Serving the World's Dairy Industry Weekly
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CHEESE REPORTER

Vol. 138, No. 33 • Friday, February 7, 2014 • Madison, Wisconsin

US Dairy Exports Hit Record $6.72 Billion; Cheese Exports Set Record

NDM Exports Top 1.2 Billion Pounds, $2 Billion In Value; Lactose, Butter Exports Set Records; Cheese, Other Dairy Imports Decline

Washington—The value of US dairy exports in 2013 was $6.719 billion, up 31 percent, or $1.6 billion, from 2012's record export value, according to figures released Thursday by USDA's Foreign Agricultural Service (FAS).

That dairy export value is more than triple the value of 2009 ($2.235 billion), and up more than $3.0 billion from 2010's dairy export value of $3.69 billion.

"US exporters were able to capitalize on favorable market conditions for most of the year, as well as their increasing attention to the needs of the global market," said Tom Suber, president of the US Dairy Export Council (USDEC).

On a volume basis, US exporters sold 3.91 billion pounds of milk solids last year, 19 percent more than 2012, USDEC noted. Exports accounted for 15.5 percent of US milk production, up from the 13.1-percent average in 2010-12.

Just during December, US dairy exports were valued at $604.3 million, up 47 percent from December of 2012. That marked the fifth month in 2013 in which US dairy exports topped $600 million.

US dairy imports last year were valued at $2.644 billion, down 2 percent from 2012. Just during December, US dairy imports were valued at $266.4 million, down 4 percent from December of 2012.

For the third straight year, US dairy exports to Mexico topped $1.0 billion in value. Specifically, US dairy exports to Mexico last year were valued at $1.43 billion, up 16 percent from 2012.

Dairy exports to two additional countries topped $500 million last year. Exports to those countries, and changes from 2012, were: China, $706.2 million, up 70 percent; and Canada, $568.9 million, up 21 percent.

Other leading destinations for US dairy exports on a value basis last year, with comparisons to 2012, were: Philippines, $364 million, up 15 percent; Indonesia, $316 million, up 66 percent; Japan, $304 million, up 7 percent; South Korea, $301 million, up 34 percent; Vietnam, $240 million, up 72 percent; Malaysia, $181 million, up 36 percent; Saudi Arabia, $166 million, up 31 percent; Egypt, $153 million, up 107 percent; Australia, $136 million, up 29 percent; Algeria, $133 million, up 440 percent; New Zealand, $119 million, up 6 percent; and Morocco, $117 million, up 61 percent.

US cheese exports last year reached a record high of 696.4 million pounds, up 22 percent, or about 125 million pounds, from 2012's record and more than 200 million pounds higher than 2011's cheese exports.

The value of last year's cheese exports was $1.355 billion, up 22 percent from 2012. Last year marked the second consecutive year in which US cheese exports topped $1 billion in value.

Leading destinations for US cheese exports last year on a volume basis, with comparisons to 2012, were: Mexico, 180.9 million pounds, up 26 percent; South Korea, 108.3 million pounds, up 25 percent; Japan, 68.6 million pounds, up 21 percent; Canada,

• See **Export Records,** p. 11

CME Block Price Reaches Record $2.36 A Pound, Then Starts To Decline; Most Dairy Prices Fall On Global Dairy Trade

Chicago—The cash market price for 40-pound Cheddar blocks reached a record high of $2.3600 per pound last Friday, then remained at that level before starting to decline Wednesday and falling further today.

The block price had reached a new record high, $2.3100 per pound, on January 24. That broke the previous record of $2.2850 a pound, set in May of 2008.

The block price then continued to increase last week, reaching $2.3600 on Friday, January 31. That price held until Wednesday, when the block price fell to $2.3250 on an uncovered offer of 1 car of blocks at that price.

The block price then rebounded

• See **Prices Decline,** p. 8

Senate OKs, President Obama To Sign New Farm Bill; Focus Turns To Implementation

Washington—The US Senate on Tuesday approved, by a 68-32 vote, the 2014 farm bill, sending the measure on to President Obama for his signature.

"This bill provides certainty to America's farmers and ranchers, and contains a variety of commonsense reforms that my administration has consistently called for," said Obama, who was scheduled to sign the bill this afternoon at Michigan State University in East Lansing, MI. "As with any compromise, the farm bill isn't perfect, but on the whole, it will make a positive difference not only for the rural economies that grow America's food, but for our nation."

The dairy title of the farm bill establishes a new, voluntary Margin Protection Program for Dairy Producers, and also creates a new Dairy Product Donation Program.

USDA is required to establish the margin protection program no later than September 1, 2014, and establish the Dairy Product Donation Program not later than 120 days after the margin protection program is operational.

The farm bill also terminates the Dairy Product Price Support Program and the Dairy Export Incentive Program (DEIP) immediately; repeals the Milk Income Loss Contract (MILC) Program by either September 1, 2014, or when the margin protection program is operational, whichever is earlier; extends the dairy forward pricing program, which had expired on October 1, 2013; and extends the Dairy Promotion and Research Program.

"The compromise dairy title in the farm bill represents historic

• See **Farm Bill Passes,** p. 7

Cheese Production Rose 2.3% In December; 2013 Output Set New Record, At 11.1 Billion Pounds; Butter Falls Short Of 1941 Record

Washington—US cheese production during December totaled 972.7 million pounds, up 2.3 percent from December of 2012, USDA's National Agricultural Statistics Service (NASS) reported Tuesday.

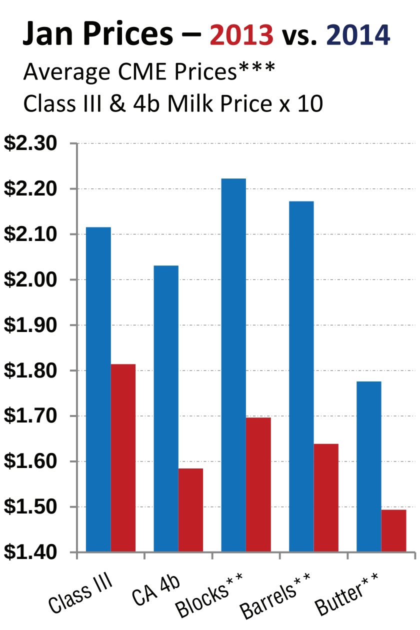
That was the second time in three months that the US set a new monthly cheese production record; October's output was 970.8 million pounds. The previous record for monthly cheese output was 956.2 million pounds, set in March of 2012.

For all of 2013, US cheese production is estimated at a record 11.143 billion pounds, up 2.3 percent, or 253 million pounds, from 2012's record output.

Regional US cheese production during December, with comparisons to December of 2012, was: Central, 421.9 million pounds, down 1.9 percent; West, 413.2 million pounds, up 4.0 percent; and Atlantic, 137.6 million pounds, up 11.3 percent.

Cheese output in the leading states, with comparisons to December of 2012, was: Wisconsin, 240.9 million pounds, down 1.5 percent; California, 202.1 million pounds, up 3.7 percent; New York, 80.6 million pounds, up 19.8 percent; Idaho, 77.5 million pounds, up 2.6 percent; New Mexico, 65.9 million pounds, up 2.6 percent; Minnesota, 60.3 million pounds, up 4.9 percent; Pennsylvania, 37.8 million pounds, up 5.5 percent; Iowa,

• See **Record Cheese,** p. 6



Russia's Refusal To Allow US-Made Chobani Yogurt To Reach US Winter Olympic Athletes Criticized

Washington—US Sen. Charles E. Schumer (D-NY) this week criticized the Russian government for its refusal to accept Chobani's yogurt into Russia for consumption by US athletes at the Winter Olympics in Sochi, Russia.

"Right now, 5,000 fresh single-serve cups of blueberry, strawberry and peach Chobani, and multi-serve containers of plain Chobani yogurt for smoothies, are being stored in a temperature-controlled facility, waiting for the final go-ahead from Russian authorities to be immediately transported," Chobani said in a statement released Wednesday.

Schumer said the Russian government is not permitting the yogurt to enter the country without very specific and unattainable Customs certifications. Also, USDA has contacted the Russian Federation's Federal Service for Veterinary and Phytosanitary Surveillance to seek permission for Chobani to be able to supply a one-time, non-commercial shipment of yogurt to Russia using an AMS sanitary certificate for export.

In light of Russia's refusal to accept Chobani Greek yogurt for consumption by US Olympic athletes, the US Dairy Export Council (USDEC) and National Milk Producers Federation (NMPF) are calling on Russian authorities to end that country's three-year embargo of US dairy products. In September of 2010, Russia closed its market to US dairy products due to changes in what it demanded on a health certificate, the official US government-issued statements that have long accompanied product shipments in international trade and provide assurances regarding product safety.

"This is yet another example of how Russia's blockade of US dairy products is harming US companies," said Tom Suber, USDEC's president. "Russia has turned a cold shoulder to many US businesses trying to ship dairy products to Russia, despite our ample efforts during the past three years to prove their safety and quality. Reopening this market on a permanent basis would be a great benefit for US companies and Russian consumers."

"With Russia's membership in the World Trade Organization (WTO), it's incumbent on them to live up to WTO trading obligations on fundamental food safety requirements," commented Jim Mulhern, NMPF's president and CEO. "It's a shame they want cultural exchanges like the Olympics, but fear cultured dairy products. They'll welcome our Olympians but not their food."

Farm Bill Passes

(Continued from p. 1)

reform of our nation's dairy policies," said Jerry Slominski, senior vice president of legislative affairs and economic policy for the International Dairy Foods Association.

"This is a major step toward moving our dairy industry away from the failed agriculture policies of the past and toward policies of the future that will enable our entire industry to grow and capture new markets," Slominski added.

"We didn't wind up precisely where we wanted in terms of the dairy program, but the milk glass is more than half-full," said Jim Mulhern, of the NMPF.

"In their place is a new, more modern, and more comprehensive margin protection program offering dairy producers a far better and more effective safety net," Mulhern continued. "Because it is designed to protect against periods of both low milk prices as well as high feed costs, margin insurance is a better risk management tool to help farmers deal with the global volatility in commodity prices in the 21st century."

Possible Dairy Title Challenges

While the new farm bill's dairy title was "designed in good faith and with great attention to detail, some unintended consequences may still occur," according to an "Information Letter" written by dairy economists Marin Bozic of the University of Minnesota; John Newton and Cameron Thraen of Ohio State University; Andy Novakovic of Cornell University; and Mark Stephenson of the University of Wisconsin-Madison.

Among those possible unintended consequences:

■ While market conditions may rapidly change, margin protection program (MPP) premiums never do. The upside of this provision is that the MPP can serve as a protection against protracted low margin periods that cannot be managed using CME futures and options contracts.

A possible adverse side effect is the crowding out of private risk markets by subsidized government-provided margin insurance. In other words, if dairy farmers use the MPP heavily and stop participating in CME futures markets, those markets will lose valuable participants and liquidity that could threaten their viability.

■ MPP provisions may inadvertently result in a policy framework that gives advantage to "lumpy" over "incremental" growth at the farm level. Insurable production at any single location is determined by a combination of the historical milk production over the 2011-13 period and the subsequent growth in national milk per cow.

However, producers who choose to grow their business by building a brand new separate dairy operation at a new location would likely be able to enroll that operation in the program under the provisions governing "new entrants."

■ There are several reasons why producers faced with very low margins may find it optimal to reduce milk production by culling, including basic economics, cash flow needs and favorable cull cow prices. Because indemnities received under MPP should lessen cash flow challenges, culling that might otherwise have occurred is forestalled.

This is consistent with the whole point of the program, but the effect is to maintain milk production and potentially prolong the duration of low margin periods.

■ Actuarially fair premiums imply that the premium equals the expected long-term indemnity; insured businesses, in total, do not get more than they put in. The dairy economists cannot say how heavily subsidized the premiums for MPP are, but it is easy to guess that, over a period of several years, the indemnities paid out will exceed the premiums collected.

"Indeed, it is quite possible that the level of taxpayer subsidy will be very large," the economists noted. "If this is true, it implies that the MPP will reduce, and quite possibly very significantly reduce, market risk in dairy farming." To the extent this is true, it could give incentives for investments or production decisions that otherwise would be deemed too risky.

■ To the extent the Dairy Product Donation Program is triggered, it could send distorted market signals to various dairy product sectors, in essence inflating the true underlying demand for products that were sold to the government for donations.

■ MMP operates from a margin formula that defines income or returns over feed costs. Declines in the MMP margin can come about from any combination of movements in milk prices versus costs.

The trigger for the use of the Dairy Product Donation Program does not distinguish the cause of a low MMP margin. An incremental government demand presumably will increase the milk price relative to feed prices and thereby raise the margin.

If the margin is low as a result of rising and high feed prices with an already adequate or even high milk price, it is not clear how effective these purchases will be in boosting the milk price and in turn the MMP program.

For more information, circle #4 on the Reader Response Card on p. 14