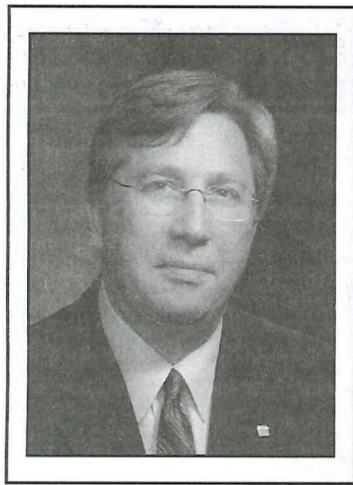


## EXPORT TOOL KIT



CMN Exclusive!



## Perspective: Export Expertise

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## A great year behind us. What about tomorrow?

USDA's release of yearend export data today spoke two messages loud and clear: 1) The U.S. industry has traveled a long way on the path toward becoming a consistent global dairy supplier, and 2) the U.S. industry will need to remain vigilant to maintain and build on last year's solid performance, particularly in the face of tougher market conditions.

In 2011, U.S. suppliers shipped a record \$4.82 billion of U.S. dairy products overseas. Cheese, milk powder and lactose volumes reached all-time highs, and more than 13 percent of the total milk solids produced here in 2011 were sold outside our borders.

These results are impressive, particularly given less-than-stellar economic conditions here and in Europe, abundant milk production from the major exporting nations and near record high prices.

The fact that business was so strong despite challenging market conditions is one of the biggest signals to date that

emerging market demand is as powerful as researchers and analysts have long predicted it would be — a good omen.

Here are some of the main takeaways from a preliminary examination of 2011 U.S. dairy export data.

- **Cheese.** U.S. cheese exports in 2011 grew 29 percent to a record 224,306 metric tons. Monthly volume cleared 20,000 metric tons for the first time in March, when it reached an all time high of 22,378 metric tons. Then, U.S. suppliers beat the 20,000-metric-ton-per-month mark three more times in the remaining three quarters.

We saw long-term efforts to build cheese markets pay dividends in South Korea (where U.S. shipments grew 82 percent to 35,119 metric tons) and Japan (+54 percent to 22,882 metric tons). We saw smaller markets and markets lower on the cheese learning curve really start to take off, as sales to China jumped 133 percent to 6,677 metric tons, shipments to Central America

increased 58 percent to 13,228 metric tons and exports to Southeast Asia rose 46 percent to 13,791 metric tons.

- **Milk powder.** U.S. nonfat dry milk/skim milk powder (NDM/SMP) production reached a 46-year high, yet inventories did not build outlandishly because we exported nearly half of our output (a record 435,685 metric tons, a gain of 13 percent over 2010). Perhaps even more significant: Exports were between 33,000 metric tons and 40,000 metric tons every month in 2011 — remarkable consistency for a product whose export volumes have often gyrated wildly.

U.S. NDM/SMP shipments to Mexico grew 51 percent to 173,583 metric tons in 2011, and sales to Southeast Asia rose 14 percent to 178,313 metric tons. Together, the two accounted for more than 80 percent of U.S. NDM/SMP exports.

- **Diverse regional success.** The geographically widespread character of dairy export gains bears witness to the sector's globalization.

Mexico became the first \$1 billion U.S. dairy export market in 2011, with shipments of \$1.16 billion.

The Southeast Asia region is next in line, as 2011 sales totaled \$963 million, a gain of 39 percent that was led by the Philippines (+55 percent to \$281 million).

Shipments to China hit \$361 million (up 53 percent), Japan \$277 million (up 36 percent), South Korea \$222 million (up 70 percent), the Middle East \$217 million (up 32 percent), and Central America \$121 million (up 69 percent).

- **Second-half softness.** Despite substantial positive news, U.S. shipments in some key categories, such as cheese and butterfat, did begin to decelerate in July as global competition increased.

Cheese volume July-December 2011, while well above the same period in 2010 (+13 percent), was 12 percent down from January-June.

A relatively much thinner butterfat market drove a change that was even more marked. After shipping nearly 40,000 metric tons in the first half, volume fell to 22,778 tons in the second half.

- **Whey protein.** Whey protein shipments remained relatively flat, falling less than a percentage point to 450,479 metric tons for the year. However, the category bucked the trend and actually strengthened in the second half compared to January-June.

U.S. suppliers registered whey protein gains to China/Hong Kong (+16 percent to 154,907 metric tons), Southeast Asia (+1 percent to 98,147 metric tons) and Central America (+9 percent to 8,561 metric tons).

At the start of 2012, many questions remain. How strongly will China and Russia return to the market? How will slower economic growth in emerging markets affect dairy consumption patterns? Will the European Union debt crisis lead to recession that hurts demand in Europe and pushes more of their products onto the world market? Will global milk output benefit from another almost perfect weather season that repeats 2011's healthy gains? If conditions are not as optimum, will U.S. suppliers fight to retain their hard-won gains in market share?

The trade data suggests the United States has made significant progress toward becoming a consistent global supplier. While some of those questions will play out over the course of the year, we will begin to see a month from now, in the January 2012 trade data, the intensity with which the industry plans to defend and grow the business it has worked so hard to build. CMN

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