

CHEESE MARKET NEWS[®]

The Weekly Newspaper Of The Nation's Cheese And Dairy/Deli Business

4 CHEESE MARKET NEWS[®] — October 14, 2011

EXPORT TOOL KIT



CMN Exclusive!



Perspective: Export Expertise

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To cheese or not to cheese

Over the past two decades, Oceania and the United States have eaten into the European Union's (EU's) stranglehold on global cheese trade. However, the bloc still typically controls more than one-third of total annual export volume, and in 2010, EU market share rose sharply as volume soared by more than 100,000 metric tons.

The bloc's dominance leaves one to wonder what might happen after the EU removes its restrictive milk quotas in 2015, allowing farmers to expand output as much as their budgets will allow. Will that milk find its way into the cheese vat, making a formidable competitor even more of a threat?

On the surface, it may seem like the natural move. As Rabobank pointed out in a recent report titled "The European Cheese Market," cheese has traditionally been the preferred option for European milk beyond local fresh needs. However, the report then goes on to question whether that tradition will hold in the future.

USDEC analysis suggests that, for a number of reasons, the EU may not funnel a large percentage of "new" milk toward cheese, which could spell greater opportunity for the U.S. industry.

The EU built its business when

cheese/whey commanded a premium over skim milk powder (SMP)/butter. That premium has dissipated in recent years with stronger butter and powder returns and the region's shift away from value-added specialty cheese exports and toward commodity products.

The United States played a significant role in that shift. A confluence of factors—including a weaker dollar that made EU specialty cheeses more expensive to U.S. consumers, while also allowing America's nascent artisan cheese to improve its margins and grab share from Europe—took a large bite out of EU high-return specialty cheese shipments here. And those high-value specialty cheeses are not necessarily the kind that can be easily rerouted to emerging markets like China and Southeast Asia, where consumers are just getting acquainted with flavors and applications.

These days, Rabobank noted, export markets are more often used to offload EU surpluses in commodity cheeses, exposing suppliers to higher levels of volatility. Cheese, in other words, has become a less-certain profit center for Europe.

Even the bloc's big jump in cheese export volume last year is a bit misleading. The bulk of that additional 100,000 metric

tons went to Russia, which boosted its buying specifically to deal with shortages caused by severe drought. Russia is a large but inconsistent buyer of EU cheese, is actively seeking to revive domestic milk output and recently entered a customs union with Belarus that could change its buying habits. Europe cannot count on its massive eastern neighbor to drive sales.

In addition, there is some question whether the EU is equipped (from a manufacturing standpoint) to best capitalize on global cheese opportunities.

Future decisions on where to funnel milk will largely depend on where that milk is produced and processed. Take, for example, Ireland and Germany. Ireland is projected as one of the EU nations best positioned to raise milk output in a post-quota world, and Germany is currently the bloc's largest producer.

Both nations posted impressive cheese exports in 2010—Germany a record. Yet shipments of almost all other products, milk concentrates in particular, lagged significantly behind recent annual highs. German milk powder exports were a whopping 169,000 metric tons below the previous decade's peak.

Such data suggests both countries have excess capacity for milk powder and casein production but not necessarily for cheese. And without further investment in cheesemaking, "new" milk output in major dairy states would more likely be headed to powder, butter and casein.

Even if a portion of new milk output went toward cheese, USDEC estimates that the domestic EU market would probably absorb it.

Although certain Western European markets might be saturated, others like the UK have room for growth. One in 10 meals contain cheese in Britain, compared to three in 10 in the Netherlands and an astounding seven in 10 in France, according to a presentation by UK dairy Milk Link at a spring seminar sponsored by Dairy Industry Newsletter and themed, "Is Cheese the Answer?" And consumption trends in newer EU members, particularly from Eastern

Europe, suggest per capita consumption is indeed headed up.

Even if the EU expanded its cheese capacity, met internal demand and then still had cheese to sell on the world market, the fundamentals of cheese trade are shifting. Buyers are looking for products with specific characteristics: new varieties, flavors, grating qualities, melting qualities and packaging formats. China, which has proven it can single-handedly impact world dairy trade success, has only just begun to explore the world of cheese and could eventually wield the kind of influence it has on the global milk powder market.

Should the EU decide cheese was the best option for "new" milk, it would have to relearn what the U.S. industry has been ably absorbing over the past decade in order to compete: World cheese suppliers need to dedicate staff to export market development; add value to better weather the volatility of commodity markets; make product tailored to consumer tastes on a country-by-country basis; provide top-notch customer service; and exhibit commitment to the market instead of viewing it as a commodity dumping ground.

The bottom line is that the world's cheese powerhouse is vulnerable. While some EU suppliers do excel at the international cheese business, Europe by no means has cornered the market despite its lead in export sales.

In addition, export growth in the cheese sector is largely a function of expanding foodservice demand, and the United States is ideally positioned to continue to benefit from that, since making cheese for further processing and pizza is one of the things we do best.

Impressive U.S. cheese export growth—with volume up 60 percent in 2010 and 41 percent through the first seven months of this year—shows that U.S. suppliers are looking to eat away further at the EU's lead. CMN

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