



# Dairy's Brave New Exporting World

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# Before 2009

- Milk prices soared in 2007 and 2008, mainly due to soaring exports
- New Zealand/Australia were unable to meet demand
- U.S. dollar was weak
- In 2008, the U.S. exported nearly 11% of its total production (solids basis)--\$3.83 bil

# Then 2009 happened

- Global dairy demand shock
- In 2009, exports volumes dropped to 9.3% of total production and value dropped 39%
- Nearly 3 billion of pounds of lost exports (milk equivalent) was backing up in U.S.
- Plus, U.S. commercial disappearance also may have shrunk 0.3% (500 million lb.)

# The Carnage Began

- Note: Through the second quarter of 2009, export tonnage was down about 35% and value was down 50%
- In commodity markets, a 1% change in S or D = 10% change in price
- Thus, 3.5% change in supply = 35% change in price
- All-milk prices: 2008 = \$18.80 2009 = \$12.81 **32% decline**

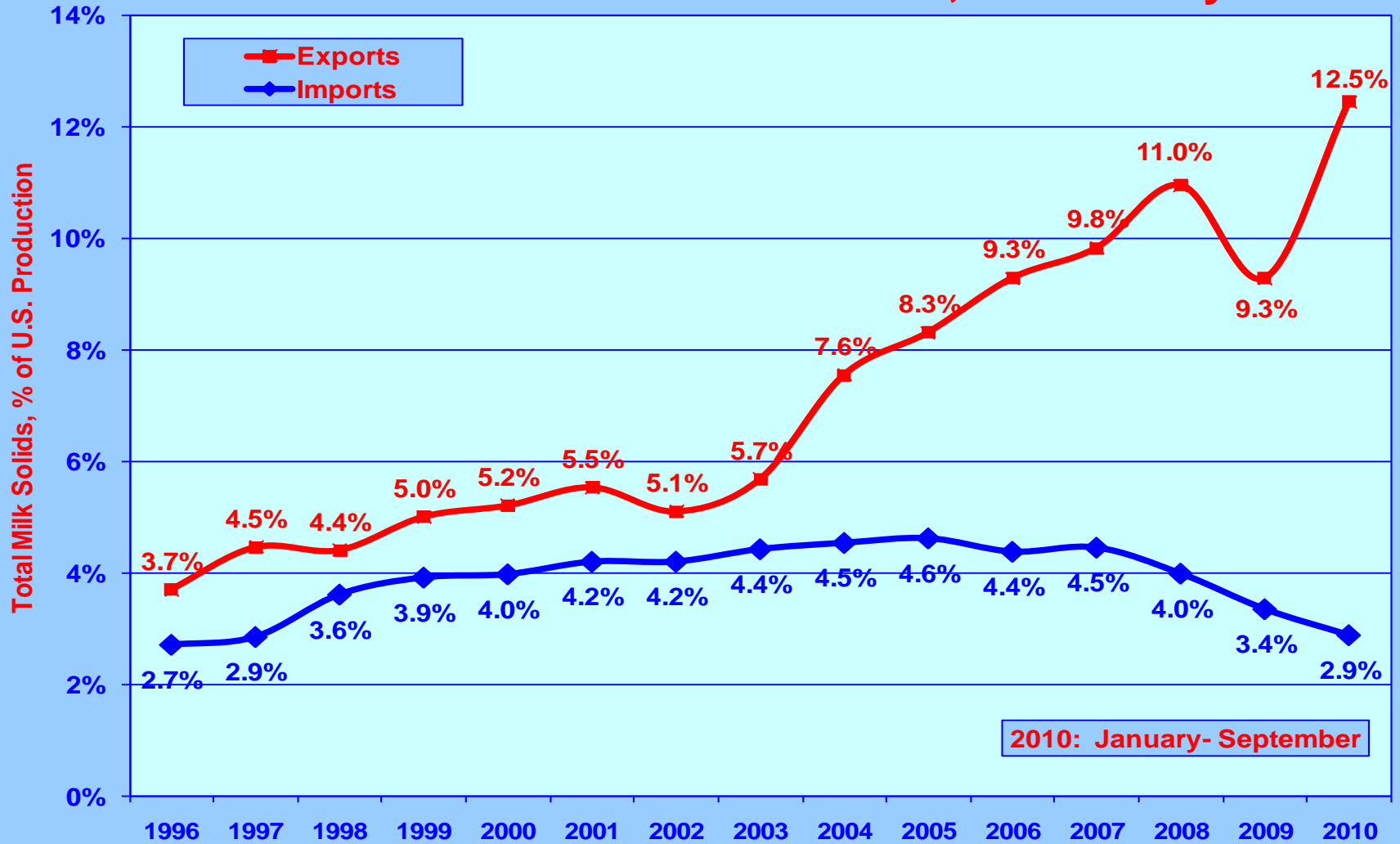
# Are imports to blame?

- **NO!**
  - **Casein imports have declined 39% and are at their lowest levels in five years.**
  - **Milk protein concentrate (MPCs) imports have dropped 18% and are also at their lowest level in five years. (News flash: US produces about 45% of the MPCs it utilizes.)**
  - **2009 cheese imports were down 12%**
  - **In 2010, cheese imports are down another 20%.**

# Exports Rebound

- In 2010, exports came roaring back up 40% through November vs. 2009:
  - Strong, underlying demand for dairy
  - U.S. products are accepted in world markets
    - Example: Leprino is supplying mozzarella to all Domino's in Australia and New Zealand
  - U.S. can compete internationally
  - Are not solely dependent on currency values

# U.S. DAIRY TRADE BALANCE, 1996-2010 ytd



# Meanwhile, back at the cheese plant...

- The EU was nosing around U.S. cheese plants through the summer of 2009
- It found U.S. plants were meeting the EU 400,000 SCC requirement through co-mingled loads and tankers, but not on an individual farm basis

# The back story

- In 1997, the European Union lowered its regulatory cell count limit to 400,000 based on a geometric mean of comingled milk
- In 2004, the European Union changed the regulations requiring individual farms meet the 400,000 SCC limit based on a rolling, 3-month geometric mean

# Why is this important?

- Export certificates needed to export dairy products, dairy ingredients and foods containing more than 50% dairy products
- Because dairy products, components and ingredients move in bulk, food manufacturers require they be EU certified.
- That means all dairy, including fluid milk, must meet the standard.

# USDA's Big Oops

- USDA was given the new regs, but our regulatory officials did not pick up the 2004 language change. USDA continued to issue export certificates if dairy plants could meet the 400,000 SCC limit from silos or comingled loads.
- In December, the EU notified USDA that U.S. plants were not in compliance

# February 1, 2009 = D Day

- On January 20, 2010, USDA issued a “notice of intent” that plants would have to meet the new requirement February 1.
- On January 21, 2010, all hell broke loose.
  - USDA obviously didn’t understand the ramifications:
    - Some processors have 30% of their patrons who exceed 400,000 SCC at least some time during the year.
    - One large co-op had 5% of its Midwest patrons above 400,000 the past 12 months
    - Most are in the 400,000 to 600,000 SCC range, so problem “manageable”

# USDA Scrambles

- The U.S. Trade Representative, USDA & FDA negotiated with the EU to have the 400,000 SCC deadline postponed first to October 1, then December 1, and now ???
- Still waiting to hear, but...
  - EU exemptions—pasteurization, 60-day aging of cheeses, etc.
- Why wait to do the right thing??

# But, to take advantage...

- U.S. dairy policy needs to be pro-active, not reactive
- NMPF has finally agreed that 400,000 SCC is the right thing to do.
- Will introduce proposal at 2011 NCIMS
  - Jan. 1, 2012—600,000
  - Jan. 1, 2013—500,000
  - Jan. 1, 2014—400,000

# So what's the point?

- Bain report = Bright future
  - 7 billion lb. gap in global milk supply versus demand by 2013.
  - A 7 billion lb. surplus caused a 32% decline in milk price this year.
  - A 7 billion lb. shortage means fortunes will reverse
  - Can you say Michigan? Or New Mexico?

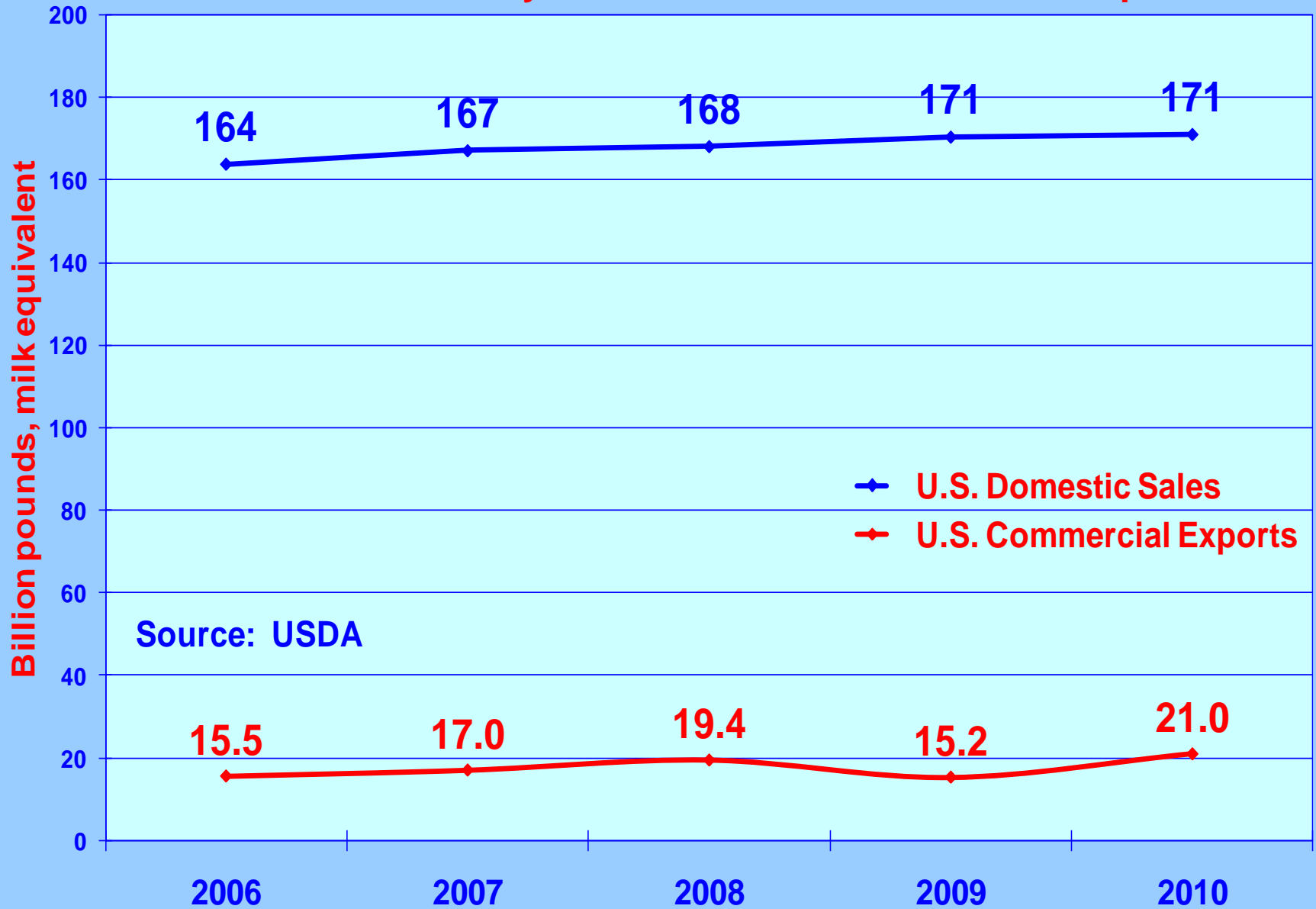
# This is not news

- Since 2003, 70% of our incremental growth has been taken up by exports
- In other words, U.S. production has been growing about 3 billion lb./year over the last eight years.
- Of that, 2 billion lb./year has been exported

# U.S. Consumption Stagnating?

- There is some preliminary evidence that U.S. consumption is stagnating
  - From 1994 through 2008, U.S. commercial disappearance grew 1.4%/year (slightly more than population growth)
  - But fluid milk sales declining:
    - 2010 sales thru November down 1.4%, largest decline since 2000. Per capita consumption ↓8% (1.8 gallons/person)

## U.S. Commercial Dairy Product Sales: Domestic and Export



# Pro-active trade policies

- National Animal ID
  - Premise registration +
  - RFID systems +
  - Centralized databases =
  - Faster disease tracking, control, eradication
- Disease control: China's concerns
  - Bovine TB, Johne's

# Foundation for the Future

- NMMPF's Foundation for the Future
  - Trade +: Doing away with support prices
  - Trade +: 2 classes of milk
    - More innovation, more new products
    - Quasi 2 class: No minimum prices on II, III, IV
    - Retain II differentials, “higher of” for Class I
  - Trade +: Margin management vs. milk prices
  - Trade -: Supply management

# CWT

- New proposal to go to Export only program
  - 2¢/cwt, but need 70% participation
- Has the program worked?
  - 2010: 31% of cheese sales CWT-assisted;  
25% of butter sales CWT-assisted
  - 2010: \$18.2 million spent, \$375 million of product sold (20:1 return??)
  - Since 2003: \$90 million spent, \$1.4 billion of product sold (15:1 return??) Source: NMPF

# DIAC “Recommendations”

- USDA’s Dairy Industry Advisory Committee recommendations
  - Almost exclusively domestically focused
  - Committee appeared to recognize the importance of export markets—though it seems more willing to “study and explore” than act
  - Recommends “growth management” program
  - Backed off on California solids standards

# Are we doing enough?

- If the Bain report is to be believed, it begs the question:
  - Can the U.S. continue to be reactive on dairy policy, animal i.d., rampant diseases?
  - Isn't the better approach to be pro-active, anticipating these issues and grow export markets?
  - You decide. It's your industry. It's your future.

Got QUESTIONS??



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