

THE UNITED STATES DAIRY EXPORT PROMOTION PROGRAMS: AN OVERVIEW

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The United States has one of the largest and most efficient dairy production and processing industries in the world. During the 2000-2005 time period, the United States produced an average of 19% of the total global cow fluid milk supplies (USDA/FAS^a). Nevertheless; the United States is a net importer of dairy products, with its exports accounting for only a small percentage of total production. The United States' major dairy competitors in the global markets are the European Union (EU), Australia, and New Zealand. Its primary export markets are Mexico, Canada, and Japan, and its secondary markets consist of China, South America, South East Asia, and Korea.

Despite the small volume of trade, U.S. exports have been on the rise in recent years. In 2005, \$1.6 billion worth of dairy products were exported, an increase of 46% over the 2003 export value of \$1.1 billion (USDA/FAS). Nonfat dry milk (NFDM) is the largest U.S. dairy product exported, with exports accounting for 41% of total production. The United States accounts for 16% of the global trade in NFDM (USDA/FAS^a, Figure 1). Whey products are the second largest U.S. dairy export product. U.S. exports totaled \$224 million in 2005. Dry whey accounted for a major part of the U.S. whey exports (55% in 2005); with the United States accounting for 14% of the global trade volume in 2004 (Figure 2).

The U.S. dairy industry, in an attempt to increase intended sales, has been

involved in various promotion programs. The United States Export Dairy Council (USDEC), the export promotion arm of the National Dairy Board, has been at the core of the export promotion endeavors.

The objective of this study is to provide an overview of the U.S. dairy industry's export promotion programs and to examine trade policies of major players in the dairy global markets. While small in comparison to total program expenditures, dairy promotions have involved a substantial outlay of resources by the U.S. government and the dairy industry. Therefore, it is important for decision makers to understand the dairy market development programs of the United States, its major export markets, and its competitors.

The U.S. Dairy Export Market Development Programs

The agricultural sector in general and the dairy sector in particular, have been supported by the governments of most producing countries at the domestic and international levels. In the United States, one of the programs that is the cornerstone of dairy promotion is the Producer Dairy Promotion Program (PDPP), which is funded by the dairy farmers. It was authorized by the Dairy Production Stabilization Act of 1983, as amended (the Dairy Act) and is administered by the dairy farmers through the National Dairy Promotion and

Research Board (the Dairy Board). According to the Dairy Act, dairy farmers must contribute 15 cents per hundredweight for promotion and research on all milk produced in the contiguous 48 states that is marketed commercially (USDA/AMS).

The Dairy Board Programs are managed by Dairy Management Incorporated (DMI), which has been a joint undertaking since 1995 between the Dairy Board and the United Dairy Industry Association (UDIA), both of which provide funds for DMI. The DMI's export enhancement program is implemented by the USDEC. This Council is a non-profit independent membership organization formed by the DMI in 1995, and it represents the interests of U.S. milk producers, dairy cooperatives, proprietary processors, exporters, and industry suppliers. It receives support primarily from three sources: DMI (49%), FAS (43%), and membership dues and other (8%). The USDEC devoted \$9.6 million to market development activities in 2005 (USDEC).

To expand dairy sales abroad, U.S. dairy producers and processors have joined forces with the federal government for the past several decades to implement export market development programs including: the Foreign Market Development Program (FMDP), the Market Access Program (MAP), the Quality Samples Program (QSP), and the Dairy Export Incentive Program (DEIP).

The FMDP's goal is to develop and maintain long-term access to commercial markets through cost-

sharing assistance to eligible non-profit agricultural trade organizations (Halliburton and Henneberry). The MAP; formerly known as the Market Promotion Program (MPP), which had replaced the Target Export Assistance (TEA) program, is a public-private sector cooperative program. The MAP is aimed at developing, maintaining, and expanding foreign markets for U.S. agricultural commodities. Activities eligible for funding include retail, hotel, restaurant and institutional promotions, educational activities, market research, trade servicing, technical assistance, and trade shows. Program ceilings for USDEC were \$3.8 million in MAP funds in FY 2004 and \$1 million in FMDP funds in FY 2005, which represented 2.7 and 2.9 percents of total MAP and FMDP allocations for the year (USDA/FAS^b). The FMDP does not provide brand promotion assistance to cooperators; and although MAP does allow branded promotions, USDEC does not conduct branded product promotions under MAP.

The QSP was established in 1999 to help U.S. agricultural trade organizations provide samples of their products to potential importers in foreign markets. In FY 2005, the USDEC did not request nor received any QSP funding and although in 2004 dairy received \$12,000 under QSP, the proposed budget was unspent.

Another significant dairy market support program, the Dairy Export Incentive Program (DEIP), was established with the original goal of developing markets for dairy products where U.S. products were not competitive due to the presence of subsidized foreign products. Nevertheless, DEIP has been used to meet alternative objectives over its history. Originally authorized in 1985, it remained unused for a number of years. Under this program, the USDA

could pay cash as bonuses to exporters of dairy products, allowing them to sell certain U.S. dairy products at prices lower than the costs at which the U.S. exporters acquired them. However export subsidies by commodity are subject to a ceiling that is determined by UR–GATT funding limits. The DEIP has been extended to 2007 by the 2002 Farm Bill.

The U.S. Dairy Import Policies

Trade barriers have been used to limit dairy product imports to less than 6% of the U.S. consumption, which allows the domestic price of milk and dairy products to remain above the world price (Sumner and Balagtas). In 1995, a tariff-rate quota (TRQ) system replaced the dairy import quotas first imposed in 1951. The TRQ is a two-tier system whereby a low-tier rate is applied to a specified quantity of imports, and a high-tier rate is applied to any import quantity in excess of the specified quantity. The United States uses the Harmonized Tariff Schedule, Sanitary and Phytosanitary measures, and the Food and Agricultural Import Regulations and Standards Report for foreign import procedures of food and agricultural products, including dairy products.

Dairy Policies of Major Exporters

Dairy policies in the EU have their origins in the Common Agriculture Policy (CAP) provisions of the 1957 Treaty of Rome established by the then European Community. The policies consist of dairy import restrictions, export subsidies for domestic dairy surpluses, a domestic dairy price support program, and a production quota for milk. These trade-distorting policies have proven to be very expensive, costing roughly \$2 billion euros for the dairy portion of CAP in 2003. To reduce the cost

of CAP and to better position itself in the current WTO round, the EU is implementing major reforms in their dairy policy and has agreed in the WTO negotiations to lower domestic support prices and to eventually eliminate all export refunds (Bailey, 2005).

New Zealand has an almost deregulated agricultural sector since 1984. The dairy sector receives almost no support from the government, although Fonterra (the exporting firm) has retained full or partial quota rights to the U.S. and EU dairy markets for 10 years. New Zealand and Australia have had a Closer Economic Relations Agreement since 1983, which allows for free-trade between the two countries (Armentano et al.).

In Australia, the dairy industry was fully deregulated in mid-2000, and a free trade agreement exists with the United States that will allow its dairy exporters a modest increase in access to the U.S. dairy market (Armentano et al.). Prior to deregulation, the dairy sector in Australia was protected by the Domestic Market Support Scheme and the State Milk Pricing Regulations.

Dairy Policies of Major Importers

The world's major dairy importers include the United States, the EU, Mexico, Japan, and a few other Asian countries. Japan is the world's third-largest dairy product importer, by value; after the United States and the EU. It utilizes a complex network of domestic and trade policies. These include supply control, subsidies for milk for cheese and cream production, a government/producer joint emergency fund, strict and compulsory labeling, price stabilization, subsidies for environmental improvements, subsidies to consumption, insurance subsidies, tariff-rate quotas

(TRQs), and other tariffs (Obara, Dyck, and Stout). Korea uses TRQs and also makes deficiency payments to its milk producers, there by assuring them prices higher than the world milk prices. Other East Asian Countries such as China, India, Indonesia, the Philippines, Malaysia, and Singapore also protect their dairy markets through TRQs and high tariffs (Cox and Zhu).

Following the North American Free Trade Agreement (NAFTA) in 1994, Mexico's tariffs on most dairy imports from the United States were phased out over a

10-year period. However, for milk powders, there is a 15-year transition period, with tariffs being reduced to zero in 2008 (Dobson, 2003).

SUMMARY AND CONCLUSION

The U.S. dairy export markets are relatively protected markets, with the U.S. competitors being actively involved in dairy export promotion. The United States has the potential to compete favorably in global dairy markets with its large and efficient production and processing industries and the support of the dairy sector by the U.S.

government and stakeholders in the dairy industry. The export promotion programs of the United States are an indicator of its determination to maintain, and possibly increase its market share in the world dairy markets. Although, specific amounts spent on dairy promotion by U.S. major competitors are not available from published sources; it is important to have a deeper understanding of global promotion policies and their impacts on sales. Moreover, policy makers may find it useful to know how much of the growth in the U.S. market share in major export markets can be contributed to U.S. promotion outlays.

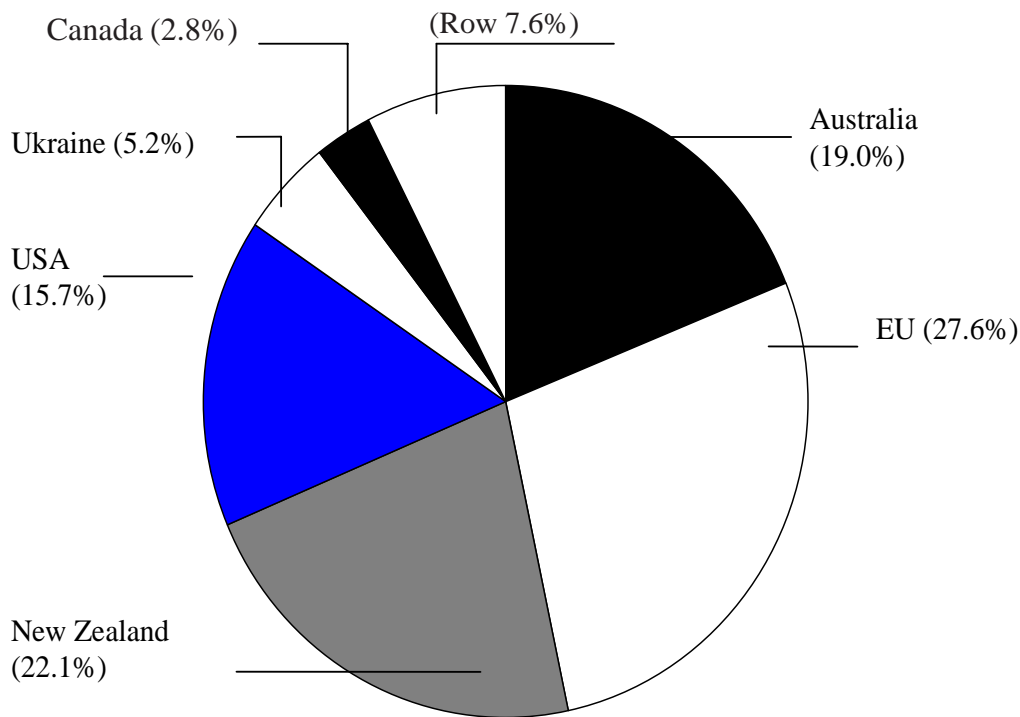


Figure 1: Major Exporters Global Volume Market Shares, NFDM, 2000-2005 Average

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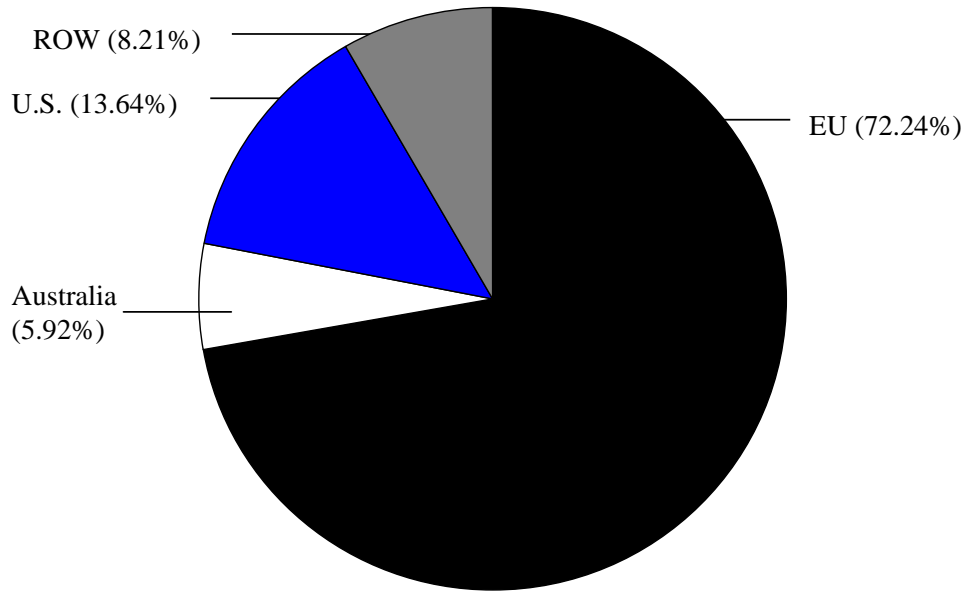


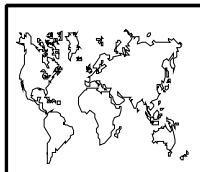
Figure 2: Major Exporters' Global Volume Market Share, Dried Whey, 2004

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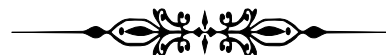
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