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Politics and Trade Wars

There has been a lot of media attention lately regarding our current administration on the subject of trade. The United States has for years been a very lucrative market for many good from many countries. Some countries do produce certain products better than we can and at a lower cost. That is most often due to the often ridiculous regulation placed on American businesses. For this article we will focus on the dairy industry and what countries purchase our products.

Our number one dairy export market is Mexico. Mexico imports \$1.3 billion in dairy goods annually. That amount is increased by 8% over last year. The largest dairy product imported is non-fat dry milk/skim milk powder. The next product purchased by Mexico was cheese and represented an 11% increase from last year. Butterfat imports to Mexico increased substantially when compared to previous years. It does not take very much research to document that Mexico is a significant trade partner for the dairy industry in the U.S. Now the question becomes whether the current discussion about the U.S. renegotiating NAFTA will have a negative impact on dairy exports. The businesses in Mexico that are importing dairy products will continue to do so regardless of the governmental issues that are being discussed in the media. If there is money to be made, the businesses will continue to purchase these goods from the U.S. so that they can continue to use these ingredients to manufacture other dairy products.

We were recently in Mexico to perform a dairy audit. We were given intimate access to the dairy including production records. The dairy we were examining would rival many dairies in the U.S. This particular dairy had close to 10,000 cows and they were averaging high 80's milk across the herd. The price for milk there was relatively the same as U.S. dairies are receiving. The biggest difference between the dairy we visited and a similar sized dairy in the U.S. was the number of employees. They had over 300 employees that were paid a fair wage for the area but did not get benefits that American workers have come to expect. These workers were glad to have a job and a paycheck at the end of the day. It is not uncommon to see workers walking several miles from the closest town to get to work while others used small motorcycles because they were cheap and are conservative on fuel. The regulatory climate in the U.S. prevents the ability of an American dairy to utilize that number of employees. Will there come a time when the Mexican dairy industry will be able to expand and produce a significant amount of the dairy demand? Not likely. Most don't know that in Mexico there is not a middle class. There are only rich and poor. The rich do not see the dairy industry as a viable way to generate revenue on the scale that they desire. I believe our exports to Mexico will continue to be strong and a significant market share. The industry would be wise to continue to develop relationships outside of the government in order to protect our interests in this market.

The second largest importer (\$6.9 Million) of our dairy products is Southeast Asia. These countries primary import is nonfat dry skim milk. This product has a stable shelf life and can be used as an ingredient to produce other products. The third largest export market (\$6.4 Million) is Canada. Canada is also part of the

NAFTA agreement and has been the target of President Trump recently for the dairy trade deficit. There is a lot of information around this topic and one has to pick which ones to believe. Canada does export more to the U.S. than we export to them but the margin is not quite as lopsided as some reports have indicated.

The fourth largest export market for U.S. dairy exports is China. China purchased 49% more dairy products when compared to the past year. China is not losing population and will continue to be a strong market for U.S. dairy products. China has become our primary buyer for lactose. We would be wise to be proactive in marketing our products to China.

I believe the U.S. has been too easy to buy products from other countries for diplomatic benefits that has often hurt American agriculture. I believe we are wise to expect some reciprocation from these countries. A fair playing field is all we ask and then we can make the best decisions to help increase our bottom line.

| U.S. DAIRY EXPORTS, TOP 10 MARKETS | | |
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| <i>in millions</i> | | |
| | 2017 | change vs. prior year |
| Mexico | \$1,312 | +8% |
| Southeast Asia | \$690 | +3% |
| Canada | \$636 | +1% |
| China | \$577 | +49% |
| Japan | \$291 | +41% |
| South America | \$288 | +3% |
| South Korea | \$280 | +21% |
| Oceania | \$258 | +50% |
| Middle East/North Africa | \$234 | +21% |
| Caribbean | \$221 | +3% |
| <i>Source: U.S. Dairy Export Council, USDA.</i> | | |