



# Strengthening our Commitment

[2006] THE YEAR IN REVIEW



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# Strengthening our Commitment

DEFINING U.S. SIGNIFICANCE  
IN A GLOBAL DAIRY MARKET



A telling series of events last year summed up not only the state of the world dairy market but the rising prominence of U.S. dairy suppliers. Around the third quarter, vigorous export demand put a crimp in

domestic dry dairy ingredient supplies. Consequently, U.S. suppliers were faced with a decision: Continue servicing foreign customers in Mexico, Malaysia and the Middle East or abandon those commitments in favor of the U.S. market. Most chose a middle course: apportion limited supply among all their customers.

It may seem an obvious course of action, yet past practice had been to drop exports when supplies drew tight. By seeking to serve all of its customers equally, U.S. suppliers were sending an overdue message: U.S. dairy suppliers are serious about overseas sales and committed to being global players.

That message couldn't come at a better time. Rising incomes are rapidly raising global dairy consumption, particularly in China, Southeast Asia, Mexico and the Middle East. Demand growth is outstripping the capacity of traditional and emergent suppliers, fueling record high prices.

With U.S. suppliers strengthening their commitment under such conditions, U.S. dairy shipments registered their third straight record year, rising 13.7 percent to \$1.89 billion. Over the past three years, U.S. exports are up 77 percent by value and 75 percent by volume.

Exports now represent 9.3 percent of U.S. milk solids output – another all-time high and far ahead of the 3.7-5.5 percent typically recorded prior to 2003. For the first time ever, export volume was more than double the level of dairy imports. And much like 2005, these were almost all unsubsidized, commercial shipments.

The situation didn't come about by accident. While higher protein diets do historically result from the

economic growth being experienced in the developing world, it has taken a coordinated and comprehensive market development effort by the U.S. Dairy Export Council and U.S. dairy suppliers to make sure that diet contains U.S. dairy products and ingredients.

As nations have attempted to erect unfounded regulatory trade barriers, an increasingly common occurrence, USDEC has been there to speak for the U.S. industry, mediate and find a solution. As bilateral and multi-lateral trade negotiations move forward, the Export Council has been there to arm our government negotiators to achieve the interests of the U.S. dairy industry.

USDEC is bolstering its trade policy, market access and regulatory efforts to minimize the risks that U.S. suppliers encounter when selling products overseas, eliminate onerous tariffs and non-scientific barriers and create a level playing field with other exporting nations.

The past few years have shown that other exporting nations cannot alone keep pace with global dairy consumption. The world situation is no longer one of wondering whether overseas demand will be there for U.S. dairy products, but how foreign nations' food industries and consumers will utilize dairy and how we can best fulfill that demand.

The shift requires a shift in focus. The U.S. industry no longer needs to worry about how to sell but needs to focus on developing a reputation for being an ongoing, consistent supplier – and most importantly among the world's preferred dairy suppliers.

Handwritten signature of James P. (Tom) Camerlo.

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

Handwritten signature of Thomas M. Suber.

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

**“An overdue message:** U.S. dairy suppliers are serious about overseas sales and committed to **being global players.**”



## Another year, another milestone. U.S. dairy export volume passed the 2-billion-pound mark in 2006, as suppliers boosted shipments 15 percent to 2.09 billion pounds of total solids. Export value rose 13.7 percent to \$1.89 billion, also a record.

Since 2003, U.S. dairy exports are up 77 percent by value and 75 percent by volume. Foreign markets now represent 9.3 percent of U.S. milk solids output by volume, a number that has steadily increased from 5.1 percent in 2002.

Such results reflect continued U.S. Dairy Export Council efforts to expand the volume and value of U.S. dairy shipments by raising the level of dairy knowledge among suppliers and potential buyers, strengthening the image of the U.S. industry and reducing regulatory and trade policy barriers that stunt global business.

The results also reflect suppliers' strengthening commitment to export markets. Exports represent a significant and growing share of the market for U.S. dairy products, and provide favorable returns for producers, processors and traders alike.

Gains were practically across the board in 2006, with whey proteins and cheese performing especially well.

**Whey protein** shipments rose 26 percent to an all-time high of 347,554 tons and accounted for more than half of total export dollar growth. Even though sweet whey shipments rose nearly 19 percent, higher-value products performed even better. For the first time, whey protein concentrate and whey protein isolate sales (\$181 million) topped sweet whey sales (\$159 million).

Mexico took the bulk of the increase in **whey protein concentrates** (WPCs) and other modified whey proteins and is now the largest U.S. WPC market. Southeast Asia, South Korea and Canada all boosted their sweet whey purchases 22-36 percent by volume. Although starting from a smaller base, WPC and sweet whey sales to the Middle East/North Africa each more than doubled.

**Whey protein isolate** (WPI) shipments to Mexico and Canada slid 3 percent, but China, Denmark, the Netherlands, South

Korea and Thailand all increased their U.S. buying, lifting overall WPI volume 59 percent to 11,281 tons.

After falling 6 percent in 2005, **cheese exports** made a strong comeback, rising 23 percent and hitting a new record at 71,089 tons. Shipments to Mexico rose 40 percent to 24,461 tons, and the Caribbean, Central America and South Korea all posted strong gains. Though starting from small bases, shipments to Saudi Arabia and China/Hong Kong soared 121 percent and 72 percent, respectively.

Nearly one-third of 2006 dairy exports (by value) came from record-high commercial sales of **skim milk powder**. After a slow start, exports finished at 292,424 tons, slightly higher than 2005. In the second half of the year, nearly half of U.S. milk powder production was exported. For the second straight year, U.S. suppliers shipped virtually all product commercially, without subsidy.

Shipments to Mexico declined 38 percent due to excess 2005 inventory and a slowdown in purchases by Liconsa, the government social services agency. Strong demand in Southeast Asia (volume up 31 percent) and the Middle East/North Africa (volume up 45 percent) offset the decline.

**Lactose** registered its biggest percentage increase (29 percent) in a decade and its largest ever volume increase – rising more than 53,000 tons – with strong sales to Southeast Asia, Mexico and South Korea.

Even results for other manufactured products were all positive. **Ice cream** sales increased 2 percent, with stronger demand in Canada, Mexico and South Korea compensating for a 78 percent decline to Japan. U.S. **fluid milk** exports rose 5 percent to 24.4 million liters, with Mexican sales up more than 50 percent. **Butter** sales nearly doubled to 8,396 tons.

“Exports represent a significant and growing  
share of the market...and provide favorable  
**returns for producers, processors  
and traders alike.**”



# Strategy

## Strategic Priority:

*Strengthening the image of the U.S. industry as a reliable supplier of quality dairy products*

**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.**

**No single USDEC vehicle** propels U.S. dairy sales on its own – but rather consistent and methodical efforts to strengthen the position of the United States as the go-to source for dairy facilitates incremental growth. Last year was chock-full of such vehicles.

- In 2006, the Export Council conducted 23 technical seminars on SMP, whey products, lactose, milk protein concentrates (MPCs) and other dairy ingredients in baked goods, confectionery products, functional beverages and a range of other packaged foods.
- The Export Council sponsored 28 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 15 major trade shows in Brazil, China, El Salvador, Japan, Lebanon, Mexico, Singapore, South Korea, Thailand and Vietnam, generating literally thousands of contacts between potential buyers and U.S. suppliers.
- USDEC published (and translated into multiple languages) monographs on ready-to-drink beverages, child and senior nutrition, and whey products in relation to gut health, sports nutrition and sarcopenia. It revamped the international USDEC newsletter, distributed to thousands of potential foreign buyers, and contributed to numerous articles on U.S. dairy ingredients in overseas food trade magazines.

Through Export Council programs, U.S. expertise became clear to tens of thousands of current and future customers looking for dependable, high-quality dairy suppliers. Such efforts not only help further the worldwide dairy franchise but help make U.S. companies a key part of the global supply chain.

Just as importantly, U.S. dairy suppliers have stepped up their commitment to serving overseas markets. Nowhere is this more evident than in the transformation of the United States as the world's leading SMP supplier. Just three years ago, U.S. manufacturers sold 40 percent of their SMP production to the government as surplus. In 2006, that output was seen not as surplus, but as a valuable component of the milk stream, for which overseas buyers were some of the strongest and most profitable customers.







## MAKING MOVES IN MEXICO

**Mexico has long been a dairy customer of the United States, but in 2006, Export Council efforts helped lift our neighbor South of the Border to an even greater position of prominence, particularly in whey and lactose.**

Last year at high-impact dairy ingredient events like Expo-Pan and Mexi-Pan (two of Mexico's largest baking industry shows), the Export Council and member companies exhibiting at the USDEC booth made 120 new contacts and distributed more than 2,000 technical monographs and brochures on U.S. dairy ingredients in bakery and confectionery products.

USDEC seminars on U.S. whey applications, functionality and nutritional benefits attracted nearly 300 students, professors and members of local nutrition institutes in four Mexican cities. The Export Council handed out another 500 monographs on senior nutrition, child nutrition and sports nutrition.

Through such events, Mexican food manufacturers and food product developers are getting the message. U.S. whey shipments to Mexico rose 42 percent last year to 52,797 tons. More significantly, high-value WPC exports more than doubled to 35,884 tons, making Mexico the No. 1 U.S. WPC market.

## SECURING SUCCESS IN SOUTHEAST ASIA

**In August, when the Vietnamese government announced its intention to expand national pork production by 5 million head, the U.S. Dairy Export Council wasn't surprised. USDEC, having previously identified the pork business as a growing industry in a region offering greater and greater opportunity for dairy ingredients, had much earlier slated two Vietnam seminars on lactose and whey derivatives in swine feed systems.**

The feed meetings were only part of USDEC's overall dairy ingredients plan for Southeast Asia last year. The Export Council held a series of seminars in Indonesia, Malaysia, the Philippines and Thailand on whey and lactose in nutritional and sports products, whey in ice cream applications, and MPCs, SMP and milk permeate in food processing applications. One-on-one consultations in Indonesia, Malaysia and the Philippines brought meat processors together with U.S. ingredient suppliers. A reverse trade mission brought meat and seafood processors to the United States to tour whey facilities and gain insight into whey ingredient production, functionality and applications.

These programs built on previous years' activities and helped lead Southeast Asia to a 26 percent increase in whey buying (to 57,755 tons) and a 21 percent increase in lactose purchases (to 54,631 tons). In 2006, Southeast Asia extended its lead as the largest market for U.S. dairy ingredients.

# Strategy

## Strategic Priority:

*Building demand for U.S. products in selected overseas markets*

**Declining export subsidies in Europe and a milk-sapping drought in Australia played a role in tightening supply and boosting international dairy prices. But the real cause underpinning 2006's unprecedented rise in per-ton value was demand.**

**Overseas buyers** in both developing and developed nations are simply eating more dairy foods and prepared foods containing dairy ingredients. The situation is light years different from when the Export Council formed in 1995 and overseas buyers didn't know cheddar from cream cheese – and U.S. suppliers had thought little about how traditional U.S. dairy foods fit foreign cuisines.

Demand is rising in part because consumers have gained more dairy knowledge and foodservice outlets have made strides to incorporate dairy into menus in ways that are appealing to local clientele. Both were made possible through efforts of the Export Council and U.S. dairy suppliers.

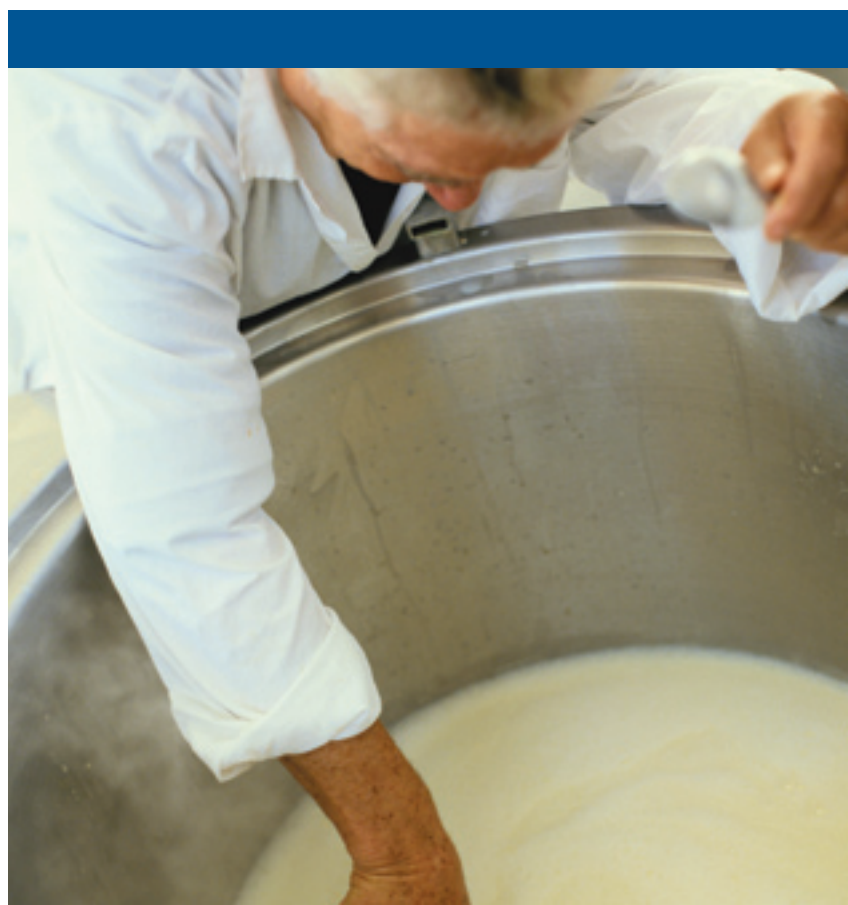
In 2006, the U.S. Dairy Export Council conducted 12 in-store tasting programs at 145 retail chains in 11 nations. Thousands of shoppers in Brazil, Chile, Colombia, the Dominican Republic, Egypt, El Salvador, Honduras, Mexico, Saudi Arabia, South Korea and United Arab Emirates (UAE) sampled U.S. cream cheese, cheddar, monterey jack and other cheeses and learned how to use them in food applications.

Articles in Mexican and South American consumer and supermarket magazines provided recipes for U.S. cheeses and explained the benefits of whey proteins. Recipe books in Arabic, Chinese and Korean extended the in-store and media efforts directly to meal preparers.

But programs did not only target home eating. One of the hallmarks of developing economies is the proliferation of western-style restaurants. The Export Council assisted

with menu development in the Caribbean, Japan and South Korea, and ran numerous tastings and seminars for foodservice and deli personnel in 12 countries.

For many people, the events gave them their first taste of certain cheese varieties; for others, it gave them new ideas to bring home for dinner or place on the menu. For U.S. suppliers, it spelled increased volumes.





## PUSHING PIZZA IN KOREA

South Korea has only two local cheese manufacturers but millions of cheese-loving consumers, whose numbers are growing every day. That means strong demand for cheese imports but also a need to convince consumers that U.S. cheese is the type they should be demanding.

In 2006, the Export Council conducted a series of Korean foodservice promotions with pizza chains and bakery chefs aimed at raising awareness of U.S. cheese with both consumers and restaurant operators.

On the pizza side, a promotional giveaway at Papa John's and informational placemats at Pizza Mall highlighted U.S. cheese content. During the events, pizza sales at the chains jumped 15-21 percent vs. the previous year.

On the bakery side, the Export Council sponsored a contest asking local bakers to create recipes using U.S. cheese. Winners toured the country and presented their creations and baking techniques not only to urban Seoul, but to outlying areas where consumers are not as well versed with U.S. dairy products. USDEC also collected the winning recipes in a cookbook, distributing 8,000 copies nationwide.

In part due to continuing Export Council efforts, U.S. cheese exports to South Korea rose 13 percent to 6,831 tons in 2006, double their 2003 level.

## FINDING THE RECIPE FOR SUCCESS

The Middle East and parts of North Africa have a long history of cheese consumption but an unfamiliarity with U.S. varieties and their applications. The Export Council, building on efforts in previous years, conducted a series of in-store promotions at 24 supermarkets in Egypt, Saudi Arabia and UAE.

USDEC representatives handed out samples of U.S. cheeses and 4,500 copies of cookbooks featuring 30 cheese-centric recipes. The recipes were developed in the Middle East to show applicability to local cuisines – and dispel any impression that U.S. suppliers are simply pushing U.S. usages on foreign consumers.

Articles and recipes placed in local consumer magazines complemented the program.

Emphasizing the variety and versatility of U.S. cheeses, the cookbooks and samplings were a hit. Sales during the promotion more than doubled at many outlets and overall post-promotion revenues remained 27 percent higher than the previous year. In addition, the program increased interest from retail operators, who upped their buying from local distributors and in some cases began buying direct from U.S. suppliers.

U.S. cheese sales to the Middle East and North Africa in 2006 outpaced all other U.S. target markets, rising 88 percent.

# Strategy

## Strategic Priority:

*Building the sophistication and capabilities of U.S. exporters*

**USDEC works to make sure U.S. suppliers are prepared for overseas business with informational communication, technical assistance and marketing support, all aimed at building U.S. dairy exporter knowledge and capabilities.**

**Nowhere is that more evident** than in the frequent updates to the *U.S. Dairy Export Guide*, a comprehensive, four-volume trade reference. Export Council staff constantly monitors regulatory activity in other nations, identifying the slightest shift in documentation, tariffs, certification or product requirements. In 2006, staff updated more than 140 *Export Guide* entries with information critical to ship dairy products beyond U.S. borders.

Meticulous monitoring and communication is a cornerstone of efforts to boost U.S. supplier capabilities and sophistication. The Export Council supplies a continually updated wealth of information online through the USDEC website, via email and in hard copy forms.

In 2006, informational communications included updated editions of whey, lactose, milk powder and MPC sourcebooks, and reports on the Chinese, Russian and Indian dairy markets, the global cheese market, and casein and caseinate trade.

The weekly *Facts on Dairy Exports* newsletter and periodic *Member Alerts* kept members abreast of news and critical issues – from Japanese chemical residue screening to Malaysian free trade talks. Columns and articles in industry publications, press releases to all media outlets and the quarterly *Export Profile* newsletter helped educate and inform members and non-members alike on the value of developing export markets. Staff presentations at industry events helped advance USDEC's vision and mission.

Some efforts that started or were ongoing in 2006 – like the U.S. Whey Protein Research Consortium – continue to set the stage for the future. In 2006, for example, as

part of the consortium's work plan, the Export Council assisted with sample preparation for clinical trials aimed at examining the impact of various doses of whey protein on body composition and other health indicators.

All such efforts help U.S. exporters extend their knowledge and expertise, allowing them to identify and pursue export opportunities.





## WORKING TOGETHER

**One of the main drivers for U.S. dairy export growth is the willingness of U.S. companies to leverage their efforts with USDEC programs. That takes on many forms.**

USDEC member companies filled more than 40 Export Council booth spaces, backed by Export Council communications materials, at trade shows in Asia, Latin America and the Middle East. Members provided cheese samples for USDEC-run deli seminars in Central America, tastings in Chile and Peru, and seminars in China and Shanghai.

And when USDEC called for entries for the 2006 World Cheese Awards, U.S. cheesemakers responded. As the sole U.S. sponsor of the event, the Export Council publicized the contest and covered export shipping costs for U.S. companies eager to demonstrate U.S. cheese expertise. The result: 199 U.S. entries yielded 43 medals, 12 of them gold, 14 silver and 17 bronze.

The awards helped provide stature and credibility to U.S. artisan cheesemakers and, by association, all U.S. cheese products competing in the global marketplace. Whether an awards event, a market entry trade show, application assistance or local promotion, strategic and tactical coordination between USDEC and committed U.S. dairy suppliers boosts returns for all.

## HEADING OFF CRISIS

**Part of the mission of the U.S. Dairy Export Council is to ensure that U.S. dairy product exportability is not restrained by unfounded public or animal health concerns. And that requires a comprehensive crisis communications plan.**

Food safety questions seem to come more frequently with each new year. In December 2006, a big one arrived when the U.S. Food and Drug Administration (FDA) issued a draft assessment on the safety of milk and meat from cloned animals and their offspring.

USDEC, as part of the Dairy Communication Management Team (DCMT) with Dairy Management Inc., International Dairy Foods Association (IDFA) and National Milk Producers Federation (NMPF), had been working behind the scenes in anticipation of such an announcement for years. When it occurred, the Export Council was out front.

With IDFA and NMPF serving as the industry's domestic voice, USDEC carried communications overseas by providing consistent messages to inquiries through its liaison with the U.S. Department of Agriculture's Foreign Agricultural Service and its international offices.

Through USDEC and DCMT, the U.S. industry spoke in unison and with the voice of authority – explaining and answering questions to reassure buyers and consumers of the wholesomeness of U.S. dairy products and maintain consumer confidence in U.S. supply.

# Strategy

## Strategic Priority:

*Reducing barriers to entry*

**Trade liberalization begets technical barriers to trade – business disruptions that can slow or even halt U.S. dairy shipments altogether. USDEC addresses such problems in a number of ways, from playing an active role in international standards organizations like the Codex Alimentarius Commission to working directly with U.S. authorities and foreign governments to correct specific instances of unfair measures.**

**In doing so, USDEC** performs a key function for the industry, reducing the risk and cost of international business. In most cases, these issues would be too expensive or impractical for companies to handle on their own.

In 2006, activities included work to expand the Japanese food additive list, advance favorable Codex cheese standards (including the Joint Expert Committee on Food Additives' approval of natamycin) and resolve Indian, Chinese and Brazilian export certificate problems.

Some, like the Brazilian certificate, were brought to a successful conclusion through extensive work by Export Council staff. In January 2006, Brazil announced new dairy import requirements, including public health statements the U.S. Agricultural Marketing Service or Animal and Plant Health Inspection Service could not certify. USDEC participated in lengthy negotiations with U.S. government agencies and Brazilian regulators to craft a new health certificate satisfactory to both the FDA and the Brazilian Ministry of Agriculture. In September 2006, Brazil began accepting the new certificate, removing these trade impediments.

Others, like nitrite levels in Chinese SMP shipments, are ongoing. Last fall, Chinese authorities held up a U.S. consignment of SMP because the nitrite levels exceeded China's standard of 2 ppm (parts per million).

The consignment returned to the United States where FDA concluded there were no food safety violations and 2 ppm posed no public health threat.

Recurrent investments in 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.





## CONVERTING A LOSS TO A VICTORY

**In early 2006, it looked possible that the Codex Alimentarius Commission might agree with non-dairy forces pushing to establish a universal nitrogen conversion factor (NCF) for all proteins, including dairy and soy protein.**

European authorities recommended to the Codex Committee on Nutrition and Foods of Special Dietary Uses (CCNFSDU) a scientifically unjustified 6.25 NCF in the Codex Standard for Infant Formula. (The appropriate NCF for soy protein is 5.71, dairy protein 6.38.) Lowering the dairy NCF would underestimate the protein content in milk and, if implemented, would result in losses for the U.S. dairy industry of more than \$12 million annually.

The Export Council contributed to broad-based efforts to defeat a standardized NCF, consistently reiterating the lack of valid scientific justification at both domestic and international forums.

In late October, the CCNFSDU released a compromise that retains the 6.25 NCF for finished infant formula product, but a factor of 6.38 for milk protein and 5.71 for soy protein related to the ingredients used in the manufacturing of infant formula and to products outside the scope of the standard. The decision established a differentiation between dairy and soy protein and was a victory for the U.S. and global dairy industry.

## FIXING A NEGATIVE “POSITIVE LIST”

**In late 2005, Japan’s Ministry of Health, Labor and Welfare (MHLW) announced it would revise the Food Sanitation Law of 2003. The new law set MRLs (maximum residual levels) for 799 agricultural chemicals (including pesticides and veterinary drugs) in addition to around 10,000 existing official MRLs. That register is known as the “positive list.”**

After implementation on May 29, 2006, products with pesticide residues exceeding the MRLs on the positive list would be rejected at the port of entry and could not be marketed in Japan. Because the United States could not individually certify the absence of every single chemical and residue on the list, most of which had nothing to do with dairy, the regulations threatened all dairy exports.

The Export Council followed an expansive strategy to illustrate the overall safety of U.S. dairy products and absence of “positive list” residues. It compiled a comprehensive study of the Japanese List of Agricultural Chemical MRLs and identified veterinary chemical approval status and permitted use; chemicals of minimal risk to milk; veterinary drugs administered to lactating and nonlactating cows; and approved levels in the United States vs. Japan, among other pertinent information. The analysis, color-coded for user friendliness, was forwarded to Japan’s MHLW, which declared that U.S. dairy products were in compliance with the positive list and resolved the issue for the U.S. industry.

# Strategy

## Strategic Priority:

*Fostering a positive environment for global trade rules*

**The Export Council faced special trade policy challenges in 2006 due to the stalemate in the World Trade Organization (WTO) Doha Round talks. USDEC continues to support a balanced, multilateral agreement and provide input to U.S. negotiators to help achieve a beneficial result for U.S. dairy suppliers. While negotiators worked to bring the global talks back on line, staff also devoted attention to the numerous bilateral free trade agreements (FTAs) on the administration's agenda.**

**For each,** USDEC staff worked proactively to shape the FTAs to create a level playing field and reduce tariffs and subsidies. Staff remained involved throughout the FTA negotiation process, often behind the scenes, researching, developing and pushing forward trade policy positions – communicating dairy priorities and making sure that U.S. dairy trade interests were addressed.

In 2006, USDEC kept close watch on trade deals then under negotiation or awaiting Congressional approval with Colombia, Ecuador, Malaysia, Panama, Peru, South Korea and Thailand, monitoring status and providing input. Staff submitted written comments expressing support for many of the FTAs and remained in close contact with the U.S. Trade Representative (USTR) to ensure that the deals dovetailed with industry goals.

When the United States finalized an FTA with Peru at the end of 2005 that benefited U.S. dairy suppliers, USDEC met with members of Congress to rally support. When it finalized a deal with Colombia, staff sought to ensure that non-tariff barriers did not pose a threat to U.S. dairy exports. On the deal with Panama, staff helped develop a sanitary-phytosanitary side letter that obligates Panama to provide full plant equivalency and recognize the U.S. food-safety inspection system.

But work does not stop at the successful passage of trade deals. USDEC also monitors trade policy activity

to ensure that nations abide by standing FTAs – a big job in 2006 when it came to Mexican trade commitments.

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







## KEEPING DOHA'S FOCUS CLEAR

**In 2006, with deadlines looming and pressure mounting to get a deal done, even if it failed to live up to the ambitions set when the Doha Round of WTO negotiations began, the Export Council came out strongly for U.S. negotiators to hold course.**

In conjunction with several other agricultural organizations, USDEC firmly delivered the message that a WTO deal that did not deliver real reform and true market access would not be acceptable and that the United States must continue to push for more from our trading partners. Because of this, our negotiators walked away from a deal that did not deliver what the dairy industry needed. Talks now remain focused on how to deliver in the realm of market access, as well as on details related to domestic support.

USDEC remains fully committed to the successful completion of the Doha Round and is working diligently to help achieve the goal of a more balanced global dairy market.

## ASSURING MEXICO PLAYS BY THE RULES

**USDEC's efforts to resolve several trade barriers in Mexico last year proved successful.**

In 2005, Mexico applied WTO-authorized retaliatory tariffs on U.S. dairy blend exports in reference to the Continued Dumping and Subsidy Offset Act, better known as the Byrd Amendment. Those tariffs carried over into August 2006, and were reauthorized for a short period as part of a second round of retaliation. However, USDEC worked successfully through the USTR's office to ensure the tariffs were lifted in October 2006. Staff also substantially boosted its monitoring to ensure that no new retaliation arises.

Mexico also delayed its WTO and North American Free Trade Agreement (NAFTA) import license commitments for SMP for large portions of the year. USDEC worked doggedly – and ultimately successfully – with the U.S. Department of Agriculture (USDA) and USTR concerning the license delay and to ensure that U.S. exporters were able to use the full amount of the 2006 NAFTA SMP quota.

Staff will continue to liaise with USDA and USTR to ensure a timelier and more orderly issue of import licenses in 2007. U.S. dairy shipments to Mexico were substantial in 2006 and they could be even higher in part because of USDEC trade policy efforts.

## Governance and Structure

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, Vietnam 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 2006, U.S. dairy farmers invested \$7.525 million in USDEC activities through the dairy promotion check-off program. USDA provided \$5.807 million through a variety of market development programs. USDEC also generated \$700,000 in membership dues, which are the sole source of funding for trade policy programming.

### 2006 SOURCE OF FUNDS (annualized)

Dairy Management Inc.	\$7,525,000
USDA/FAS	\$5,807,000
Membership dues	\$700,000
Other	\$175,000

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<b>Total</b>	<b>\$14,207,000</b>
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### 2006 EXPENSES (annualized)

Market development	\$8,122,000
Program operations	\$2,990,000
Export environment	\$1,830,000
Industry communications	\$630,000
General and administration	\$585,000
Unallocated revenue	\$50,000

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<b>Total</b>	<b>\$14,207,000</b>
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### 2006 EXPORT ENVIRONMENT

Trade policy	\$850,000
Market access and regulatory affairs	\$760,000
International travel and miscellaneous operations	\$220,000



U.S. dairy suppliers shipped more than 2.09 billion pounds of milk solids overseas in 2006 – 15 percent greater than the previous year and a new record. Export value rose 13.7 percent to \$1.89 billion, also a record. Since 2003, U.S. dairy exports are up 77 percent by value and 75 percent by volume.

## 2006 U.S. DAIRY EXPORTS

	Volume (mt)	% change 2006 vs. 2005
Skim Milk Powder	292,424	+1
Whey Proteins	347,554	+26
Lactose	237,867	+29
Cheese	71,089	+23
Ice Cream	26,519	+2
Fluid Milk & Cream (KL)	24,438	+5
Butter	8,396	+90
Yogurt	4,118	+24
Butteroil	1,757	-47

## U.S. EXPORTS OF PRODUCT BY COUNTRY IN 2006

### Whey Proteins

	Volume (mt)	% change 2006 vs. 2005
Caribbean	3,399	+4
Central America	6,460	+7
China	64,746	-6
Japan	32,294	+17
Mexico	52,797	+42
Middle East/North Africa	6,442	+144
South America	14,605	+6
South Korea	30,205	+23
Southeast Asia	68,931	+33
Taiwan	8,824	+20
<b>World</b>	<b>347,554</b>	<b>+26</b>

### Cheese

	Volume (mt)	% change 2006 vs. 2005
Caribbean	5,278	+40
Central America	3,061	+37
China	1,923	+72
Japan	7,759	-5
Mexico	24,461	+40
Middle East/North Africa	4,552	+88
South America	2,335	+3
South Korea	6,831	+13
Southeast Asia	2,481	+7
<b>World</b>	<b>71,089</b>	<b>+23</b>

**Lactose**

	Volume (mt)	% change 2006 vs. 2005
China	24,782	+3
Japan	55,042	+10
Mexico	30,897	+68
South America	18,601	+35
South Korea	10,858	+65
Southeast Asia	54,631	+21
<b>World</b>	<b>237,867</b>	<b>+29</b>

**Skim Milk Powder**

	Volume (mt)	% change 2006 vs. 2005
Caribbean	7,361	-60
Central America	7,258	-27
Mexico	65,873	-38
Middle East/North Africa	49,934	+45
Southeast Asia	117,841	+31
<b>World</b>	<b>292,424</b>	<b>+1</b>

**Ice Cream**

	Volume (mt)	% change 2006 vs. 2005
Caribbean	2,754	-7
China	687	-13
European Union	966	-29
Japan	236	-78
Mexico	14,483	+12
South Korea	503	+9
Southeast Asia	850	+2
<b>World</b>	<b>26,519</b>	<b>+2</b>

**Fluid Milk & Cream**

	Volume (kl)	% change 2006 vs. 2005
Mexico	14,827	+52
<b>World</b>	<b>24,438</b>	<b>+5</b>

**Butter**

	Volume (mt)	% change 2006 vs. 2005
Mexico	1,192	+60
Middle East/North Africa	3,877	+77
<b>World</b>	<b>8,396</b>	<b>+90</b>

**Butteroil**

	Volume (mt)	% change 2006 vs. 2005
Mexico	758	-67
<b>World</b>	<b>1,757</b>	<b>-47</b>

**Yogurt**

	Volume (mt)	% change 2006 vs. 2005
Caribbean	1,527	+25
Mexico	568	+89
<b>World</b>	<b>4,118</b>	<b>+24</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	1,819
2006	2,094

**U.S. Dairy Exports**

(million \$)

1994	855.2
1995	981.5
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	1,666.2
2006	1,894.6

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

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