

Introduction



Dear Members,

It would be a more uplifting experience to write my final cover letter to a USDEC business plan if U.S. dairy export volumes were rising—as they have for 12 of the past 15 years. I’ve no doubt that further growth awaits just over the horizon. But now, as I prepare to step down as USDEC president at year’s end, the world is mired in a milk oversupply situation that is taking far longer to rebalance than anyone predicted.

For over a year, the industry has had to deal with the aftermath of the European Union’s decision to remove milk production quotas, a plateau in Chinese dairy imports, reduced purchasing power in oil-producing nations, the Russian trade embargo, and a stronger dollar, among other factors. While the embargo is a political event, unrelated to underlying economic forces, the combination has sharply intensified global competition among a handful of large exporters aggressively seeking buyers to take up abundant supplies.

With divergent internal factors driving an uneven pace of supply contraction by these exporters, forecasting a return to sustainably higher prices remains murky, at best. The good news is that the long-term drivers of a return to global dairy consumption growth have not wavered.

USDEC’s 2020 market analysis released in January determined that population growth, economic expansion and the subsequent enlargement of the world’s middle class will drive global dairy trade from 9.4 million tons of finished product in 2014 to 11.7 million tons in 2020. The compound annual growth rate—about 3.7 percent per year—may be slower than the previous six-year period from 2007-13, but it still results in an additional 380,000 tons of finished product crossing borders annually—a sizable opportunity.

Yet, despite the modest cushion in the United States due to exceptional growth in domestic cheese and butter consumption, and even as we await a strengthening of demand to erode the dairy stockpile, fiercer competition appears likely to remain for a while. Consequently, moving forward, U.S. exporters cannot expect to succeed simply as a default supplier.

Now dating back a few years, recent events underscore one of the main conclusions of Bain & Co.’s report for the Innovation Center for U.S. Dairy: that increased exposure to the global market would bring growth and increased volatility. The report also laid out many

of the steps the industry needed to become more competitive, many of which, while in progress, require persistent attention.

The result is that U.S. suppliers have upped their game and become more engaged. In large part through their own investment in export manufacturing and marketing, and in part through USDEC programs that have sought to educate, assist and expedite business, U.S. dairy export expertise has never been higher and continues to grow.

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Ever stiffer competition drives the need for members to guide USDEC programs to deliver what they need to assist their own exports and domestic ingredient sales. USDEC strategies have remained consistent since a shift recommended by members in 2011. They focus on smoother market access requirements, better rules of trade and tools for U.S. suppliers to use in their own sales efforts to identify market trends, locate and develop ingredient and consumer channels, prepare for possible safety or image crises, and improve or expand product portfolios.

Global challenges will remain as our competitors, especially from Europe, continue to match and sometimes surpass our efforts. Aggressive marketing, attentive customer service, stable pricing and product adaptations remain critical.

Tactics have shifted as needed to meet current needs, such as these 2016 examples, many of which remain in the 2017 plan outlined in the following pages:

- Expanding market potential and defending import vulnerabilities in the recent Trans-Pacific Partnership (TPP) (and ongoing Transatlantic Trade Investment Partnership [TTIP]) talks, despite intense political opposition from trading partners and domestic political ambivalence over trade.
- Protecting our specialty cheese varieties against enormous EU pressure on Geographical Indications (GI).
- Building vital congressional support for a balanced trade agenda through industry unity.
- Intervening persistently to prevent market closures due to inadequate U.S. regulatory responses on export documentation to markets, such as China.
- Analyzing gaps in our export supply chain with remedial efforts to expand small-lot shipment options and related logistics.

- Working carefully with numerous domestic and overseas food processors to adapt U.S. dairy ingredients into formulated foods.
- Spreading credible messages in the “Why U.S. Dairy” platform to build confidence in and preference for the United States as a dairy supplier of choice.
- Researching insightful, comprehensive reports on market and product dynamics.
- Bringing buyers and sellers together through numerous trade shows and trade missions.
- Fostering acceptance of U.S. dairy proteins as a vital source of nutrition in food aid.
- Assisting exporters one-on-one to prepare for issues and crisis management events.

All good and effective work, but global challenges will remain as our competitors, especially from Europe, continue to match and sometimes surpass our own. Aggressive marketing, attentive customer service, stable pricing and product adaptations remain critical.

Equally important to compete globally are the groundbreaking efforts of industry leaders through the Dairy Management Inc.-founded Innovation Center for U.S. Dairy on issues such as animal care, traceability, food safety, nutrition wellness, genetically modified organisms (GMO) and sustainability. Its steady progress in documenting and messaging the science supporting

the safety and productivity of U.S. production practices are critical to maintain global consumer confidence in U.S. dairy foods and ingredients.

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Bottom line: Despite the substantial progress our industry has made, the future will be no less challenging than the past. The market, the industry collaboration, the members, have all greatly evolved. With my departure, so will USDEC in its mission to recover market share and expand U.S. exports.

On behalf of the USDEC staff and offices for whose skills and dedication I have the greatest respect and appreciation, I thank you, our members, for your continued support.



Thomas M. Suber
President