Cheese Market News

Perspective:

Export Expertise

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Window to the world

You should be familiar by now with the findings of the Innovation Center for U.S. Dairy's 2009 "Globalization Report." The comprehensive strategic analysis of the global dairy landscape, supported by U.S. dairy producers through the check-off program, meticulously outlined world supply-demand trends and how they were affecting the U.S. dairy industry.

The primary conclusion delivered by the report: There will be a significant gap between the dairy products the world is on track to produce and those the world's population is on track to consume. Furthermore, the United States is best positioned to fill that gap and could do so by becoming a "consistent global supplier."

Although poor conditions improved in time, we were left to wonder whether the situation – given its severity – affected the initial conclusions.

But even as the expert researchers from management consulting firm Bain & Co. were working with the Innovation Center's Globalization Task Force to deliver the report, the world economy and, with it, the world's dairy industry, was entering a major downturn that slowed demand, depressed prices and sharply rolled back U.S. dairy exports.

Although poor conditions improved in time, we were left to wonder whether the situation—given its severity—affected the initial conclusions about supply, demand and trade. And, if so, how might that affect the report's recommendation that the United States pursue its objective of moving the U.S. dairy industry towards a consistent supplier strategy?

Therefore, the Task Force commissioned Bain & Co. to do a follow-up, the results of which were released last week.

The findings echoed and amplified the original report:

- Not only is the world still headed for a dairy supply shortfall, the gap is likely to be a little wider than originally anticipated.
- The United States is still best positioned to satisfy that demand.
- We still need domestic policy reform to increase U.S. pricing and supply flexibility, allow U.S. suppliers to better manage volatility and improve our commercial focus.
- The United States needs aggressive government pursuit of beneficial free trade agreements, particularly since our main competitors—Australia, New Zealand and the European Union—have been so active (and so far successful) in negotiating their own deals.
- We still have a finite window, perhaps slightly wider than previously estimated, in which to act before low-cost, emerging exporters up their game and erode the opportunity.

U.S. dairy suppliers play a support role in helping to steer needed policy reform. Through industry organizations like USDEC they can influence dairy provisions in trade agreements. They can even further global dairy consumption through their own sales and marketing efforts and participation in government and industry market development programs.

But only one item in both the original Globalization Report and Refresh is directly under supplier control: the speed at which companies move to address global markets—in other words, how quickly we leap through the window of opportunity.

Fortunately, the Refresh found that emerging dairy exporters made limited gains in the past two years. Brazil production declined and the country became a net importer. Ukraine production fell short of projections and the country continues to deal with economic issues, dairy policy problems and milk quality questions. Belarus production and exports grew strongly but in line with expectations, and the country is dependent at present on one buyer: Russia. Argentine exports grew but the country so far remains a relatively small player.

That is good news to the United States. But it doesn't mean the industry can breathe a sigh of relief and drag its heels in pursuing the path to consistent global supplier.

Major importers and emerging exporters are renewing investment in dairy operations to curb their need for imports. Non-tariff trade barriers often aimed at protecting local industry are proliferating. Oceania and the EU are aggressively pursuing trade agreements while the United States seemingly moves in slow motion. EU producers, as a whole, may see only moderate mid-term growth, but Ireland and the Netherlands are well-positioned for the long-term growth. And the United States has yet to make any key policy reforms required to help U.S. suppliers more quickly address and exploit the window of opportunity.

The threat remains: Failure by the U.S. industry to step up and take advantage of international growth opportunities would put U.S. suppliers at a competitive disadvantage both domestically and globally.

One item is directly under supplier control: the speed at which companies move to address global markets.

By jumping into the current window and capturing global demand, we will deter new supply entrants and thus keep it open longer for U.S. suppliers.

We know the facts of supply, demand, and economic and nutritional trends. The Refresh confirms them. The time is now to make "consistent global supplier" an industry-wide priority and, as soon as possible, a reality—and not just an intriguing "what if."

By staking out a long-term, sustainable, global position as an industry, we can *own* the window of opportunity. **CMN**

Note: An executive summary of the Refresh and fact-base with supportive substantiation can be found at www.usdairy.com/globalization.