



U.S. Dairy
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Global Perspective: EU SCC & Other Export Changes

The Dairy Practices Council
November 4, 2010



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Topics For Today

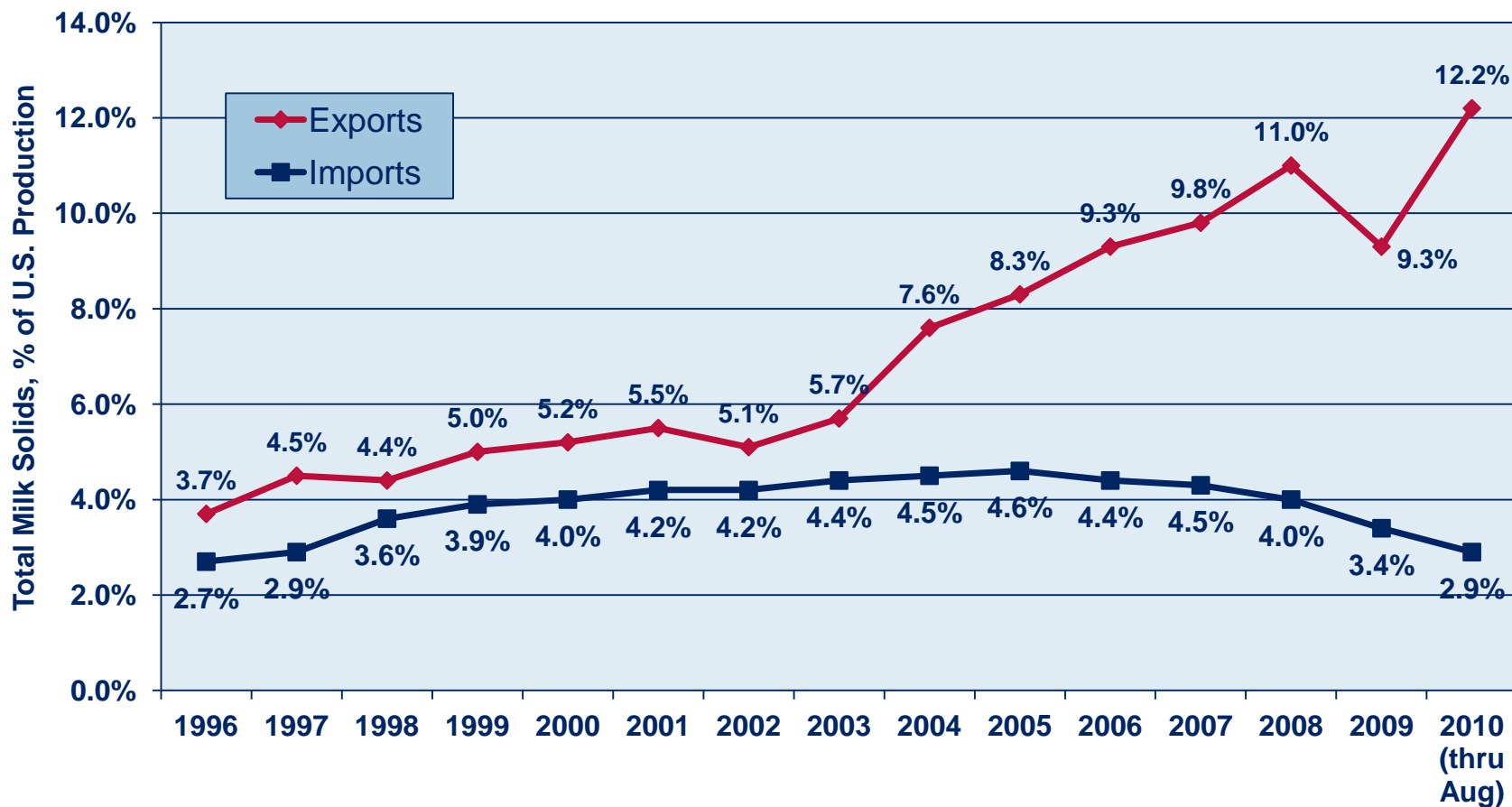
- Recent Trends
- Near Term Outlook
- EU SCC
- Q & A





Share Exported Exceeds 2 Years Ago

U.S. DAIRY TRADE BALANCE, 1996-2010 (thru August)



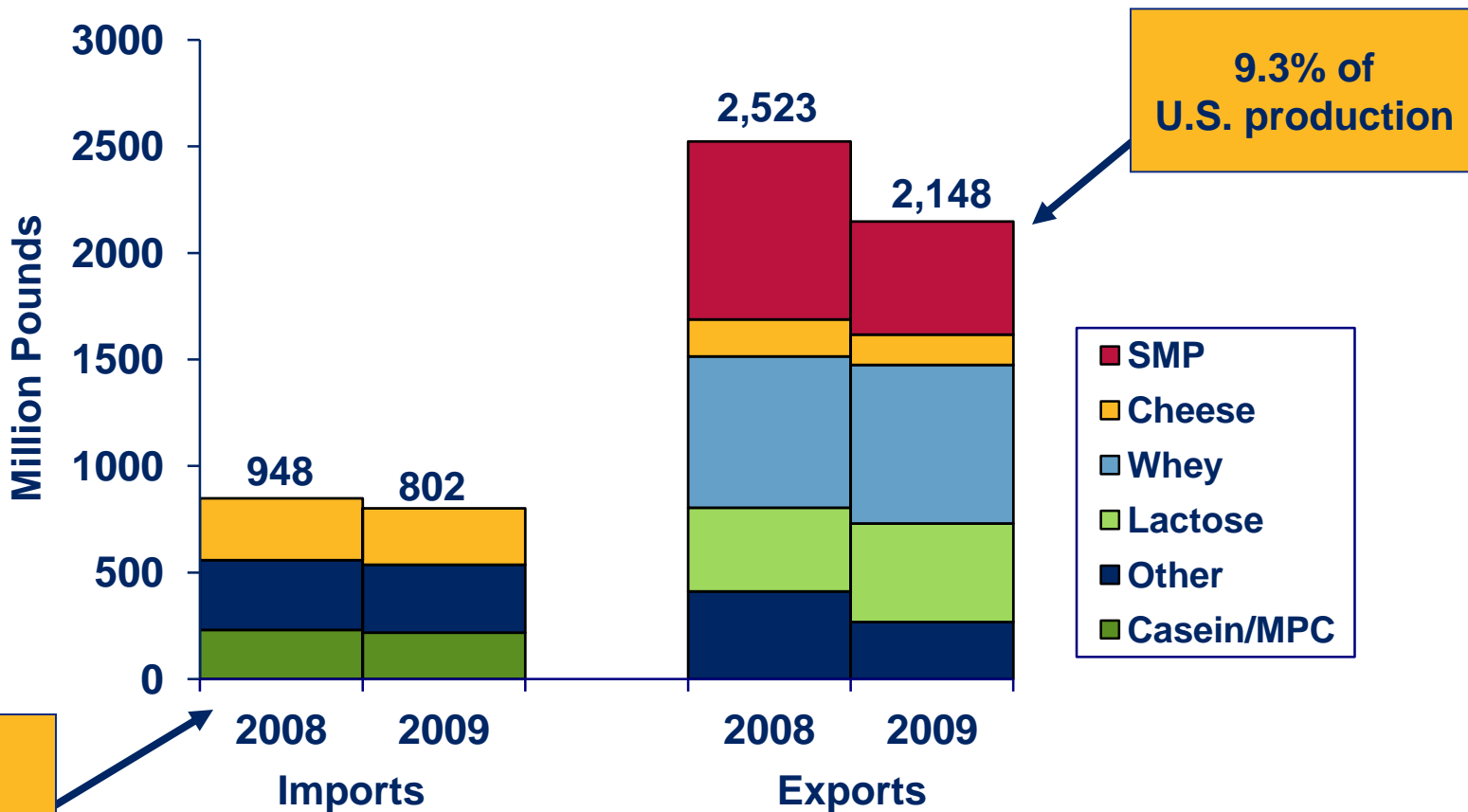


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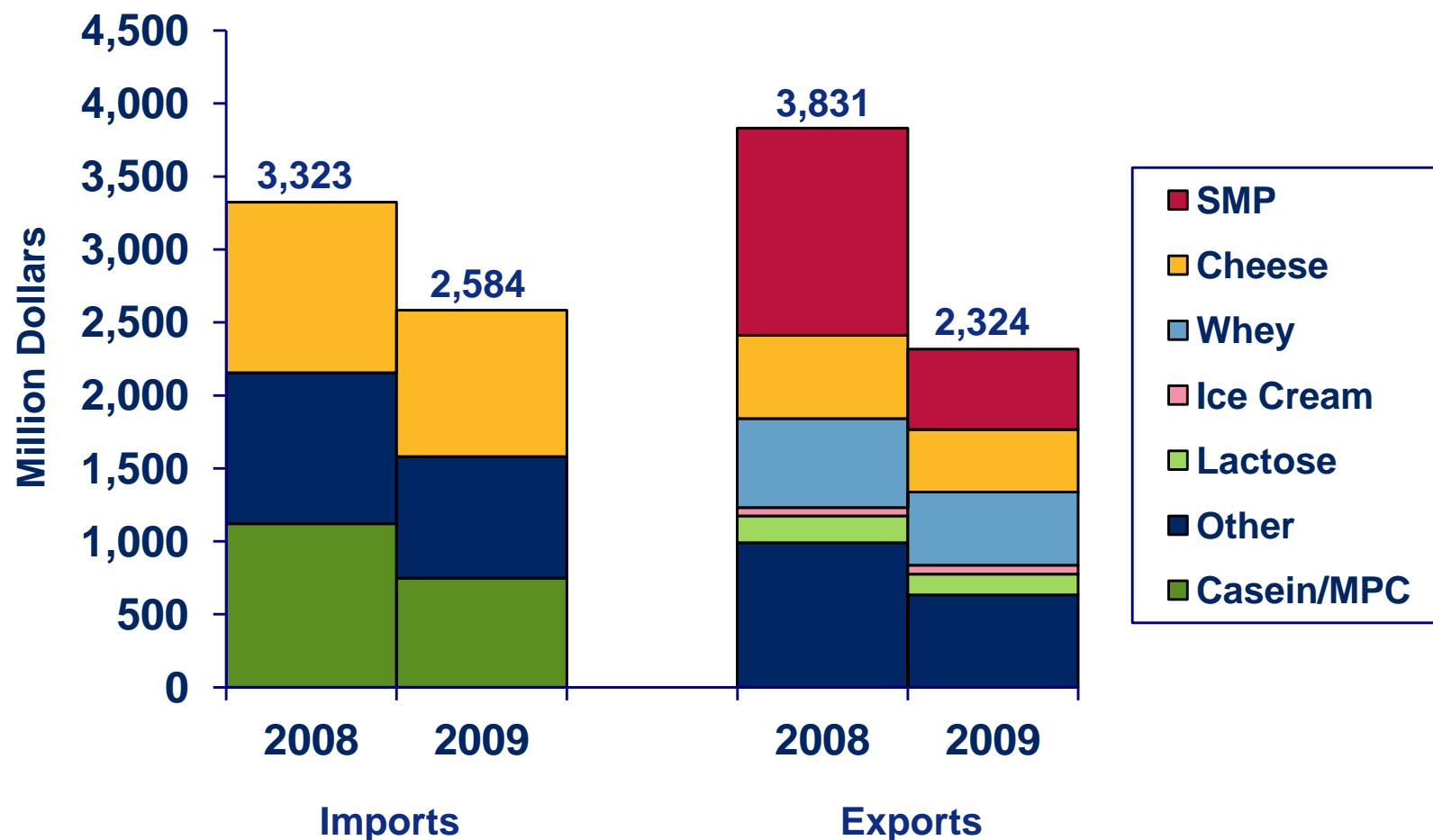
Composition of U.S. Dairy Trade

2008 - 2009 (volume – total milk solids)



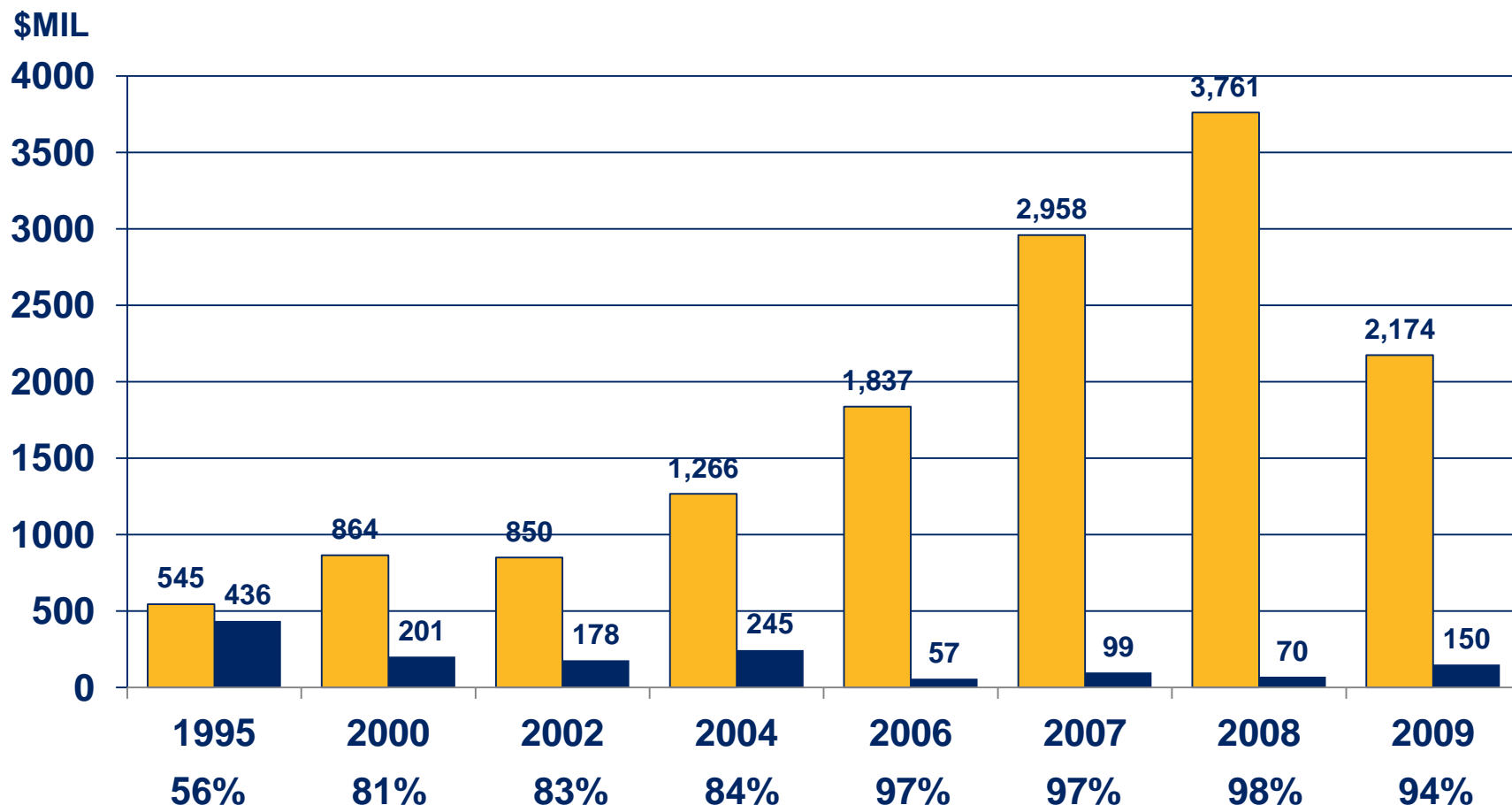


Composition of U.S. Dairy Trade 2008 - 2009 (value)



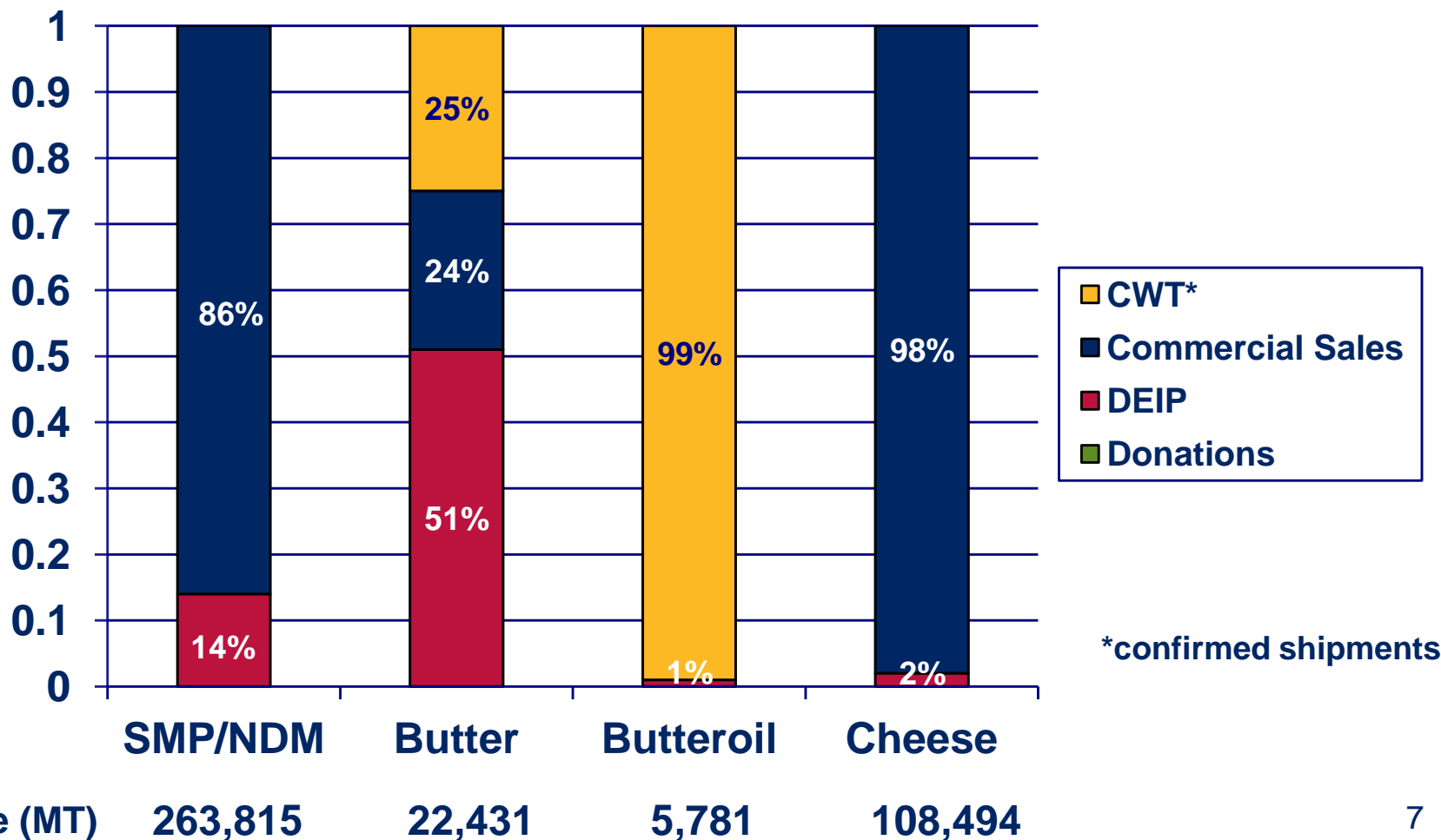


U.S. Dairy Exports 1995-2009 Commercial vs. Assisted (\$)





Commercial vs. Non-Commercial Sales - 2009

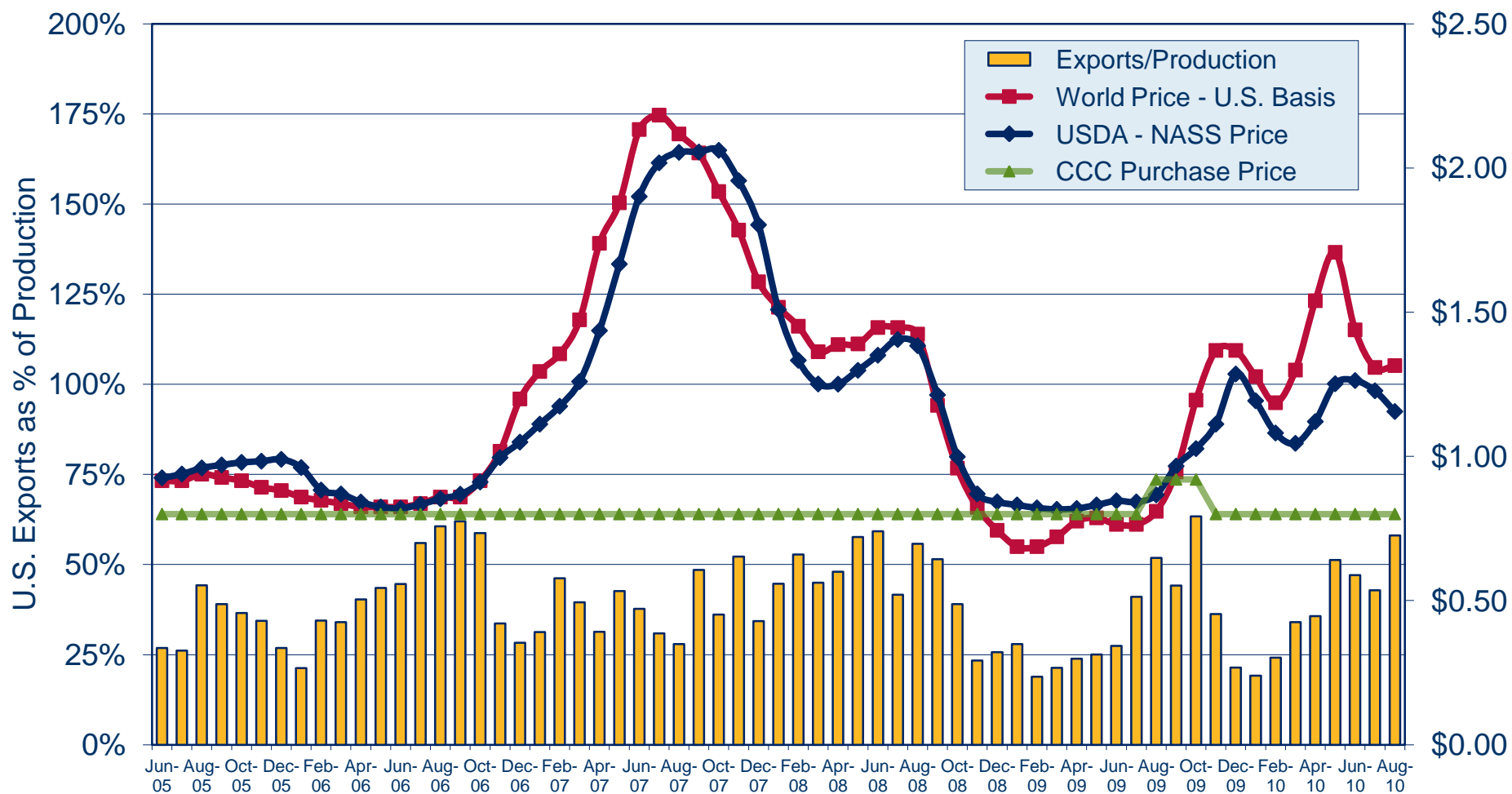




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U.S. and World Prices – SMP/NFDM

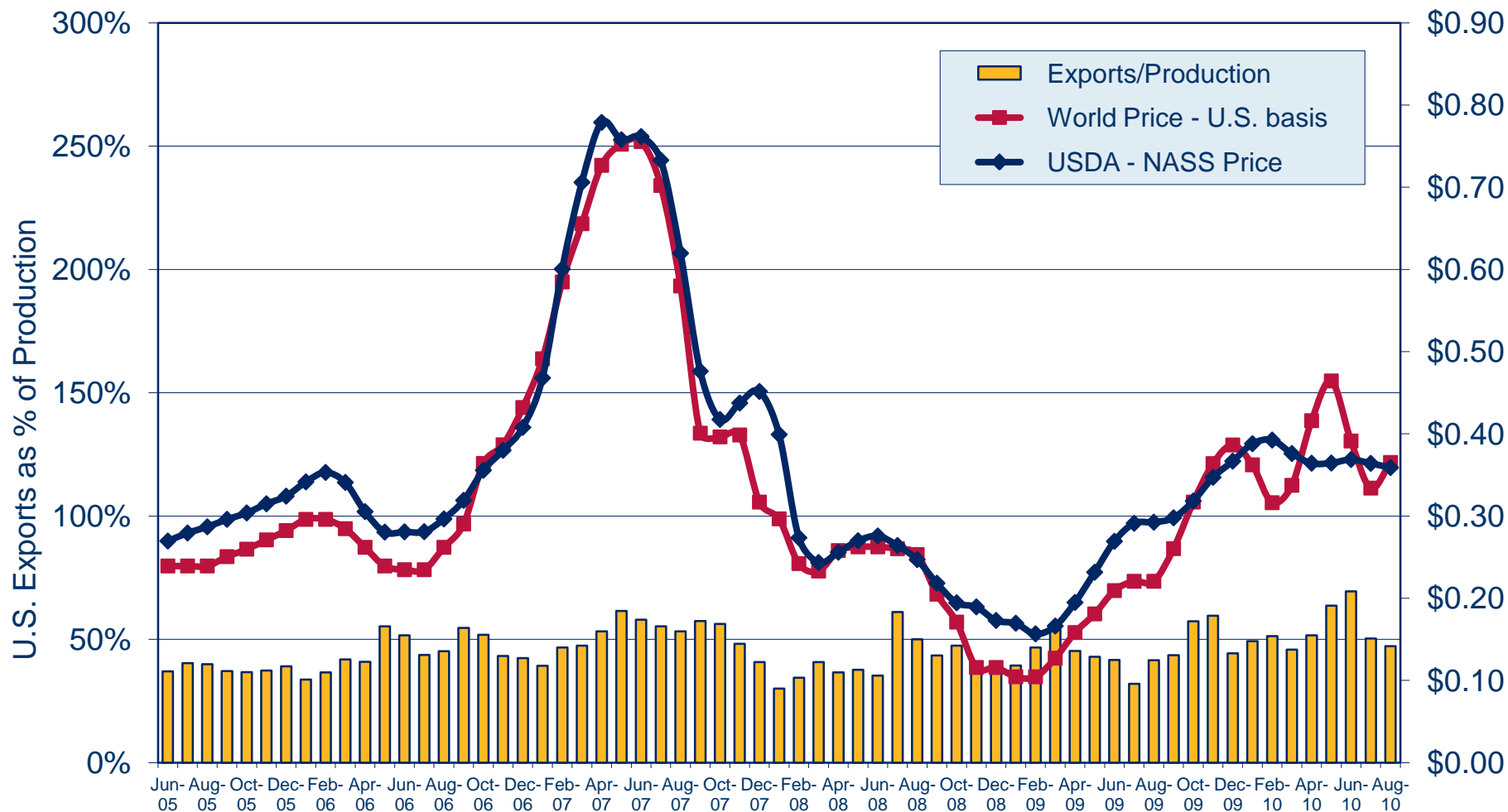




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U.S. and World Prices – Dry Whey

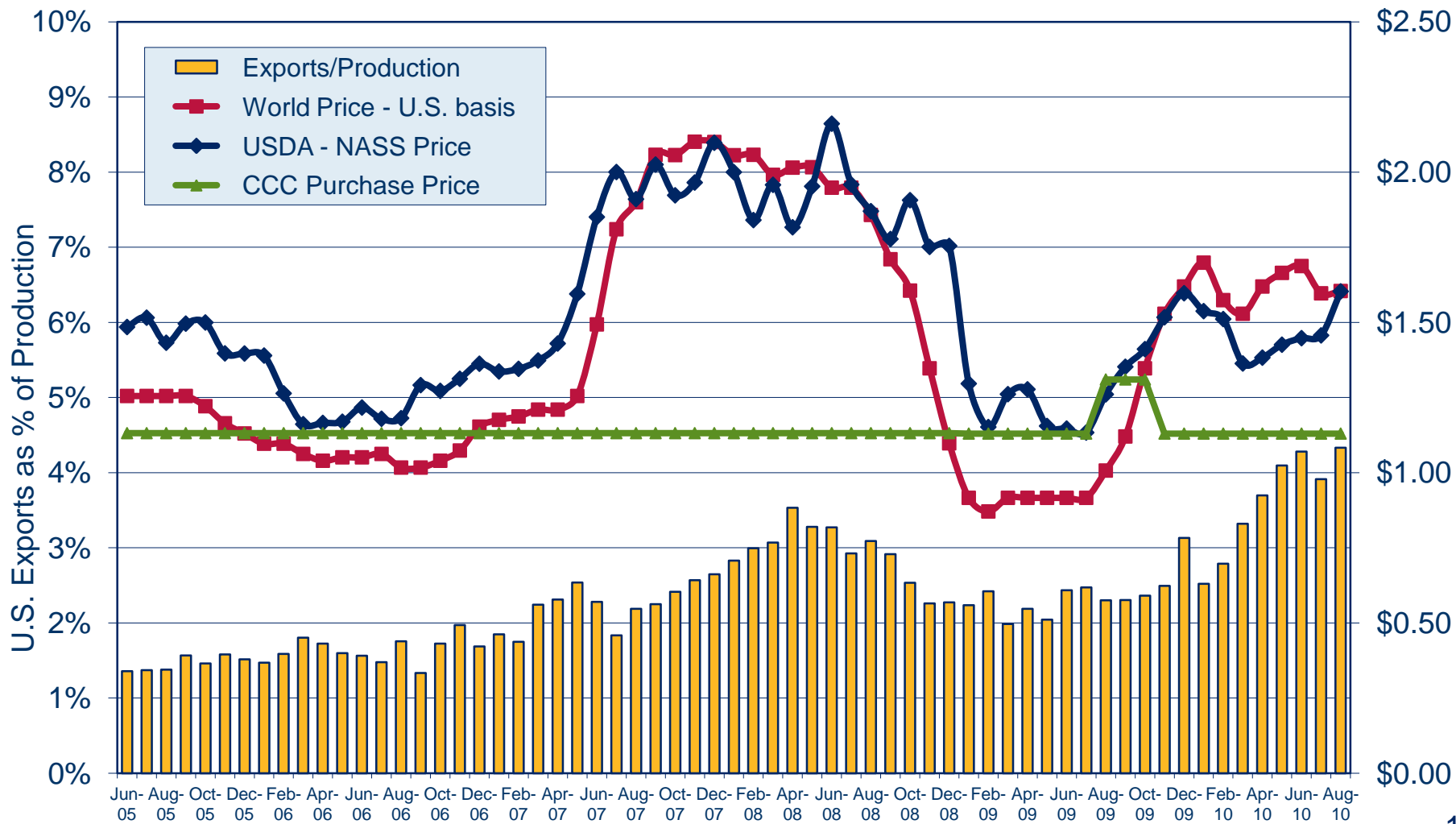




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U.S. and World Prices – Cheddar Cheese

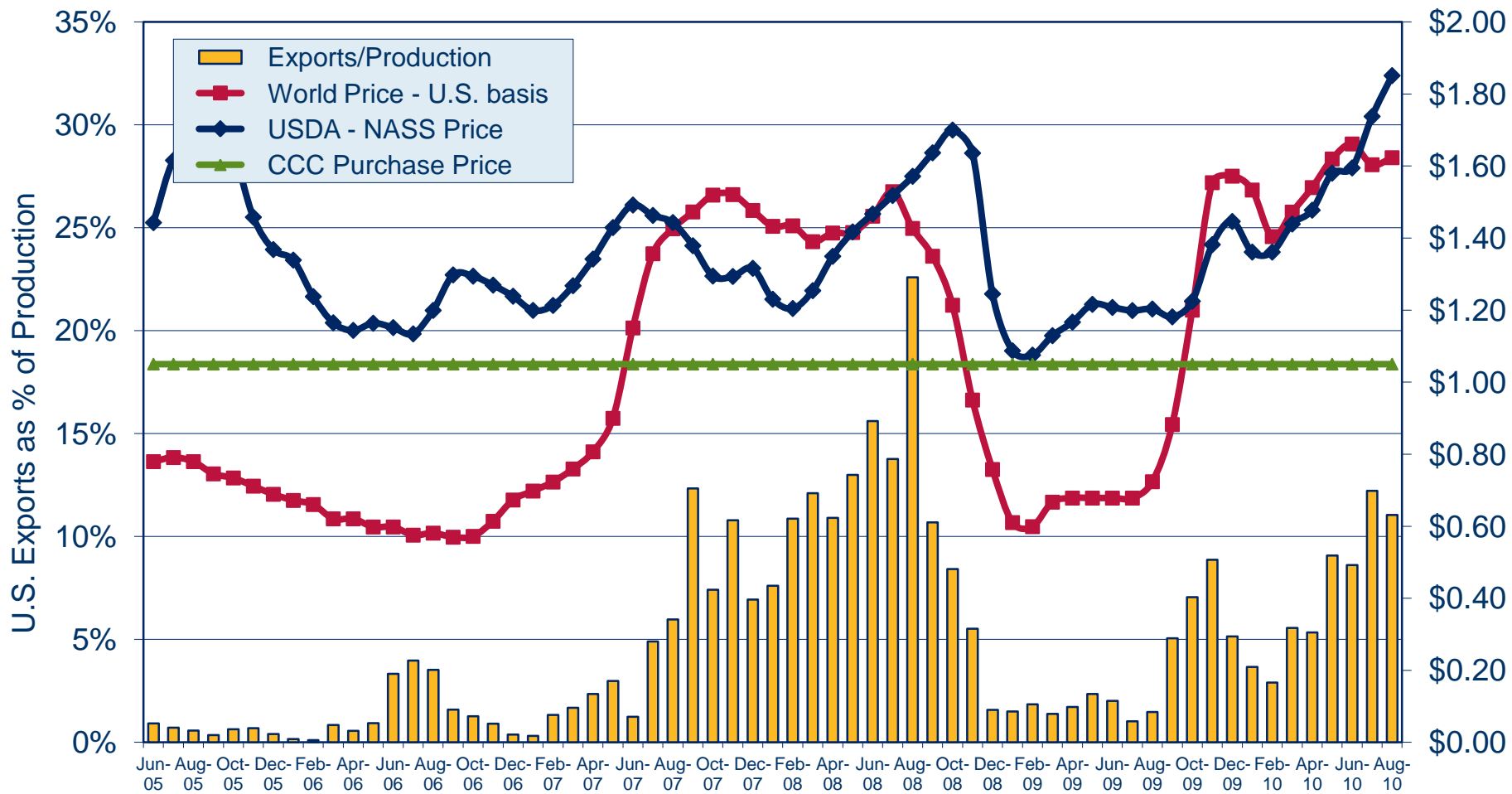




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U.S. and World Prices - Butter



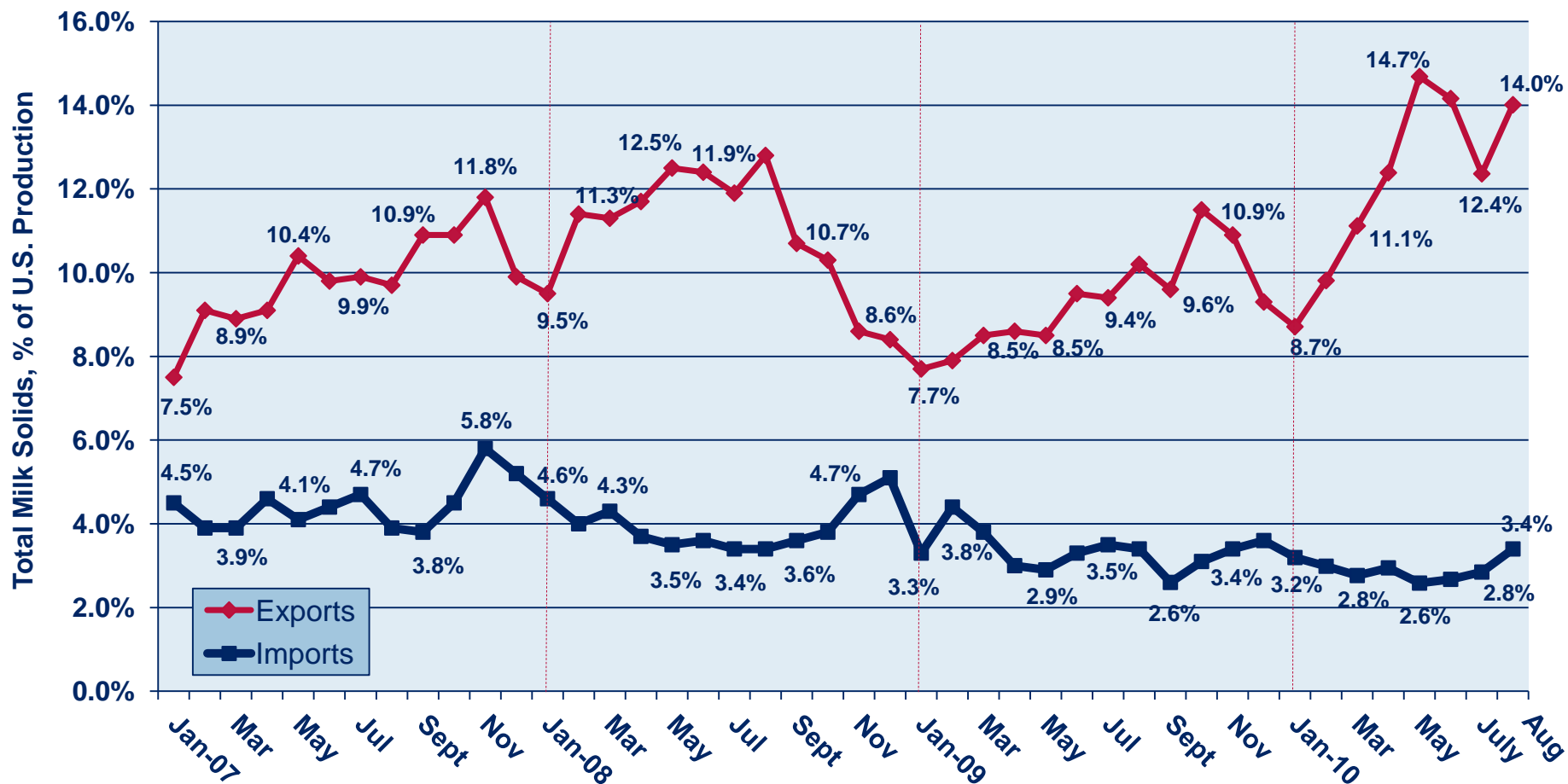


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Exports Returning to Longer-term Trend

MONTHLY U.S. DAIRY TRADE BALANCE, 2007-2010 YTD



Near Term Outlook: Global Supply

- NZ expects above average growth
 - Yields recover from drought, greater cow numbers, near record milk prices
 - Wide ranging forecasts: 3-14%; probably 6-9%
- Australia expecting 1-2% increase
 - Adequate moisture, good returns
- EU production increasing but not exceeding quota
- U.S. returns to growth path
 - Productivity increasing though butterfat test has been down
- Emerging suppliers continue to struggle
 - Argentina production behind year ago
 - Brazil production up but so is domestic consumption

Export Outlook through 1st Quarter 2011

- Paradigm shift continues – “Real Competition”
 - Demand growth straining supply
 - High volatility increases cost of residual supplier
 - Pricing continues to be opaque and segmented
 - NZ and AU forward contracting limits spot market supply
 - Global Dairy Trade (gDT) auction influence exceeds its volume
- Demand growth uncertainties
 - China: food safety concerns and consumer preferences underpin huge WMP imports
 - Higher energy prices stimulate demand in Middle East, N. Africa
 - Local supply shocks in Russia (drought) and Pakistan (flooding) spur seasonal demand



2011-Q1 Export Outlook – NDM/SMP

Positive Factors	Negative Factors
China pulling WMP out of NZ pulls skim solids out of production	Buyer reaction to high prices
Opportunities for U.S. to build market share and increase volume	Increased segmentation: U.S. product sells at discount to NZ product
EU supply continues decline as milk moves to cheese, and fresh products	Heavy forward buys will leave many buyers satisfied early in year
EU Commission limited release of intervention stocks	

Net: Some early softness as buyers work thru forward buys, but demand remains firm



2011-Q1 Export Outlook – Cheese

Positive Factors	Negative Factors
Global demand growth seems steady	EU expanding cheese production
Continued food service expansion	Buyer resistance to high prices
Oceania capacity constraints	Sluggish economy in U.S. and EU slows consumption growth
U.S. exports performing very well in 2010 despite barriers	

**Net: Prices likely to stay near higher ends,
U.S. sales should stay good, despite barriers**



2011-Q1 Export Outlook – Milkfat

Positive Factors	Negative Factors
China WMP demand pulls high volumes out of market	Shallow market increases potential for volatility
Opportunities for import displacement	More opportunities in AMF and blends than butter
Russian demand adds to tight supplies, barriers notwithstanding	Increased substitution as high price levels

Net: Precarious price levels due to narrow markets, seasonal impact, higher prices, and supply resting on diversion to WMP



EU SCC and SPC Sampling Changes

- Since the late 1990s EU regulations have required raw milk used to manufacture imported dairy products to meet EU standards as outlined in Council Directive 92/46/EEC:
 - Somatic cell count (SCC) $\leq 400,000$ per ml
 - Geometric average over a three-month period, with at least one sample per month
 - Standard plate count (SPC) $\leq 100,000$ per ml
 - Geometric average over a two-month period, with at least two samples per month



EU SCC and SPC Sampling Changes (2)

- January 2006, EU repealed Council Directive 92/46, but did not revise the EU health certificate, this certificate still references 92/46
- Consequently, USDA will continue to issue certificates based on the existing criteria for compliance
 - Directive 92/46/EEC requires sampling **either** at the production holding **or** at processing establishment

EU SCC and SPC Sampling Changes (3)

- Regulation No. 853/2004
 - Annex III
 - Establishes test must be made at farm level only
 - Representative number of samples taken by random sampling must be checked for compliance
 - Seasonal exemption
 - Article 10
 - Rise of the derogation

EU SCC and SPC Sampling Changes (4)

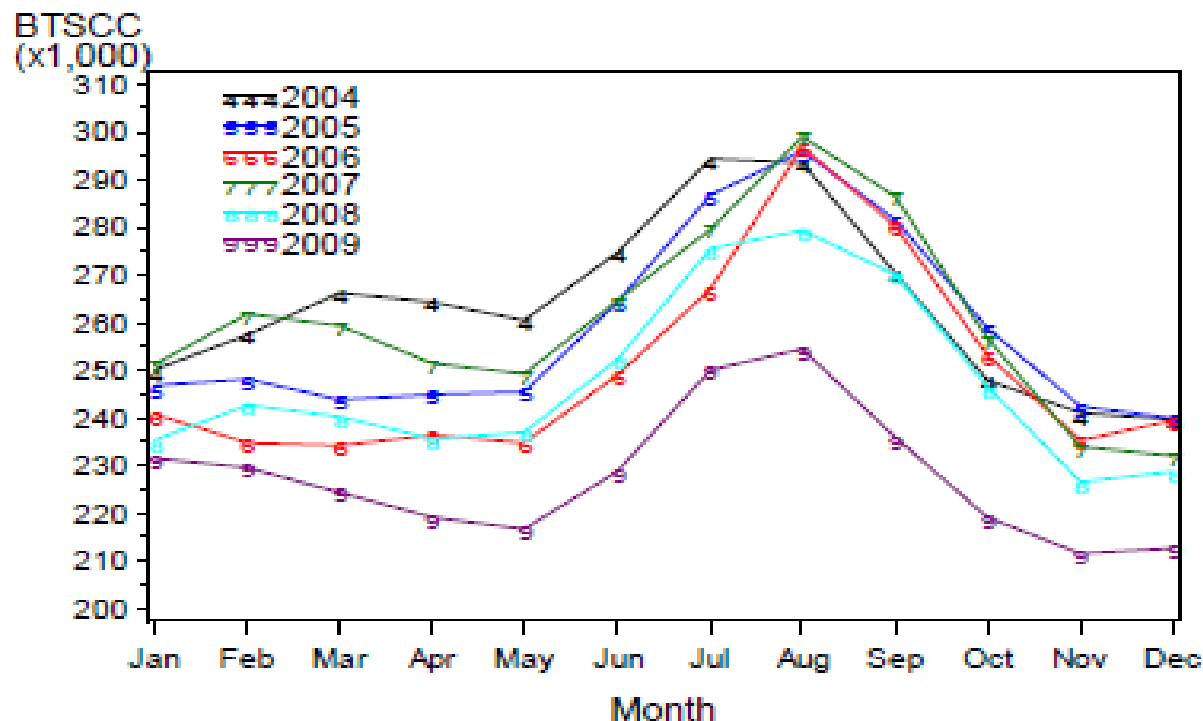
- Derogation
 - The partial repeal of a law, usually by a subsequent act that in some way diminishes its original intent or scope
 - Belgium
 - Ireland
 - Spain
 - France
 - Moving forward in U.S.



EU SCC and SPC Sampling Changes (5)

- Seasonal
 - Observe EU exemptions for seasonal variations

Figure 6. Milk-weighted BTSCCs by Year and by Month



EU SCC and SPC Sampling Changes (6)

- Random sampling of 10% of farms shipping milk to processor
- Equitable treatment of enforcement

Composite Dairy Products Destined for EU

- Certification of processed products containing dairy ingredients depends on composition of the product
- Commission Decision 2007/275/EU states that composite products **containing 50% or less** dairy products shall not be subject to the sanitary certificate requirement for milk and milk products
- This decision removes the burden of compliance for shipping products containing less dairy ingredients



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Thank You

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