

# **World Dairy Update: Trade, Trends, and Outlook**



**Chris Nubern**



# *National Milk Producers Federation*

---

## World Dairy Update: Trade, Trends, and Outlook

Presented by: Chris A. Nubern, Ph.D.  
Director, Economic Research

# *Who is NMPPF?*

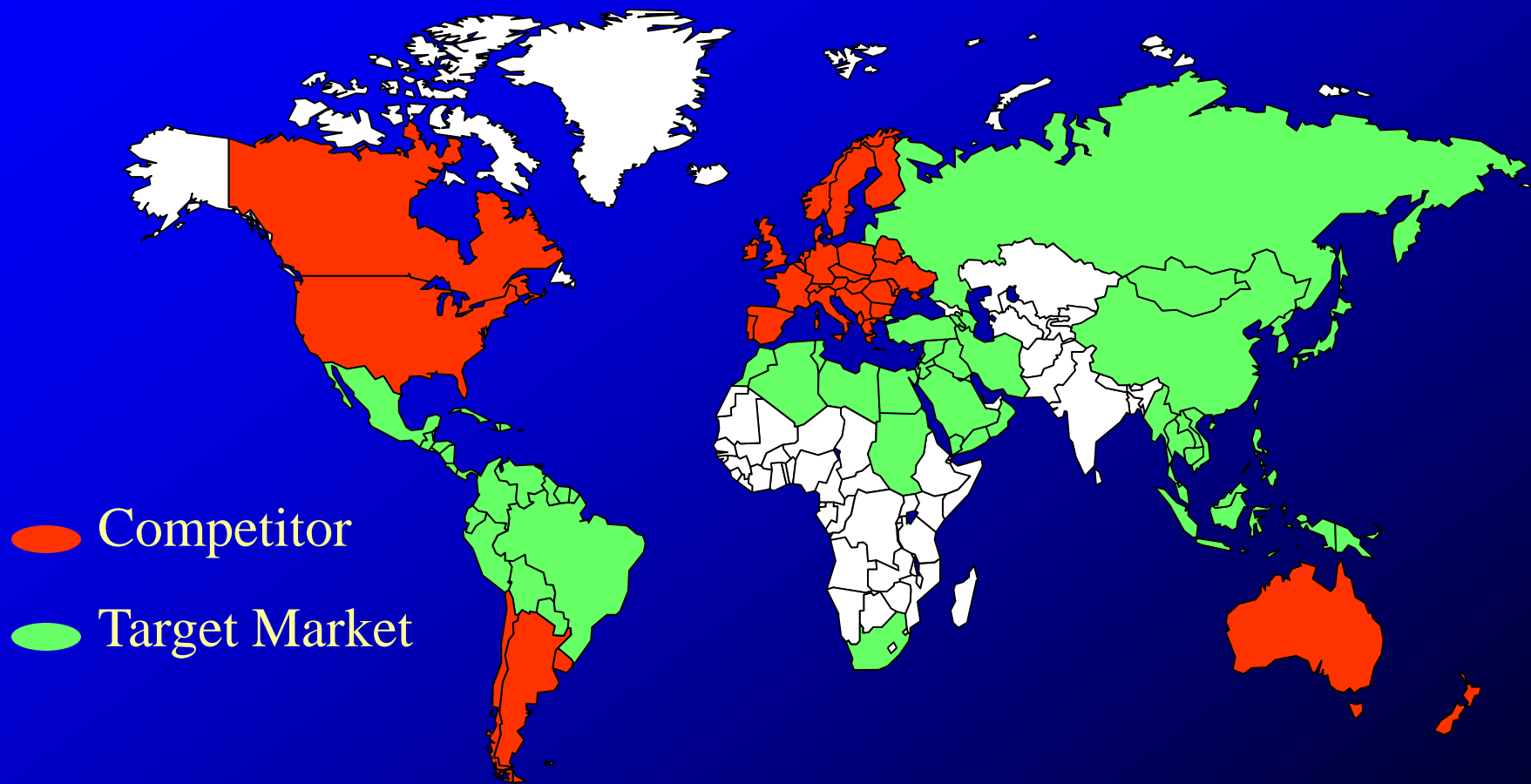
---

- ⇒ Organization that represents 29 dairy cooperatives located throughout the United States.
- ⇒ Member cooperatives represent about 60,000 dairy farmers and market about 60% of U.S. milk supply.
- ⇒ Services provided to member cooperatives include:
  - Domestic & International Trade Policy
  - Economic Support & Research
  - Animal Health & Product Standards

# *Market Overview*

# *Where are the Markets and Who are the Competitors?*

---



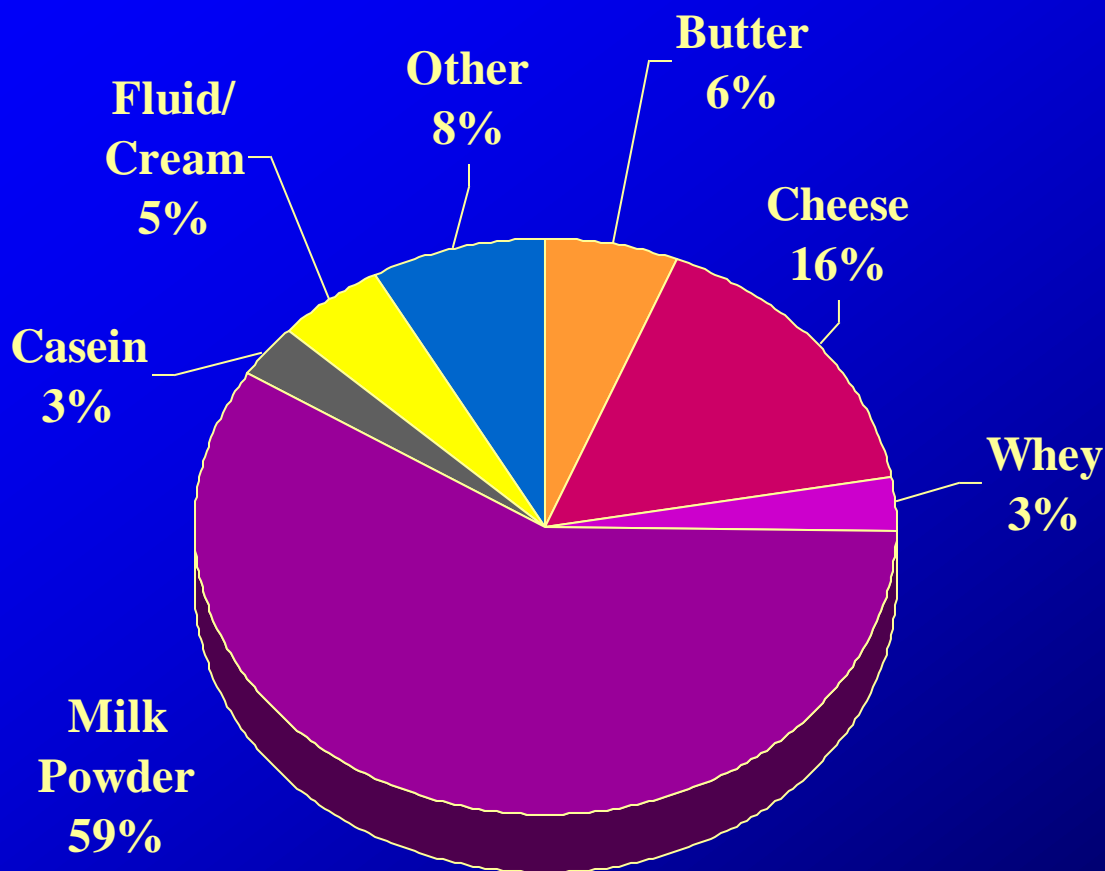
# *Shares of World Dairy Trade, 1996*

*(Total Market Value = \$13.3 billion)*

---

	Import	Export
North America	11%	7%
Central America	8%	1%
South America	9%	4%
European Union	11%	43%
Eastern Europe/FSU	4%	12%
Russia	4%	1%
Africa	10%	1%
Middle East	11%	1%
Asia	30%	2%
Oceania	1%	29%

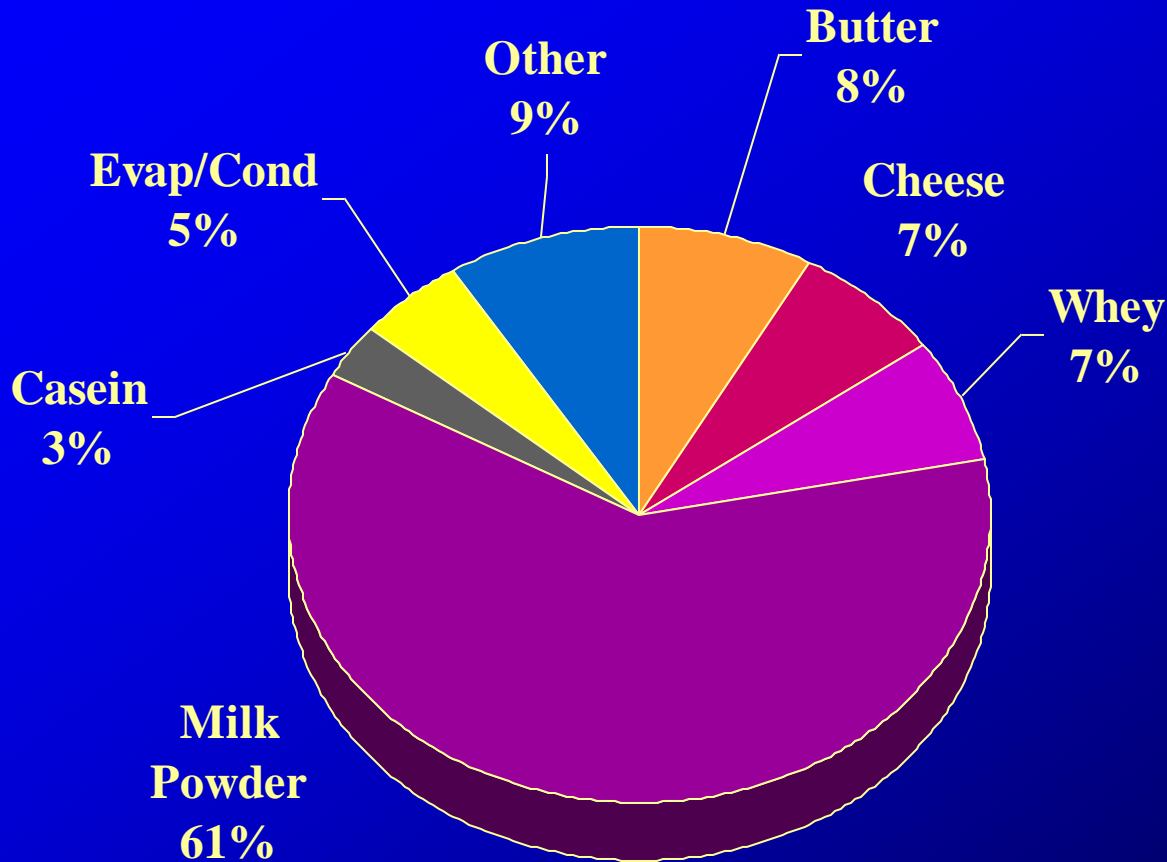
# Import Profile: Latin America (1996)



## Imports: Million Pounds

•Butter:	84.0
•Cheese:	166.1
•Milk Powder:	1,059
•Whey:	165.0
•Fluid/Cream:	397.3

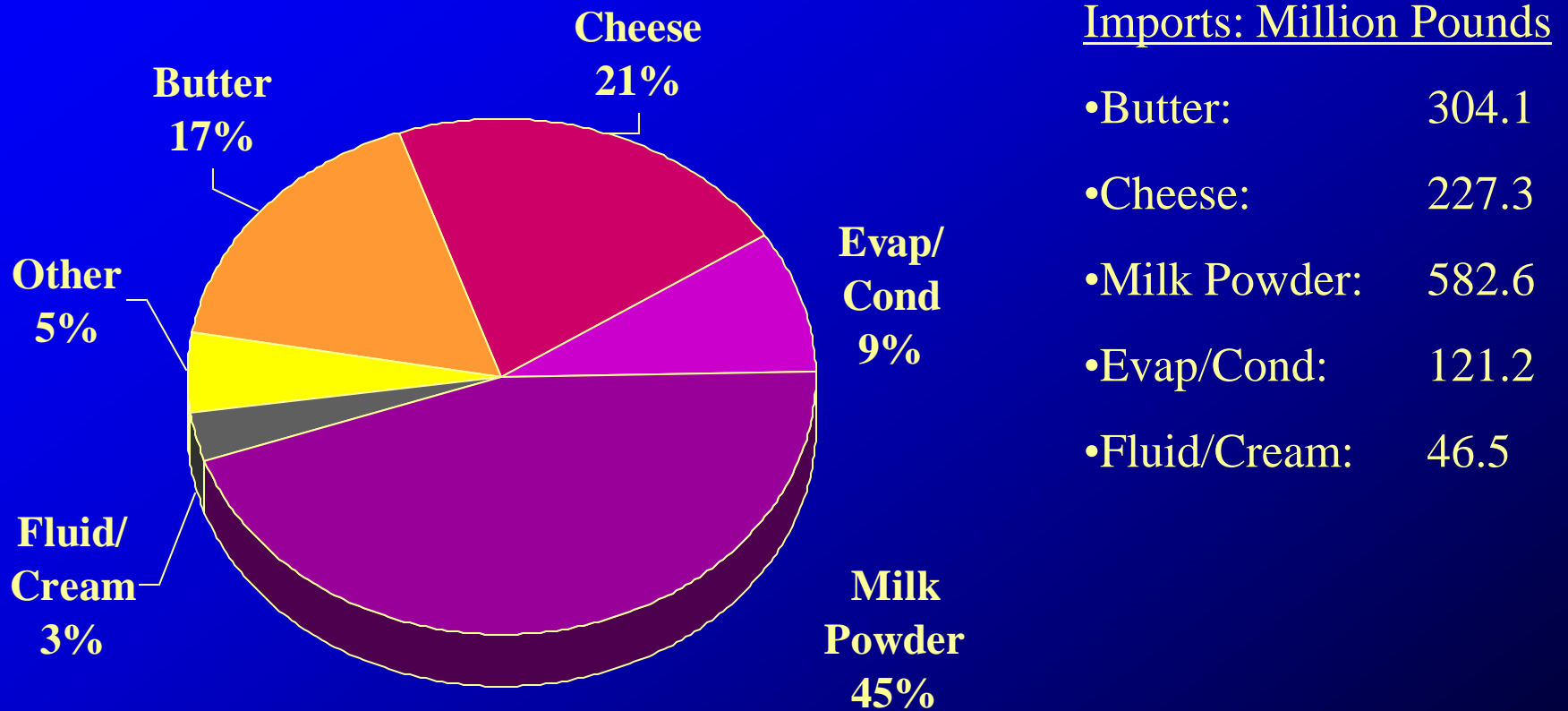
# Import Profile: Asia (1996)



## Imports: Million Pounds

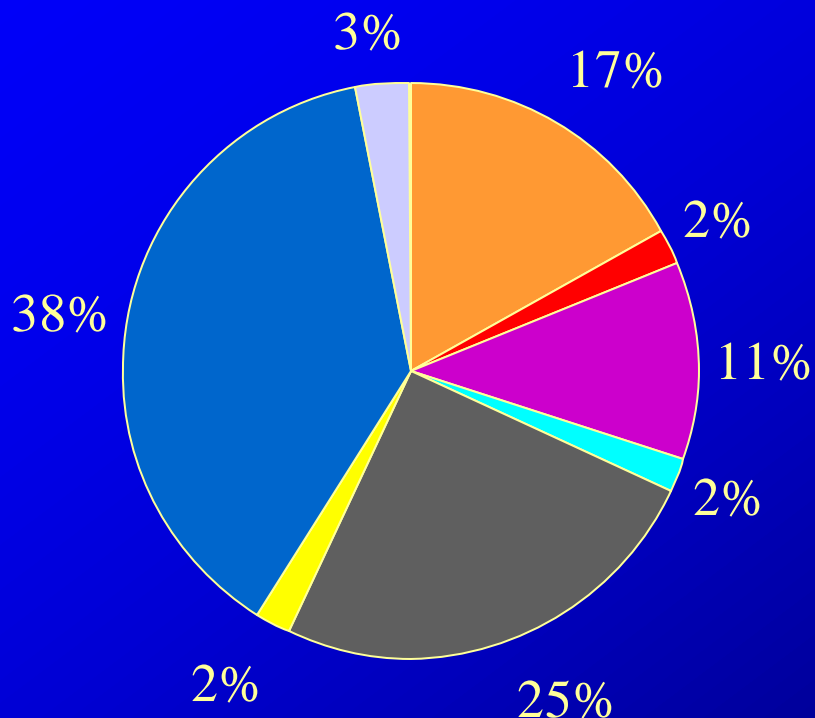
•Butter:	207.2
•Cheese:	492.9
•Milk Powder:	1,564
•Whey:	529.6
•Evap/Cond:	241.7

# Import Profile: Mid-East/Africa (1996)

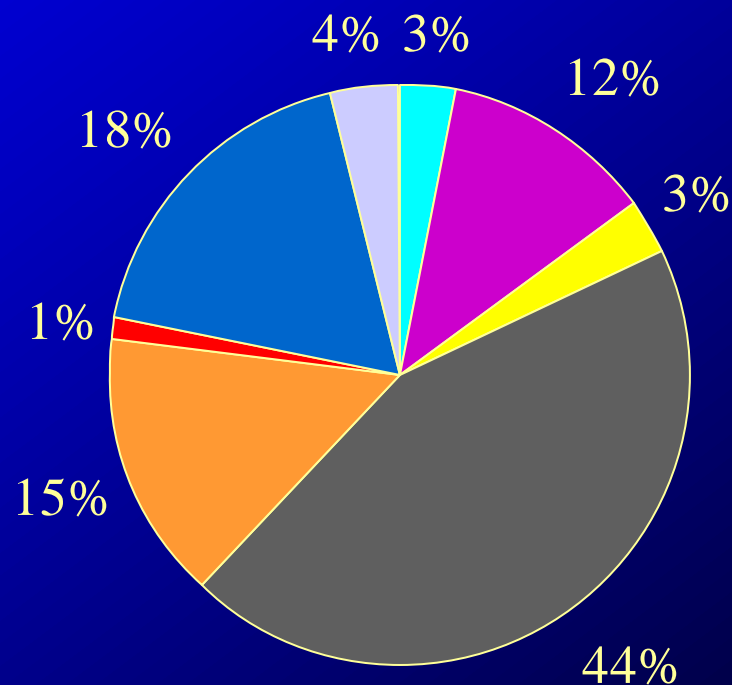


# Export Profiles by Major Product, 1996

## Butter



## Cheese



■ E. Europe/FSU  
■ EU-15

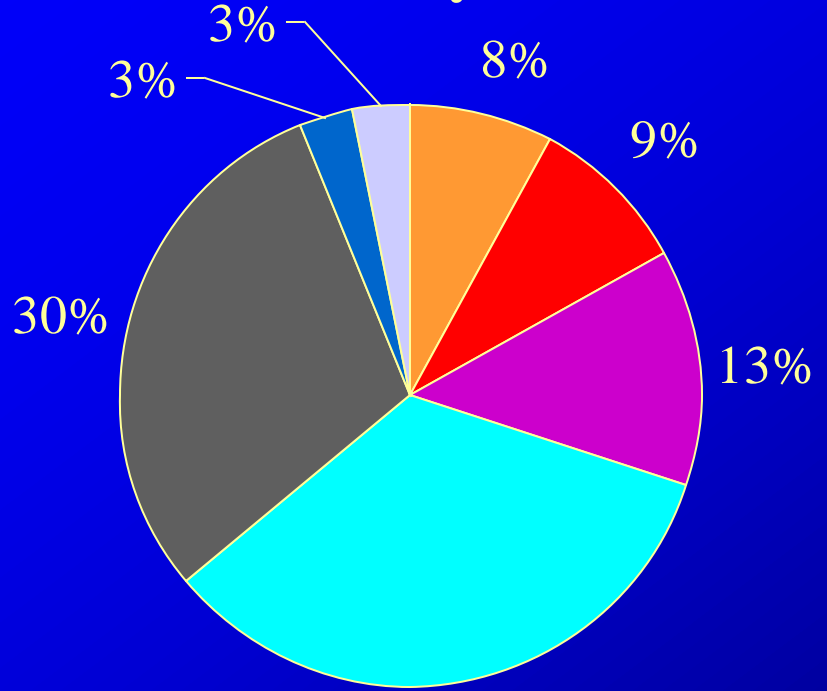
■ Canada  
■ LAM-3

■ Australia  
■ New Zealand

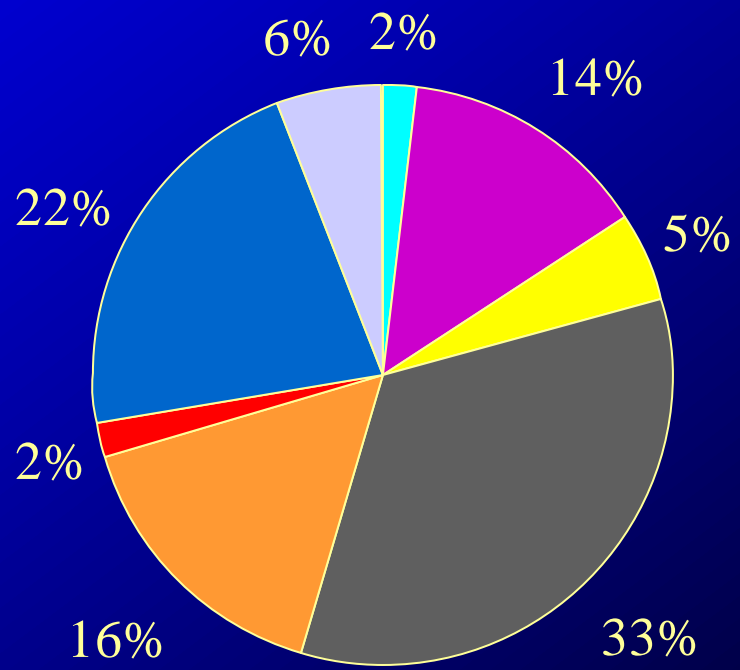
■ US  
■ Other

# Export Profiles Continued.....

**Whey**



**Milk Powder**

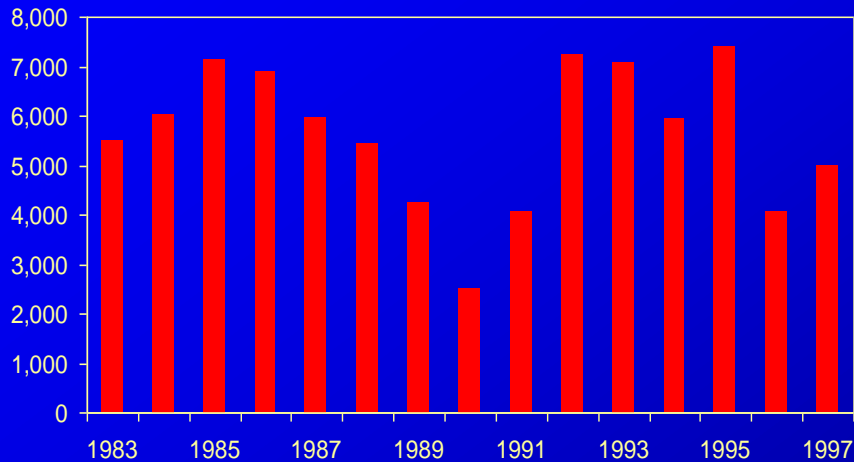


- E.Europe/FSU
- Canada
- Australia
- US
- EU-15
- LAM-3
- New Zealand
- Other

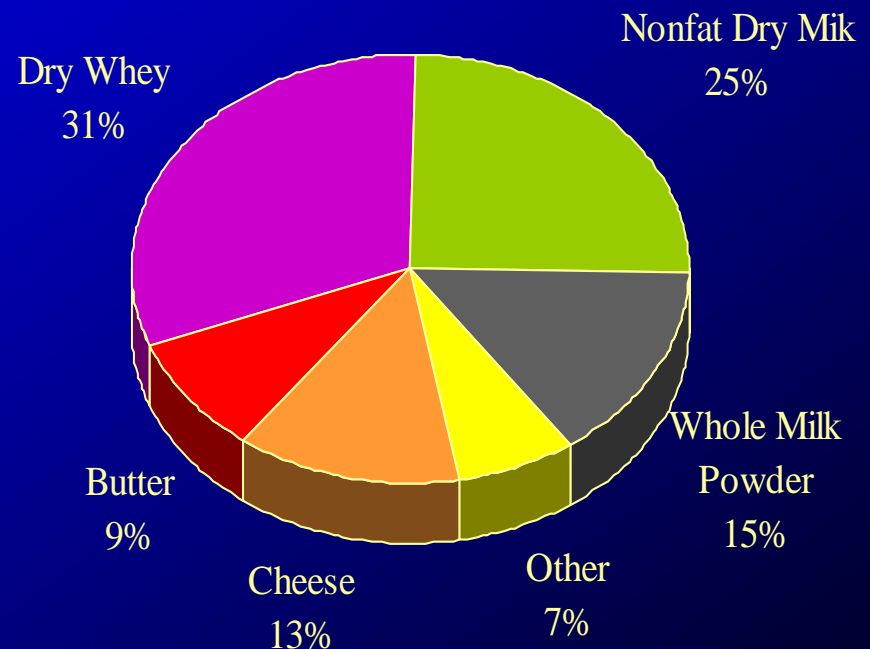
# *U.S. Role in World Dairy Markets*

## **Total U.S. Exports, 83-97**

(Million Pounds, Milk Equivalent)



## **U.S. Export Shares, 1997**



- **About 5 billion pounds on a milk equivalent basis in 1997.**
- **Commercial exports average about 50% of the total.**

## *U.S. Role Continued ... ..*

---

- U.S. products sold in the export market utilized about 3.5% of total milk production in 1997.
- Target Markets Include:
  - Mexico: **Butter**, Cheese, Ice Cream, **Milk Powder**, Dried Whey
  - Russia: Butter
  - Japan/Asia: **Cheese**, **Ice Cream**, Milk Powder, **Dried Whey**, **Lactose**
  - Brazil/ South America: Cheese
  - Canada: Dried Whey

*Current Market  
Status*

# *Global Financial Crisis*

---

- Started out as the “Asian Flu”
  - Indonesia      Malaysia      Taiwan
  - Japan            Philippines      South Korea
  - Thailand        Singapore        Hong Kong
- IMF was unable to contain spread - now other economies are also infected
  - Russia and parts of FSU
  - Brazil and possibly other countries

# *Sources of the Crisis*

---

- Fragile Banking System
- High profile investments that were too risky and often unproductive
- Huge amounts of foreign debt
- Exchange rates were pegged to the U.S. dollar to prevent wild fluctuations
- Political/Governmental Interference in the marketplace

# *Potential Market Effects*

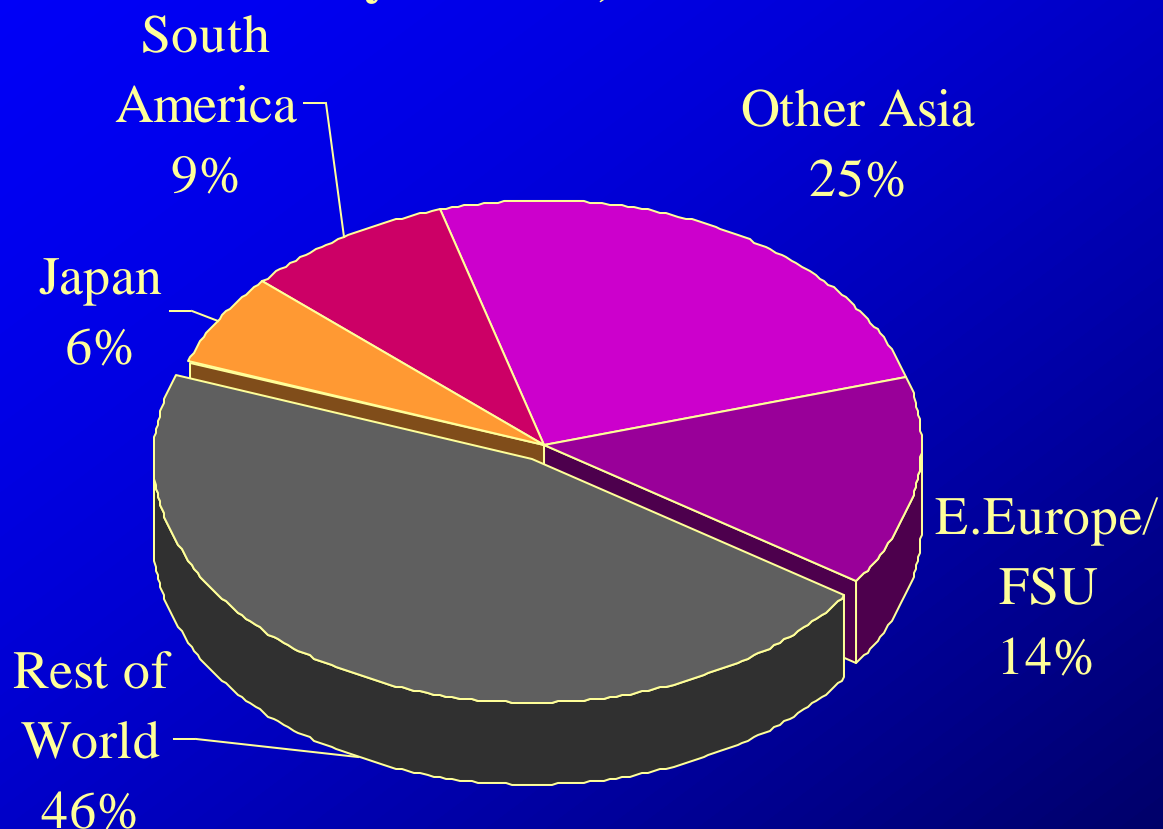
---

- Interest rates, unemployment, and prices increase; income levels and **consumption decline**.
- Export market will **contract**.
- Supplies and stocks will build - leading to declines in **world prices**.
- **Competitiveness** in stable markets will increase as Oceania and EU dump products.
- Increased reliance on **subsidy programs** at a time when further concessions are expected by WTO.

# *Why should dairy be concerned?*

---

**Share of Imports  
by Volume, 1996**



- Markets experiencing financial problems account for about 54% of total dairy imports.
- About 60% of U.S. dairy exports are destined for these troubled markets.

# *Market Outlook*

# *Road to Recovery*

---

- Policy Recommendations
  - Allow more foreign ownership
  - Movement towards market oriented policies
  - Less government involvement
  - Decouple local exchange rate from dollar
- Likely scenarios include further slowdown in 1999 with moderate recovery in 2000
- If IMF bailout programs are successful, the dairy export market may return to pre-crisis levels by mid or late 2001.

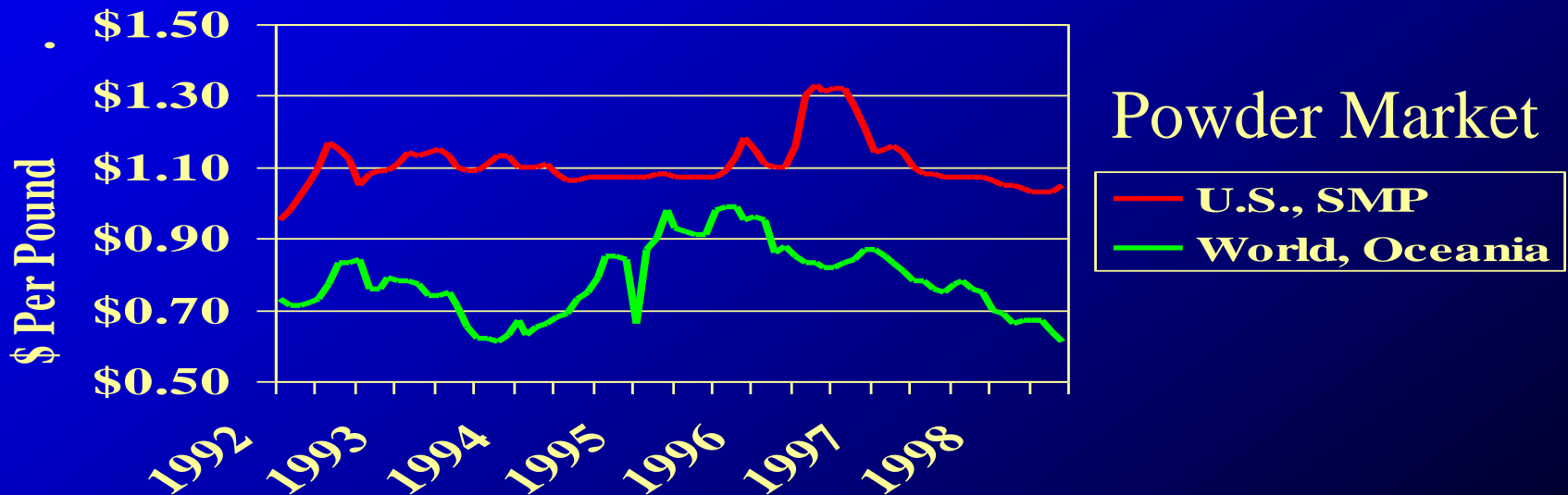
## *Will the U.S. dairy industry prosper from the recovery?*

---

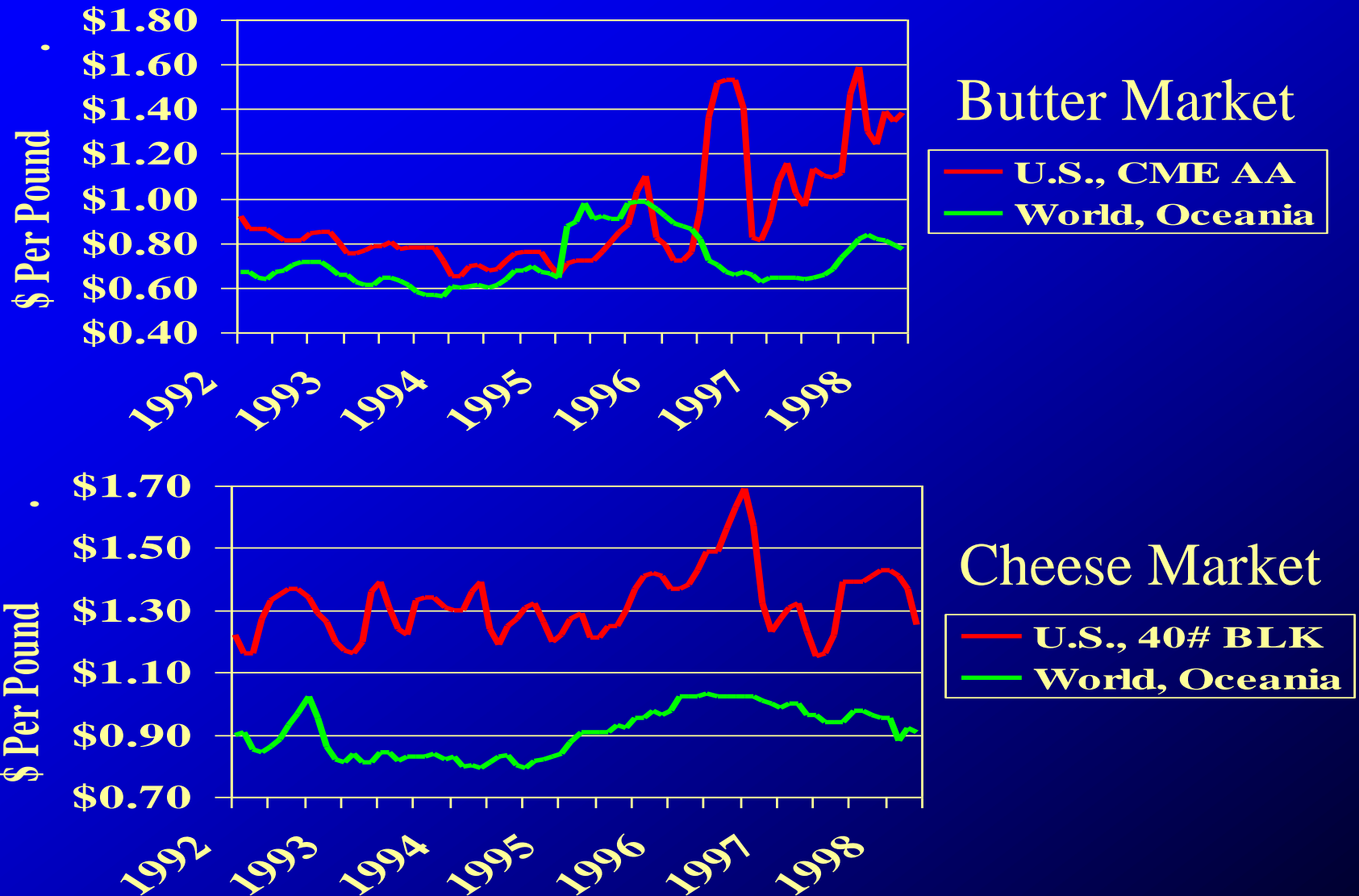
- As world demand increases, the U.S. dairy will benefit in the long run.
- Unfortunately, there are serious constraints that will limit growth in U.S. dairy exports for the near future.
- Most immediate obstacle remains price competitiveness

## Problem Area: Price Competitiveness

- Since 1992, U.S. market prices have averaged:
  - 42% higher than world prices for SMP powder
  - 34% higher than world prices for butter
  - 50% higher than world prices for cheese



# Price Competitiveness Continued ... ..



## *Price Spread is really just a symptom*

- Sources of problem are related to:
  - Unfair trading arena
  - Market Access
  - Product Standards
  - Non-tariff trade barriers
  - Commodity vs Value-Added
  - Customer Service
  - Higher cost of production

# *Conclusions*

---

- International demand will likely recover by 2001
- With the elimination of the trade barriers, domestic and international markets will become more closely aligned.
- As U.S. market matures, future growth for the industry will depend on export market development.
- U.S. competitiveness will gradually increase, but the U.S. presence in the international market will remain limited for the near future.