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Producers benefit from record dairy export performance

It was never clearer than in 2007: dairy is a global business, and the health and growth of the U.S. industry depends on suppliers' ability to tap into overseas markets. Last year, 2.19 billion lbs. of U.S. milk solids were sold overseas, more than double the export volume of five years ago, according to analysis of trade data conducted by the U.S. Dairy Export Council (USDEC).

This volume represented 9.5 percent of total U.S. production, continuing the growth trend of recent years. Prior to 2003, exports generally represented 4-5 percent of production, USDEC says.

The growth of exports means the U.S. dairy trade surplus (on a total milk-solids basis) continues to widen. Imports increased just 2 percent last year to 943 million lbs. of milk solids, less than half the volume of exports. That left a trade surplus of 1.249 billion lbs., the Export Council says. From 1993-2003, the annual surplus ranged from 150-500 million lbs.

On a value basis, U.S. exports of milk powder, whey, cheese, lactose, butterfat and other dairy products sold for \$3.06 billion in 2007, up 62 percent from the prior year, and nearly triple the export value posted in 2002. It was the fifth straight year U.S. exports increased in both volume and value.

With this growth, the U.S. dairy industry posted a trade surplus in 2007. Imports increased 8 percent to \$3.05 billion, \$11 million less than exports. That's a sharp contrast to two years ago, when import values exceeded export values by \$1.1 billion, USDEC notes.

"This unprecedented export volume has profound implications for the U.S. dairy market," says Tom Suber, USDEC president. "Exports are no longer just an opportunity; they are one of the critical factors driving our markets today."

Suppliers' willingness and ability to capitalize on tight world markets had a direct bearing on record-high income for farmers last year."

Although the trend had been developing for several years, a variety of elements came together in late 2006 to set the stage for a dramatic, worldwide structural shortage of dairy products in 2007. Markets were characterized by strong global dairy demand, lower exportable surpluses from Europe and Oceania and lack of stocks to fall back on.

In this climate, world benchmark prices rallied dramatically in 2007, and U.S. commodity prices moved in sync. U.S. export prices in 2007 averaged \$1.47/lb. for skim milk powder/nonfat dry milk (SMP/NDM), 51¢ for dry whey, 91¢ for whey protein concentrate (WPC) and \$1.77 for cheese – all record highs. As a result, higher commodity prices in the United States added billions of dollars to farmers' milk checks in 2007.

The United States exported 39 percent of the nonfat dry milk and 59 percent of the whey proteins it produced last year. Because sales on the international market represented such a large share of U.S. sales, rising global prices for dairy ingredients helped buoy domestic prices for both processors and producers, Suber explains.

Also, changing global dynamics made U.S. commodity cheese and butter price-competitive on the world market in the latter part of the year – and U.S. exports took off. In the fourth quarter, cheese exports were up 46 percent vs. prior year, while butterfat exports increased nearly 10-fold. Exports represented 3 percent of U.S. cheese production and 10 percent of U.S. butterfat production during those three months.

"Though world prices have retreated since the peaks of 2007, the structural changes in the world dairy market that have occurred in the last several years are expected to persist," says Suber. "Markets should remain generally tight and prices higher than historical levels, creating opportunities for U.S. suppliers to grow overseas.

"However, it's important to recognize that this situation didn't just appear out of the blue," Suber adds. "U.S. dairy exporters and USDEC have been laying the groundwork for years to capitalize on this fundamental shift.

"The relationships U.S. shippers have established with overseas customers – through trade relations programs, overseas regulatory and access assistance and continued exposure – made it quite natural for importers to buy from the



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United States. Also, U.S. exporters were well-prepared to do a brisker international business thanks to their understanding of overseas business practices and how to handle export documentation, a function of the technical resources USDEC provides.”

USDEC activities to build export markets are supported by the dairy producer checkoff through Dairy Management Inc.

Export gains in 2007 were evident across nearly all product categories. By value, the major U.S. dairy exports were skim milk powder/nonfat dry milk (\$865 million), whey proteins (\$759 million), cheese (\$387 million) and lactose (\$304 million). These four categories made up nearly three-quarters of total U.S. exports.

Mexico (\$854 million export value in 2007), Southeast Asia (\$555 million) and Canada (\$412 million) remained the largest destinations for U.S. dairy products. In an important development, U.S. exporters also sold \$189 million worth of product last year to the European Union and Australia, both major dairy competitors.

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The U.S. Dairy Export Council (USDEC) is a non-profit, independent membership organization that represents the export trade interests of U.S. milk producers, proprietary processors, dairy cooperatives, and export traders. Its mission is to enhance international demand for U.S. dairy products and assist the industry to increase the volume and value of exports. USDEC accomplishes this through market development programs that build overseas demand for U.S. dairy products, resolving market access barriers and advancing the industry’s trade policy goals. USDEC activities are supported by staff in Mexico, Japan, South Korea, China, Taiwan, Hong Kong, Southeast Asia, South America, Middle East and Europe.

**NOTE TO EDITORS: CHARTS DEPICTING HIGHLIGHTS OF
2007 EXPORTS ARE AVAILABLE ON REQUEST.**



2007 Export Highlights

- U.S. dairy exports in 2007 were valued at \$3.060 billion. Exports have increased 30 percent annually over the last four years.
- Exporters shipped 588 million lbs. of **SMP/NDM** last year, down 9 percent from 2006. Reduced supply in the first half of the year limited export volumes. By the time U.S. production rebounded at mid-year, importers had shifted into less aggressive positions, opting to hold smaller inventories in the face of dramatically higher prices and waiting for prices to stabilize at lower levels, USDEC explains. Shipments of SMP/NDM to Mexico, the largest single market for U.S. milk powder, increased 13 percent. However, exports to the next four largest customers – Philippines, Indonesia, Malaysia and Vietnam – were down 7 percent. In addition, sales to China and Egypt dropped 61 percent and 45 percent, respectively. Significant new sales volume was achieved in Thailand, Bangladesh, Libya and Israel.
- U.S. exports of **whey proteins** in 2007 were a record-high 969 million lbs., up 26 percent from the year before. Exporters continued to push higher-value whey proteins: sales of whey protein concentrate (WPC) and other modified whey proteins jumped 43 percent to 307 million lbs. and exports of whey protein isolate (WPI) gained 23 percent to 31 million lbs. Meanwhile, exports of sweet whey increased 17 percent to 584 million lbs. For the second year in a row, the value of WPC/WPI sales (\$362 million) topped the value of sweet whey sales (\$295 million).
- Exports of sweet whey to Canada and Mexico jumped 121 percent, to 163 million lbs. In the rest of the world, however, sales dropped 1 percent as higher prices curtailed demand in some developing countries. Shipments to China dropped 11 percent in 2007 and exports to Southeast Asia dropped 4 percent.
- Once again, the bulk of the gains in exports of WPC went to Mexico, by far our largest market with 124 million lbs. (+57 percent). Expanded sales also materialized in Canada, Japan, Russia, China and Indonesia. On WPI, exports to Mexico, our largest market, jumped 98 percent, while sales to the rest of the world increased 6 percent.
- U.S. **cheese** exports hit a record high 219 million lbs. in 2007, up 40 percent from the prior year, says USDA. Shipments to Mexico and Japan, our two largest markets, increased 38 percent and 30 percent, respectively, while exports to the Caribbean and Central America were up 26 percent, South

Korea gained 22 percent and Middle East/North Africa increased 77 percent. With changes in global cheese market dynamics, U.S. suppliers shipped 14 million lbs. of cheese to the European Union last year, nearly triple the level of the prior year.

- Shipments of **butterfat** increased almost four-fold, to 90 million lbs. This was the highest figure since 1995, when the majority of U.S. exports were via government programs. Of this total, more than one-third of the shipments went to the European Union, a remarkable volume for a region that imported just 440,000 lbs. in 2006. In addition, exports to the Middle East/North Africa increased 174 percent and butterfat shipments to Mexico more than doubled.
- USDA's Foreign Agriculture Service stated U.S. **lactose** exports at 740 million lbs., up 41 percent from a year ago. However, Census Bureau reports suggest the USDA figures are overstated due to data error. USDEC members report lactose exports up modestly in 2007 vs. 2006 levels. Major markets remain Japan, Southeast Asia, Mexico and China.
- Exports of **fluid milk** increased 85 percent in 2007, to 102 million lbs. Shipments to Mexico, which make up nearly two-thirds of our exports, were up 91 percent and exports to Canada increased 82 percent.
- **Ice cream** exports dropped 3 percent to 57 million lbs. Exports to Mexico, our primary market, decreased by 4 percent.
- Exports of **food preparations** increased 19 percent to 173 million lbs. More than one-third of our sales went to Canada, which boosted purchases by 18 percent.
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