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U.S. exporters rise to the occasion

Coming off \$1.9 billion in export sales in 2006, crossing the \$2 billion threshold in 2007 seemed like a reasonable goal. But U.S. dairy suppliers were able to capitalize on unprecedented tight global supply last year to not only pass \$2 billion but exceed \$3 billion in overseas shipments.

In 2007, U.S. exports of milk powder, whey, cheese, lactose and other dairy products were valued at \$3.06 billion, up 62 percent from the prior year, and nearly triple the export value of 2002, according to analysis of trade data conducted by the U.S. Dairy Export Council (USDEC).

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.

"We witnessed remarkable events in 2007, events that had never taken place before," explains Tom Suber, USDEC president. "World prices for most commodities doubled in a matter of months. International benchmark prices climbed above U.S. levels for an extended period of time. U.S. exporters sold \$189 million worth of product last year to the European Union and Australia, both major dairy competitors."

Although the trend had been fomenting for several years, a variety of factors came together in late 2006 to set the stage for a dramatic, worldwide structural shortage of dairy products in 2007.

On the supply side, devastating weather-related production declines in Australia and Argentina; lack of growth in Europe due to production quotas and ongoing cuts in support prices; export restrictions in India and Argentina; and slow growth in U.S. production in the first half of 2007, left less product available for export.

Meanwhile, the suspension of export subsidies in Europe and the continual weakening of the U.S. dollar helped make U.S. dairy products more competitive on the world market.

And through it all, exceptional demand from developed and developing countries alike left buyers in a sellers' market most of the year.

"Dietary changes in the developing countries of Asia, as well as newly rich oil exporting countries such as Russia, have been a massive draw on milk components in recent years," says Suber.

"For instance, over the last five years, imports of milk protein via milk powder and whey have increased at double-digit annual rates in China, Indonesia, Vietnam, Singapore and Malaysia," he says. "Fluid milk consumption in China has expanded by 21 percent per year since 2000 – incremental consumption growth equal to an entire year's milk production in Wisconsin. In addition, more than 40 million babies are born every year in China and India, and parents of these infants increasingly have the purchasing power and desire to feed infant formula, weaning foods and toddler foods containing dairy components. Other key regions, like Mexico, Russia and the Middle East, also have boosted dairy consumption."

Market tightness was exacerbated by an absence of government stocks and low commercial inventories to fall back on, Suber adds.

In this climate, world benchmark prices rallied dramatically in 2007, and U.S. exporters were able to capitalize. 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.

"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."

In 2007, more than 9.5 percent of U.S. milk production (on a total-solids basis) was sold overseas, according to USDEC.

"This is a highly substantial number, which keeps increasing year after year," Suber adds. "In 2007, more than ever before, U.S. manufacturers and marketers



recognized that the growth and health of their industry was tied to events taking place outside their borders.

“However, it’s important to recognize that this situation didn’t just appear out of the blue. 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 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.”

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.

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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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