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President



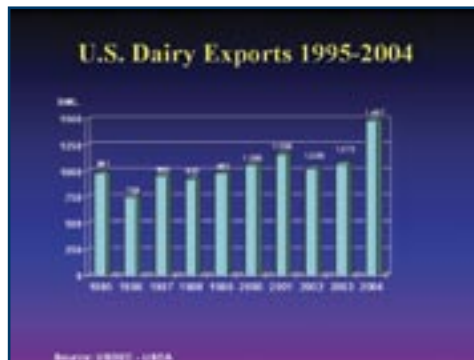
Export Market Boosts U.S. Milk Price

Changes in market forces in the United States and other countries has laid the foundation for a strong dairy export market, marking a nearly 40 percent increase in U.S. dairy exports to \$1.49 billion in the past year. On a volume basis, export levels were up in most major product categories. The dramatic growth in exports represented 7.4 percent of U.S. milk solids production, compared with 5.6 percent in 2003.

While there were many external forces like a drought in Australia, a cold spring in New Zealand and a weak U.S. dollar that all played a role in setting the stage for increasing export sales, the U.S. Dairy Export Council (USDEC) has worked to establish connections in emerging countries to be ready to move product when the market allows.

When the U.S. Dairy Export Council was formed, the attention was put on establishing a presence and building relationships in countries that could become favorable markets for U.S. dairy products. Through USDEC we also have a voice in the continuing free trade agreements. Looking at the places that we sold product to this past year is an indication that the various trade agreements work. Exports were up significantly in Mexico where NAFTA gives us preferential

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trade access. We also had increased sales to Chile, where we received improved market access in the new bilateral trade agreement. China has also become a growing market for us, particularly since it lowered import tariffs as part of its agreement to join the World Trade Organization (WTO) in 2000.

One of the most surprising factors of this past year's increases was that it occurred at a time when domestic prices were strong. In 2004 many suppliers maintained their sales to the overseas customers they had worked hard to establish. The commitment of the suppliers to the export market, either by standardizing the

protein in their milk powder or maintaining the allocations, helps develop a long-term relationship with overseas buyers. Too often in the past the U.S. appeared as an unstable supply because it would dry up when domestic prices strengthened.

Continuing this commitment to the export market will be critical to the long-term growth of this important market segment. In 2004 the export market helped to remove more than half of the incremental supply growth in U.S. production. In the last five years, exports have increased by 560 million pounds of milk solids, while U.S. milk production has expanded by only 1.087 billion pounds of milk solids.

Meanwhile, U.S. imports increased just 2 percent last year to 928 pounds of total milk solids. The U.S. dairy trade surplus grew to 634 million pounds of milk solids, up from 281 million pounds in 2003.

While this past year showed record-level growth in the export market, we need to continue to work toward securing beneficial outcomes in the upcoming WTO negotiations and to work with U.S. suppliers to meet the challenges of keeping a stable and reliable supply to the world market.

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