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Emerging Issues in Global Animal Product Trade

Dairy: Constraints on a $5 Billion Business

Economic Research Service
Farm Foundation, NFP
Washington, DC
September 27, 2012

Managed by Dairy Management Inc.™

Topics For Today

- What is U.S. Dairy Export Council?
- Recent Trade Trends
- Key Trade Issues
- Q & A

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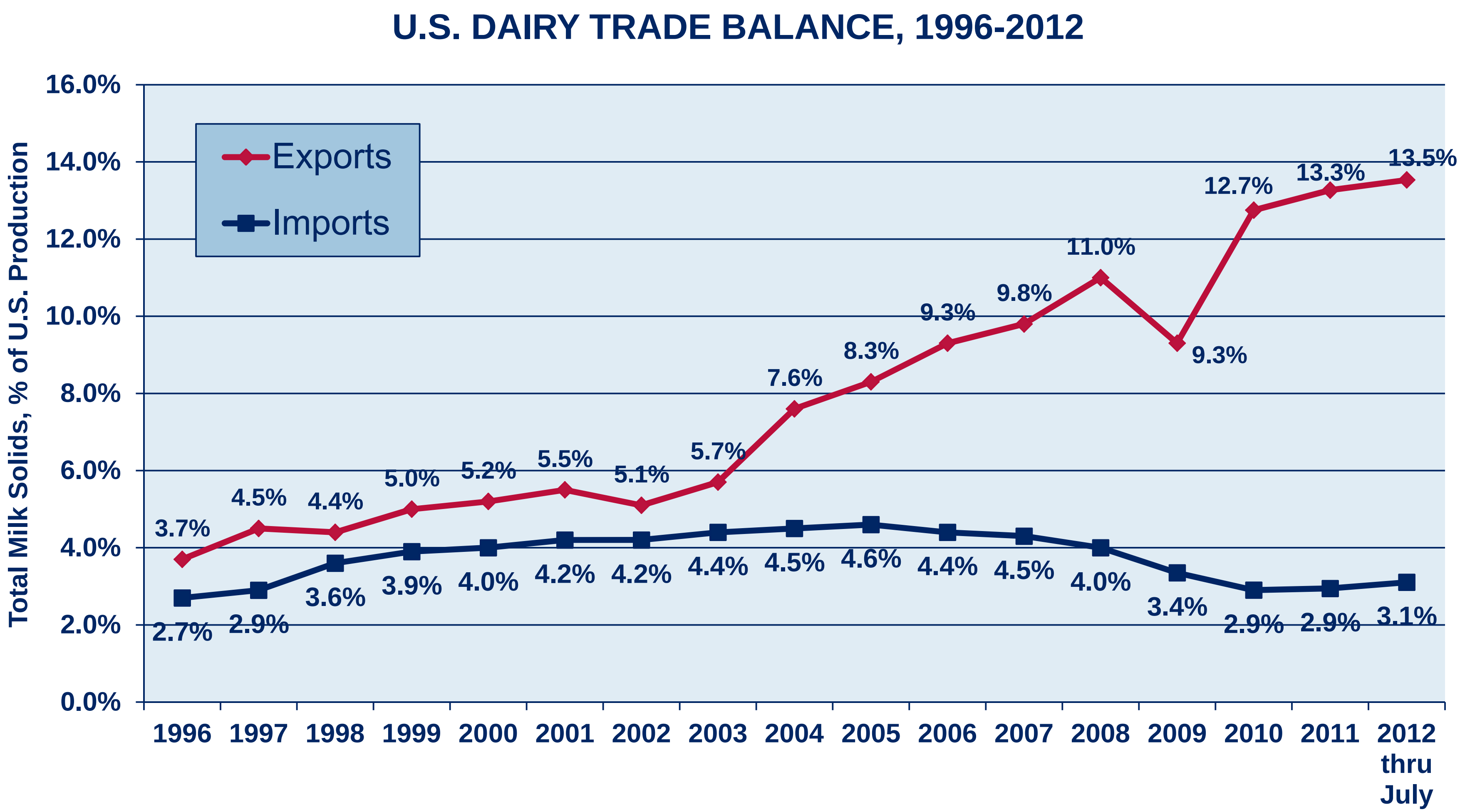
OUR HISTORY

WHY	Unified effort to grow value, volume of exports
PRODUCER BENEFIT	Provide home for growth in the global market
WHO	Dairy producers
HOW	Industry collaboration through membership
WHEN	17 years ago!

Program Focus

- Trade Policy
  - Get us into a market
- Market Access and Regulatory Affairs
  - Help us stay in the market
- Marketing Intelligence and Promotional Assistance
  - Give U.S. suppliers the tools to meet and compete for customer needs

Substantial & Growing Trade Balance



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Dry Ingredients Heavily Trade Dependent

Product	2012 (thru July)	2011	2010	2005
Butterfat	6.2%	7.6%	7.9%	1.4%
NDM/SMP	44%	49%	47%	41%
Dry sweet whey	48%	55%	55%	40%
Lactose	66%	69%	67%	57%
Cheese	5.7%	4.7%	3.7%	1.4%

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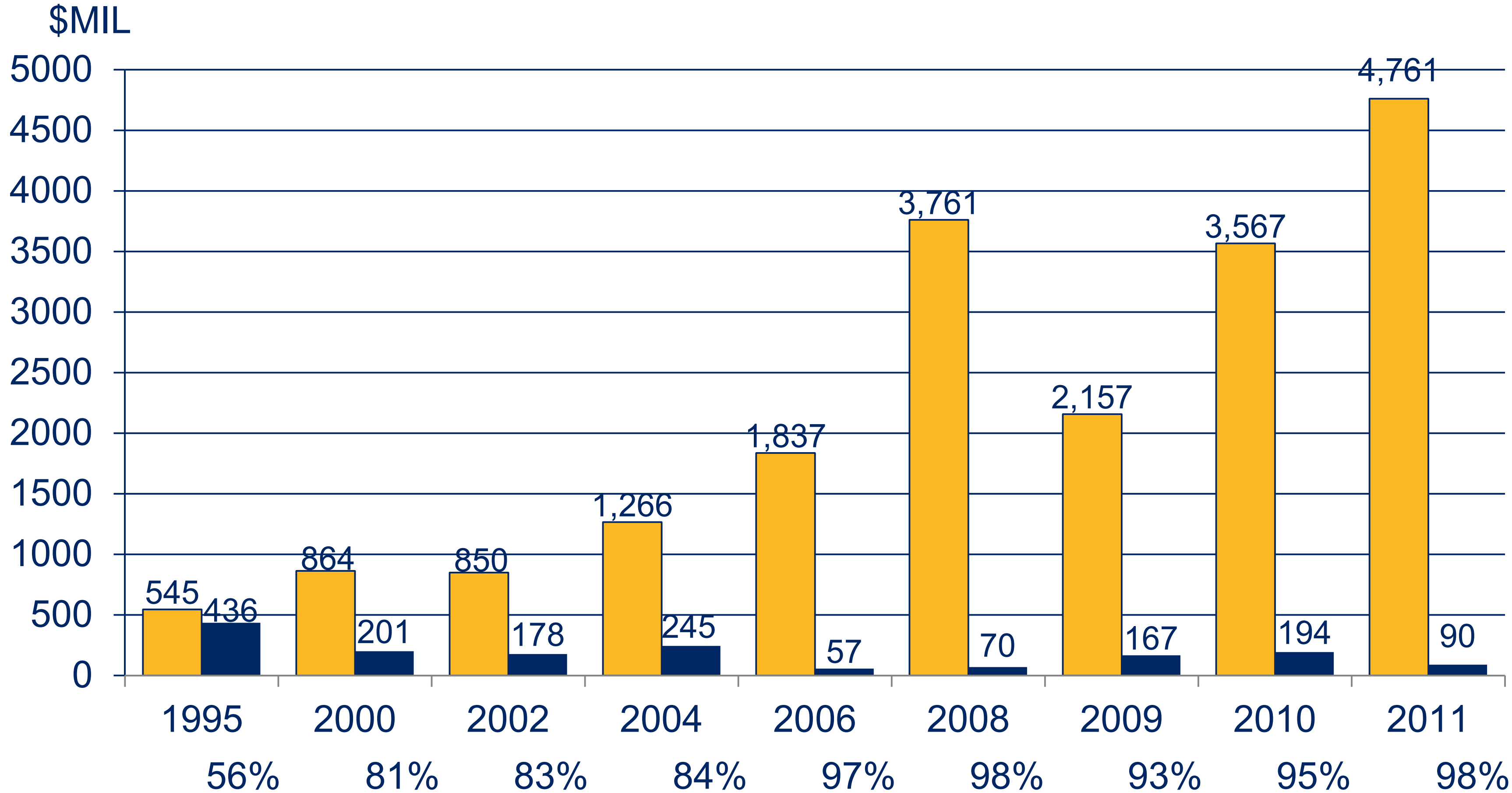
Exports Compete At Market Rates

U.S. Dairy Exports 1995-2011: Commercial vs. Assisted



Source: USDEC - USDA

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Diverse, Growing Base of Markets for U.S. Dairy Products

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Dairy Deals: USDEC Perspective on FTAs

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FTAs Key to Competitiveness

- Strong U.S. efforts to open markets critical to continued growth and success of U.S. dairy
- Competitors eating our lunch at FTA game
  - NZ, EU, Australia negotiating worldwide
- Recent FTAs, TPP good start
  - But much more needed!

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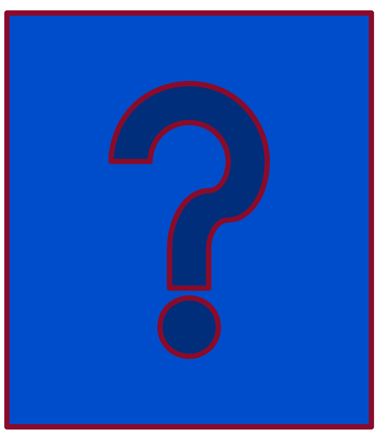
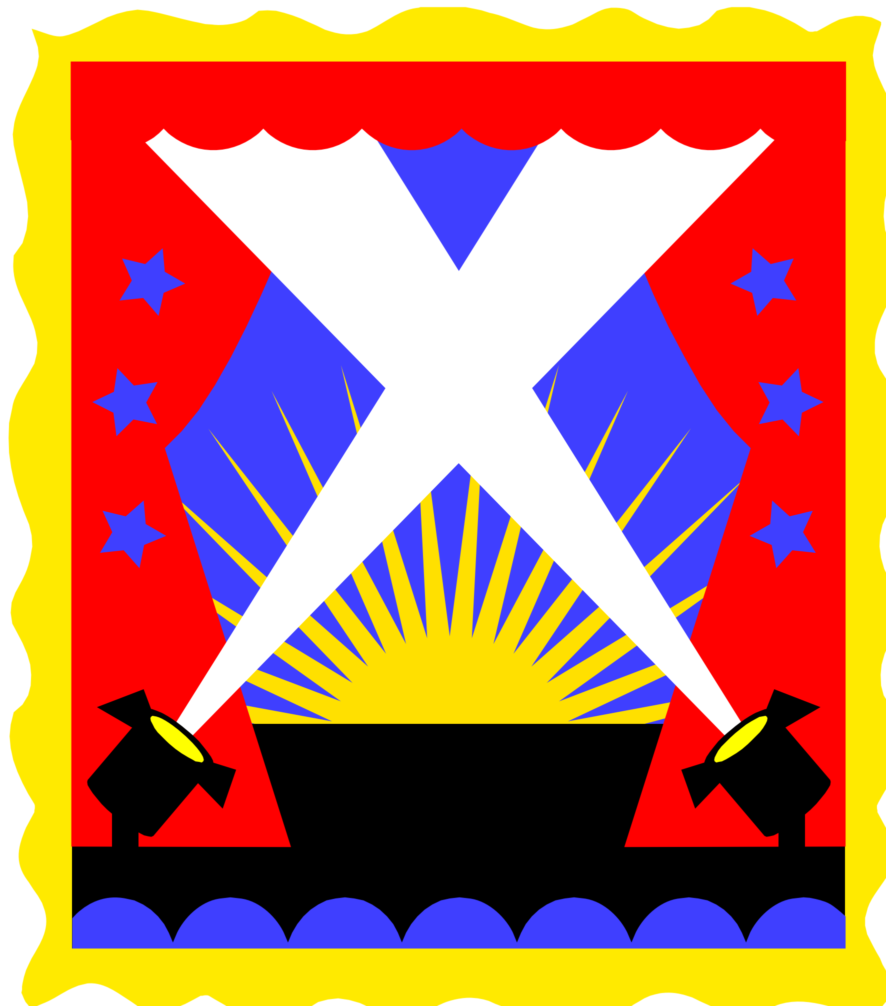
Focus FTAs

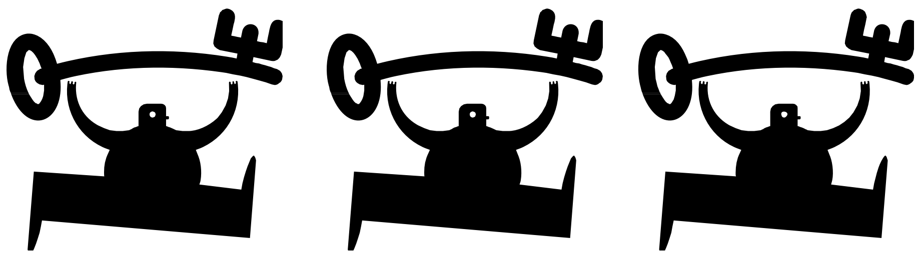
- Recent FTAs
  - Korea, Colombia, Panama
  - Trans-Pacific Partnership (TPP)
- Next candidates?





Recent FTAs

- Forecasted annual benefits from recently approved FTAs once commitments phased in
  - Korea: $380M
  - Colombia: $25M
  - Panama: $25M



- Korea: ability to capitalize FTA a long game
  - Long-term investment; opportunities now greater
    - Slow U.S. ratification handed EU first-mover advantage
- Colombia and Panama
  - U.S. to gain first-entry advantage but delay has narrowed window with EU FTA

USDEC Supports TPP Negotiations

- Broad opportunity for useful new trade commitments in fast-growing region
- Hope to support final TPP agreement
  - USDEC extremely active in building elements needed to secure that outcome

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U.S. Bilaterals: New Zealand

- NZ global market share and market power attained through anti-competitive benefits granted by the state
  - Under these conditions, expansion of U.S.-NZ dairy trade in TPP unwarranted
- NZ monopsony supplier a decade-old outgrowth of NZ's dairy State Trading Enterprise
  - Significant legacy advantages
  - Controls ~90% of NZ milk and 1/3+ global dairy trade
  - Accounts for 25% of total NZ exports

U.S. Bilaterals: Canada, Japan

- Canada: Largest TPP dairy export opportunity
  - Dairy & Poultry sectors excluded from U.S.-Canada portion in NAFTA
  - Currently: $450M in U.S. dairy sales despite 200%-300% tariffs
    - Much of it under Import for Re-export Program

- Japan: Tremendous potential but participation still uncertain
  - Currently: $277M in U.S. dairy sales despite exorbitant SMP, butter rates
  - Primary question: Is Japan ready?

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U.S. Bilaterals: Vietnam, Malaysia, Others

- Vietnam ($187M) and Malaysia ($137M)
  - Sizable current markets
  - U.S. is Vietnam's largest dairy supplier
  - Tariffs moderate (Vietnam) to low (Malaysia)
  - Yet TPP would level entry fees with Oceania

- Mexico
  - USDEC supports Mexico's participation
  - However, economic reality is addition to TPP will erode U.S. preference into Mexican dairy market

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Regulatory Coherence/SPS Chapter

- SPS Issues: Regulations relating to human, plant, animal life and health
  - Frequent and challenging barriers
  - Ongoing top priority for USDEC and FAEA

- Shared U.S. ag sector priority
  - USDEC helping lead effort to boost requirements for science, transparency and predictability
- Enforceability critical to success
  - Much is lost without ability to oblige commitment
  - Why should ag/SPS be different?

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The Next Frontier

- U.S. suppliers falling behind
  - Issue gravest in largest, price-sensitive markets
    - China, China, China
    - Southeast Asia
    - Middle East
  - TPP good opportunity but can't be all we've got in the fire
- EU-U.S. FTA?
  - Details critical given EU track record on barriers

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