Emerging Issues in Global Animal Product Trade

Dairy: Constraints on a $5 Billion Business
Topics For Today

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

U.S. DAIRY TRADE BALANCE, 1996-2012
Dry Ingredients Heavily Trade Dependent

<table>
<thead>
<tr>
<th>Product</th>
<th>2012 (thru July)</th>
<th>2011</th>
<th>2010</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butterfat</td>
<td>6.2%</td>
<td>7.6%</td>
<td>7.9%</td>
<td>1.4%</td>
</tr>
<tr>
<td>NDM/SMP</td>
<td>44%</td>
<td>49%</td>
<td>47%</td>
<td>41%</td>
</tr>
<tr>
<td>Dry sweet whey</td>
<td>48%</td>
<td>55%</td>
<td>55%</td>
<td>40%</td>
</tr>
<tr>
<td>Lactose</td>
<td>66%</td>
<td>69%</td>
<td>67%</td>
<td>57%</td>
</tr>
<tr>
<td>Cheese</td>
<td>5.7%</td>
<td>4.7%</td>
<td>3.7%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>
Exports Compete At Market Rates

Source: USDEC - USDA
Diverse, Growing Base of Markets for U.S. Dairy Products

1. MEXICO
   $1.16 BILLION*

2. SOUTHEAST ASIA
   $930 MILLION

3. CANADA
   $587 MILLION

4. CHINA
   $383 MILLION

5. MIDDLE EAST/NORTHERN AFRICA
   $375 MILLION

6. JAPAN
   $277 MILLION

7. SOUTH KOREA
   $222 MILLION
Dairy Deals: USDEC Perspective on FTAs
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!
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
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?
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
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?
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
Thank You!

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