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MCT COMPASS

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If you can't beat 'em, join 'em

Is the United States an inept dairy trader? That seems to be what DairyAmerica is telling us.

In a strategy that can be best described as "if you can't beat 'em, join 'em," DairyAmerica has finalized a two-year deal that would allow the New Zealand Dairy Board (NZDB) to handle all its export sales. DairyAmerica is the marketing agent for about 70% of U.S. skim milk powder (SMP) production. New Zealand annually produces less milk than California, but is responsible for one-third of the world's dairy exports.

DairyAmerica claims this deal gives it access to New Zealand's vaunted global marketing infrastructure and technology. But at what long-term cost to the industry?

Through this alliance, the United States may very well move more powder, but it'll be low-value, commodity stuff. On the other hand, this development is the latest in a series of moves by the New Zealand dairy industry to source basic commodities from other countries while concentrating its own production and investment in higher-value products like specialty powders, dairy proteins and cheese.

Consider this scenario:

New Zealand currently produces about 200,000 tons of skim milk powder per year. If it can source all its powder from the United States and Australia (another country that's been willing to hand its production over to the Kiwis), it would free up enough milk to produce an additional 169,000 tons of cheese. That's cheese that will compete with U.S. product in the international marketplace.

Of course, it won't just make more cheese. It'll also make more whey, casein and milk protein concentrate. The former has been our greatest export success story to date. The latter two could be shipped back to our shores duty-free in unrestricted quantities.

The result of this deal is that after watching the U.S. dairy industry spend the last decade investing in export market development, DairyAmerica is willing to give up the fight and accept the notion that we can be no more than a commodity production source. Company executives insist that dairy producers just aren't committed enough in exports to invest what it takes to get to the next level. Instead, they're content to hand over control of the sale and relinquish interaction with the customer.

It's a good thing Congress is considering keeping the support program around for another decade. DairyAmerica has conceded that selling to CCC is its best option after the commercial market. ❑

KEN'S CORNER

by Ken Meyers
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If you're still in a relaxed, summer-vacation state-of-mind, it's time to snap out of it. This month's issue of the *MCT Compass* addresses two issues that suggest the U.S. dairy industry may be regressing from its free-trade posture.

The article on the left describes some of the reasons to be concerned about DairyAmerica's white-flag approach to international dairy marketing. By handing off its product for New Zealand to sell, DairyAmerica stays one step removed from the sales process, the place where customer relationships are forged and developed. It is this process of talking to the actual end-user to discover what his needs are that ultimately leads to sales of value-added products.

On the following page, we examine some of the implementation challenges ahead for the "Dairy Promotion Fairness Act." If you agree with our assessment of the assessment, let your representatives know this is a bad tax. ❑

Markets holding firm

The cheddar barrel market is weakening, but that's not uncommon for end of summer. Blocks are holding and butter is on the rise; both markets are being driven by speculation of limited product availability despite sluggish product demand.

Demand is being affected by higher retail cheese and butter prices and a slowdown in the economy. However, a recovery in the U.S. milk supply is not expected until the fourth quarter, which could keep dairy product prices steady until then. Class III prices will near $16 in September and October. ❑

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV
AUG	1.7050	1.6400	15.57	2.0825	14.98
SEP	1.7200	1.6950	15.90	2.1900	15.67
OCT	1.7350	1.7100	16.06	2.2475	15.89
NOV	1.6225	1.5975	15.76	2.2500	15.96
DEC	1.4775	1.4525	14.15	1.5700	14.40
JAN	1.4050	1.3800	13.29	1.2800	11.58

** Block, barrel and butter are monthly averages of CME prices.*

Fairness is in the eye of the beholder

Mirror, mirror on the wall,
who's the fairest of them all?

When Congress returns after Labor Day, they'll pick up where they left off the so-called "Dairy Promotion Fairness Act"-- proposed legislation that would impose the National Dairy Board's (NDB) promotion assessment on dairy imports.

Proponents of the bills argue that dairy imports receive a halo effect from the positive environment created by U.S. generic dairy promotion. Therefore they should kick into the pot.

Meanwhile, critics of the bill roll out a litany of objections and implementation questions:

- The NDB assessment is a producer program, created in 1983 by producers who were willing to tax themselves to create a pool for generic promotion and research. Imposing this tax involuntarily on another group is a different matter altogether. Moreover, the dairy checkoff program represents an investment made by producers to stimulate demand for U.S. milk products. Arbitrarily taxing a single group of marketers with no stake in the U.S. milk market is clearly beyond the scope or intent of the program.
- The bill leaves it up to the Secretary's discretion to figure out how to convert dairy imports into milk equivalents that can translate into a tax of 15¢/cwt. But that's easier said than done. The milk equivalent of a low-moisture cheese, like Parmigiano-Reggiano, can be quite different from the milk equivalent of a high-moisture cheese, like double-cream brie. And some imported cheese, like Roquefort, isn't even made from cow's milk, so that, presumably, would escape the tax.
- Milk equivalencies get much more complicated when looking at the two other big U.S. dairy imports, casein and milk protein concentrate (MPC). The equivalencies fluctuate widely depending on whether you're measuring on a nonfat solids basis or a total solids basis. Further, the protein level in MPC can vary from 40% to 90% or more, which has a big impact on the milk equivalency. The equivalency numbers are fuzzy, but it appears the assessment on MPC could vary anywhere from 1-5¢/lb., depending on how much protein is in the product and how you measure it.
- Butter imports, up sharply this year, pose a similar problem; you get one number if you're measuring milk equivalency on a milkfat basis and a very different number if you're measuring on a nonfat solids or total solids basis.
- Taxing imports of casein and MPC is tricky. A good deal of casein is imported for industrial, non-food uses. The Customs department doesn't even consider casein a dairy product. Likewise, MPC is often used in baked goods, soups and other prepared foods. Can importers for those uses be expected to pay a dairy promotion assessment?

These questions and issues underscore that the devil is in the details in the implementation of this proposal. After all is said and done, it's hard to see how this law would be "fair" to anyone. ❑

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