



**VALUE** ADDED  
**VALUE** DELIVERED

ANNUAL REPORT:  
A FOCUS ON EXPORT PRIORITIES IN 2005



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# TABLE OF CONTENTS



From the Chairman . . . . .	2
From the President. . . . .	3
Marketing Overview. . . . .	4
Strategic Priorities	
• Strengthening the image of the U.S. industry as a reliable supplier of quality dairy products through assistance in marketing and dairy product applications . . . . .	6
• Building demand for U.S. products in selected overseas markets . . . . .	8
• Reducing barriers to entry . . . . .	10
• Fostering a positive environment for global trade rules . . . . .	12
• Building the sophistication and capabilities of U.S. exporters . . . . .	14
Governance, Structure & Funding . . . . .	16
2005 At-a-Glance . . . . .	18
2005 Members . . . . .	20
USDEC Staff . . . . .	21

# FROM THE CHAIRMAN



In this space last year we asked an important question: Was our exporting success in 2004 a fluke or is the United States truly evolving into a serious world supplier?

Although the ultimate answer to that question remains to be seen, the evidence of another year suggests that the “fluke” description can be retired.

In 2005, U.S. exporters shipped 1.81 billion pounds of milk solids overseas, up from 1.60 billion pounds in 2004 and 1.20 billion pounds in 2003. Exports now represent 8.3 percent of U.S. milk solids output. That’s an all-time high and more than double the percentage of a decade ago.

From an individual product standpoint, U.S. suppliers exported 42 percent of all nonfat milk powder manufactured in the United States, 39 percent of all whey protein and 61 percent of all U.S. lactose. From a value standpoint, unsubsidized, commercial transactions accounted for nearly all shipments last year – the Dairy Export Incentive Program went unused.

Those kinds of results indicate that exports are no longer an incidental part of the U.S. dairy business and that the spike in 2004 sales wasn’t an aberration. Markets in China, Japan, Mexico, Canada, South America, South Korea and Southeast Asia have joined the super-market and food manufacturer around the corner as crucial growth areas.

And all signs suggest the growth opportunities will continue. Strong economies in key developing U.S. dairy markets continue to blossom, fostering changes in eating habits that favor dairy. Global demand is strong, so

strong that, in 2005, even higher price plateaus (for the most part above U.S. domestic prices) failed to deter overseas buyers.

Over the next few years, demand growth is expected to outstrip the capacity of traditional suppliers – except for the United States. The U.S. dairy industry has the production potential and infrastructure to keep pace with demand – if the industry so chooses to seek to satisfy this global demand.

And that brings us full circle. Exports have proven themselves to be good for the entire U.S. dairy industry. And the U.S. Dairy Export Council has been instrumental in building that market. USDEC is a cooperative effort – a perfect example of a huge swath of the U.S. dairy industry – farmers and processors – working together to increase demand and sales of U.S. dairy products. In other words, we have common goals and are leveraging our expertise and resources to grow U.S. dairy – in this case internationally.

Last year’s results suggest that U.S. dairy export success in 2004 was no fluke. The time is at hand to start talking more strategically about how the U.S. dairy industry will evolve into that serious long-term world supplier.

A handwritten signature in black ink, reading "JP Camerlo". The signature is fluid and cursive.

James P. (Tom) Camerlo  
Chairman, U.S. Dairy Export Council



## FROM THE PRESIDENT

The vision: a growing U.S. dairy industry efficiently and consistently meeting customer demands worldwide.

The mission: enhancing international demand for U.S. dairy products and assisting the industry to increase the volume and value of its exports.

Looking only at the numbers 2005 vs. 2002, and the growth curve that got us where we are today, can we say the U.S. Dairy Export Council has satisfied its mission and achieved its vision?

Well, the numbers certainly are good, which would indicate that our mission is on the right track. Yet it would seem that achieving the vision is still well ahead of us.

A large step towards greater *"efficiency and consistency"* can come from continued USDEC efforts to prevent non-tariff barriers from undermining our growing market presence. The challenge often lies in ensuring that overseas regulatory authorities accept U.S. inspection standards and practices.

Sometimes, we have the relationships in place to resolve such issues quickly, as when USDEC was able to prevent China's imposition of onerous inspection standards for a relatively common bacterium. In other cases, it requires substantial U.S. government assistance to roll back thinly-disguised protectionism, such as India's demand for dairy product certifications that U.S. certifying agencies simply cannot provide.

Achievement of USDEC's ambitious trade policy agenda would also move us towards greater consistency and efficiency by removing the existing large export subsidies and high tariffs that mute our international competitiveness.

Ultimately, however, *"meeting customer demands worldwide"* is a challenge that our industry must take upon itself to achieve. To sell into these markets we need to deliver what they're looking for. Being a long-term success revolves around bringing the right products to market when the buyers want them. Industry suppliers can draw upon farmer self-help programs through USDEC to make the right product available, either through product and nutrition research from Dairy Management Inc. or the Cooperatives Working Together export program.

Consistently meeting customer demands worldwide is a business requirement that never goes away. And those demands are always a moving target – always changing.

The U.S. dairy industry has come a long way to reach the level of export success it achieved in 2005. But with greater efficiency and consistency, we have plenty more room to grow.

Thomas M. Suber  
President, U.S. Dairy Export Council

# MARKETING OVERVIEW

The U.S. dairy industry, with the all-around year in 2005, with

Volume jumped 14 percent to 1.81 billion pounds, as measured by total dairy solids. Exports now represent 8.3 percent of U.S. milk solids output by volume, also an all-time high and more than double the percentage of a decade ago.

Those unprecedented levels of success reflect the payoff that comes from long-term programs that consistently focus on five strategic priorities:

- Strengthening the image of the U.S. industry as a reliable supplier of quality dairy products through assistance in marketing and dairy product applications.
- Building demand for U.S. products in selected overseas markets.
- Reducing barriers to entry.
- Fostering a positive environment for global trade rules.
- Building the sophistication and capabilities of U.S. exporters.

Last year's results, added to growth of the previous years, also reflect U.S. suppliers' growing commitment to export markets and affirm the Export Council's mission to enhance international demand for U.S. dairy products and assist the industry to increase the volume and value of its exports.

The dairy ingredient side of the business performed especially well in 2005.

Exporters shipped 287,994 metric tons of **nonfat milk powder** (both as conventional nonfat dry milk and as skim milk powder) in 2005, up 6 percent from 2004. Other than small volumes of food aid, all exports were commercial, unsubsidized sales. U.S. SMP exports to Mexico were up 18 percent while shipments to Southeast Asia jumped 20 percent.

A worldwide increase in whey protein demand fueled a 31 percent rise in total U.S. **whey** sales to 275,540 metric tons. All major markets posted gains. Recognition of food applications for whey in South Korea, which traditionally viewed it solely as an animal feed product, drove U.S. sales to that nation by a whopping 121 percent. The top three whey markets by volume – China, Southeast Asia and Mexico – registered gains of 28 percent, 35 percent and 40 percent, respectively.

Within the whey proteins category, results for high-value **whey protein concentrate** (WPC) were particularly strong, with the lower protein content varieties bolstered by animal feed buyers. U.S. WPC and other modified whey sales jumped 84 percent to 67,212 metric tons. Chinese purchases grew more than sixfold to nearly 20,000 metric tons, vaulting China into the No. 1 market



## support of the U.S. Dairy Export Council, recorded its best export value rising 10 percent to \$1.66 billion.

position ahead of Mexico (where WPC sales increased a sizable 65 percent). China and Mexico together represent the main markets for U.S. WPC.

U.S. **lactose** sales jumped 18 percent to 183,941 metric tons. Food and feed applications together boosted demand. Sales to Southeast Asia jumped 55 percent, putting the region less than 5,000 metric tons behind Japan, the No. 1 U.S. lactose market. Southeast Asia, particularly Vietnam, is an up-and-coming food production center and Japan is believed to be outsourcing food formulations to manufacturers in the region and then importing finished product.

In the **cheese** sector, solid export gains to South Korea (+47 percent), Canada (+37 percent), South America (+15 percent) and the Caribbean (+13 percent) were not enough to offset declines in what were the two largest U.S. cheese markets: Mexico and Japan. Sales to Mexico, which accounts for nearly one-third of U.S. exports, fell 19 percent, as heightened competition from South America, particularly Argentina and Uruguay, cut into U.S. efforts. Sales to Japan, which dropped to the No. 3 market, slid 14 percent (sales to Canada rose 37 percent, making it the second biggest U.S. cheese buyer in 2005). Overall, U.S. cheese exports declined 6 percent to 57,509 metric tons.

Results for other manufactured products were mixed. After three years of declines, **ice cream** sales increased 9 percent in 2005. Individual market performance varied widely, with sales to Mexico, the No. 1 U.S. buyer accounting for nearly half of U.S. volume, up 31 percent, but volume to Canada, the No. 2 market, down 28 percent. U.S. **fluid milk** exports dropped 28 percent to 21.2 million liters, again due to stiff competition in Mexico from UHT milk from Uruguay. **Butter** sales fell 28 percent, but volumes are a relatively modest 4,421 metric tons.



# STRATEGIC PRIORITY

## EXPANDING CHINESE FOOD MANUFACTURERS' KNOWLEDGE

By all accounts, China's dairy appetite is growing at an extraordinary pace. But Chinese food manufacturing businesses are still only partially familiar with dairy ingredient functionality and applications. USDEC looked to change that through a series of technical meetings aimed at providing insight and direction into dairy-containing foods.

In 2005, more than 450 food industry executives, R&D personnel and importers attended eight seminars focusing on dairy ingredients in food products: lactose applications in bakery and confectionery products, high-value whey proteins in dairy and sports beverages, and all types of dairy ingredients in traditional Chinese foods. USDEC also worked to increase the value of whey permeate through more sales to food manufacturers rather than the feed sector.

Chinese consumers have expressed strong interest in successful Western-style products such as sport, energy and meal replacement beverages, in addition to higher quality yogurt products, infant formula and acidified milk drinks. This is a nation hungry for better nutrition, but one that needs a little technical support to get there.

That attitude, coupled with USDEC educational efforts, is paying off. Chinese buyers purchased nearly 20,000 tons of whey protein concentrate (WPC) in 2005, six times higher than the nation's purchases in 2004. China now accounts for 29 percent of all U.S. WPC export volume, making it the No. 1 U.S. market for WPC. What's more, U.S. lactose sales to China grew 19 percent to 23,960 tons in 2005, making the nation the second largest U.S. lactose buyer.

The mission of the U.S. Dairy Export Council, in its broadest sense, is creating a global dairy market in which suppliers of U.S. cheese, milk powder, whey, lactose, ice cream and other milk-derived products can flourish. This is a multi-pronged effort involving a range of strategic priorities.

## Strengthening the image of the products through assistance in

Over the last decade, Chinese consumers doubled their per capita dairy consumption to 13 kg. The U.S. Department of Agriculture projects that number will double again to 26 kg by 2015. That means China will need another 16.9 million tons of milk-based foods and ingredients annually – much more than the country's domestic industry will be able to provide even with its strong growth rate.

But even if those predictions and the domestic shortfall bear out as expected, it does little good to the U.S. industry if the nation's shoppers and food manufacturers decide to fill their dairy needs elsewhere. The same holds true for increasingly dairy-minded consumers and food businesses in the Caribbean, Central America, the Middle East and Southeast Asia.

It's not good enough for buyers to want dairy products – they need to want U.S. dairy products.

Part of the overall goal of growing the global market for U.S. dairy products is solidifying the United States' reputation as a reliable, consistent, committed, high-





## U.S. industry as a reliable supplier of quality dairy marketing and dairy product applications

quality, knowledgeable supplier. Part of USDEC's role is to put U.S. expertise on display for buyers and end users to see – and in doing so help establish the United States as **the** “go-to” source for dairy. The Export Council does so through a variety of programs.

- In 2005, USDEC conducted 21 technical seminars on dairy ingredients in baked goods, confectionery products, functional beverages and a range of other packaged foods. More than 1,100 foreign R&D personnel, food industry executives, distributors, importers and food scientists attended.
- The Export Council sponsored 20 tastings, workshops and recipe contests for the restaurant, hotel and institutional sectors from Central and South America to China and Southeast Asia.
- USDEC exhibited at a dozen major trade shows in Brazil, China, Hong Kong, Japan, Korea, Mexico, Singapore and United Arab Emirates, generating literally thousands of contacts between potential buyers and U.S. suppliers and awareness of U.S. dairy products.
- USDEC-sponsored reverse trade missions brought South American cheese buyers, Southeast Asian whey buyers, Japanese supermarket deli managers and South American food R&D scientists to the United States to learn about the scope and capabilities of the U.S. dairy industry firsthand.
- And USDEC developed, published and distributed whey, lactose and milk powder reference manuals, dairy ingredient technical monographs and technical articles in foreign trade publications in multiple languages.

The Export Council seeks to increase buyers' acceptance and knowledge of U.S. suppliers and products. Through its programs, U.S. expertise became clear to tens of thousands of current and future customers looking for dependable, high-quality suppliers.

### TRAINING CARIBBEAN FOODSERVICE PERSONNEL

Hurricane season notwithstanding, tourism and rising domestic consumption have made the Caribbean one of the most consistent U.S. cheese growth markets.

To bolster growth, USDEC addressed the region's needs in 2005 with a series of deli training seminars with major Caribbean retail chains (146 deli staff and management attended the three programs), a new deli training manual, a chef competition at the Caribbean Hotel Industry Conference and a cheese reception for chefs in Bermuda and the Bahamas. More than 1,000 Caribbean hoteliers, chefs and importers sampled seven U.S. specialty cheeses at a special tasting after the chef competition, which gained wide exposure in local media.

Due in part to Export Council efforts, U.S. cheese sales to the Caribbean rose 13 percent to 3,772 tons in 2005, marking the second straight year of double-digit gains (and third out of the last four).

# STRATEGIC

# PRIORITY

## Building demand for U.S. products

### EARNING U.S. CHEESE CONVERTS

The Middle East is a region of cheese lovers. Saudi Arabia is the world's third largest cheese importer, even larger than Mexico.

But the area's consumers are used to traditional mild white cheeses. Other dairy producers have made strides familiarizing the Middle East with their own specialty cheeses, but little knowledge exists about U.S. products beyond processed American used in foodservice applications.

In 2005, the Export Council looked to increase consumer knowledge of U.S. specialty cheeses with in-store cheese promotions at four supermarket chains in Saudi Arabia, Lebanon and the United Arab Emirates (UAE). The program built on similar efforts started in 2004. Samplers handed out recipe leaflets along with U.S. cheeses, and USDEC secured article and recipe placement in seven regional magazines with a readership of 2.6 million.

The program seeks to impart information on U.S. cheese quality, characteristics, versatility and variety, which should ultimately increase consumer demand.

So far, so good. During the promotions, U.S. cheese sales jumped 60 percent to 70 percent. Better yet, afterwards, they still averaged 32 percent growth.



No one in Saudi Arabia, Korea, Mexico or anywhere else is going to lay down their hard-earned riyals, won or pesos for U.S. dairy products unless they know what they taste like and how to use them. Overseas, consumers are eating more dairy every year, but they still seek more information on dairy products, their flavors and their applications.

To familiarize foreign palates with U.S. cheeses, dairy beverages and products containing beneficial dairy ingredients, and increase overseas buyers' knowledge of everyday dairy applications that both match and expand traditional diets, USDEC directly reaches out to those consumers.

In 2005, the U.S. Dairy Export Council conducted more than a dozen in-store tasting programs at more than 30 chains in 12 nations. Thousands of shoppers in Brazil, Colombia, Japan, Korea, Mexico, the Middle East, Peru and the Philippines tried U.S. cream cheese, cheddar, monterey jack and other cheeses in everyday food preparation.

For many, it was their first taste of certain varieties; for others, it gave them new ideas to bring home for dinner. For U.S. suppliers, it spelled increased volumes.



## in selected overseas markets

Stores participating in the samplings – the programs ranged from one month to almost 10 months in duration – saw U.S. dairy sales jump anywhere from 10 percent to 70 percent. And those promotions were only part of USDEC’s demand-building efforts.

In addition, the Export Council worked with local press to place informational articles on whey protein and U.S. cheese-based recipes in consumer magazines in Korea, Mexico and the Middle East. It secured recipe features for U.S. cheeses on TV cooking programs in Mexico. And it concluded a major multi-year promotional effort that put the words “uses U.S. cheese” on more than 2.6 million pizza boxes used by a Mexican pizza chain and club store.

All efforts aim at raising consumer awareness of U.S. cheese, ice cream, milk and dairy desserts – and the benefits of whey protein – ultimately serving the goal of enhancing international demand for U.S. dairy products.

### GOING BEYOND CHEESE

U.S. consumers aren’t the only ones looking to eat better. Mexico is one nation that has significantly increased its intake of reduced-fat foods in recent years. In addition, Mexican consumers, like their U.S. counterparts, are growing increasingly interested in foods that provide some functional benefit – from disease prevention to improved physical performance.

In 2005, USDEC worked with a major nutritional products retailer to communicate the benefits of consuming whey protein. The Export Council distributed 55,000 technical monographs – *Whey Protein and Sports Nutrition* and *Whey Protein and Body Composition* – to nutritional stores throughout Mexico and used them as inserts in a national health magazine. The effort came in conjunction with the retailer’s rollout of 10 new products containing whey protein isolate (WPI) and/or whey protein concentrate (WPC).

The result: The retailer began importing incremental quantities of WPI/WPC blends. On a broader level, U.S. WPC shipments to Mexico soared 65 percent to 15,359 tons last year (after tripling to 9,305 tons in 2004), making the country the United States’ No. 2 WPC customer just behind China.



# STRATEGIC

# PRIORITY

## Reducing barriers to entry

### STRENGTHENING CHINESE RELATIONSHIPS

Even though China has grown to be the No. 2 single importer of U.S. dairy ingredients behind Mexico, U.S. suppliers periodically encounter customs clearance problems caused by misunderstandings over dairy testing protocols. In late 2005, USDEC sought to remedy those border hassles by bringing 10 Chinese customs and regulatory officials to the United States for a two-week technical mission aimed at convincing them to recognize the validity of international testing methods.

Participants attended a week of classroom instruction in which scientists demonstrated international test methods and U.S. testing and quality standards and practices. During the second week, they visited U.S. dairy plants, commercial laboratories and universities to see practices applied under real-world conditions.

The mission exceeded USDEC expectations. After the two weeks, attendees indicated that China may adopt standards and testing methods identical to those used in the United States. More broadly, the mission built camaraderie that immediately yielded benefits.

This activity coincided with the pending introduction in China of a new rule dealing with the presence of the bacterium *Enterobacter sakazakii*. The rule called for zero tolerance, requiring any food shipments to be summarily destroyed in China if any *E. sakazakii* were detected. Though well intentioned to prevent fraud and protect infant health, the rule effectively choked off China's dairy imports.

USDEC staff called upon the goodwill created amongst the visiting Chinese officials and sought to revise the rule to permit trade while still safeguarding Chinese consumers. Just before the New Year, China made two modifications allowing the product to be shipped back to the United States rather than destroyed or, for ingredients, allowing the shipments to be cleared through customs with a declaration that they would be further processed with heat treatment.

Chinese officials acknowledged that the decision was partly influenced by participants of USDEC's lab training program. And, what's more, USDEC is still working with Chinese officials on other matters to facilitate trade, including developing a standardized Certificate of Free Trade for U.S. suppliers to facilitate exports to the nation.

Overseas buyers eager for American dairy products can't help the export cause if U.S. dairy shipments can't cross the border. A key U.S. Dairy Export Council mission is to identify and surmount technical barriers and market controls that discriminate against U.S. dairy shipments.

In recent years, as trade liberalization has increased, we've seen more technical barriers to trade spring up. Those barriers may be long-standing technicalities, new regulations or pending standards that could be detrimental down the road. USDEC attacks them in a





number of ways, not the least of which is playing an active role in international standards organizations like the Codex Alimentarius Commission.

Codex efforts are ongoing and proactive. But despite the Export Council's best efforts to head off multilateral problems before they occur, some bilateral sanitary regulations – such as recent changes to Brazilian sanitary certificate requirements – spring up out of nowhere or are simply impossible to prevent. Those occasions require swift and often persistent response to minimize U.S. dairy trade interruptions.

In 2005, for example, USDEC developed three informational documents aimed at satisfying Japanese concerns over chemical residues. Although the documents provided information demonstrating U.S. compliance with residue standards, some buyers felt they needed

more and better assurances. USDEC has now completed a more unified cohesive approach to the problem, pinpointing which of nearly 800 residues specified by Japan are legitimate concerns in the dairy sector and highlighting the U.S. national residue monitoring system that is in place – an approach that worked for Australia and New Zealand in meeting Japan's food safety goals.

Many other efforts are ongoing, including the Export Council's work to resolve dairy export certificate problems in Brazil and India that have sharply limited U.S. shipments.

Recurrent investments in the regulatory and policy efforts to identify the next gambit to deny access to U.S. products continue to prove their value. Successful resolutions to each and every instance translate directly into opportunities for U.S. dairy suppliers.



# STRATEGIC

# PRIORITY

## Fostering a positive environment

### OPENING DOORS IN CENTRAL AMERICA

The U.S. Dairy Export Council pushed hard for Congress to approve the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) for one very good reason: The deal opens formerly sheltered dairy markets in the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

U.S. dairy suppliers shipped more than 25,000 tons to the six DR-CAFTA countries in 2005, 73 percent higher than 2003, but down about 22 percent from 2004. DR-CAFTA could lead to positive growth long-term.

The deal, forged by U.S. negotiators with significant input from U.S. dairy interests through USDEC, created immediate new duty-free quotas for fluid milk, milk powder, yogurt, butter, cheese, ice cream and other dairy products that are set to expand annually as tariffs are phased out. Through letters and direct meetings with members of Congress to promote the benefits of the agreement, USDEC helped ensure DR-CAFTA's approval in close House and Senate votes.

USDEC especially brought U.S. dairy interests to the fore when El Salvador sought to limit U.S. dairy imports to plants that its inspectors approved personally. Export Council staff worked with U.S. negotiators to include language ensuring that El Salvador as well as the other signatories accept U.S. safeguards and inspections as equivalent, so that sanitary and phytosanitary issues do not block U.S. dairy exports to the region.

El Salvador, Honduras and Nicaragua have already implemented CAFTA, and U.S. negotiators are working with all the signatories in 2006 to ensure they've satisfied implementation requirements.

A level global playing field. Few things would do more to boost U.S. dairy trade interests than eliminating export subsidies and opening market access in foreign countries. The Export Council works in a variety of ways toward those goals, often behind the scenes researching, developing and pushing forward trade policy positions – communicating dairy priorities and making sure that U.S. dairy trade interests are addressed during trade talks. Work extends from the Doha Round of World Trade Organization (WTO) negotiations to issues with individual countries, such as Mexico and its refusal to release milk powder import licenses.

In 2005, working closely with the U.S. Trade Representative (USTR) and U.S. Department of Agriculture (USDA) at multi-lateral and bilateral trade talks, USDEC in conjunction with the National Milk Producers Federation helped advance specific concepts for negotiating the elimination of export subsidies, reductions in tariffs and non-tariff trade barriers and the treatment of sensitive





## for global trade rules

products. USDEC staff was on hand at key ministerial meetings throughout the year to ensure the interests of the U.S. dairy industry were heard. It formed alliances and pursued successful efforts to make sure geographical indicators did not become a fourth pillar of agricultural negotiations in the Doha Round (along with export subsidies, market access and domestic support).

The Doha Round would be the most lucrative game in town, offering U.S. dairy exporters the most potential trade benefits, but it is not the only game. The Export Council has been working to foster a positive environment for U.S. dairy exports by communicating to the government the requirements of the U.S. dairy industry in order to support bilateral agreements with Colombia, Ecuador, Malaysia, Panama, Peru, South Korea and Thailand – all in various stages of negotiations. In addition, the U.S. Dairy Export Council played an integral role in the creation and approval of the Dominican Republic-Central American Free Trade Agreement.

The Export Council works directly with staff at USDA and the USTR seeking delivery on the industry's goals. In addition, it constructively uses its access provided by appointment to special advisory committees of USDEC Chairman Tom Camerlo and USDEC President Tom Suber.

But trade negotiations are only part of the efforts to foster a positive trade environment. In 2005, the Export Council:

- Worked with organizations and concerned members of Congress to reverse a Treasury Department ruling restricting payment and, consequently, trade with Cuba. Actions included coordinating dairy industry testimony before Congress and petitioning the administration to allow exemptions for contracts that existed at the time of the ruling.
- Coordinated Congressional Education Program trade policy events in various states for the dairy industry to demonstrate support for particularly helpful members of Congress and highlight the importance of balanced trade.
- Worked to avoid import restrictions by Mexico due to authorized retaliation and requested additional product quotas for skim milk powder and dairy blends.

Through these and other government and industry efforts, the Export Council will continue to increase U.S. dairy exports by reducing dairy trade constraints.

### FIGHTING FOR MEXICAN ACCESS

When Mexico imposed a 30 percent punitive tariff on U.S. dairy blend exports in retaliation for the U.S. failure to comply with a World Trade Organization (WTO) ruling against the Byrd Amendment, USDEC went into action. Export Council staff began work with the U.S. Trade Representative's office to address the Mexican action, which the Export Council views as an incorrect interpretation of the damages allowed by the WTO. In addition, it began advocating for the repeal of the law. When Congress finally did propose repeal legislation, USDEC staff worked with a broad coalition of food industry organizations to support the House and Senate provisions.

In late December, those efforts paid off, as the Senate passed a budget bill containing repeal language, albeit with an extension of the Byrd Amendment that runs through October 2007. Because of the extension, USDEC staff continues its efforts to seek ways to lift the additional tariffs.

# STRATEGIC PRIORITY

## Building the sophistication and

One problem in the nascent days of the U.S. dairy export industry was the commitment – or lack thereof – from U.S. suppliers. Most U.S. dairy manufacturers viewed the overseas market as a place to channel excess product. Ten years ago, only a fraction of U.S. dairy exports were commercial sales. In 2005, commercial sales comprised more than 90 percent of U.S. overseas dairy sales.

That change is a credit to the growing sophistication, dedication and recognition of U.S. dairy suppliers of the viability of international markets to promote growth for the industry, something the U.S. Dairy Export Council has worked to build since its inception.

Those efforts continued full speed last year, starting with the implementation of USDEC's Halal certification program in January 2005. The program gives U.S. suppliers that are missing out on a market of 1.3 billion Muslims worldwide a convenient means to have their plants and products Halal certified in compliance with the religion's food preparation guidelines. Operated in conjunction with the Islamic Food and Nutrition Council of America, the Export Council also picks up a portion of the costs for two years.

The Halal program is just one part of USDEC programs for helping to build U.S. dairy supplier knowledge and capabilities. Communication is a cornerstone of the efforts. Despite rapid growth, dairy exports are still relatively new to U.S. producers and manufacturers. The Export Council supplies a continually updated wealth of information online through the USDEC website, email and in hard copy forms.



## BUILDING A NUTRITIONAL CASE FOR WHEY

The soy industry has made great strides in spreading the word on the health benefits of soy protein. Why not dairy?

That was the question asked in 2003 by USDEC members when they created the U.S. Whey Protein Research Consortium. A need existed to identify compelling health claims for milk components, leverage research of external parties and lead a coordinated effort to defend the dairy franchise globally. Precompetitive research efforts are key to growing the global dairy industry, defending it against competitive foods and ingredients and expanding its nutrition and wellness base.

In 2005, the consortium, now expanded beyond USDEC members alone, took the first steps toward establishing a whey health claim. Preliminary results showed that whey protein consumption has an effect on body composition. The next step is to quantify the effect: How much needs to be consumed to have a positive impact? A second study will begin in January 2007, and the results are expected to fuel USDEC's nutrmarketing approach that is critical to long-term success, as well as the efforts of the consortium partners.

## capabilities of U.S. exporters

In 2005, USDEC:

- Updated nearly 120 entries to *The U.S. Dairy Export Guide*, a comprehensive trade reference guide in four volumes: Global Tariff Survey, Health Certification & Inspection Requirements, Labeling & Product Standards and Codex Alimentarius Standards.
- Kept members abreast of news and critical issues – from wood packing regulations to trade talk progress to trade leads – every week with the *Facts on Dairy Exports* newsletter and as needed with Member Alerts. Staff worked to educate and inform members and non-members alike with columns and articles in industry publications and press releases to all media outlets.
- Redesigned and released the 2005 edition of *World Dairy Trade Trends* and published brand new editions of whey, lactose, milk powder and milk protein concentrate sourcebooks.
- Maintained the USDEC website with all relevant member information, putting technical monographs, trade show information, export data, trade leads and other valuable tools in reach of members at the click of a button.

The efforts seek to provide information and resources on the value of developing export markets so dairy producers, processors and allied industries not only learn themselves, but promote the value of exports to their peers.



### EXPANDING INGREDIENT USE

The U.S. Whey Protein Research Consortium isn't the only place USDEC made strides toward capitalizing on the health benefits of dairy ingredients. The Export Council worked to expand whey use in food assistance programs for patients suffering from HIV/AIDS and to combat sarcopenia (age-related loss of muscle mass).

USDEC-backed consumer focus groups in Japan and China demonstrated interest in protein supplement powders in active but aging adults and young, athletic adults, respectively. Both studies emphasized the importance of linking whey consumption with the benefits of exercise. In Japan, there is the added hurdle of overcoming the preconception that whey products are for body builders. In China, it's more a general lack of awareness of whey's benefits. However, when those benefits were made clear, consumers reacted positively to whey proteins' functionality in muscle maintenance, immune system health and physical recovery after exercise or surgery.

Significant new nutrition-based markets exist if the U.S. dairy community can back products up with strong consumer educational efforts revolving around the science behind whey protein.



# GOVERNANCE, STRUCTURE & FUNDING

## Corporate Structure and Governance

The U.S. Dairy Export Council is a nonprofit, independent membership organization representing the export interests of U.S. milk producers, dairy cooperatives, processors, traders and industry suppliers. The Council was established in 1995 by Dairy Management Inc.™ (DMI), the farmer-funded marketing, promotion and research organization, to build global demand for U.S. dairy products.

The U.S. Dairy Export Council is structured to facilitate membership participation. Each member-company is represented on the Board of Directors, and delegates provide valuable input and leadership to USDEC's four program committees: Cheese & Manufactured Products, Dry Ingredients, Trade Policy and Finance.

A 13-member Operating Committee, including USDEC officers (Chairman, Vice Chairman, Treasurer), leadership from the program committees and four at-large members elected by the Board of Directors, is responsible for day-to-day operations of the organization. An experienced staff of marketing and technical experts, based in Arlington, Va., just outside Washington, D.C., executes the programming of the Council on behalf of the Operating Committee and the membership.

Each year, USDEC's Board of Directors authorizes a strategic business plan to guide marketing programs and ensure that USDEC activities provide the greatest return on investment. The Council's Marketing department is organized along product lines (Cheese & Manufactured Products and Dry Ingredients) and is supported by four departments: Strategic Research and Business Development; Trade Policy; Market Access and Regulatory Affairs; and Communications and Membership.

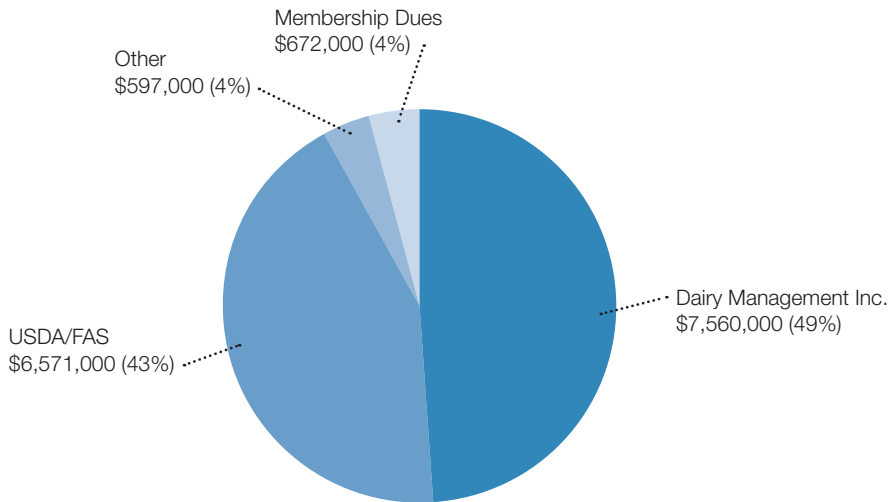
USDEC's mission is facilitated by office representation in China, Taiwan, Japan, South Korea, Thailand, Mexico, Brazil, United Kingdom and Lebanon. These overseas offices provide in-country intelligence, program guidance and technical assistance – all critical components to enhancing international demand for U.S. dairy products.

## Funding

In 2005, U.S. dairy farmers invested \$7.560 million in USDEC activities through the dairy promotion check-off program. The U.S. Department of Agriculture provided \$6.571 million through a variety of market development programs. USDEC also generated \$672,000 in membership dues, which are the sole source of funding for trade policy programming.



### 2005 Source of Funds

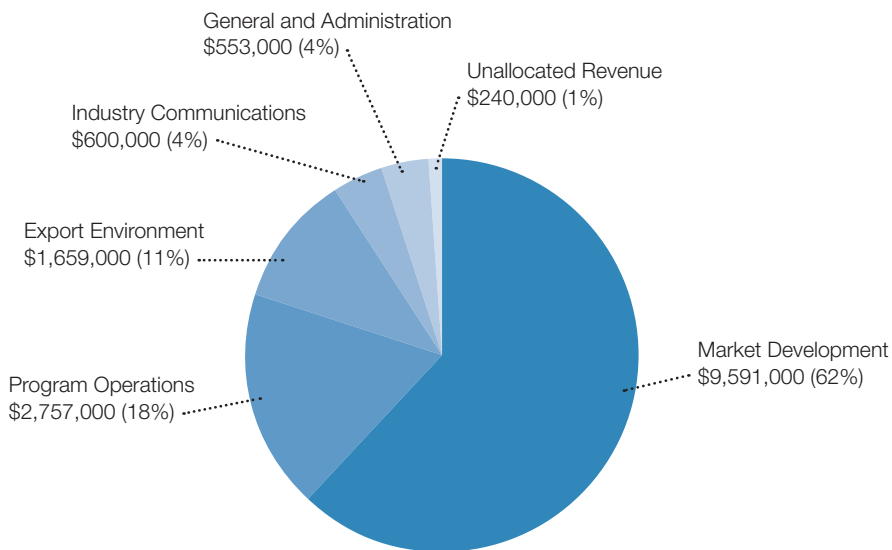


**Total: \$15,400,000**

### 2005 Export Environment

Trade policy .....	\$792,000
Market access and regulatory affairs .....	\$652,000
International travel and misc. operations .....	\$215,000

### 2005 Expenses



**Total: \$15,400,000**



## 2005 AT-A-GLANCE

Total exports reached a record-high \$1.66 billion in 2005, up 10 percent from the prior year. Exports of dairy ingredients delivered most of the gains. Strong world demand – even at historically high world prices – put the United States in position to become the world’s leading supplier of skim milk powder, whey and lactose.

The largest gains were seen in exports of whey proteins: up 31 percent from the year before. Shipments of sweet whey (+18 percent) and whey protein concentrate (+84 percent) were significantly higher in 2005. Gains were broad-based across virtually all markets.

U.S. exporters shipped 287,994 tons of skim milk powder in 2005, up 6 percent from the year before and the most since 1987. Exporters didn’t rely on Dairy Export Incentive Program subsidies to achieve this total; other than small volumes of food aid, all exports were commercial, unsubsidized sales. More than two-thirds of the volume went to Mexico and Southeast Asia.

U.S. lactose exports were up 18 percent from the prior year. Increased sales to Southeast Asia, China and Mexico fueled the gains.

Cheese exports decreased 6 percent in 2005. The decline is attributed to strong competition from South America and cutbacks in subsidized cheese exports.

After three years of declines, exports of ice cream increased 9 percent in 2005. Fluid milk and cream shipments dropped 28 percent. The volume of butterfat shipped overseas declined 8 percent in 2005.

### 2005 U.S. Dairy Exports

	Volume (mt)	% change 2005 vs. 2004
Skim Milk Powder	287,994	+6
Whey Proteins	275,540	+31
Lactose	183,941	+18
Cheese	57,509	-6
Ice Cream	26,078	+9
Fluid Milk & Cream (KL)	21,183	-28
Butter	4,421	-28
Yogurt	3,331	-16
Butteroil	3,326	+45

### U.S. Exports of Product by Country in 2005 Whey Proteins

	Volume (mt)	% change 2005 vs. 2004
Caribbean	3,239	+28
Central America	6,071	+27
China	68,746	+28
Japan	27,422	+38
Mexico	37,071	+40
Middle East/ North Africa	2,587	+80
South America	13,782	+88
South Korea	24,534	+121
SE Asia	51,594	+35
Taiwan	7,368	-20
<b>World</b>	<b>275,540</b>	<b>+31</b>

## Cheese

	Volume (mt)	% change 2005 vs. 2004
Caribbean	3,772	+13
Central America	2,222	-9
China	1,116	+18
Japan	8,156	-14
Mexico	17,381	-19
Middle East/ North Africa	2,427	-45
South America	2,245	+15
South Korea	6,030	+47
SE Asia	2,143	-27
<b>World</b>	<b>57,509</b>	<b>-6</b>

## Lactose

	Volume (mt)	% change 2005 vs. 2004
China	23,960	+19
Japan	49,708	+1
Mexico	18,295	+19
South America	13,740	+42
South Korea	6,562	+7
SE Asia	44,870	+55
<b>World</b>	<b>183,941</b>	<b>+18</b>

## Skim Milk Powder

	Volume (mt)	% change 2005 vs. 2004
Caribbean	18,039	-31
Central America	9,921	-44
Mexico	106,600	+18
Middle East/ North Africa	34,476	+59
SE Asia	89,848	+20
<b>World</b>	<b>287,994</b>	<b>+6</b>

## Ice Cream

	Volume (mt)	% change 2005 vs. 2004
Caribbean	2,980	+15
China	793	-17
Europe	1,872	-2
Japan	1,084	-0
Mexico	12,812	+31
South Korea	460	-28
SE Asia	835	+33
<b>World</b>	<b>26,078</b>	<b>+9</b>

## Fluid Milk & Cream

	Volume (KL)	% change 2005 vs. 2004
Mexico	9,755	-42
<b>World</b>	<b>21,183</b>	<b>-28</b>

## Butter

	Volume (mt)	% change 2005 vs. 2004
Middle East/North Africa	2,195	+143
<b>World</b>	<b>4,421</b>	<b>-28</b>

## Butteroil

	Volume (mt)	% change 2005 vs. 2004
Mexico	2,278	+9
<b>World</b>	<b>3,326</b>	<b>+45</b>

## Yogurt

	Volume (mt)	% change 2005 vs. 2004
Caribbean	1,221	+88
<b>World</b>	<b>3,331</b>	<b>+16</b>

## U.S. Dairy Exports (total milk solids, million lbs.)

1994	748
1995	971
1996	707
1997	858
1998	856
1999	1,007
2000	1,080
2001	1,132
2002	1,075
2003	1,197
2004	1,596
2005	1,814

## U.S. Dairy Exports (million \$)

1994	857.7
1995	972.7
1996	758.9
1997	958.7
1998	920.5
1999	982.0
2000	1,064.9
2001	1,166.2
2002	1,027.9
2003	1,067.7
2004	1,511.1
2005	1,661.6

Source: U.S. Department of Agriculture, U.S. Dairy Export Council

# 2005 MEMBERS

Agmark Foods, Inc.  
Agri-Mark, Inc.  
Agriculture and Livestock Industries Corp.  
Alpura International-USA, Inc.  
AnPro Trading, LLC  
Arla Foods, Inc.  
BelGioioso Cheese, Inc.  
Bemis Company, Inc.  
BIOTWO Corporation  
Bongrain North America  
Brisa Goods, LLC  
Cacique USA  
California Dairy Research Foundation  
Continental Dairy Products  
DairyAmerica, Inc.  
Dairy Farmers of America, Inc.  
Dairylea Cooperative Inc.  
Dairy Management Inc.  
Davisco Foods International Inc.  
EMCA Group  
First District Association  
Foremost Farms USA  
G & R Foods, Inc.  
Gerber California, Inc.  
Glanbia Nutritionals USA  
Gloria S.A. Corp.  
Hilmar Cheese Company, Inc.  
Hoogwegt, U.S., Inc.  
Interfood, Inc.  
International Custom Products, Inc.  
International Dairy Foods Association  
International Ingredient Corporation  
Iowa Farm Bureau Federation  
James Farrell & Co.  
Kozy Shack Enterprises Inc.  
Kraft Foods, Inc. (Altria)  
Lactalis USA, Inc.  
Land O'Lakes, Inc.  
Leprino Foods Company  
Maryland & Virginia Milk Producers  
Cooperative Association, Inc.  
MCT Dairies, Inc.  
Michigan Milk Producers Association  
Minnesota Department of Agriculture  
Mitsubishi International Corp.  
Mitsui & Co. (USA), Inc.  
Monsanto Dairy Business  
National Milk Producers Federation  
O-AT-KA Milk Products Cooperative, Inc.  
P.S. International, Ltd.  
Pennsylvania Department of Agriculture  
Price's Creameries  
Protient Foods  
Ronald A. Chisholm (USA) Inc.  
St. Albans Cooperative Creamery, Inc.  
Sargento Foods Inc.  
Schreiber International, Inc.  
T.C. Jacoby & Co., Inc.  
TechMix, Inc.  
Tropical Trading  
United Dairymen of Arizona  
Vermont Agency of Agriculture  
WestFarm Foods  
Wisconsin Department of Agriculture  
YUM! Restaurants International, Inc.



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