The Milkweed

Dairy's best information and insights

Issue No. 468 • July 2018 This issue mailed on July 11, '18

"Float like a butterfly, sting like a bee." — Muhammad Ali

International Trade Wars Disrupting Dairy Commodity Prices

byPete Hardin

At least for the short-term, all bets are off. Uncertainty prevails over dairy commodity prices as the United States' top three dairy export destinations have imposed retaliatory tariffs against this nation's dairy exports amoung other products.

Mexico, Canada and China have all retaliated in trade wars initiated by the Trump administration, which started with tariffs levied against steel and aluminum imports, automobiles, and automotive parts.

Export momentum for this nation's dairy industry had been building earlier in 2018, before the trade wars broke out. For example, April 2018 was the single greatest month, volume-wise, for U.S. dairy exports – totaling 18.8% of milk solids equivalent. But in the past month-plus, retaliatory tariffs levied against certain U.S. dairy products will make our dairy exports to those nations over-priced, relative to some products sourced from the European Union, for example. Mexico has levied tariffs ranging from 10% to 25% on U.S. dairy products. China has imposed a 25% tariff on almost all of U.S. dairy products, as well as hammering soybean and pork imports from this nation. Canada has set in place a variety of dairy import tariffs against U.S. products.

This nation's dairy, soybean and pork producers are ill-prepared for their involuntary positions as front-line troops in President Trump's trade wars. After several years of low prices, U.S. farmers are generally still struggling with prices that are below costs of production. And production costs such as fuel, parts and interest rates are rising. New equipment? Forget it.

Dairy's dilemma – facing sharply higher prices for products sent to our top three export destinations – hasgained ample coverage in the news media. That coverage was sparked by a generally excellent article in *The New York Times* on June 25, titled: "A Trade War Hits home for U.S. Cheesemakers." That article profiled the woes of Sartori Cheese, based in Plymouth, Wisconsin. Sartori exports about 12% of its cheese volume to Mexico. That *NYT* article noted:

"Mr. Trump has set off trade clashes with countries around the world, demanding new trade agreements and slapping tariffs on allies to reset what he says are deeply unfair terms that hurt American companies and workers. He has singled out certain American industries that he says are at a global disadvantage, including automobiles and dairy – which led to a public spat between Mr. Trump and the Canadian prime minister, Justin Trudeau, over Canada's dairy tariffs."

That *NYT* articlefurther noted:

"For domestic cheesemakers like Sartori, Mr. Trump's approach has further tilted the global playing field against American manufacturers, giving them an even steeper climb in an increasingly competitive global economy.

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"The dairy industry nowfaces substantial tariffs on products it exports to Mexico, Canada and other countries that retaliate against Mr. Trump's steel and aluminum tariffs. American exporters also fearthat they could lose access to Canada and Mexico if the president goes ahead with his threat to withdraw from the North American Free Trade Agreement. And they are finding themselves at an increasing disadvantage as other countries move ahead with trade agreements that grant each other freer access to their markets while Mr. Trump further isolates the United States."

Elsewhere, Sartori Cheese has explained that short-term, it has agreed to cover half the tariffs added to cheeses it sells to Mexican customers. But that strategy is a costly, short-term "fix." In early July, *The Milkweed* learned from industry sources that Sartori was "house-cleaning" –offering several dozen trailer loads of Parmesan – about two million lbs. — on the U.S. market. Having that much Parmesan dumped at one time served to destabilize prices.

Beyond tariffs, EU dairy trade deals and GIs

Short-term, dairy's current market confusion is focusing on how much those tariffs imposed by Mexico, Canada and China will hurt sales, prices and inventory values. But there's a far longer game being played by savvy EU dairy trading nations. Evolving logic among EU dairy traders is aptly detailed in the July 6, 2018 International Dairy Markets report appearing in Dairy Market News:

"Sources within the EU note that the success follows many years of building and maintaining customer and state based relationships. EU exports comment that stability is an important factor in maintaining trading relationships. Now with the recent actions, which have resulted in some countries such as China imposing tariffs on some U.S. dairy imports, seasoned EU traders and manufacturers are already at work expanding the EU reach in global dairy exports. Commenting that commercial relationships do not turn on easily once turned off, many in the EU are moving towards filling what they see as an opening to expand export market share due to U.S. dairy exports now facing tariffs."

Playing the longer game, the EU has in the past year or so worked out trading relationships with Mexico, Canada, South Korea and Vietnam. Very recently, EU negotiators met with representatives from Australia and New Zealand –meetings which will lead to further negotiations in Europe during July. A key element in these EU negotiations entails cementing in place other nations' recognition of so-called "Geographic Indicators" (GIs), which seek to limit names applied to certain products based upon their geographic origins. Example: the EU is insisting that only cheese made in or near Parma, Italy may be called "Parmesan."

In the *NYT* article, the emerging difficulties of "GIs" were reflected by Sartori Cheese's efforts to

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Cheese/Butter Inventories Help Depress Dairy Prices

byPete Hardin

Yes, international trade uncertainty is a major factor kicking the stuffing out of dairy commodity prices at the Chicago Mercantile Exchange in recent weeks.

But … big volumes of cheese and butter inventories stockpiled in U.S. warehouses are another factor contributing to price uncertainty in the domestic dairy industry.

According to USDA's May 31, 2018 Cold Storage Report, butter inventories (older than 30 days) totaled 338.807 million lbs. That total was about 31.5 million lbs. above the revised April 30, 2018 figure. That's troubling, because the mid-spring does not usually show significant month-to-month gains in butter inventories. Important to note: the Cold Storage data includes both domestic and imported butter, as well as other products containing high-levels of butterfat (including anhydrous milkfat and butteroil).

Looking at those numbers, one might conclude that the lion's share of the 31.5 million lb. butter inventory increase resulted from domestic production, not imports.

But curiously, May 2018 butter production in the United States was 167.911 million lbs. – **a 7.386 million lb. decline compared to April 2018's butter output.**

And April 2018 U.S. butter production – 175.297 million lbs. — was 7.25 million lbs. less than March 2018's total.

Imports??? During May 2018, USDA data reports imports of butter and other high milkfat-content products totaled 10.3 million lbs. That's an approximate 50% increase – an additional 5 million lbs. — from May 2017's butter import totals. Of those total butter imports in May, actual butter imports totaled 4.6 million lbs. (-5% compared to May 2018. Thus, products such as anhydrous milk fat and butteroil increased their import volumes this past May.

So how, with less butter production in April and May 2018, compared to April/May 2017, and only five million more lbs. of butterfat imports, did the Cold Storage Report show an increase of 31.5 million lbs. of butter as of 5/31/18???? More time is needed to answer that question – more data, particularly retail trends. The answer may be in the marketplace, where consumer demand for butter may have tailed off in the past couple months.

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