



**U.S. Dairy
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NEWS RELEASE

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U.S. exports off in 2009; modest improvement forecast for 2010

The crash of global dairy markets in mid-2008 put U.S. exports on course for a decline in 2009, ending a streak of six straight years of expansion.

Dairy export sales totaled \$2.32 billion last year, down 39 percent from 2008's record level, according to analysis of government trade data conducted by the U.S. Dairy Export Council (USDEC). However, most of the downturn reflected lower world prices; overall export volume was off just 16 percent, at 2.178 billion lbs. of milk solids (total-solids basis), says USDEC. Export volume represented 9.3 percent of U.S. milk production in 2009, down from 11.0 percent in 2008 and 9.8 percent in 2007.

After struggling through the first three quarters of the year, U.S. export volumes were up 15 percent in the fourth quarter. For the full year, volumes of milk powder, butterfat and cheese were lower, while shipments of whey proteins, lactose and fluid milk were higher.

"A year ago at this time, USDEC's economic analysis suggested overall volumes would drop 27 to 41 percent in 2009. But U.S. exporters retained more of their sales than expected, aided by stronger world markets in the latter part of the year," says USDEC president Tom Suber.

"By the end of 2009, U.S. exports displayed far more resilience than forecast in January, and the persistent sales efforts of many value-added exporters does mark a further maturation of the U.S. industry," he continues. "U.S. dairy export volume – overall and in all individual product categories – is significant and high in historic context. In fact, volumes are at levels where exporting is a prerequisite to maintaining a healthy and growing industry."



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'Last in, first out'

Still, though sales held up to some degree, the United States will struggle to become more than an opportunistic exporter of dairy commodities unless it transforms from a production-centric industry to a global-customer-centric one, Suber says. The importance of the overseas channel was evident last year, when lost export sales contributed to an oversupplied U.S. domestic market.

"U.S. exporters are still not doing everything necessary to sustain international volume gains," Suber warns. "For instance, last year, the United States surrendered market share and volume in the nonfat dry milk/skim milk powder (NDM/SMP) sector to almost all competitors. New Zealand largely replaced U.S. supply in key markets like China, and even Argentina gained ground. NDM/SMP is a category we should own, but large parts of our industry still treat exports as primarily surplus disposal instead of serving their customers by meeting buyer specs. Similarly, the United States lost almost all butterfat sales claimed in the prior year.

"Unless the United States deals with the fundamental problems that make it the residual supplier to the world, it will remain the last-in/first-out player in base commodities, which accelerates volatility," he says.

Weak international markets in 2009

The international market turned quickly on U.S. exporters in mid-2008 and continued into 2009. The high prices of 2007-08 spurred production growth throughout the world; in addition, recovery from severe drought on New Zealand's North Island combined with industry expansion on the South Island boosted New Zealand's production by nearly 10 percent in the 2008/09 marketing year. Faced with softening global demand from soaring price inflation as well as fallout from the worldwide recession and credit crisis, Oceania suppliers priced aggressively to prevent inventories from building. When world selling prices fell below U.S. support levels for basic commodities, it took U.S. suppliers out of the market. In Europe, eroding world prices prompted the reinstatement of its export subsidies, which also contributed to lost U.S. share. Though world markets improved dramatically in the second half of 2009, average commodity prices in 2009 were still 30-40 percent below the 2008 average.

USDEC role

For its part, USDEC responded to changing market conditions in 2009 by shifting resources among products and markets, putting a greater emphasis on helping suppliers to maintain export volumes in the short term. Priority was put on activities with an immediate volume impact in Mexico and Asia, such as retail and foodservice



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promotions, applications seminars and trade-servicing sessions. Meanwhile, to address constraints to U.S. exports, USDEC worked with governments and dairy industries in dozens of countries to revolve market-access issues, and conducted in-market programs such as a risk management seminar that helped buyers manage price volatility.

USDEC also held fast to its long-term belief that growing global demand would continue to create opportunities for U.S. dairy suppliers. To capitalize on prospects in the ingredient sector, USDEC combined Dairy Management Inc.'s domestic ingredients program into its export program in 2009 to create a single, integrated global ingredients marketing platform directed by its members.

Slight improvement projected for 2010

With the ever-present volatile markets, USDEC projects overall U.S. dairy export volumes to increase 7-12 percent in 2010, as global demand cautiously recovers, world commodity prices sustain most of the strength shown at the end of 2009, and U.S. suppliers remain engaged with their overseas customers. Large inventories from Europe continue to hang over the market, but milk production in Oceania is forecast to decline in the 2009/10 marketing year, EU and U.S. milk output is trailing year-ago levels as well and the European Union has suspended export subsidies for the time being – all of which should support historically strong world markets in 2010.

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The U.S. Dairy Export Council (USDEC) is a non-profit, independent membership organization that represents the global trade interests of U.S. dairy producers, proprietary processors and cooperatives, ingredient suppliers and export traders. Its mission is to enhance U.S. global competitiveness and assist the U.S. industry to increase its global dairy ingredient sales and exports of U.S. dairy products. USDEC accomplishes this through programs in market development that build global demand for U.S. dairy products, resolve market access barriers and advance industry trade policy goals. USDEC is supported by staff across the United States and overseas in Mexico, South America, Asia, Middle East and Europe.



2009 Export Highlights

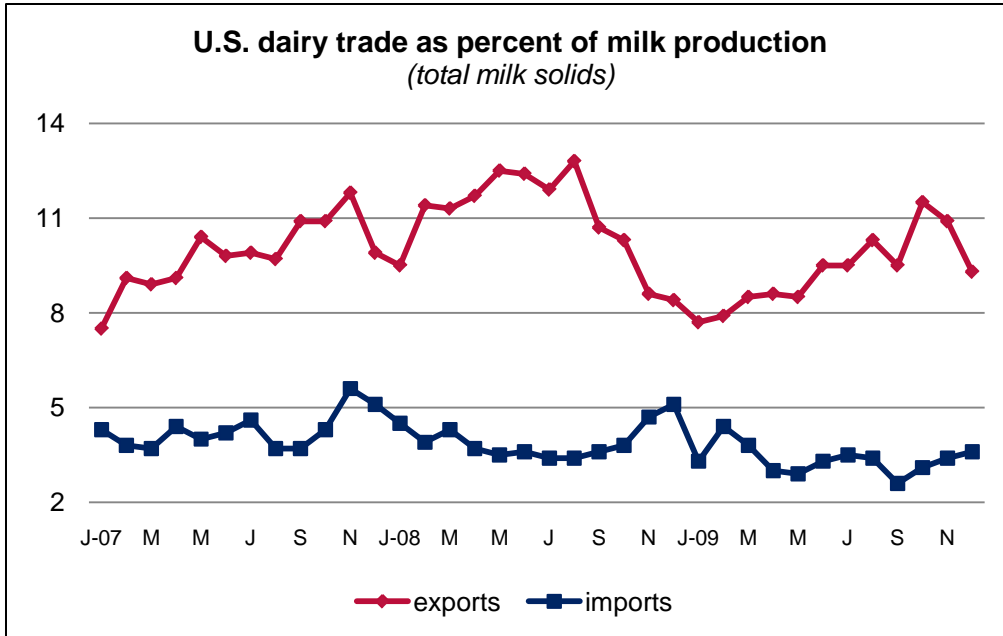
- U.S. dairy exports in 2009 were valued at \$2.32 billion. Even with the 2009 decline, exports have increased 14 percent annually over the last six years.
- U.S. dairy imports decreased 23 percent in 2009 to \$2.55 billion. On a volume (total solids) basis, exports were more than double the level of imports for the fourth straight year.
- Exports represented 32 percent of the NDM/SMP produced in the United States last year, 50 percent of the whey proteins, 67 percent of the lactose, 4.0 percent of the butter and 2.4 percent of the cheese.
- Mexico remained the largest market for U.S. dairy exports, with sales of \$636 million last year. Other top markets were Canada (\$483 million), Southeast Asia (\$287 million), Middle East/North Africa (\$174 million), China/Hong Kong (\$146 million), Caribbean (\$135 million) and Japan (\$131 million).
- Exporters shipped 549 million lbs. of **NDM/SMP** last year, down 36 percent from 2008. Shipments of NDM/SMP to Mexico, the largest single market for U.S. milk powder, slipped 10 percent, but sales to other destinations registered much larger declines. Exports to Southeast Asia decreased 45 percent, with large drops in shipments to the Philippines, Indonesia and Malaysia. Significant decreases in export volumes were also noted to North Africa (primarily Algeria and Egypt), South America, China, Japan, the Caribbean and Central America.
- U.S. **cheese** exports dropped to 239 million lbs. in 2009, down 17 percent from the prior year. U.S. suppliers focused on core markets in Latin America, boosting sales to Mexico by 9 percent and the Caribbean by 4 percent. However, exports to most other destinations declined: Middle East/North Africa (-55 percent), Southeast Asia (-34 percent), South Korea (-16 percent) and Japan (-25 percent) all saw cutbacks in purchases of U.S. cheese in 2009.
- U.S. exports of **whey proteins** in 2009 were 774 million lbs., up 5 percent from the year before. Lower prices helped spur global demand in both the food and feed sectors. Exports of sweet whey increased 3 percent to 455 million lbs. Sales of whey protein concentrate (WPC) and other modified whey proteins increased 7 percent to 284 million lbs. and exports of whey protein isolate (WPI) jumped 29 percent to 34 million lbs.



- Shipments of whey proteins to China/Hong Kong, our largest market, increased 27 percent last year. Exports to Mexico were up 18 percent and Southeast Asia up 5 percent. Among other key markets, whey protein exports to Canada were up 6 percent, Japan was down 5 percent and South Korea was up 10 percent.
- U.S. **lactose** exports were 483 million lbs., up 18 percent from a year earlier. Major markets remain Southeast Asia, China, Japan, and Mexico.
- Shipments of **butterfat** plunged (-68 percent), to 62 million lbs., though sales improved in the last four months of the year. In 2009, U.S. suppliers lost key customers in Russia, Morocco and Japan. Exports to the Middle East/North Africa region were cut in half and exports to Mexico dropped by 40 percent.
- Exports of **fluid milk** increased 5 percent in 2009, to 116 million lbs. Shipments to Mexico increased 6 percent, while sales to Canada dropped 1 percent.
- **Ice cream** exports gained 1 percent to 56 million lbs. Exports to Mexico, our primary market, decreased by 4 percent.
- Exports of **food preparations** decreased 15 percent to 147 million lbs. Nearly half our sales went to Canada, where purchases dropped by 2 percent, and shipments to the Caribbean were cut in half.

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Editor's note: more extensive trade data is available at www.usdec.org.



In December, exports were equivalent to 9.3% of U.S. milk solids production, bringing the 2009 total to 9.3%. This is off almost 2 percentage points from the 2008 level of 11.0%. Meanwhile, imports as a percent of milk solids production were 3.4% in 2009, down from 4.0% in 2008, and the lowest figure since 1997. *Source: U.S. Dairy Export Council, National Milk Producers Federation.*