



Exports Drive Dairy Demand

The collapse of the World Trade Organization (WTO) Doha Round discussions this August introduces a timely discussion topic: world trade and the dairy export market. The Doha Round was intended to result in trade agreements. American dairy producers have looked favorably upon trade agreements as a method to grow our industry in a profitable manner, so the collapse of the discussions is unfortunate.

The WTO Doha Round began seven years ago in Doha, Qatar with the objective of lowering trade barriers around the world and permitting free trade between countries of varying levels of economic prosperity. You may have read or heard in the media that it collapsed because countries could not reach agreement on agricultural trade issues, but in reality there were four main sticking points. Three of those four contentious points involve issues not related to agriculture. Had the agricultural trade issues been resolved, the talks would have likely broken down over non-agricultural issues.

This is not to say that the agricultural portion didn't present problems. China and India were negotiating for the ability to apply tariffs whenever they desired to protect their domestic industries. That does not make for an open market; instead, it would have opened a one way street for them.

It is true that both China and India have taken a strong stance to develop and protect their agricultural producers. One reason is that they do not want to become dependent on another country for their food supply. We in the U.S. should appreciate that approach when we see what has happened to our own

country with respect to importing the amount of oil that we need to meet our energy needs. Who wants to face the same situation in their food supply? However, many poor people in China and India would benefit from a reasonably negotiated treaty, so don't be surprised if the Doha Round resumes in the next year or so. While the chances of reviving the talks in the current Bush administration appear slim, it is difficult to predict what will happen with a new president, no matter who is elected. On the other hand, there seems to be a growing protectionist sentiment in the U.S. that might affect future trade discussions.

Even though dairy exports have become a very significant factor in our dairy industry's profitability, a poorly negotiated trade agreement could be worse than no agreement. National Milk Producers Federation (NMPF) did a great job in protecting U.S. dairy farmers' interests during the discussions. The staff at NMPF studied and accurately outlined the issues in depth. NMPF was in constant contact with U.S. Trade Ambassador Susan Schwab, who listened and agreed with NMPF's assessment, refusing to agree to permit the "playing field" to tilt too far toward our trading partners.

In the short term, the break down in the negotiations will probably have no adverse effects on the U.S. dairy industry. There is still a market basket to fill in the world today and we, at this point in time, are the most likely country to fill that need. Longer term problems could develop if more open markets aren't secured through trade treaties.

The whole subject of worldwide opportunities in dairy trade is exciting. As the economies of emerging

nations expand the desire for diets that are higher in protein and are nutrient-dense, dairy foods fill that need very well. Many governments in those emerging markets are recommending increases in dairy consumption to their citizens. China, for example, has recently looked at its "Dietary Tower" (comparable to our "Food Pyramid") and is recommending raising daily dairy consumption from 100 grams per day (80 pounds per year) to 300 grams per day (242 pounds per year). Current consumption is 62.8 pounds per year, up from 32.8 pounds per year just five years ago.

China's increased consumption in the last five years is equal to about 40 billion pounds of milk per year, equivalent to the production from California. If they were to increase consumption to the level recommended by their government, another 120 billion pounds would be required to meet the market demand. China is only one example. Exports can provide the U.S. dairy industry opportunities for increased sales far greater than we can expect from domestic population growth and/or increased consumption per person (with current U.S. average consumption at 580 pounds per year).

The bottom line is that exports are important to the vitality of our industry. The WTO and the Doha Round of negotiations will, one way or another, have an impact on all of us. We must keep a close eye on future developments to ensure we are operating on a level playing field where international dairy trade is concerned.

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