



HORIZONS

Insights on Today's Global Dairy Business from the Hoogwegt Companies



Market Matters

New Government Ushers in New Policies

As vaccination rollout continues across the United States, the new Biden administration and the 117th Congress have started to push their policy agendas. Democrats, now control the White House, the House of Representatives, and basically the Senate. When the equally split Senate has a stalemate, Vice President Kamala Harris as president of the Senate is given the tie-breaking vote. For now, it appears the top policy issues that will impact agriculture include alleviating hunger, reforming immigration and labor laws, increasing environmental regulation to help stem climate change, and improving trade relations.

Passed in mid-March, the \$1.9 trillion pandemic relief package contains a potential spending budget for USDA of up to \$3.6 billion for food procurement. Most of the food procurement budget will be spent on existing programs such as the Supplemental Nutrition Assistance Program (SNAP) and Women Infants and Children. SNAP has already received a 15% increase in allocation through at least September. In addition, the school lunch program will be open through summer, feeding as many as 12 million children who do not have reliable access to food. The Biden administration will also work to develop a longer-term plan to reduce hunger, which has dramatically worsened during the pandemic.

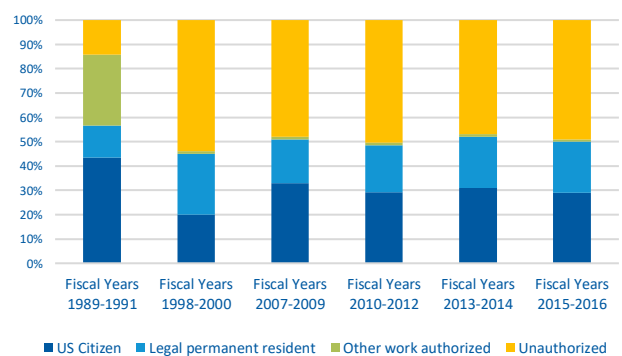
USDA to Focus on Reducing Climate Change

In late February, the U.S. Senate confirmed Tom Vilsack as secretary of agriculture, a position he held under former President Barack Obama. Under Vilsack, USDA will not only increase its focus on making sure every American is well fed but also on agriculture's role in pollution and climate change. In late March, Vilsack said a main priority of USDA will be to determine the feasibility of setting up, executing, and paying for a federal carbon bank to help farmers reduce greenhouse gas (GHG) emissions and reward them for doing so. He also noted that USDA will look for ways to compensate farmers who incorporate climate-smart ag practices into their operations. This is a dramatic shift from Trump administration policy, which rolled back many environmental rules and regulations.

While another policy issue, immigration and labor reform, has

bipartisan support, how exactly to confront changes to current policies that have created decades of frustration has challenged the government for decades. While the Biden administration and Congress seek to reform immigration, a developing situation at the southern border involving unaccompanied minors has reprioritized long-term change. That said, the House passed several immigration measures last month, and the Senate is expected to introduce its own version of the Farm Workforce Modernization Act this spring to address widespread shortages of experienced farm and food production labor as well as rising labor costs.

Crop worker demographics in the United States



Source: U.S. Department of Labor

Like Vilsack, Biden's new U.S. Trade Representative Katherine Tai received a swift bipartisan confirmation. Despite the pandemic, U.S. dairy had its best trade year on record in 2020, but the industry will continue to look for more export opportunities. Dairy exporters and food manufacturers can expect to see more consistent sales as the Trump administration's trade war atmosphere gives way to pro-trade rhetoric. Tai has said the United States is not ready to lift tariffs on China but she is open to trade negotiations with Beijing. Tai is also expected to work to correct trade issues with Mexico and Canada and strive to level the playing field with Oceania and Europe through multilateral and/or bilateral agreements.



Hoogwegt Forecast

	U.S. Average Prices			EU Average Prices			Oceania Average Prices		
	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend
SMP	2.890	1,31	Firm	3.150	1,43	Firm	3.400	1,54	Stable
FCMP/WMP	3.860	1,75	Firm	3.935	1,78	Stable	4.100	1,86	Stable
Butter	4.365	1,98	Firm	4.850	2,20	Weak	5.800	2,63	Stable
Cheddar	4.080	1,85	Firm	4.100	1,86	Stable	4.500	2,04	Firm
SWP	1500	0,68	Firm	1.250	0,57	Stable			
Lactose	1060	0,48	Stable	1.250	0,57	Stable			

U.S. prices stated ex-works/including expected CWT subsidy where applicable; world prices stated FOB main port; EUR/USD: this week \$1,207

World Comment

If we look at the global market balance, we can argue that Covid-19 had less impact on total demand than expected at the start of the pandemic. By the end of 2020 stock levels have been decreased and the big question remains. Will supply be able to keep up with the demand in order to prevent prices from rising even further?

In the US we've seen a very strong H1, with supply growth of about 2,5-3% yoy. H2 will be more challenging due to the strong H2 in 2020 and the increasing feed prices, impacting the feed intensive US production. Oceania has experienced a strong season in both Australia and New Zealand. For the new season expectations are on the conservative side, mainly because of the strong 2020/2021 season. The expected large impact of higher feed prices on the Latin American production seems limited in the end. Also due to sufficient availability of feed that cannot be exported, that now is available at acceptable levels. It has to be said, the outlook for next season isn't great. EU growth is disappointing during the start of the season. Growth in Ireland and Eastern Europe might be larger than 1%, but Western Europe will most probably not exceed growth over 0,5%.

Bring it Home

Government and Consumers Align Green

As Congress and the Biden administration shift their focus to reducing GHG emissions, the dairy industry will be forced to adopt a course that more closely aligns with these goals. While the negative impacts from dramatic weather events in recent years have been undeniable, some in agriculture are still reluctant to attribute these events to climate change, but they will have to accept that Trump's regulatory rollbacks were short-lived respites only. The new administration has enlisted USDA to convince farmers of the benefits of reducing GHG emissions, but Vilsack and his staff will face many hurdles before obtaining widespread acceptance of stricter environmental oversight.

As the U.S. government brings climate change and new technologies back into focus, consumers have been giving an old technology a new look. Extended shelf-life (ESL) dairy products are experiencing some of the best growth rates compared to more traditional high-temperature-short-time (HTST) products.

While ESL products are commonplace throughout the world, the United States has relied on HTST products because access to refrigeration has not been an issue. Amid a global pandemic, however, Americans have been giving ESL products another look. The dramatic shift to online ordering has also limited the flow of HTST products, and consumers are attracted to ESL products with enhancements such as high-protein or low- or no-lactose levels.

In the United States, almond beverage holds a 70% share of all milk-alternatives, with oat beverages growing quickly. While these products have made a "green" appeal to consumers, market trends look similar to those of traditional dairy products as market share expands. Furthermore, almond beverages have come under scrutiny due to the crop's excessive need for water. Still, consumers are reaching for these products believing they are more environmentally friendly than dairy, and the inroads they have made are not expected to reverse.

Did You Know?

The 117th Congress is only the fourth in U.S. history to have a split Senate. It also occurred in 2001, 1954, and 1881.

In addition to serving as ag secretary for eight years under Obama, Secretary of Agriculture Tom Vilsack has served as Iowa's governor and CEO of the U.S. Dairy Export Council.

A permanent solution to immigration policy that includes more certainty in the H-2A visa program and consistency in Homeland Security enforcement will likely be well received at the farm level. But while a larger labor pool would help in the short term, it will not derail the trend toward more on-farm automation.

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