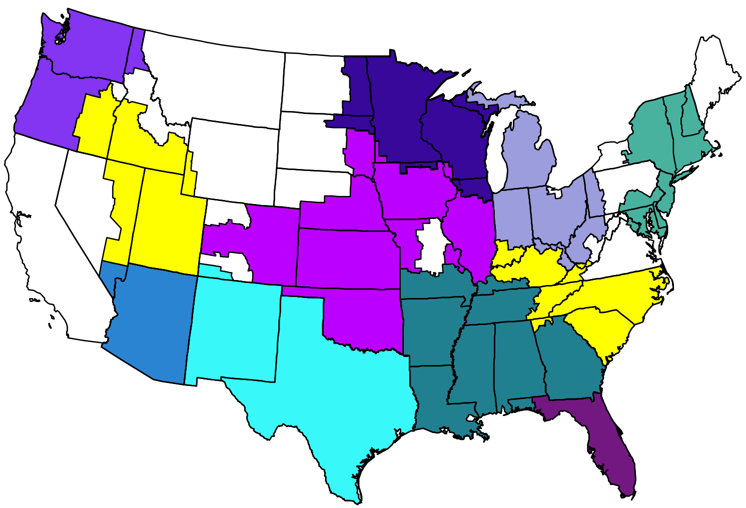
Impacts of Trade Agreements on U.S. Dairy Trade



C.W. "Bill" Herndon

WTO Impacts on U.S. Farm Policy: S-1016 Conference

2 June, 2005

Sources of Information and Trade Data

- Several publications provided insights of world and U.S. dairy industries and trade
  - USDA/FAS publication titled: “Dairy: World Markets and Trade”
  - “World Trade in Dairy Products and the U.S. Role: An Illustrated Primer” by Ed Jesse
  - Charles Nicholson’s “Trade Liberalization and the U.S. Dairy Industry”
  - Trade data collected from: FAO’s FAOSTAT database & the USDA/FAS FATUS database

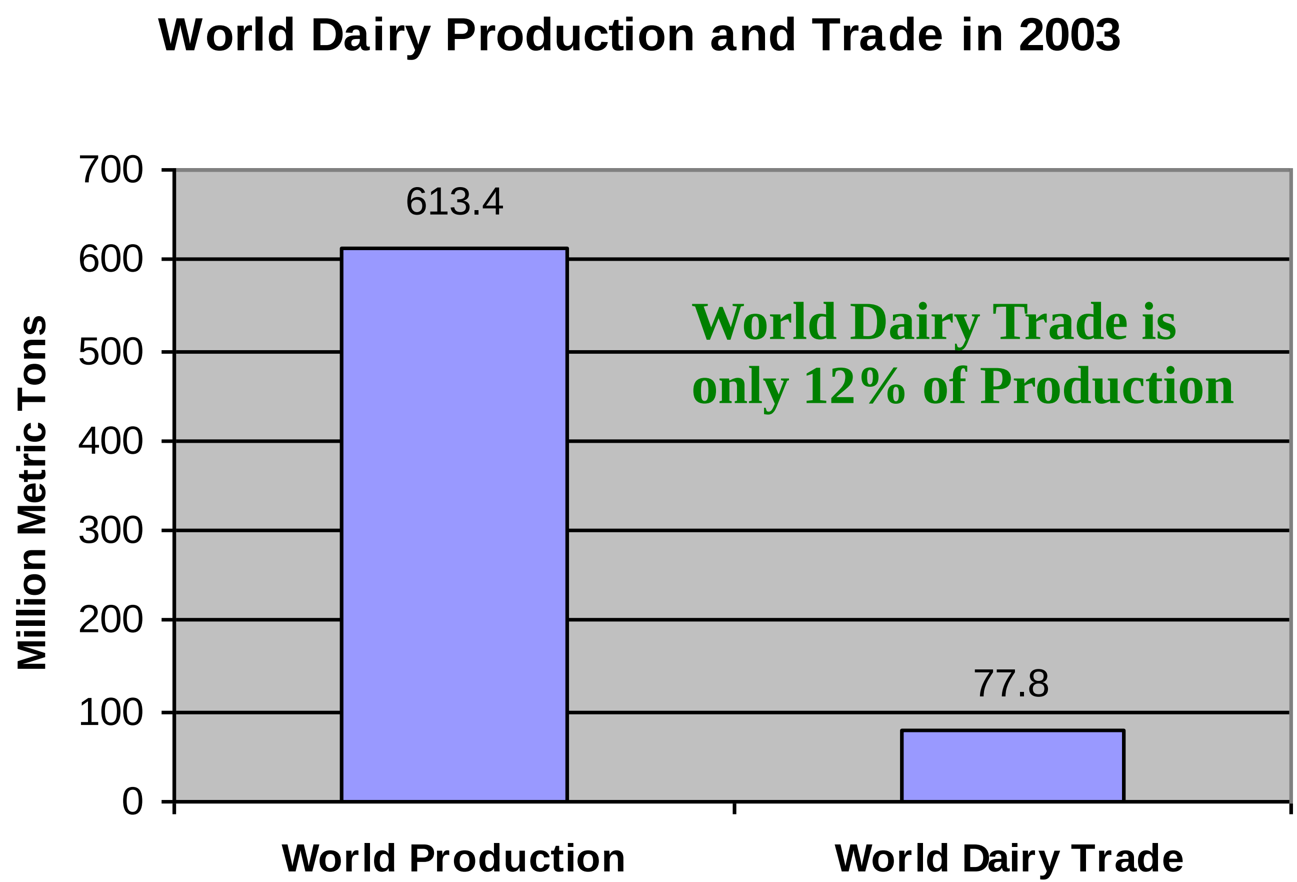
Brief Overview of Dairy Industry and Trade

- U.S. is world largest producer of cow's milk & one of the largest consumers
  - India is largest … if including buffalo milk
- Dairy/milk have been "very sensitive"
  - Especially in developed countries
  - Dairy trade has been prohibited or restricted
- U.S. led efforts to liberalize dairy trade
  - First attempts were during the URA

Limited World Dairy Trade

- **In 2003, FAO reports that world dairy trade amounted to only 12% of output**
- **World dairy production and trade is dominated by the EU-25**
- **Leading exporters are not the largest dairy producers (except for EU-25)**
- ***But, world dairy trade is increasing***
  - ***Only 8% of output was traded in 1990***

Limited World Dairy Trade

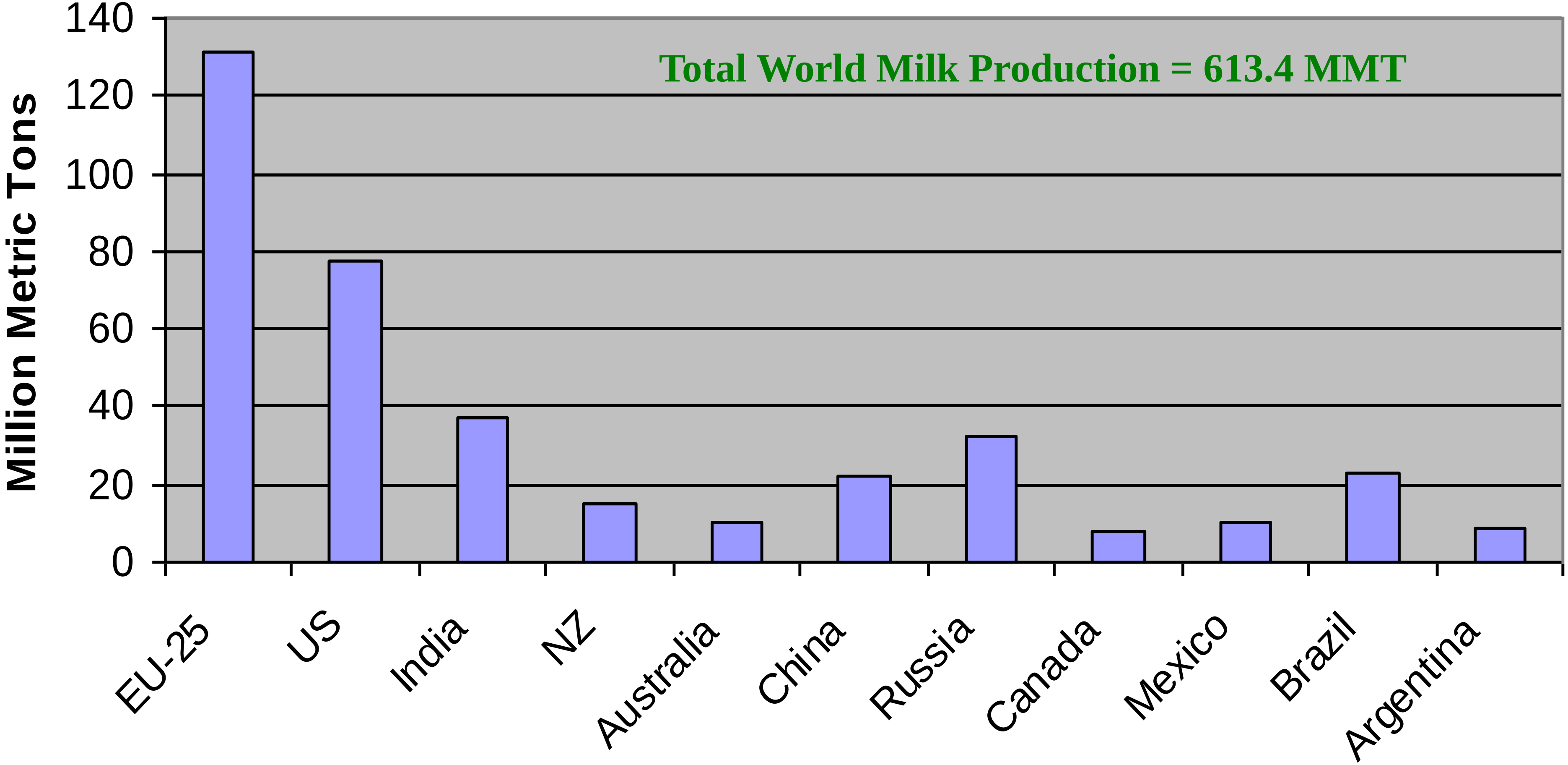


Source: FAOSTAT Database

Global Dairy Markets

- Review world dairy production
  - Who are the major producers?
- Review world dairy trade
  - Who are the major exporters and importers?
- Review various trade agreements
  - How has dairy trade evolved?

Milk Production in Selected Major Countries, 2004 in MMT

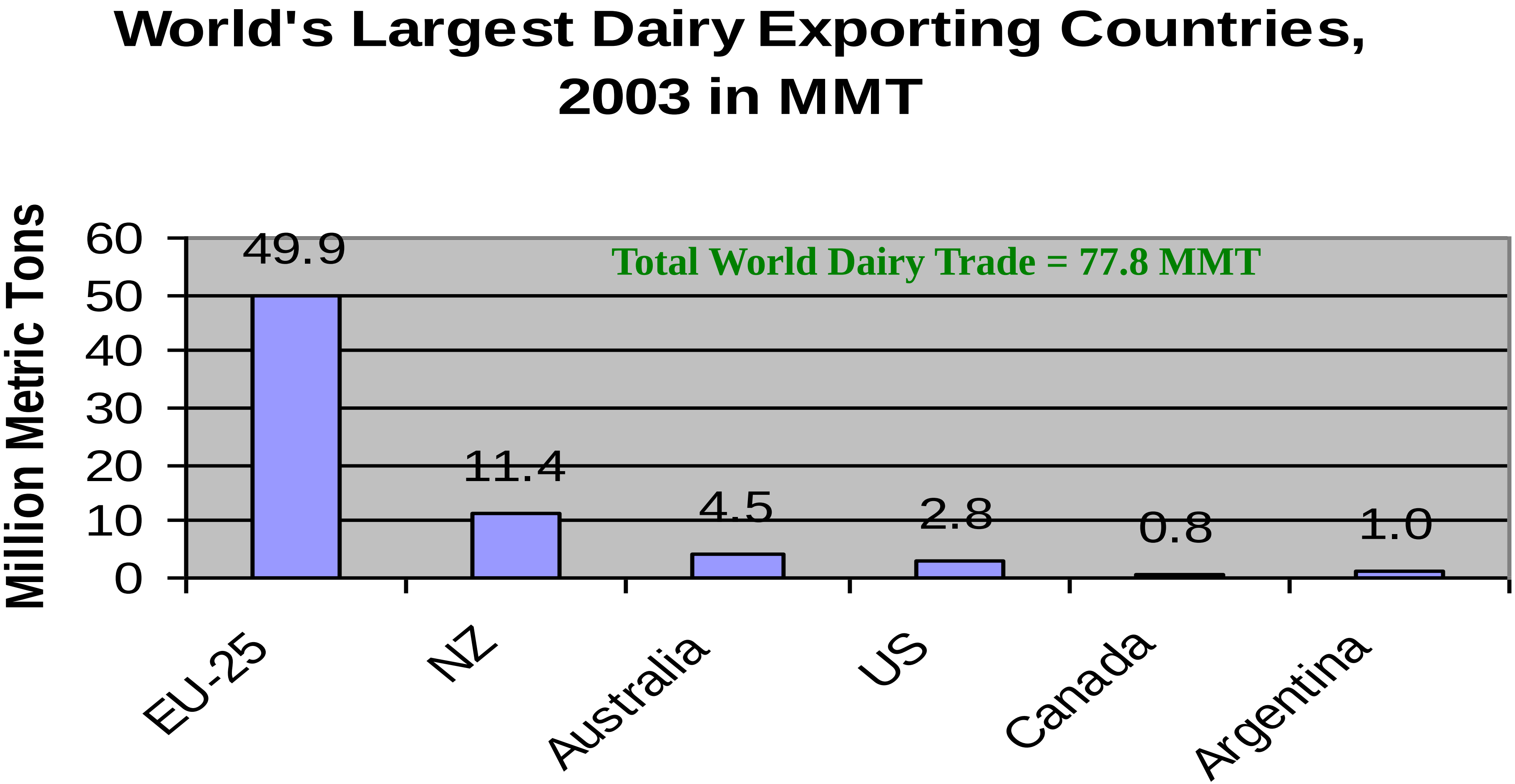


Source: USDA/FAS & FAO Database: FAOSTAT

Who are the Major Exporters?

- The EU-25 dominates & is the world’s largest dairy exporter
- However, the smaller milk producing nations of New Zealand and Australia are major exporters
- Other nations play only “minor” roles

Who are the Major Exporters?

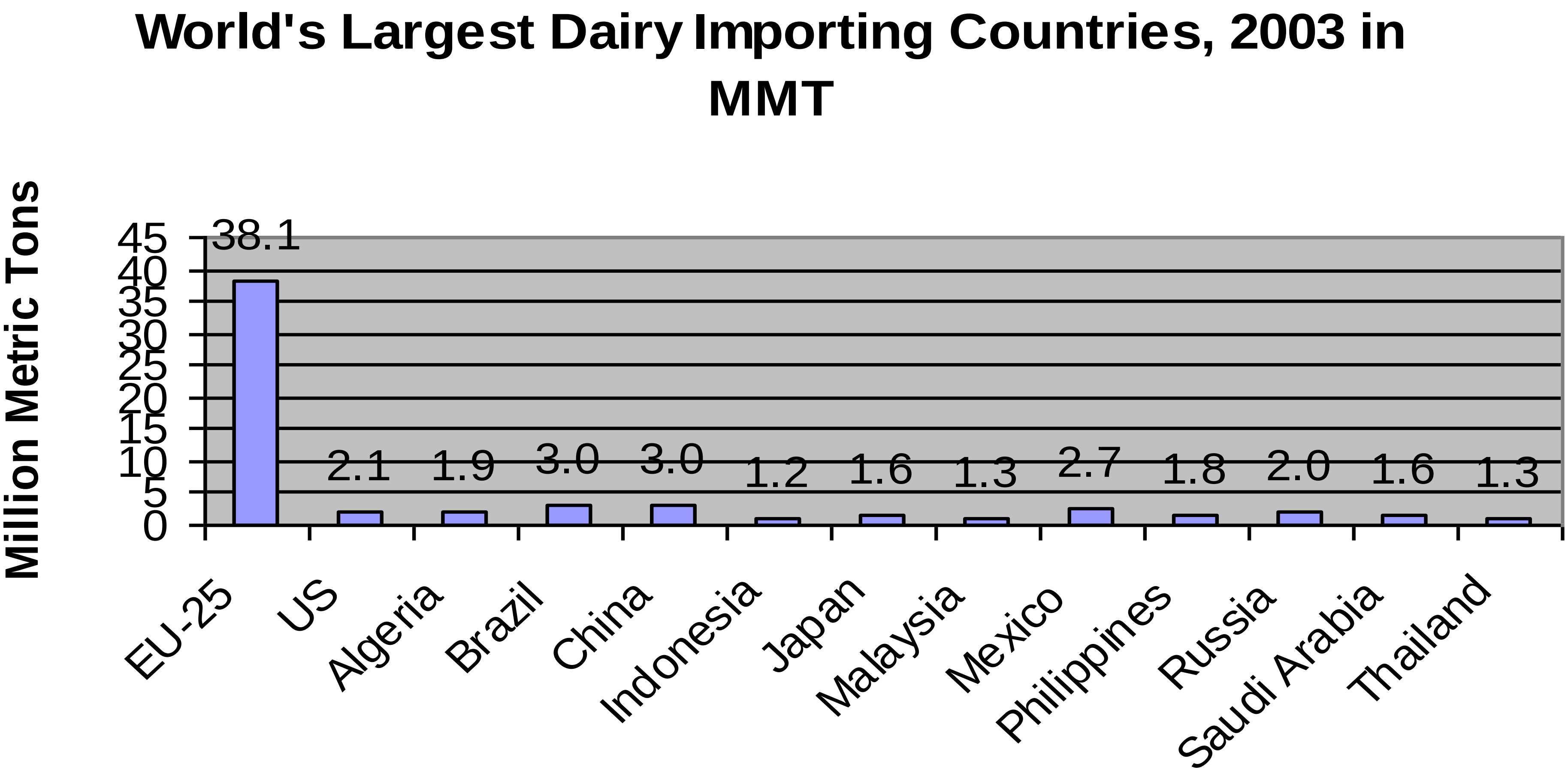


Source: USDA/FAS & FAO Database: FAOSTAT

Who are the Major Importers?

- Once again, the EU-25 dominates & is the world's largest dairy importer
  - However, most of these imports are "intra-EU-25" trade
- 10-12 nations import about the same amounts of dairy products
  - Ranging from ~ 1 to 3 MMT, annually

Who are the Major Importers?

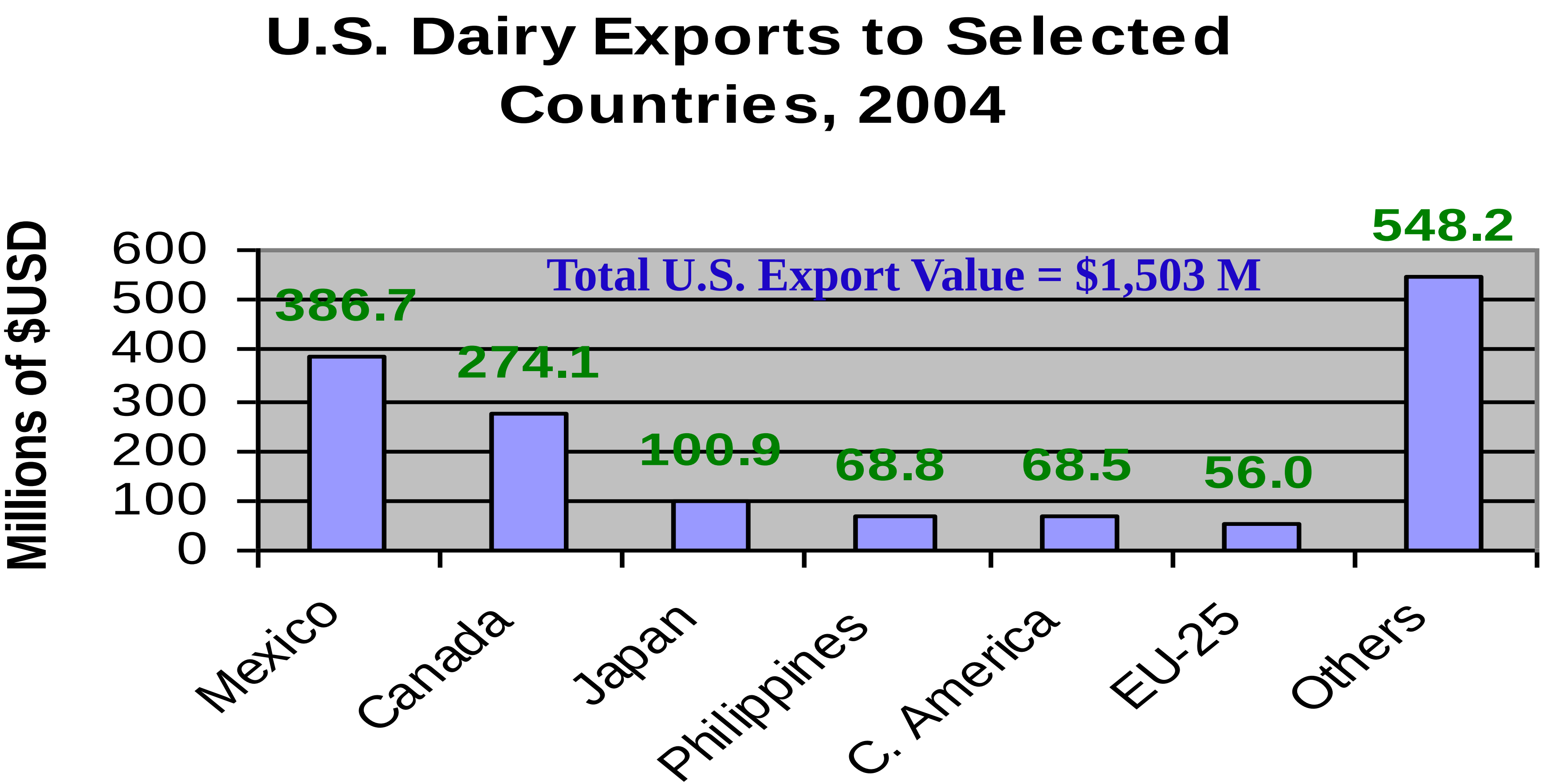


Source: USDA/FAS & FAO Database: FAOSTAT

Who Buys U.S. Dairy Products?

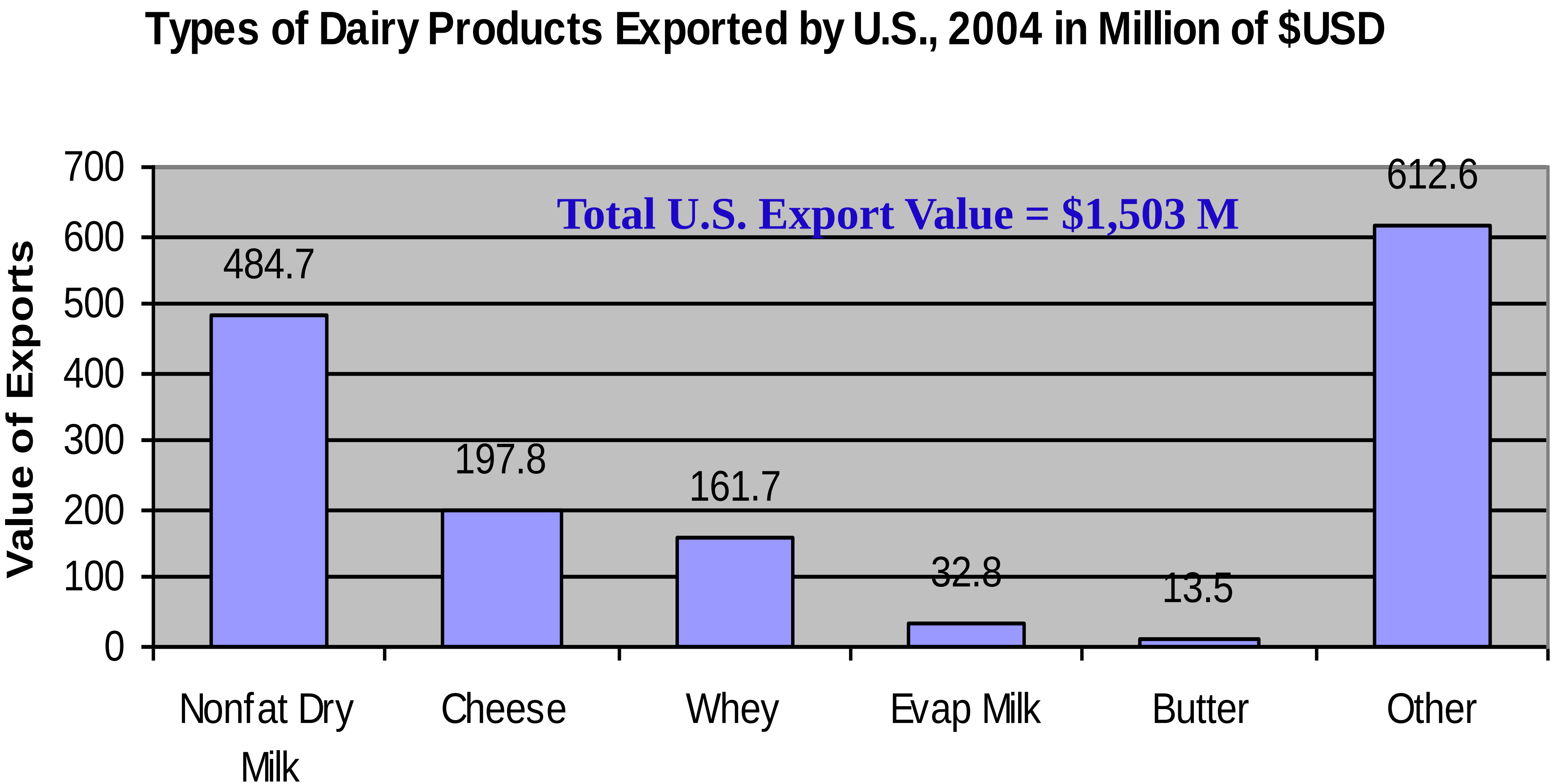
- Mexico and Canada are the leading importers of U.S. dairy products
  - NAFTA has increased trade flows 6-fold
  - From about $100M in 1990 to $661 in 2004
- Total Value of U.S. dairy exports was $1.5B in 2004 vs. $353M in 1990
  - But, exports were only 5.5% of U.S. output

Who Buys U.S. Dairy Products?



Source: USDA/FAS FATUS Database

What Types of Dairy Products does the U.S. Export?

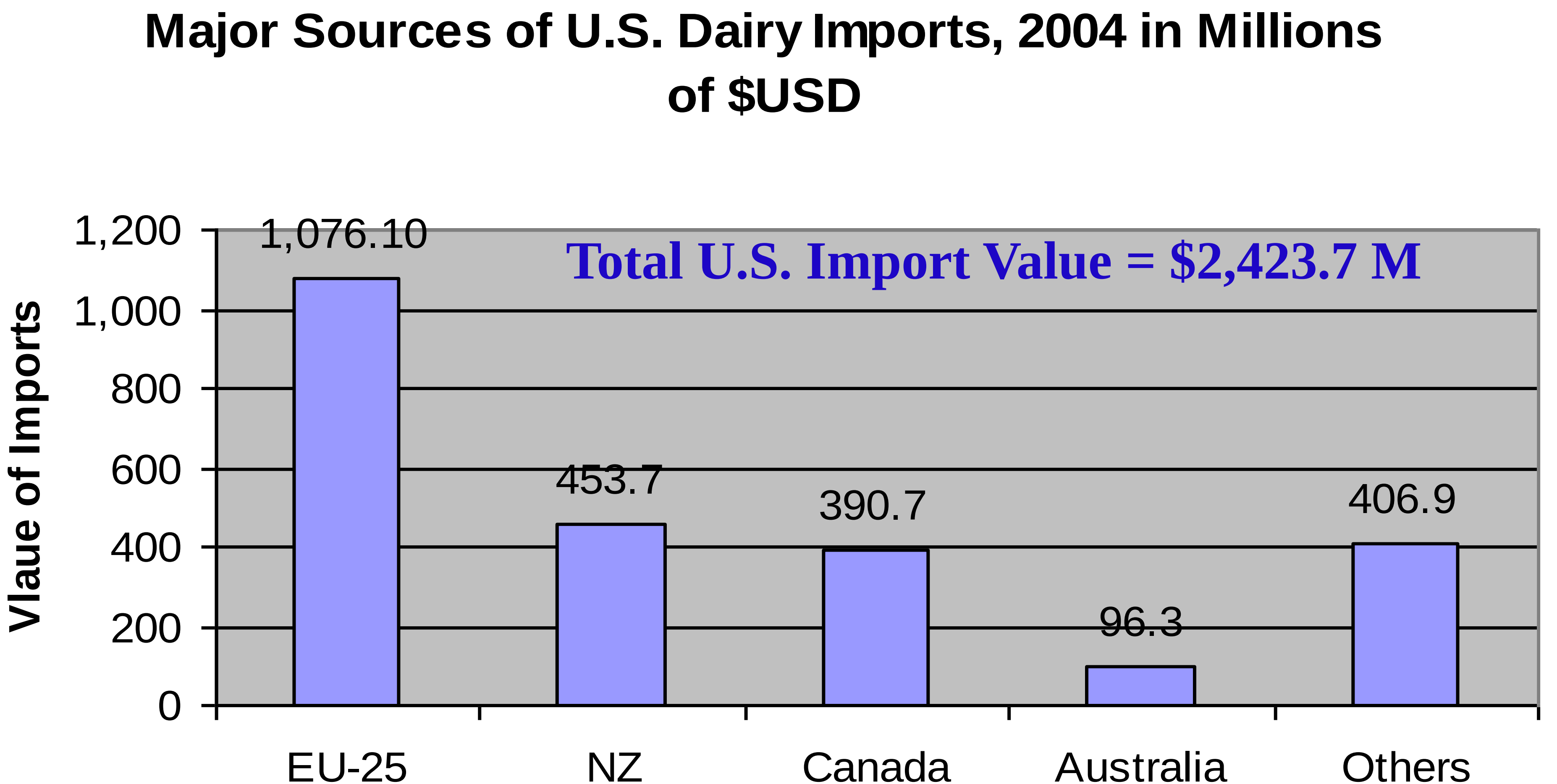


Source: USDA/FAS FATUS Database

Who Sells Dairy Products to U.S.?

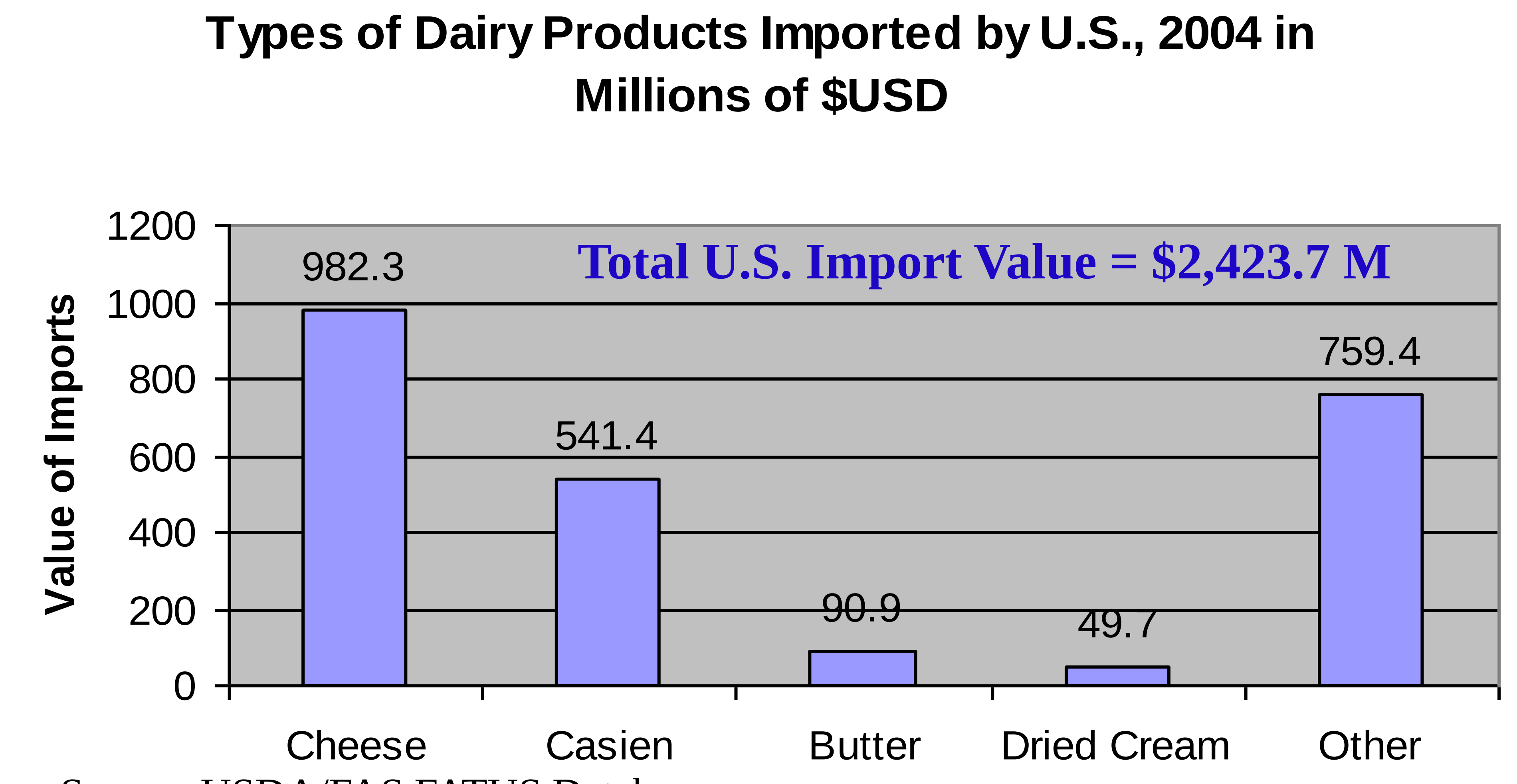
- EU-25 is the largest seller to the U.S. … more than $1B during 2004
  - Primarily, specialty cheeses
- New Zealand is 2nd largest seller to U.S.
  - Mostly, casein/other products not made in U.S.
- Canada has dramatically increased its exports to the U.S. under NAFTA
  - From $25.1M in 1990 to $390.7M in 2004

Who Sells Dairy Products to U.S.?



Source: USDA/FAS FATUS Database

What Types of Dairy Products does the U.S. Import?



Source: USDA/FAS FATUS Database

Impacts on U.S. Dairy Industry of Selected Trade Agreements

- **Briefly review 4 trade accords & impacts on the U.S. dairy industry and trade flows**
  - **North American Free Trade Agreement, or NAFTA**
  - **Uruguay Round Agreement, or URA**
  - **Australia-U.S. Trade Agreement, or AUSTA**
  - **Central America Free Trade Agreement, or CAFTA-DR or DR-CAFTA**

NAFTA Impacts

- NAFTA provides the best example of a trade accord approaching "free trade"
  - Concessions mostly between Mexico & U.S.
  - Canada's milk quotas limited negotiation
- U.S. eliminated its Sections 22 quotas
- Set up TRQs to be phased out by 2009
  - No tariffs on any dairy products after 2009

NAFTA Impacts

- Most of U.S. dairy industry concerns were directed to how NAFTA would disrupt to Federal Milk Order system
- Study by Bishop, et al. found that 18% less milk would be shipped to U.S. plants to avoid paying U.S. FO prices
- Trade data shows that volume increased dramatically between NAFTA nations
  - Almost 45% of U.S. dairy exports
  - About 16% of U.S. dairy imports

URA Impacts

- Recall URA attempted to liberalized trade via 3 mechanisms:
  1. Minimum access
  2. Reductions in domestic support
  3. Reductions in export subsidies
- All 3 of these tools were & continue to be used to “influence” dairy trade
- Most often by the EU and US

URA Impacts

- Several studies have reviewed URA impacts on U.S. dairy industry & trade
  - USDA study in 2002 found that limitations on export subsidies would increase milk powder trade & could increase U.S. prices
- Several other studies generally agreed that URA trade policies have had "little or no impact" on U.S. dairy prices and farm incomes

AUSTA Impacts

- AUSTA was implemented on Jan. 1, 2005
- One of the most controversial issues was dairy product trade/tariffs (also sugar)
- U.S. dairy farmer organizations claimed AUSTA would lead to the demise of U.S. industry
- AUSTA dairy trade provisions are:
  - 18-year phase-in period where U.S. TRQs would increase by 0.17% annually
  - Australian tariffs eliminated immediately

AUSTA Impacts

- Several empirical studies agree that AUSTA would ***NOT*** be positive for the U.S. dairy industry
  - Australian study found that U.S. farm milk price would fall $0.02/cwt & U.S. milk production would fall 0.2% (300M lbs)
  - Cornell University study indicates that U.S. milk prices will decline $0.19/cwt and U.S. output falling by 0.5% (800M lbs)
    - Cornell study admits to an overestimation

CAFTA-DR Impacts

- CAFTA-DR currently being considered by Congress ➔ Democrats calling for vote this week
  - 20-year phase-in period for increasing TRQs for U.S. dairy product exports to CA & DR
  - CAFTA-DR nations already have tariff-free access to U.S. dairy markets
- Current dairy product tariffs range from 15% to 80% in these CAFTA-DR nations

CAFTA-DR Impacts

- AFBF claims that CAFTA-DR will increase U.S. dairy exports from $80M to $300M at end of 20-year phase-in
- Positive influence on U.S. dairy prices and dairy farm incomes
- Bottom line, CAFTA-DR is expected to be beneficial to the U.S. dairy industry

Summary & Conclusions

- Dairy/Milk has & will likely continue to be a major impediment to liberalizing agricultural trade
- Empirical analyses of various trade liberalization tend to agree that:
  - U.S. dairy will not suffer major disruptions & realize only small decreases in milk prices
  - But, the U.S. dairy industry will not likely benefit either

Summary & Conclusions

- This single finding may lead the U.S. dairy industry to lack enthusiasm in pursuing any future, additional trade concessions (via WTO, FTAA, or ???)
  - Consensus among trade analysts is that future trade agreements ***will include*** dairy
- So, U.S. dairy farmers and processors should prepare its views, wishes to the USTR and Congress