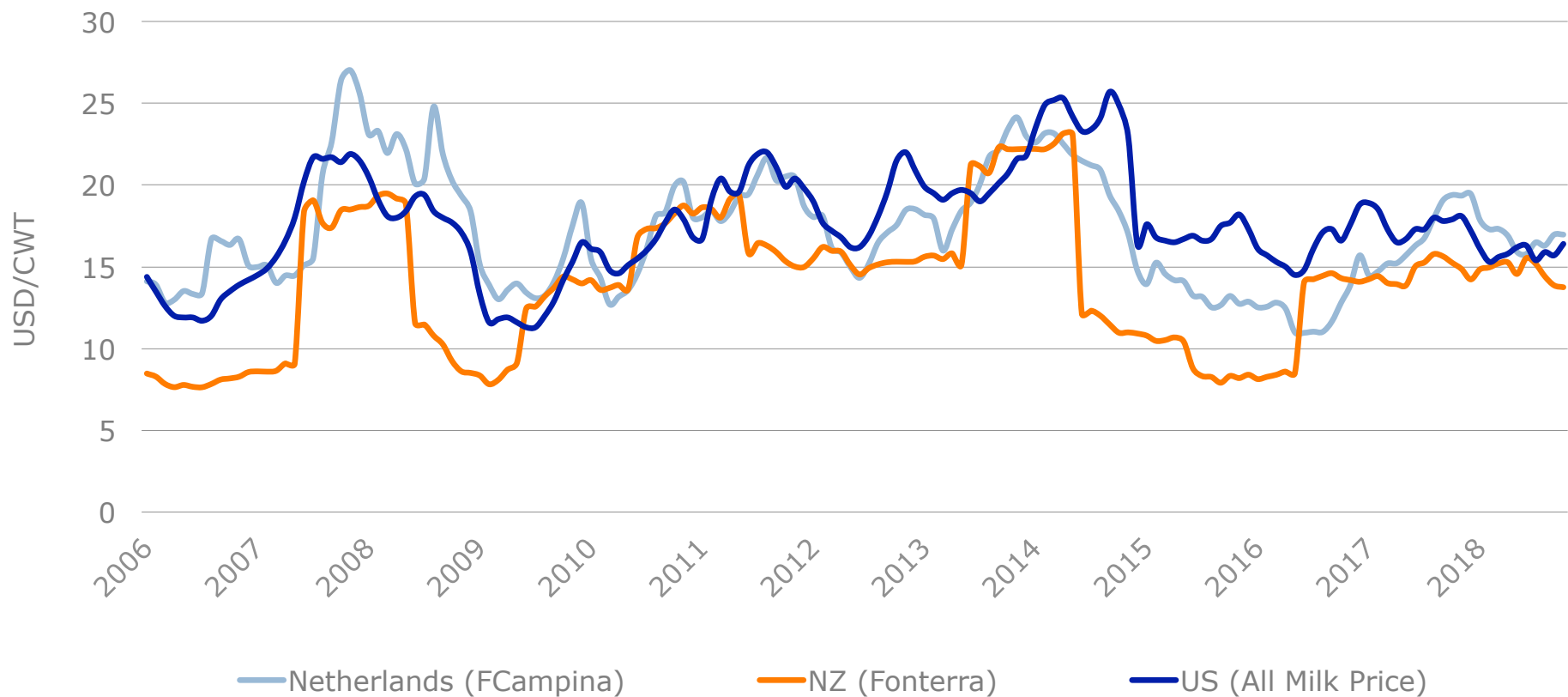
Below 2017 level

3

Latest announcement of Arla, FrieslandCampina and others to reduce by EUR 1,00 for end of year

Global farm-gate prices are tiptoeing on profitability.

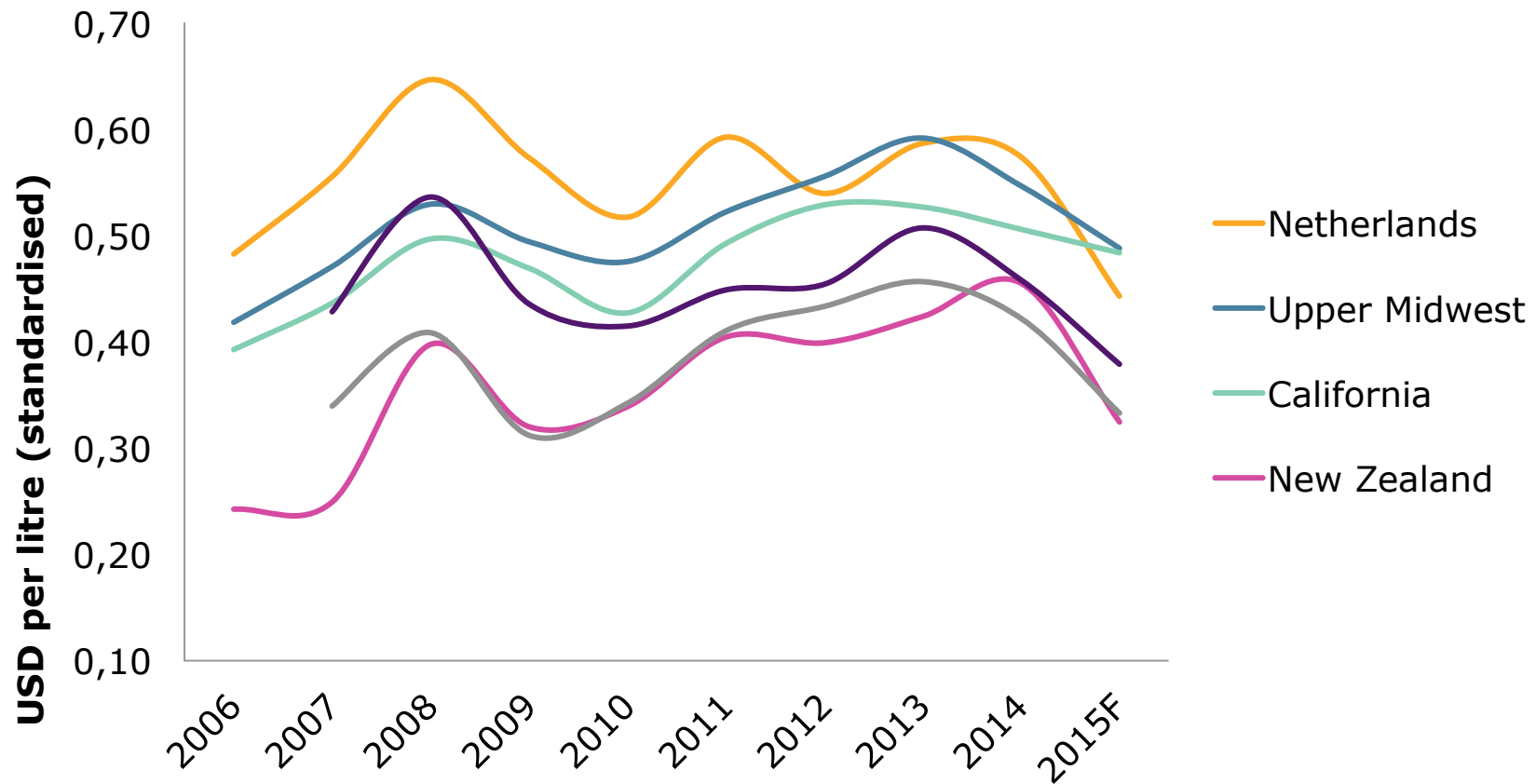
Farmgate milk prices (USD equivalent) - select regions



Source: RFC, Fonterra, USDA

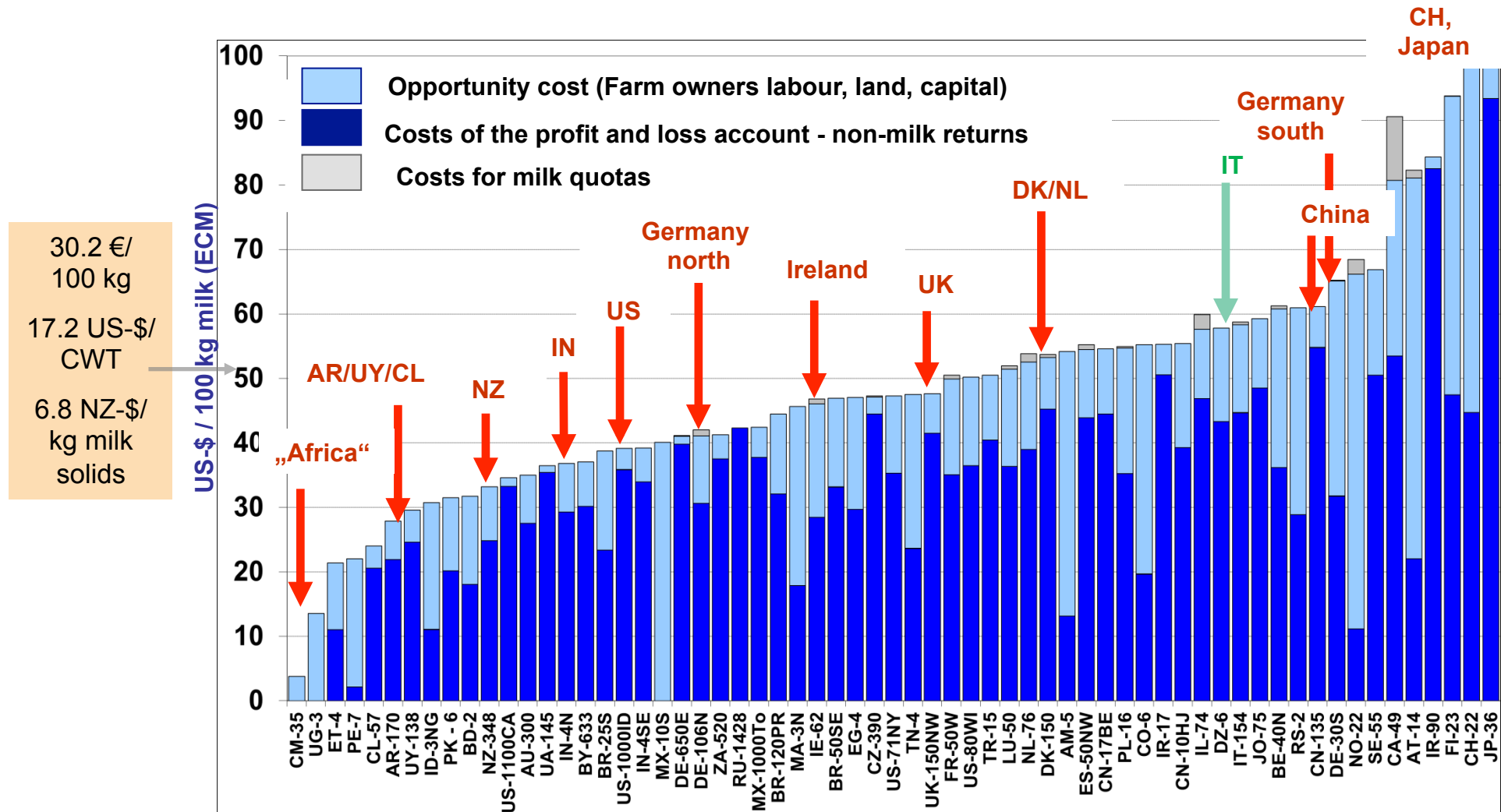
Cost of production

Europe seems to be more efficient but exchange rates have played a big role



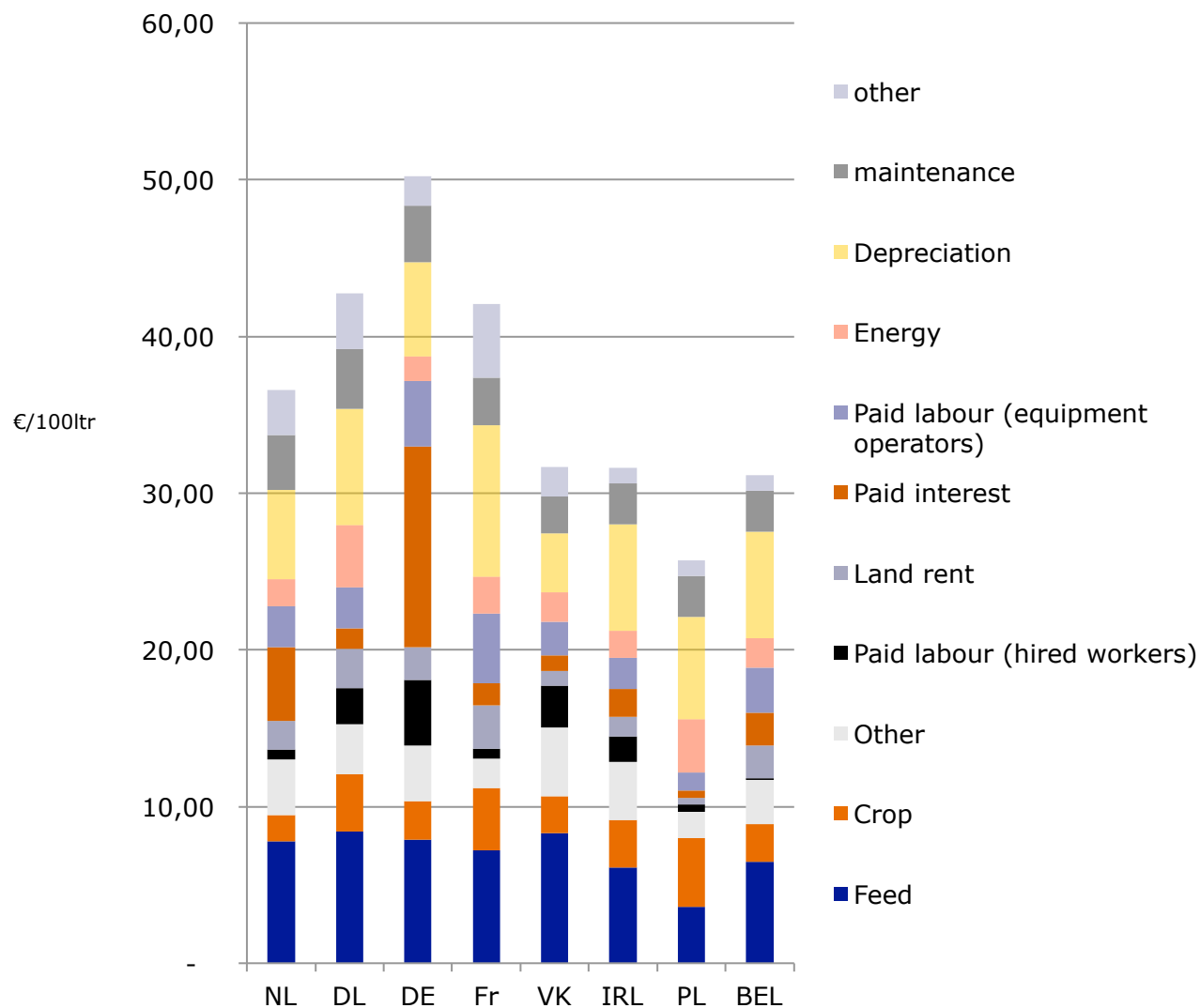
Ranking countries by cost of production

average farms per country in 2017



Comment: Average sized farms in the countries, analysed year: ECM: energy corrected milk (4% fat, 3.3% protein). For the conversion on the left hand side 2016 exchange rates used

Total costs for farming in Europe

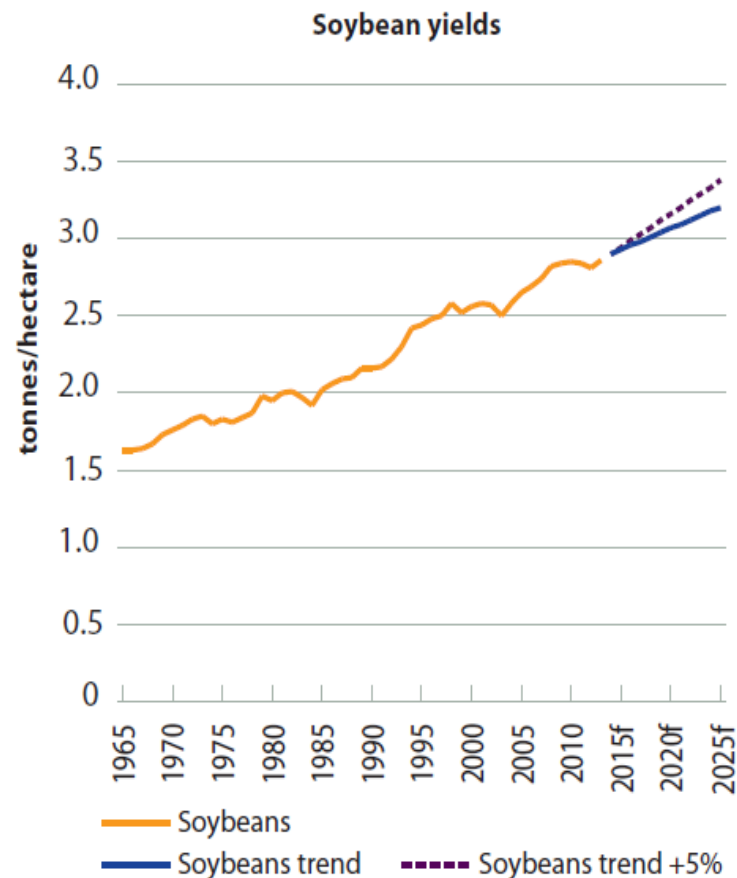
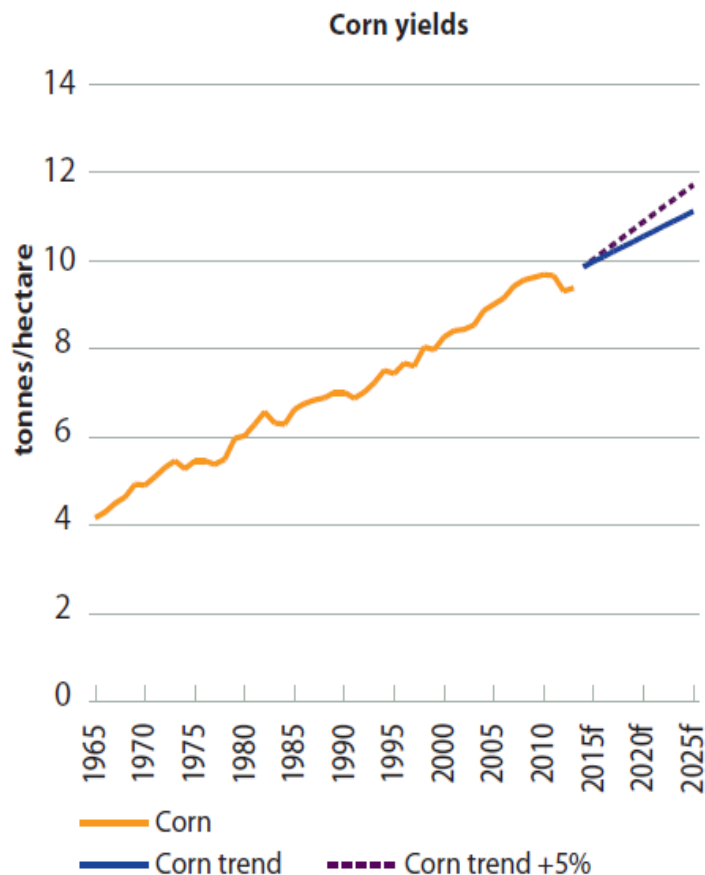


Big data offers a boost to production models

'Big data' allows farmers to optimise yields, incrementally improving margins by lifting yields and reducing inputs



Big data could help lift US crop yields by 20 mln t and reduce inputs by 1-3% by 2025



Big data allows farmers to take further steps to optimise farming practices

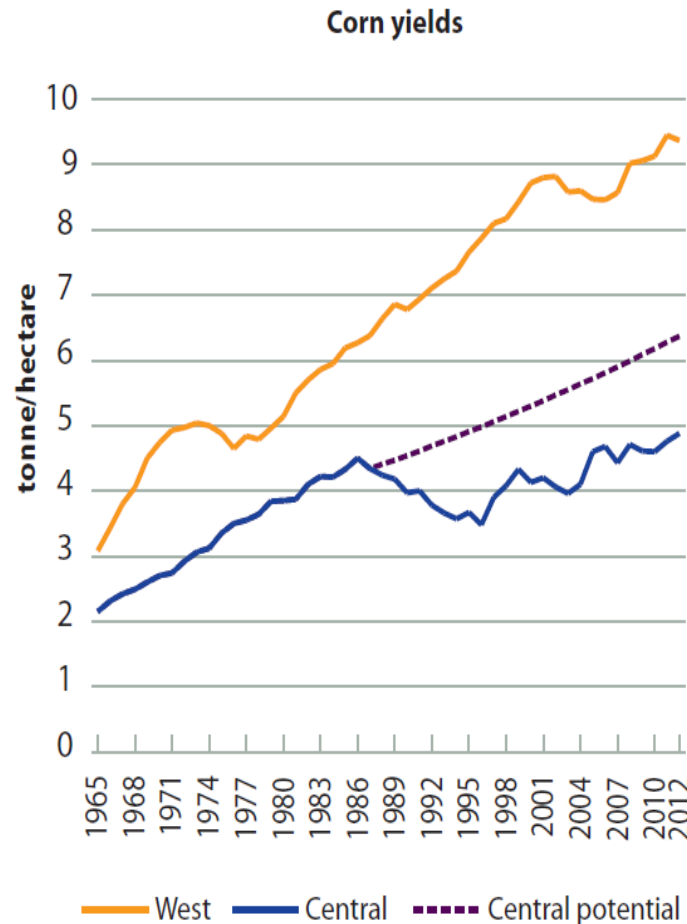
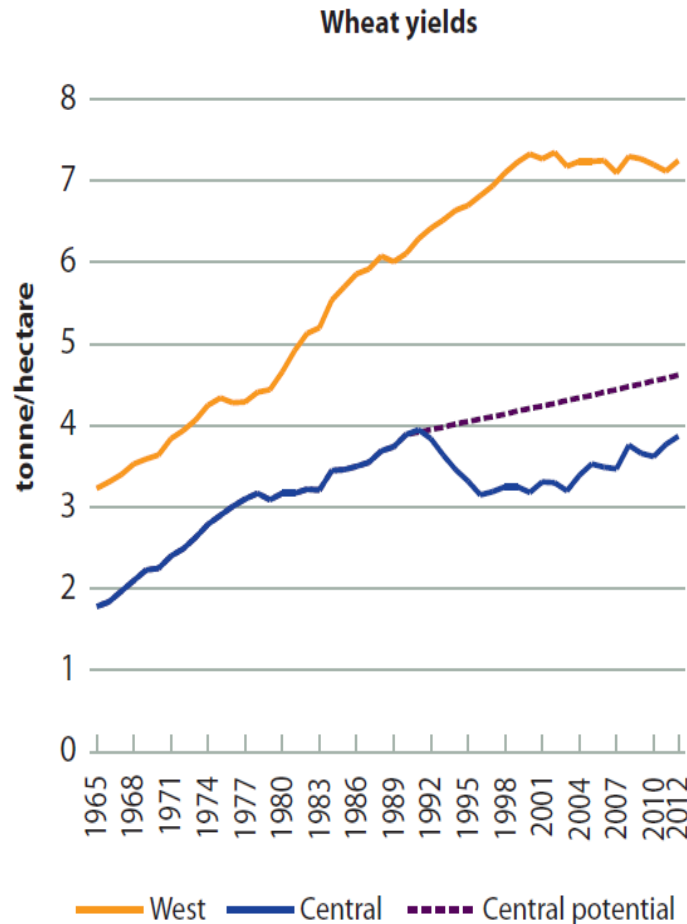
Once established in the US, this could be leveraged elsewhere

New production models can close the yield gap in central Europe

New production models can sometimes mean transplanting best practice from one region to another, with material impacts



Improving land and adopting modern practices could boost output by 9 mln tonnes by 2025

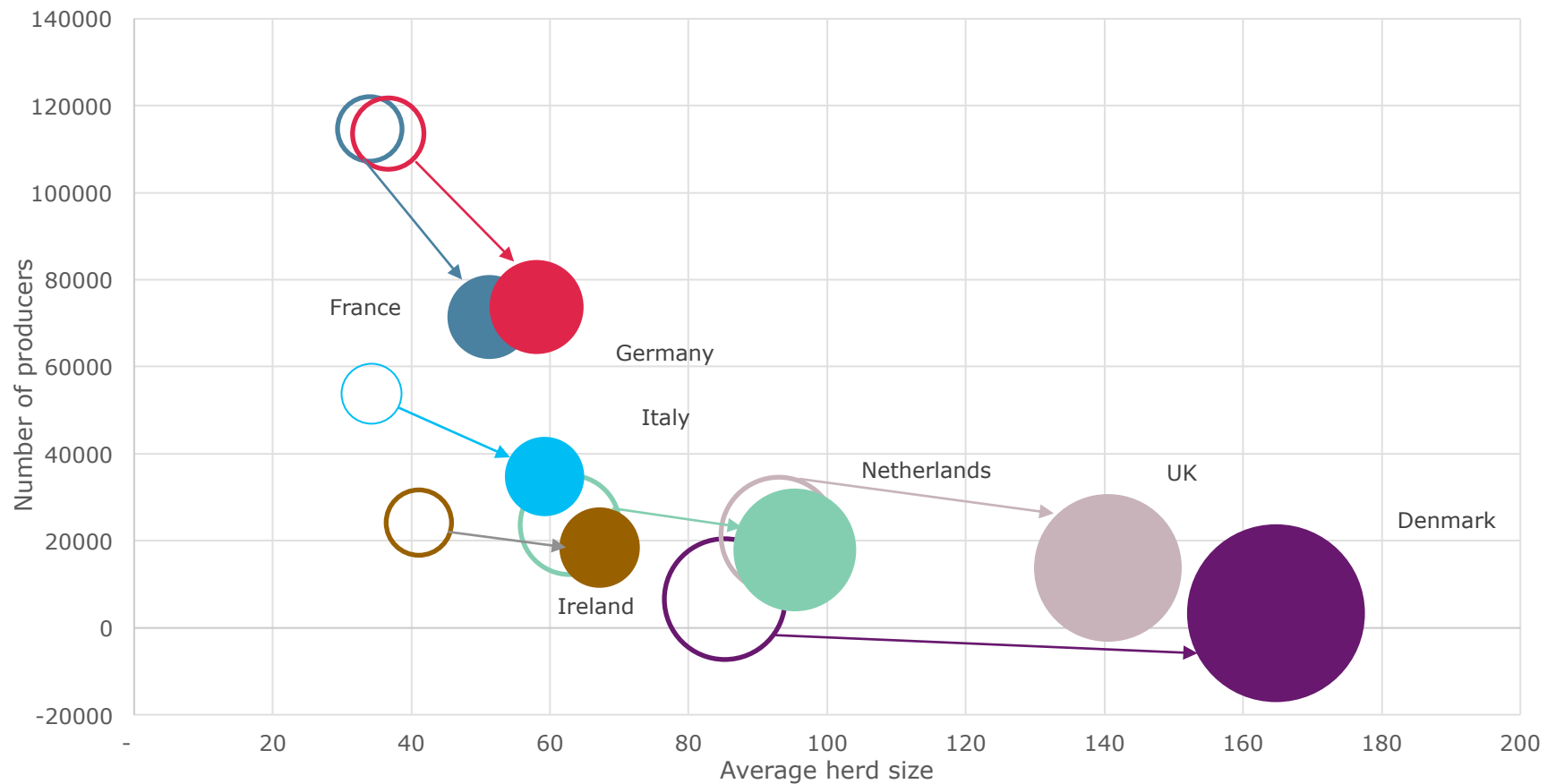


Central and eastern Europe deliver crop yields well below potential

The yield gap could be closed by upgrading ag land, adopting modern agronomic practices and using modern machinery

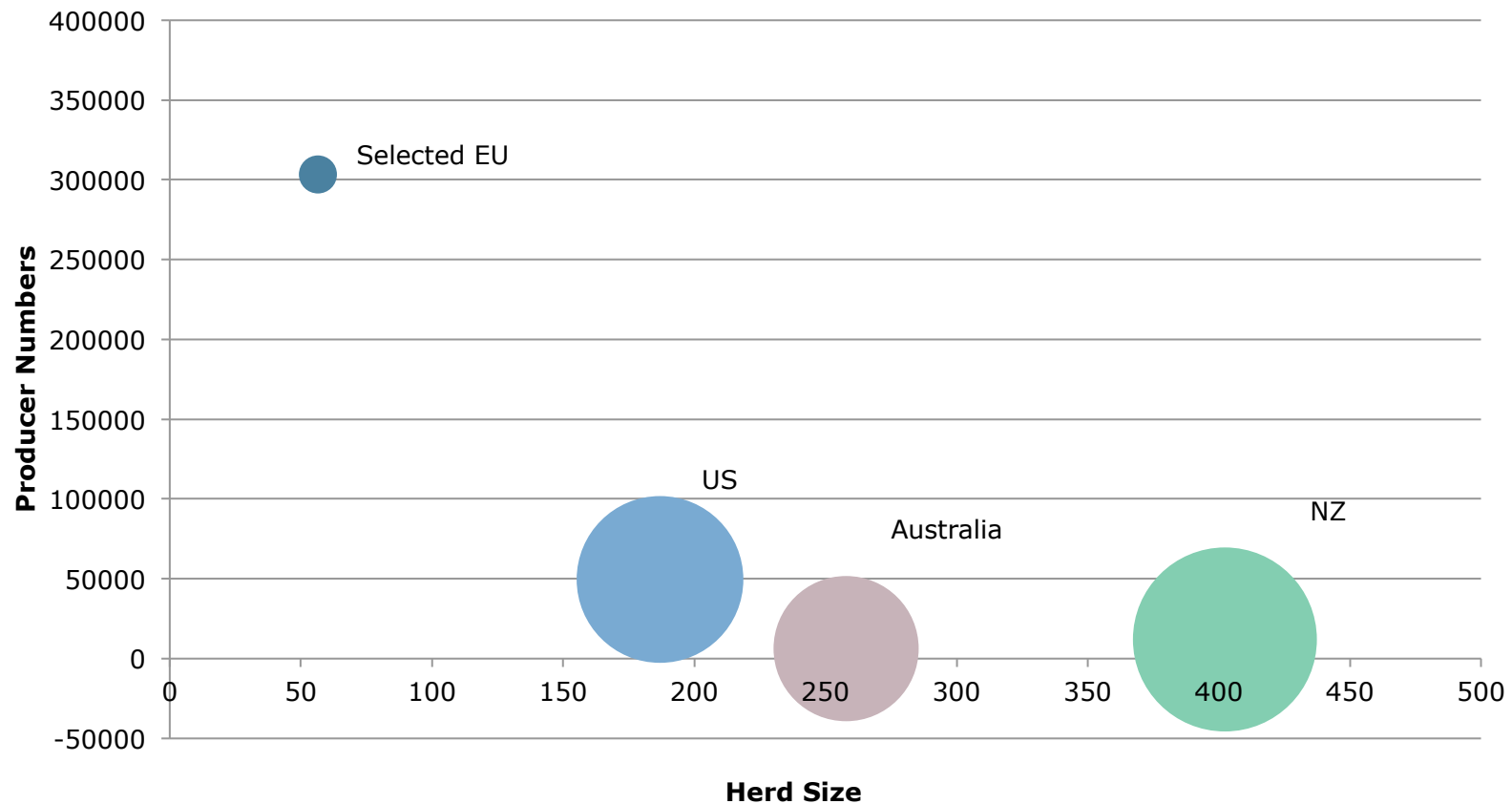
European production has consolidated in the last few years

2006/07 - 2016/17 - bubble sizes corresponds to milk solids per farm



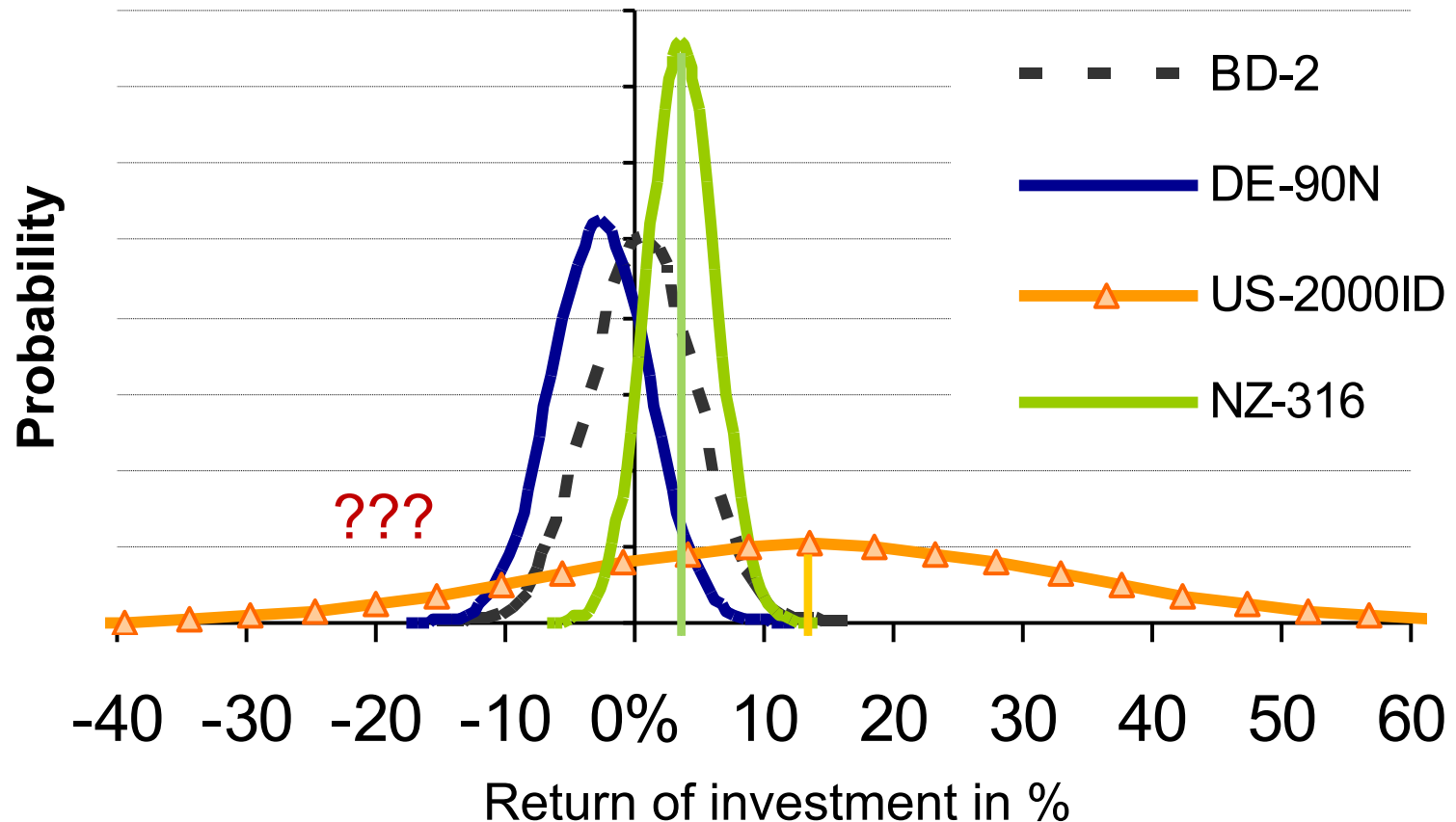
But it pales in comparison to our global competitors

2016/17 - bubble size corresponds to milk solids per farm

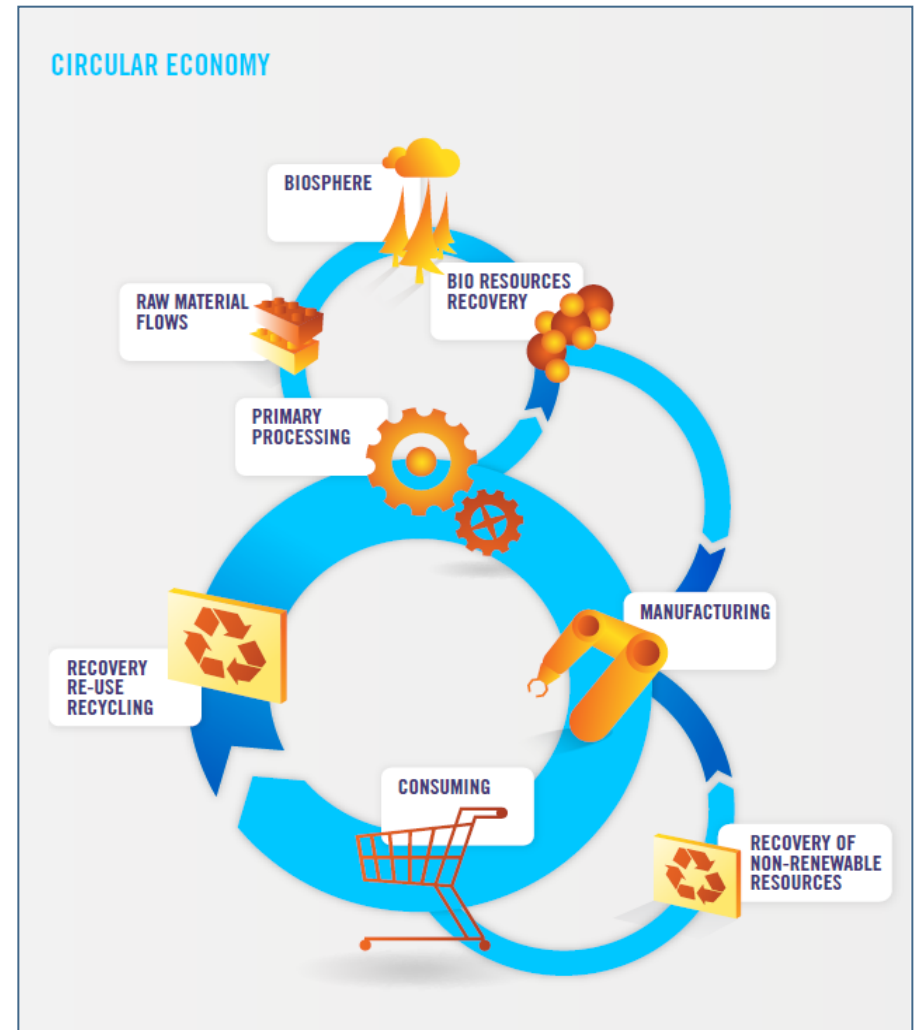
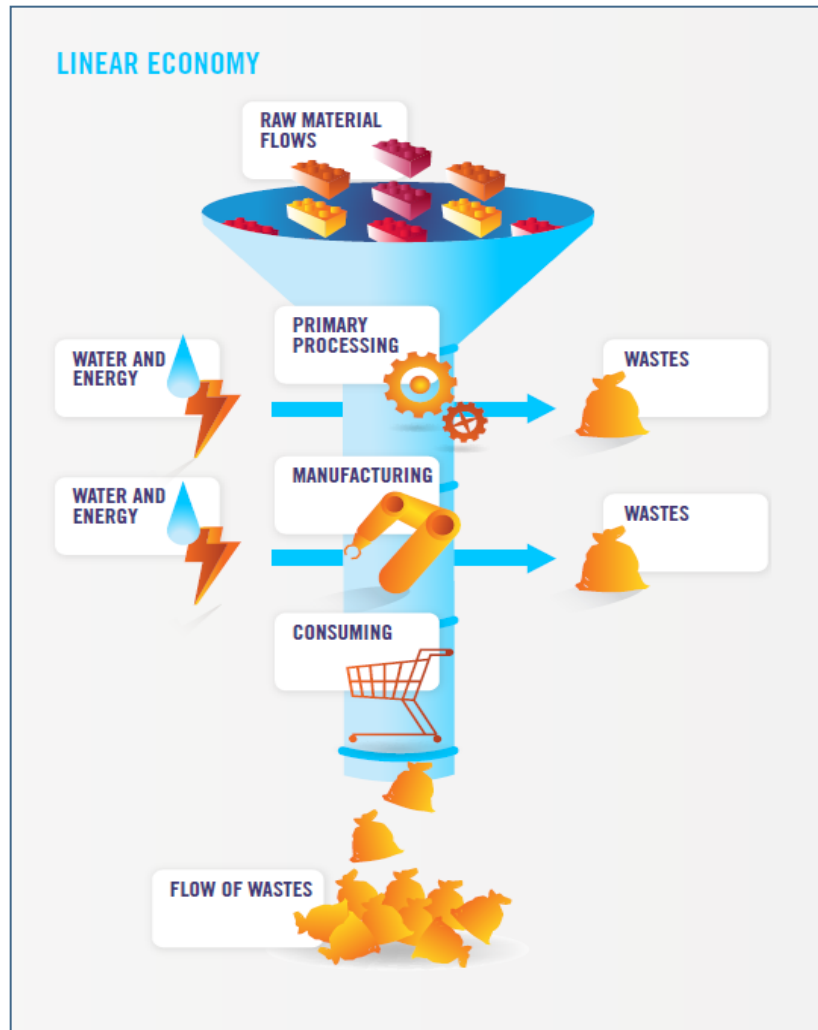


What about resilience to price shocks?

Simulated Return on Investment (ROI) in % for typical farms 2014 – 2016



Circular economy: profit or loss?

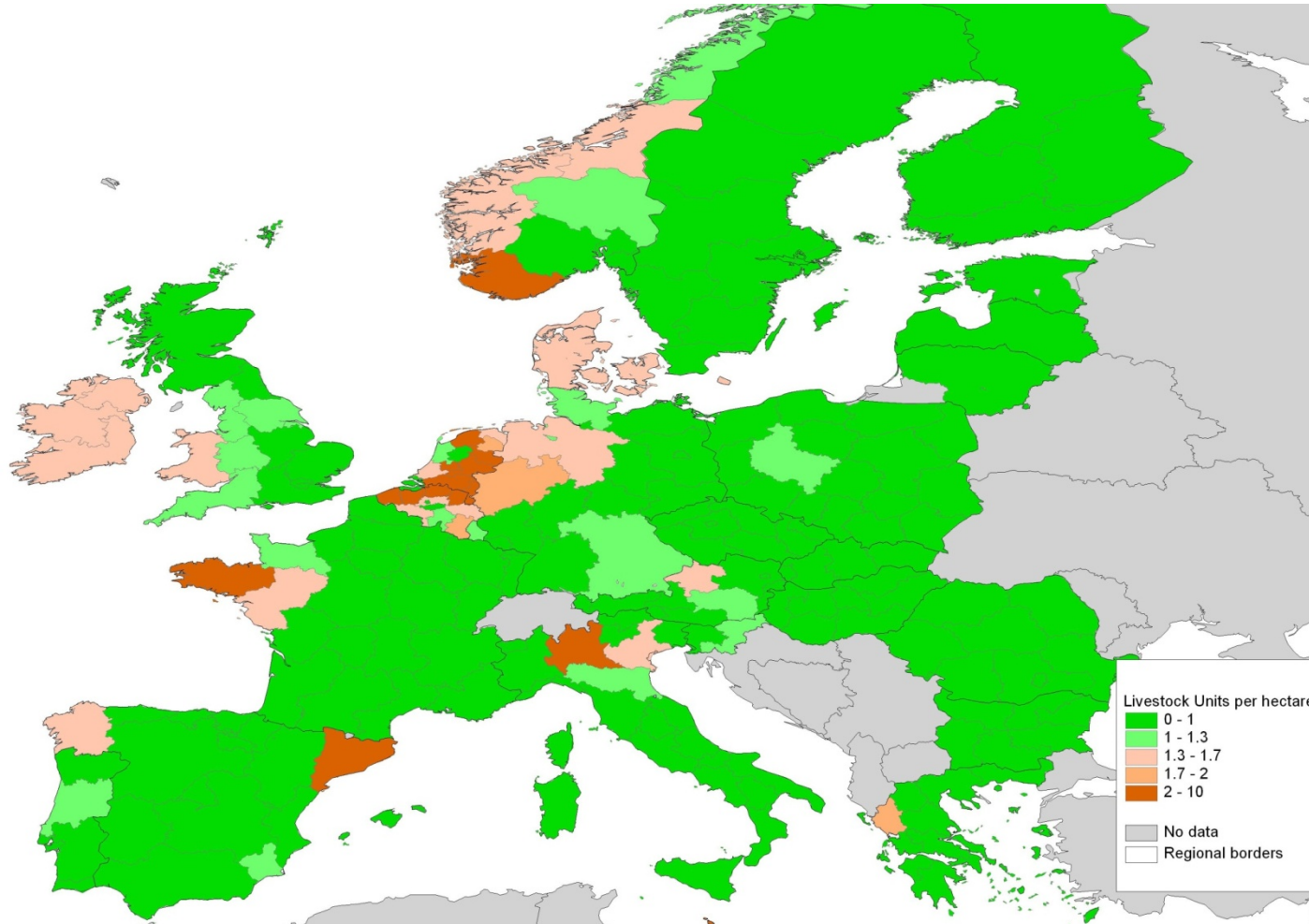


Creditworthiness assessment



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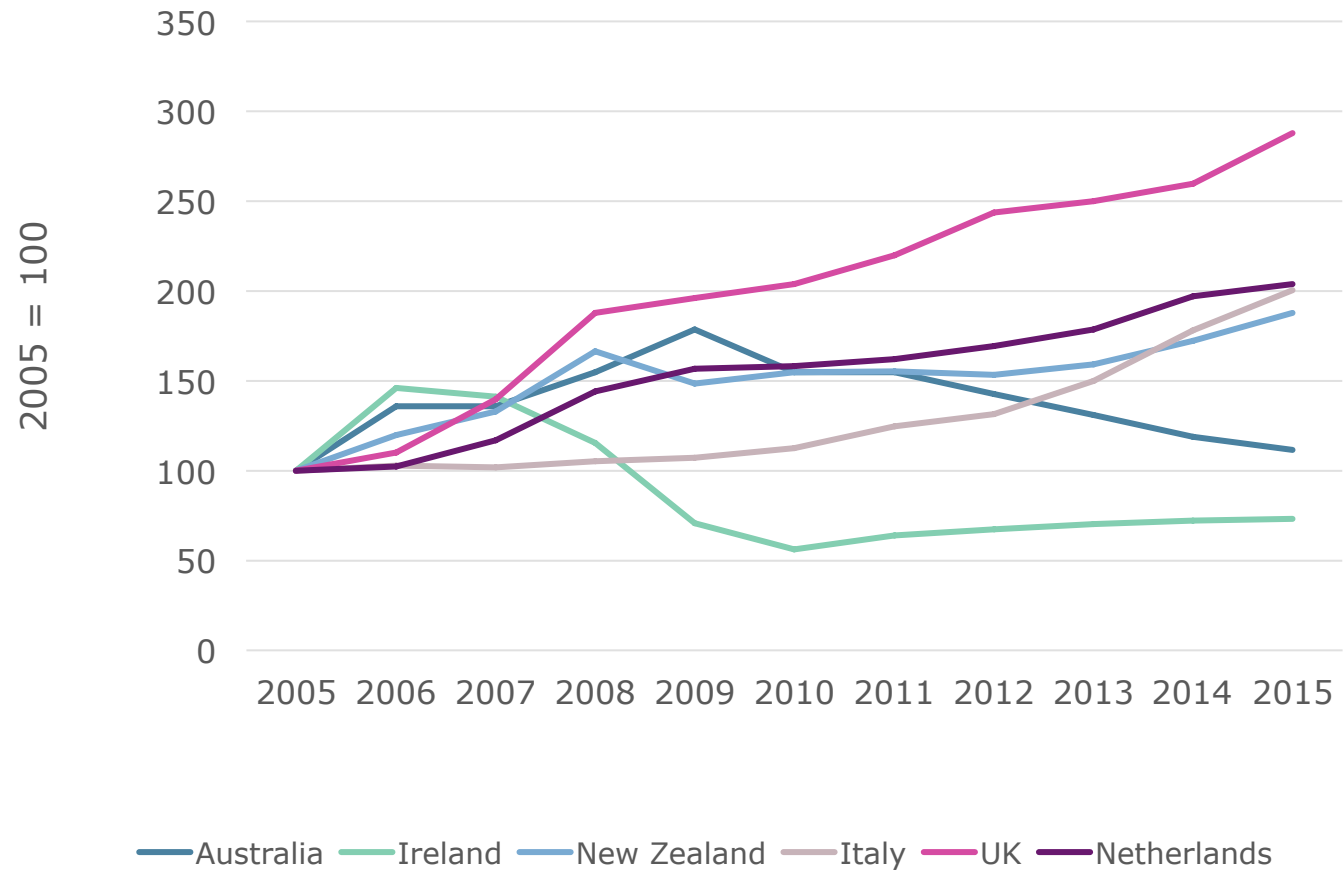
Intensive dairy farming regions / land value



NB: Map indicates LSU's per hectare (how many hectare for cattle weight 450kg) of agricultural land, which implies that in regions where agricultural land is scarce – as in Norway - LSU density gets high quickly

Source: ROM3D, 2015

Land price indices



Constraints to expansion

Expansion isn't limitless

Milk production in Europe will continue to grow up to a point.

But there are constraints

- Land prices & availability
- Environmental regulations
- Consumer attitudes

4-star creditworthiness

Level financing

- *Tenure*
- *Equity*

Earning Capacity:

- *Reserves*
- *Credibility*
- *Payment history*
- *Liquidity*



Earning Capacity:

- *Vision – Strategy*
- *The farmer*
- *Market developments*
- *Process Management*
- *Financial Management*

The Farm

- *Quality assets*
- *Replacement investment*
- *Structure / Organization*
- *Development*

Questions?





Thank you

Q&A

"The financial link in the global food chain"™



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