









































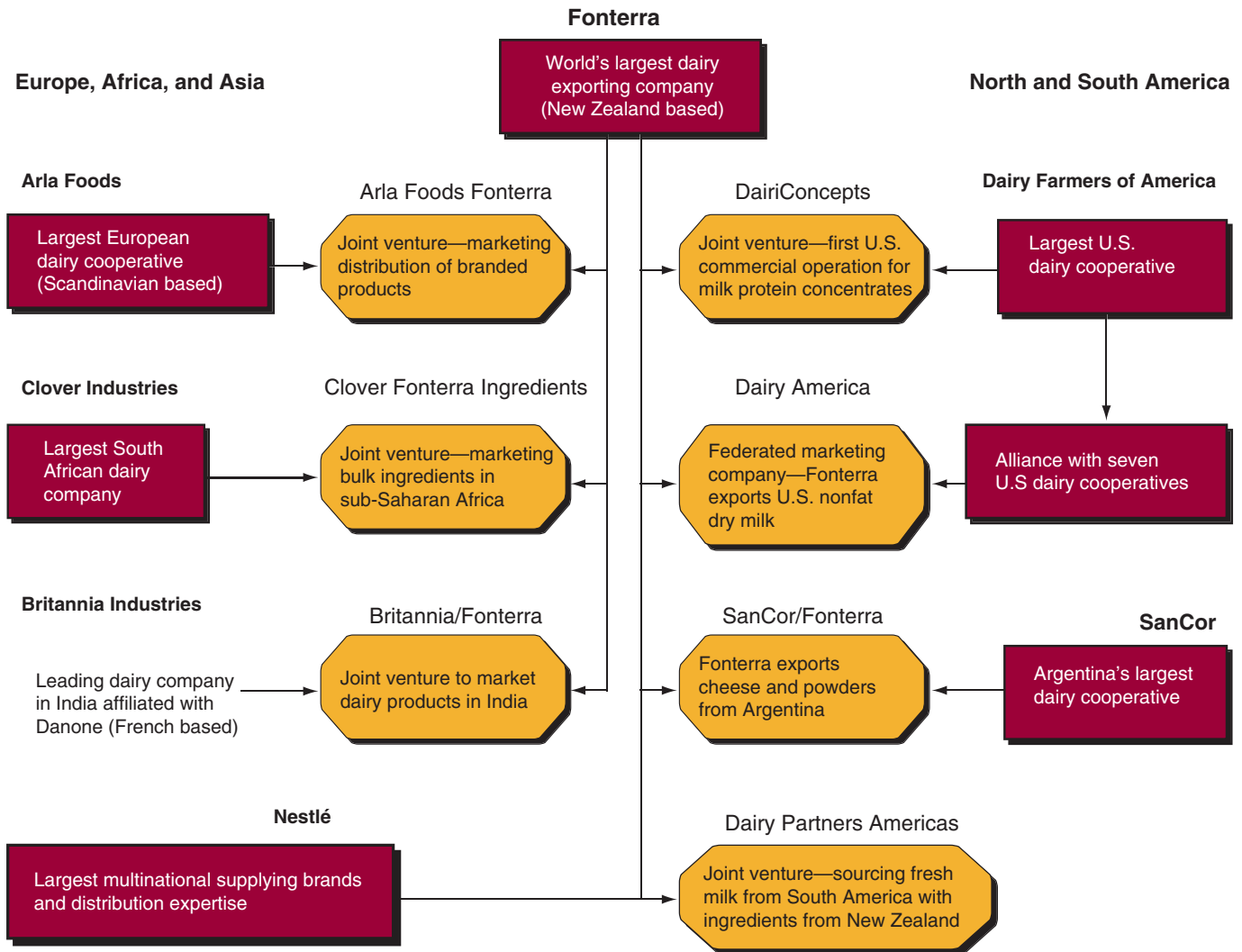






Figure 9

**Global networks arising from partnerships among major dairy companies**



Source: Prepared by USDA, Economic Research Service.

Fonterra’s marketing services and a stable supply of U.S. nonfat dry milk, which benefits milk producers in both New Zealand and the United States. Similarly, Fonterra signed an agreement in 2004 with Argentina’s largest dairy cooperative, SanCor, to export milk powders and cheese.

Although New Zealand historically accounts for a significant share of nonfat dry milk in world trade, Fonterra is increasingly emphasizing production and exports of whole milk powders to improve overall returns to New Zealand milk producers. By entering into agreements in other dairy-producing countries, Fonterra can effectively coordinate shipments of nonfat dry milk to international markets, potentially lessening price volatility and improving returns to New Zealand milk producers, actions that would be more difficult without such partnerships. In recent years when New Zealand had shortfalls in milk production, Fonterra has been able to tap the U.S. market for nonfat dry milk to supply many East Asian markets.

Expansion to new markets is a principal motivation behind many of Fonterra's recent alliances and partnerships. Fonterra established a joint venture with Britannia Industries to gain further access to the emerging dairy market in India. This joint venture combines Fonterra's production expertise and marketing acumen with Britannia's knowledge of the region and distribution network. In addition to forming alliances with small local companies, Fonterra and other large firms target international expansion through large-scale strategic alliances between multinational partners. In many cases, large firms in partnerships benefit mutually through symbiotic advantages stemming from each other's inherent capabilities and specialization. Those relationships, however, are country or market specific; that is, firms that enter partnerships in one market can, at the same time, be rivals elsewhere. For example, Fonterra and Nestlé, rivals in other markets, formally established a 50/50 alliance—Dairy Partners Americas—to establish joint dairy ventures in Latin American markets, initially including Argentina, Brazil, Paraguay, Uruguay, and Venezuela. The joint venture companies in each country benefit from the partners' logistical and marketing resources.

## **European Investment in U.S. Dairy**

Nestlé has been active in the United States for nearly a century but has only recently moved into U.S. dairy products through recent purchases of well-known domestic dairy companies, such as Dreyers. Nestlé also formed a joint venture, Ice Cream Partners, a General Mills subsidiary, which includes such popular brands as Haagen-Dazs and Drum Stick. Nestlé and Unilever, an Anglo-Dutch company, together account for 30 percent of the U.S. supermarket sales of ice cream. The U.S. dairy industry benefits from the presence of these global marketing giants through their expertise in meeting the demands of consumers as well as their purchases of U.S. milk and its components.

Several French dairy firms have a significant and growing presence in the U.S. market. Fromageries Bel produces Kaukauna, a cold pack (Cheddar) cheese produced for the U.S. market. Sodiaal is a French cooperative that previously made investments in U.S. butter processing plants, and Yoplait yogurt is one of the cooperative's premier brands in the U.S. market. Bongrain has a strong presence in aseptic food products in North America through a partnership with the Land O' Lakes Dairy Group, supplying cheese sauces, beverages, and puddings. Bongrain also sells a wide variety of dairy products in the United States, such as ice cream, fluid milk, natural and processed cheese, powdered milk, and yogurt.

## **The Interface Between Domestic Dairy Policies and Dairy Trade**

For dairy industries in individual countries, the first priority is to provide an adequate supply of milk to satisfy domestic market needs, first the fluid market, and then manufactured product markets. Domestic dairy policies and programs are generally mechanisms to promote milk production in a country, but in some cases around the world they have promoted surplus production above domestic needs. Those surpluses are available for export but may also impede imports—for which they are termed trade distorting. By explicitly including agricultural trade and domestic agricultural support policies in its negotiations, the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) opened the door for several contentious debates during trade talks that often centered on domestic dairy policies and programs. As evidenced by these discussions, firms interested in greater international market participation may benefit from an assessment of the effects of domestic dairy policies and programs as they interface with dairy trade policies.

As the global dairy industry continues to evolve, it is important to determine those countries for which the interface between international dairy trade and domestic dairy policy is an issue. Table 3 shows the top five countries or areas of the world for production, consumption, imports, and exports of butter, cheese, nonfat dry milk, and whole milk powder. Almost all countries have tariffs or tariff-rate quota (TRQ) systems in place and at least two countries have both. The bottom line in the table identifies four countries with significant institutional structures, other than tariffs and TRQs, in place to provide domestic dairy industry support: the EU, Canada, Japan, and the United States.

### **Dairy-Trading Nations With Significant Domestic Support**

With the exception of the EU, the four countries/regions where significant domestic support for dairy is prevalent are not dominant players in international dairy product markets. The focus here is to provide a general descriptive outline of the key elements of current policy and programs; historical information for each area can be found in other detailed sources. The details of many domestic dairy programs can be daunting and are available from the governmental agencies charged with their implementation and operation. References are cited for each country in the following sections.

#### ***The European Union (EU)***

EU agricultural policy is embodied in the Common Agricultural Policy (CAP). Reforms of the CAP in 2003 significantly moved the EU toward using decoupled direct payments (called single farm payments) to support agriculture. The fundamental dairy policy components of the current CAP include a milk production quota and intervention programs for butter and nonfat dry milk. The reforms called for reduction of both the butter and the nonfat dry milk intervention prices. The 25-percent reduction for butter prices is to be spread over 4



Table 3

**Dairy trade and domestic dairy policy/programs, 2004**

	Top five nations in each category				
<b>Milk production</b>	European Union	United States	India	Russia	Brazil
<b>Dairy products:</b>					
<b>Production</b>					
Butter	European Union	United States	New Zealand	Russia	Ukraine
Cheese	European Union	United States	Australia	Brazil	Russia
Nonfat dry milk	European Union	United States	New Zealand	India	Australia
Whole milk powder	European Union	China	New Zealand	Brazil	Argentina
<b>Consumption</b>					
Butter	European Union	United States	Russia	Ukraine	Mexico
Cheese	European Union	United States	Russia	Egypt	Canada
Nonfat dry milk	European Union	United States	Mexico	India	Japan
Whole milk powder	China	Brazil	European Union	Venezuela	Russia
<b>Exports</b>					
Butter	New Zealand	European Union	Australia	Ukraine	Canada
Cheese	European Union	New Zealand	Australia	Ukraine	United States
Nonfat dry milk	New Zealand	European Union	United States	Australia	Ukraine
Whole milk powder	New Zealand	European Union	Australia	Argentina	Philippines
<b>Imports</b>					
Butter	Russia	European Union	Algeria	Mexico	Canada
Cheese	United States/Japan	Russia	European Union	Mexico	Australia
Nonfat dry milk	Mexico	Indonesia	Philippines	Thailand	China
Whole milk powder	China	Venezuela	Malaysia	Mexico/Philippines	Thailand
<b>Domestic policy "coverage"</b>	European Union	United States	Canada	Japan	

Source: Prepared by USDA, Economic Research Service using data from USDA, Foreign Agricultural Service.

years—a 7-percent reduction per year in 2005-07 and a 4-percent reduction in 2008. For nonfat dry milk, the price reductions are uniform at 5 percent per year from 2004 to 2006, reductions that actually did occur. A limit has been established for annual intervention purchases of 30,000 tons of butter by 2008, starting from 70,000 tons in 2004 and reduced by 10,000 tons annually. The EU will make direct payments, which may be coupled to milk production or not, to cover lost revenues due to price reductions. Member states may make additional payments from a national budget provided by the EU. In 2008, dairy payments will be incorporated into the (noncommodity-specific) single farm payment (Kelch and Normile, 2004).

The EU today is much different from that of 3 or 4 years ago and is far removed from the original six-member Economic Community of 1967. In May 2004, eight Central and Eastern European countries (Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia, and Lithuania), Malta, and Cyprus joined the EU-15 to form the EU-25 (Cochrane, 2004). With the addition of the 10 new member states, the EU increased its population by nearly 30 percent and its arable land by nearly 40 percent. Other countries are also scheduled for membership, including Romania and Bulgaria in 2007. The ongoing changes in the EU will result in its having a larger presence in global agricultural markets, but whether it will be an importing or exporting area for various products is to be determined.

## **Canada**

Canadian dairy policy rests first and foremost on the supply management system implemented in the mid-1970s. All current programs are designed with this system as the backdrop. Both the Federal and the Provincial Governments are involved in regulating milk markets.

Canada's domestic production and marketing controls are intended to match milk supplies, classified as industrial or fluid, with estimated demand at an administered price. The national production target for industrial milk, called the market sharing quota, is allocated to provinces largely based on historical shares. An annual fluid milk quota is determined in each province. The quotas are assigned in each province by marketing boards. The dairy quotas are tradable and have become a valuable asset for producers. The administered industrial milk and fluid milk prices are based on cost-of-production estimates and other market information.

Canada has several other programs in place that address seasonality, domestic dairy product innovation, the marketing of dairy ingredients, and the provision of milk components through a special use permit for use in manufactured products. A revenue pooling system in place since 1996 serves as a means for revenues from all milk sales, fluid and industrial, adjusted by several factors, to be used to establish blend prices for producers. Canada also employs a purchase program for butter and skim milk powder that establishes reference (support) prices for milk used in manufactured products.

Canada implemented several TRQs for dairy products under the terms of the World Trade Organization (WTO) in 1994, the primary TRQ being for butter. Approximately two-thirds of the butter TRQ is allocated to New Zealand (Canadian Dairy Commission, 2005).

## **Japan**

Dairy policies in Japan emphasize self-sufficiency in milk and dairy product production through milk supply controls and direct producer income support. There are two milk markets—one for drinking milk and one for manufacturing milk. The quantity of fluid milk is set by a national board of designated milk producers and allocated to regional members who voluntarily accept their quota and face penalties if they exceed it. Manufacturing milk constitutes about 40 percent of total production (Bull and Roberts, 2001) and is subject to a formal quota system, except for milk to be used for cheese production. Quota participation is voluntary, and those who participate receive direct payments for milk produced within their quota and no payment for milk produced over their quota. The direct payment system replaced a deficiency payment system in 2001. Japan initiated an income stabilization program for milk producers in 2001 to reduce the effects of dairy product price declines. The Agriculture and Livestock Industries Corporation, a state trade enterprise, is authorized to stabilize dairy product prices by market intervention and stockpiling when necessary (Obara, Dyck, and Stout, 2005).

## **United States**

U.S. milk producers have received government support since the 1930s. Current domestic programs include milk price support, the Federal milk marketing order system, and direct payments under the Milk Income Loss Contract (MILC) program. Dairy policies and programs have been modified to meet changing economic relationships over time, but underlying general objectives remain the same: ensure the orderly marketing of an adequate supply of fresh wholesome milk to meet consumer demands at reasonable prices and provide adequate returns to milk producers (Manchester and Blayney, 2001).

WTO commitments in 1994 had immediate implications for the U.S. dairy industry. Legislation in 1996 addressed meeting the WTO commitments and proposed fundamental changes in domestic dairy policies and programs that, if implemented, would reduce trade-distorting support. The Dairy Export Incentive Program (DEIP), a program for subsidizing certain dairy product exports, was limited by WTO commitments, and the end of the price support program was proposed. Milk price support never actually ended. It was revived in its more traditional “permanent” form in 2002, and a direct payment program for milk producers, MILC, was authorized with payments first made in 2003. The DEIP was continued still subject to the reduced levels agreed to under the WTO.

## **Dairy-Trading Nations With Little Domestic Support**

Most of the remaining countries that appear as major dairy product exporters or importers have few or no domestic dairy policies or programs (see table 3). Australia and New Zealand are long-time international dairy market participants. New Zealand has not had significant agricultural support of any kind since the mid-1980s. The Australian dairy industry generally has been more protected, but efforts to tie its agricultural industries to international markets have led to domestic dairy policy changes—the most recent in 2000 when fluid milk market pricing was reformed.

Countries such as Brazil and Argentina are relatively new participants in international dairy-market exporting, and their long-term prospects are unknown. However, they are clearly recognized as potential key suppliers and have relatively unregulated domestic industries. Other importing and exporting relationships seem to be based on regional proximity and possibly former political ties.

Domestic dairy policies and programs in key trading areas or nations are still a significant determinant of global dairy product flows. Dairy industry representatives in the United States emphasize three major concerns in statements regarding international dairy trade: (1) market access (including administration of border measures), (2) export subsidies, and (3) change in existing domestic dairy support programs. Milk producers, processors, product manufacturers, and dairy marketing firms in other countries have generally expressed the same concern—but to different degrees. Assessments of dairy trade liberalization often posit complete elimination of domestic policies and programs, dairy border measures, and export subsidies.

## Dairy Policy Changes and the U.S. Dairy Sector

The continued commitment of the United States to WTO agricultural trade objectives, including reduced domestic support for agriculture and freer trade, leads to the question: What do changes in dairy trade and domestic dairy policies and programs worldwide mean for the U.S. dairy sector? We employed two empirical agricultural trade models to derive estimates of the effects of liberalization on the domestic dairy sector. The first model, the Partial Equilibrium Agriculture Trade Simulator (PEATSim), is a partial equilibrium commodity trade model with detailed crop and livestock sectors that captures interactions among dairy and nondairy sectors. The second model, the University of Wisconsin World Dairy Model (UWWDM), is a spatial model of only dairy sectors.<sup>1</sup>

All economic models are stylized representations based on theoretical assumptions and observed relationships that can not embody all of the economic complexities that might exist. The trade models used in this study fit that mold—they do not capture all of the realities of modern food markets. We noted some of these realities earlier: the strategies of international dairy companies and their decisions to invest in foreign markets providing economic returns to shareholders and farmers and the supplies and demands for many different types of nontraditional milk products. Attempts to include these types of relationships in modeling efforts are in their infancy. Nevertheless, the existing models can be used to estimate the effects of trade liberalization on dairy industries with given technologies and market structures (including policies and programs).

PEATSim and UWWDM focus on trade in butter, cheese, and dry milk powders. The UWWDM includes additional detailed product and policy representation for countries in the UWWDM framework. As part of the greater product detail, UWWDM includes milk component (fat, proteins, and skim solids) accounting as a step toward gaining more information about changing trade relationships related to ingredients. The two models are not connected—they represent two different ways of looking at dairy trade relationships and the potential effects of liberalized domestic dairy policies and dairy trade policies. The use of the two different models provides greater validation of the assessments of likely effects on key dairy industry and trade variables under alternative policy scenarios.

### Dairy Policy and Modeling Issues

Domestic dairy support instruments include intervention prices and other forms of price support, direct producer payments, and production and marketing quotas. Market access or border restrictions include tariffs and TRQs. Export subsidies for dairy products are important for some countries as are domestic consumer subsidies as a means of disposing of surplus dairy products or increasing dairy product demand.

Tariffs on dairy products are well above the overall average agricultural tariff level and are among the highest of all commodities. Gibson et al. (2001) calculated an average agricultural tariff level of 62 percent, with

<sup>1</sup>Further details on both models are included in appendix B.

dairy tariffs averaging about 85 percent. The only product with a higher tariff was unmanufactured tobacco at 90 percent. Gibson et al. also found average over-quota tariffs for dairy products to be high at 128 percent, even though they were applied to only a few products. Countries with some of the highest over-quota tariffs on dairy products have relatively low in-quota tariffs. Japan had an in-quota dairy tariff of 10 percent but a 227-percent over-quota tariff; the corresponding U.S. rates were 12 and 43 percent. Import measures work in concert with domestic price support programs in many countries, while some countries rely solely on tariffs to protect their dairy sectors. Removal of import protection would likely have the most significant effect of all policy reform measures because it would affect the largest number of countries and would expose the domestic dairy markets of previously protected countries to competition from lower priced imports.

The United States, the EU, and Canada all support the price of milk and some dairy products. In these countries, multilateral liberalization would likely lead to reductions in domestic milk prices, either directly through disciplines on domestic support or in response to increased imports in a more liberal trading regime. However, increased world prices resulting from liberalization would offset some of the reductions in support. The EU and Canada limit milk output with milk production quotas, an action that reinforces other price support measures by limiting surplus production.

When all domestic and border measures are included, dairy programs account for a large share of dairy producers' revenue. In those countries for which this measure is calculated, the share of revenue provided by government programs ranges from 1 percent in New Zealand to 68 percent in Japan. How would dairy output in these countries respond to policy reforms that simultaneously reduced price support and import protection and lifted restrictions on production? Of the specific countries analyzed, the United States, the EU, and Canada currently have longstanding domestic programs for dairy products.

The model scenarios defined here eliminate the longstanding export subsidy programs of the United States, the EU, and Canada (table 4). These programs offer a means of supporting domestic milk prices by removing surplus milk, in the form of dairy products, from the domestic markets. Eliminating only export subsidies could put pressure on domestic market prices or lead to accumulation of large government stocks. On the other hand, extensive use of export subsidies depresses world market prices. Their elimination would be expected to raise world dairy market prices and thus mitigate negative price impacts on countries that had relied extensively on them. It is also assumed that both the EU and Canada would eliminate production quotas as the need to manage surplus production disappears with elimination of the other support programs.

The observed interactions among domestic and border policies highlight a commonly held view—border measures are essentially extensions of domestic dairy policies. To alter or eliminate one set without changing or eliminating the other could result in potentially adverse effects on government budgets.

Table 4

**Dairy policies eliminated in liberalization scenarios, by country and product**

	Milk	Butter	Cheese	Nonfat dry milk	Whole dry milk	Other dairy products
United States	PS,PP	T,TQ,X,PS	T,TQ,X,PS	T,TQ,X,PS	T,TQ,X	
European Union	PS,Q	T,TQ,X,PS,C	T,TQ,X	T,TQ,X,PS	T,TQ,X	T,TQ,X
Japan	PP	T,TQ	T	T,TQ		
Canada	PS,Q	T,TQ,X	T,TQ,X	T,TQ,X	T,TQ,X	T,TQ,X
Mexico		T	T,TQ	T,TQ	T,TQ	
Brazil		T	T	T	T	
Argentina		T	T	T	T	
China				T	T	
Australia		T	T,TQ	T	T	
New Zealand		T	T	T	T	
South Korea			T	T,TQ		
Rest of world		T	T	T	T	T

T = Tariffs

TQ = Tariff rate quotas

X = Export subsidies

PS = Price support

PP = Producer payments

Q = Production/marketing quota

C = Consumer subsidies

Source: Prepared by USDA, Economic Research Service.

PEATSim and the UWWDM generate results for multiple countries and, in the case of PEATSim, multiple commodities. We focus on the effects on the U.S. dairy industry of liberalizing only dairy sector policies and programs in all countries. The effects on milk production and milk prices are key indicators of interest as is the trade position of the U.S. in a scenario reflecting full liberalization. Appendix tables contain selected results for the other countries or regions as defined in the two models.

## Impacts From the PEATSim Model

Based on the assumption that dairy policies and programs worldwide are eliminated, the PEATSim model results indicate the U.S. milk price falls just over 11 percent while milk production declines about 6 percent (app. tables 2-5). Production of butter, nonfat dry milk, whole dry milk, and other dairy products decline, but cheese output expands slightly. World prices of the traded products included in the model—butter, cheese, nonfat dry milk, and whole dry milk—all increase. The largest percentage increase is for butter, followed in descending order by cheese, whole dry milk, and nonfat dry milk. The United States maintains its trade position in most markets but slightly increases exports of nonfat dry milk. For more information on the PEATSim results, see Langley, Somwaru, and Normile (2006).

## Impacts From UWWMD

The UWWDM framework provides results over a medium term (5 years) presented relative to a base scenario for each year. Impacts on price and

production are greater in the early years but decline in later years due to adjustments in milk production and product markets. Globally, multilateral full liberalization of dairy trade policies results in lower domestic milk prices in distorted sectors, which benefits consumers at the expense of producers, increases milk production, and increases trade in dairy products (app. tables 6-8).

At the end of the simulation period, 2007, U.S. milk prices are about 4 percent lower than the projected baseline price, and production is down just under 2 percent. As noted in appendix B, these estimates are based on an assumption regarding the U.S. classified pricing system that may overestimate its effects. If so, they could be considered maximum estimates. In any case, the results are modest. U.S. exports fall while imports rise—implying a slightly larger net import position—but the changes in trade volume are small relative to the size of the U.S. dairy sector. The loss in exports is a result of reduced milk production and elimination of U.S. export subsidies, even with their low volume limits.

A key feature of the UWWDM framework is its total welfare measure component. This measure includes producer, consumer, and government costs and benefits associated with dairy policy and trade liberalization. The welfare analysis shows that the U.S. economy gains from multilateral dairy liberalization, about \$800 million, as a result of lower consumer and government costs offsetting lost producer benefits. The gains would be less if estimated effects on prices and production are smaller. For more information on the results of the UWWDM framework, see Peng and Cox (2006).

## Why the Results Differ

The two models that generate the empirical estimates represent alternative modeling structures. The PEATSim model adapted for our analysis is a partial equilibrium, comparative static model while the UWWDM is a dynamic spatial model. Additionally, the models depend on a large number of “fixed” parameters, such as the supply and demand price elasticities for each country or region identified in the model. Differences in the underlying structures and parameters partly determine the different quantitative estimates.

The selection of the base period also affects the quantitative findings. If the base year selected is a year in which U.S. dairy prices are high, a period when underlying domestic policies and programs would not be expected to be having much effect, elimination of those policies and programs would not be expected to have large impacts. The opposite is true for low dairy price base years. The PEATSim model is based on 2001, a period of relatively higher milk prices than 2002, the base for UWWDM.

Percentage changes are simple summary statistics, but the base year issue is of some importance. A large percentage change applied to a high price may generate the same magnitude as a small percentage change applied to a low price. It is the consistency of the directions and interpretations of the effects that are key elements for evaluating the usefulness of the two models. Estimated sizes of effects are always subject to arguments—this is a facet of all empirical economic modeling.

## **U.S. Dairy Competing in a New Decade**

In either a domestic or a global sense, the U.S. dairy industry is coming under greater pressure to compete more aggressively for a share of the consumer's food budget and for resources to keep the industry moving forward. Competition in the food industry is marked by offerings to consumers of an ever-expanding array of products, including high-quality, nutritious, nondairy substitutes. To remain competitive, the U.S. dairy industry is faced with assessing and responding to changing supply and demand trends. Efficient farm-level milk production and use of that milk in high-demand products are keys to providing both producers and investors adequate returns on their investments. Ensuring the development of well-coordinated supply chains will also help dairy firms and producers compete in a global industry.

The operational structures of modern dairy firms and global supply chains are becoming a new source of competitive advantage for the U.S. dairy industry. Multinational firms are investing and partnering in the U.S. market because of its sheer size, the dynamism of U.S. consumer demand, the steady and reliable supply of raw milk, and foreign investment policies considered to be more liberal than those in other high-income markets. In the U.S. market, multinationals can take advantage of economies of scale in terms of production distribution and marketing. When companies have greater flexibility to procure inputs and sell outputs in a more liberal trading environment, returns to milk producers are improved.

Companies adjust their production and marketing strategies because of market conditions and policy environment. Dairy policies can either facilitate changes or prove to be a bottleneck as the dairy industry adapts to a changing environment.

On a global basis, dairy product demand and the dynamics of international trade are changing—milk supply is becoming more constrained in some parts of the world and less so in other regions. This alone requires international dairy companies to reposition themselves in global markets. New Zealand, where the dairy industry is not protected through domestic support, is a leader in responding to changes in global demand and developing new foreign markets and the production, processing, and marketing mechanisms to reach them. As long-term growth is less certain due to domestic resource constraints, the industry has responded by procuring dairy inputs elsewhere. Other lower cost milk-producing countries, such as the United States, are benefiting in this environment. If subsidized exports from countries with heavily protected dairy industries and import barriers were reduced further, the U.S. dairy sector may benefit even more. Moreover, the role and extent of U.S. dairy policy is less clear today than in the past. The efforts of U.S. milk suppliers, processors, and product marketers to improve competitiveness depends more on innovation, flexibility, and investment than on policy support.



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## **Appendix A—World Production and Trade by Country and Product**

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Global milk production is largely from cows (84 percent), but a growing share of milk is produced from other animals, such as buffaloes, goats, and sheep. The quantity of milk produced by animals other than cows is not large, but cheese varieties produced from sheep and goats are traded internationally, and their overall share of production has increased slightly since 2000. From 2000 to 2004, total milk production grew about 6 percent, while cow's milk production grew somewhat less (app. tables 9-13). The countries that produce individual dairy products detailed in this section account for about 78 percent of total world milk production.

### ***Butter***

The international butter market consists of two segments of roughly the same size: anhydrous milkfat (AMF) and solid butter. Demand for, and trade in, both products has varied greatly in response to economic conditions in recent years but has shown no clear-cut trends. Demand for AMF is found primarily in the relatively affluent countries of Asia and Latin America, which use it for commercial reconstitution of beverage milks and for such products as ice cream. World butter production has remained fairly steady since the implementation of the World Trade Organization's (WTO) Uruguay Round Agreement on Agriculture (URAA) during 1986-94, though lower than pre-URAA quantities.

The major butter importers are Russia, the Middle East and North Africa, and the EU (for fixed negotiated amounts from New Zealand). In 1985, Oceania (Australia and New Zealand) exported less than 25 percent of the world's butter; by 2000, the region accounted for nearly half of the world's recorded butter exports, with New Zealand shipping about two-thirds of that amount. Significant additional trade in butter occurs among countries of the former Soviet Union and Eastern Europe, but reliable data are unavailable. The EU is the only other large butter exporter, although its share is much smaller than it was before URAA implementation. The United States normally is not a significant participant in the international butter market.

### ***Cheese***

World cheese production has grown by nearly 2 percent during the post-URAA period, with North America and Europe accounting for much of the growth in production and consumption. The international cheese market continues to grow steadily, but slowly, in response to economic growth in Latin America, Westernization of diets in Asia, and the spread of pizza consumption to every part of the world. Cheese consumption in Asia has more than doubled since 1990, but it is still quite low.

World cheese exports grew only about 1 percent annually from 1994 to 1999. Japan, the United States, the EU, and, sometimes, Russia are leading markets. The Middle East and North Africa are key markets, particularly for some cheese types. The EU remains the largest exporter of cheese, although

its exports have fallen because of the WTO export subsidy disciplines. All of Western Europe accounts for over half of world cheese exports, with most of the remainder coming from Oceania. With growing milk production, New Zealand and Australia boosted cheese production and exports substantially as decreasing European exports created trade opportunities.

### ***Dry milk powders***

Most East and Southeast Asian countries import significant amounts of milk powders. The more populous countries in the Middle East and North Africa continue to be key markets, although import demand has not grown much. Many countries in Latin America import substantial quantities of milk powders. Relatively rapid population growth in the region has boosted demand, although economic crises have led to erratic growth in import demand.

Milk powder export supplies consist of about equal amounts of skim milk and whole milk powders. About four-fifths of milk powder exports come from the EU and Oceania. Lesser amounts come from Poland, Argentina, and (for skim milk powder) the United States. U.S. export sales of skim milk powder have been generally lower in the 2000s than during the early 1990s.

## Appendix B—Model Descriptions

### Partial Equilibrium Agriculture Trade Simulator (PEATSim)

The Partial Equilibrium Agriculture Trade Simulator (PEATSim) model (formerly known as the ERS-Penn State model) is an applied partial equilibrium, multiple-commodity, multiregion model of agricultural policy and trade (Abler et al., 2001; Stout and Abler, 2004). PEATSim is a gross-trade model that accounts for exports and imports of each commodity in every identified region but does not identify them by origin or destination. The model is dynamic in that it allows for adjustment over time in crop and livestock production, dairy processing, and oilseed crushing.

The model includes 12 countries or regions—the United States, the European Union (EU-15), Japan, Argentina, Australia, Brazil, Canada, China, Mexico, New Zealand, South Korea, and the rest of the world (ROW). It covers 35 commodities (rice, wheat, corn, other coarse grains, soybeans, sunseed, rapeseed, peanuts, other oilseeds, cotton, sugar, soybean oil and meal, sunseed oil and meal, rapeseed oil and meal, cottonseed oil and meal, peanut oil and meal, tropical oils, other oilseed oil, beef and veal, pork, poultry, raw milk, butter, cheese, nonfat dry milk, whole dry milk, fluid milk, and other dairy products).<sup>1</sup> Raw and fluid milk are included as nontraded commodities.

The model is different from other partial equilibrium trade models in that it has explicitly incorporated a wide range of domestic and border policies in agriculture. The core set of policies for all countries includes specific and ad valorem import and export taxes or subsidies, tariff-rate quotas (TRQ), and producer and consumer subsidies. Other types of domestic policies and programs are also included. For example, the U.S. model includes government support purchase prices, tariffs and TRQs, and export subsidies for dairy products and Milk Income Loss Contract (MILC) payments. The Japan model includes tariffs and “markups,” such as for rice, wheat, and sugar. Compensation schemes for Japan and South Korea that pay producers for declines in price relative to a reference price are also included. The EU model includes intervention prices (which entail government purchases and export subsidies), tariffs, compensatory payments, acreage set-asides, and base area bounds (which limit the area (acreage) of grains and oilseeds that qualifies for payments), and production quotas for raw milk and sugar.<sup>2</sup> Milk production quotas for Canada and the EU are included.

Model parameters come from various sources, including the European Simulation Model (ESIM), ERS baseline model projections, the Food and Agricultural Policy Simulator (FAPSIM), the Organisation for Economic Co-operation (OECD) AGLINK model, and the SWOPSIM (Static World Policy Simulation) model. Adjustments and restrictions were imposed on elasticities to satisfy requirements of economic theory, such as symmetry and homogeneity. The model can be used for comparative static or dynamic analyses.

<sup>1</sup>Constraints on dairy product shares are imposed to preserve consistency of milk components.

<sup>2</sup>The model does not include limits on countries' exports due to WTO export subsidy commitments.



PEATSim is used here as a comparative static model incorporating an adjustment path to capture dynamic adjustments, except for capital—a quasi-fixed input that has no longrun equilibrium adjustment—and to provide medium-term results. The analysis captures the marginal effects of policy reforms across all countries. No productivity growth is taken into account. The analysis does not account for shifts in supply functions over time, reflecting cost-reducing technology adoption, nor the growth in demand driven by population and income. This point is crucial in interpreting the model results. For example, productivity growth, if incorporated into the analysis, could have shown that a country with a capital-intensive and technologically advanced dairy sector that is able to compete in a nonsupported and nonprotected environment (such as the United States) may do well under trade liberalization.

The base year for the PEATSim dairy data is 2001, adjusted for the 2002 farm bill and China's WTO accession in the base model solution. Base data for crops (area, yield, production, consumption, stocks, and trade) are from the 2000 crop year and are drawn from USDA and country sources, including the USDA production, supply, and demand (PS&D) database.<sup>3</sup> Tariffs and TRQs are from the Agricultural Market Access Database (AMAD)<sup>4</sup> and Gibson et al. (2001).

The model is a reduced-form model with production, consumption, and other behavioral variables represented by constant elasticity functions. All countries in the model are represented with similar structure, with different parameters and values of variables in behavioral equations. For a net importing country, dairy imports (and other commodity imports) are a residual to equilibrate exports and imports. For a net exporting country, dairy exports (and other commodity exports) are a residual. For detailed information on the model structure, equations, sources, and methods, see Stout and Abler (2004).

## **The University of Wisconsin World Dairy Model (2002)**

The University of Wisconsin World Dairy Model (UWWD) used for this analysis is an updated annualized version of a model developed to assess impacts of changes in international dairy trade relationships. The updated model contains updated supply and demand elasticities, explicit modeling of the EU CAP reforms starting in 2005, incorporation of Australia/New Zealand free trade, explicit US-Australia Free Trade Agreement information, and the United States MILC program, a target price deficiency payment introduced in 2002.

The model is a classic math-programming, spatial equilibrium model with additional structure to address a spatial equilibrium in hedonic (characteristic) space. This hedonic spatial equilibrium model incorporates 24 regions, 9 dairy products, and 4 milk components (fat, casein, whey protein, and lactose) using United Nations Food and Agriculture Organization (FAO) and OECD databases. All regions and markets are linked via transportation costs and trade policy distortions (export subsidies and/or import TRQs). Within- and over-quota tariffs, import quotas, and export subsidies are modeled using 2000

<sup>3</sup>Found at [www.fas.usda.gov/psd](http://www.fas.usda.gov/psd)

<sup>4</sup>Found at *AMAD database*.

GATT/WTO commitments for all developed economies. Developing economies continue to open access to their dairy markets until 2005, as specified by the 1995 GATT/WTO agreement. The model provides a framework to analyze hypotheses concerning the effects of liberalizing dairy trade through modifying both trade and domestic dairy policies and programs.

The 24 regions in the model are re-aggregated to 5 major regions in the summary tables to provide better intuition as to the gainers and losers from additional world dairy sector liberalization:

- Developed economy, heavily protected dairy: EU-15, Japan, Other Western Europe;
- Developed economy, less heavily protected dairy: U.S. and Canada;
- Developed economy, competitive exporters: Oceania (Australia and New Zealand);
- Less developed economies, potentially competitive exporters: India, Other Eastern Europe, South America-South (Argentina, Uruguay and Chile), China and Mongolia, Poland, and South Africa Republic;
- Less developed economies, net importers: Former Soviet Union, South America-North (Brazil and Other South America), Other South Asia, Middle East, Rest of world, Mexico, North Africa, Central America & Caribbean, South/North Korea, South East Asia.

The UWWDM for this analysis uses the year 2002 as the base or reference point. The model is solved recursively (1 year at a time, with the previous year solution as the starting point for the following year, with regional GDP and population (World Bank data) driven commodity demands and 5-year moving average supply growth rates (from FAO data) from 2002 to 2007). The following policy simulations were assessed relative to the 2002 base model:

- Full dairy sector (full) liberalization: All trade and domestic support policies are removed starting in 2002 and simulated through 2007. The full liberalization combines two other scenarios: the free dairy trade (FDT) scenario and the no domestic support (NDS) scenario. The 2007 simulation results, summarized as changes from the base scenario for 2007 in appendix tables 6-8, provide quantitative estimates of the 2007 impacts of full dairy sector liberalization.
- Free dairy trade: The second scenario (FDT) considers the elimination of all trade distortions starting in 2000 through 2007. All export subsidies and import TRQs (quotas, within- and over-quota tariffs) are eliminated. Domestic support policies are maintained as in the base scenario. This should increase world trade, increase world market prices, and put considerable strain on several domestic support policies (intervention price program costs, in particular) in the protected dairy sectors.
- No domestic support: The third scenario (NDS) eliminates all domestic support starting in 2002 through 2007. These measures include intervention/support prices for the EU (SMP), Canada (butter and SMP), and the United States (butter, SMP, cheese) as well as other countries; elimination of classified pricing in the United States and Canada (modeled as a

price wedge/premium for residual (fluid, soft and frozen) products over manufactured products); and, production/marketing quotas in the EU and Canada. Modeling the classified pricing as defined can overstate its effect. A sensitivity analysis on changes in only the U.S. price wedge indicates that smaller effects do indeed appear when the wedge is reduced. Thus, the effects as originally modeled represent maximum impacts. Still, they are modest for the United States.

The 2007 simulation results for the FDT and NDS scenarios as described in this report, summarized as changes from the base scenario for 2007, are presented in Peng and Cox (2006). Several of the key results are noted here. As the base year (2002) saw large U.S. costs via its intervention/price support program (about \$U.S. ~500M in SMP purchases) and target price/deficiency payment (MILC) program (about \$U.S. 1.2B), domestic deregulation could have strong impacts on U.S. milk prices. Similarly, given the large levels of milk production quota rents in the EU and Canada (35 percent and 40 percent of the domestic milk prices, respectively), elimination of these policies sharply increases these countries' competitiveness (no milk production quota constraints at sharply reduced milk production costs) and, hence, sharply increases their milk production even while milk prices and revenues drop. Note, this will lower prices in the protected dairy economies, hence lower world dairy prices, but not necessarily provide additional access to competitive exports—unless over-quota tariffs become less prohibitive at these lower protected market prices. Additionally, increased milk production from the EU and Canada, potentially beyond their domestic consumption, will likely displace base level imports by these protected dairy sectors, and reduce potential export market growth opportunities for competitive exporters.

Appendix table 1

**Major new product launches in global dairy markets, 2003-04**

Country/product market	Brand name	Company	Product description
<b>North America</b>			
U.S. / milk	Land O'Lakes Dairy Ease 100% Lactose Free Milk	Dean Foods (under license)	New national brand of lactose-free milk
U.S. / cheese	Kraft Singles Pasteurized Process Cheese – Manchego	Kraft Foods	Processed Hispanic cheese; individually wrapped slices
U.S. / cheese	Stella Freshly Shredded Cheese – 3 Cheese European Blend, Natural Swiss	Saputo Cheese	Shredded cheese in resealable plastic cups
U.S. / cheese	Kraft Shredded Whole Milk Cheese – Queso Quesadilla	Kraft Foods	New cheese variety
U.S. / yogurt	Dannon Frusion Smoothies Fruit 'n Yogurt Drink	Danone	Name change for Dannon Frusion, package redesign with new graphics
U.S. / yogurt	Dannon Light n' Fit Carb Control Yogurt	Danone	Reduced carbohydrate sub-brand
Canada / milk	Dairy Oh!	George Weston Ltd	Fortified milk
Mexico / yogurt	Uva (grapefruit)	Lala	Regular drinking yogurt
Mexico / yogurt	Activia	Danone	Probiotic yogurt
<b>Europe</b>			
France / cheese	Mini Babybel au Chèvre	Fromageries Bel	Unspreadable processed cheese; new goat cheese variant
France / fermented drinks	Actimel allégé en sucre	Danone	Low-fat variant with reduced sugar content
France / yogurt	Velouté Fruix	Danone	Fruited yogurt. New range with puréed fruit; six flavors
Germany / flavored drinks	Müllermilch Lin Chi	Molkerei Alois Müller	Limited edition flavored milk drinks (exotic and fruity)
Germany / yogurt	Alete Milch- und Fruchtminis	Nestlé Deutschland AG	Yogurt for babies
Germany / yogurt	Onken Wellness Joghurt	Onken GmbH	Four new 1.5%-fat yogurt varieties, including aloe vera
Germany / fermented drinks	Actimel Multifrukt	Danone	Multifruit flavored fermented dairy drinks
Italy / fermented drinks	Crema Actidrink	Müller	Sold in 100 ml bottles
Italy / yogurt	Danone Frutta Frullata	Danone	Fruit frappe yogurt
Netherlands / yogurt	Vifit Calcimel	Campina Melkunie	Flavored yogurt with calcium
Sweden / yogurt	Cultura	Arla Foods	Probiotic yogurt
U.K. / yogurt	Munch Bunch Drinky	Nestlé	Fortified drinking yogurt for children, aimed at the lunchbox market
U.K. / yogurt	Petit Filous	Yoplait	Child-oriented fromage frais product, with added calcium
<b>South America</b>			
Argentina / yogurt	Yogurisimo Stick	Danone Argentina SA	Yogurt on a stick
Argentina / cheese	Adler	Cabaña y Estancia Santa Rosa SA	Spreadable processed cheese, in small pack sizes
Brazil / fluid milk	Corpus Light	Danone	Fat-free long-life/UHT milk
Chile / flavored drinks	Bliss Fresh	Nestlé Chile SA	Flavored milk drink with fruit juice
Chile / flavored drinks	Leche Cultivada Descremada	Parmalat Chile SA	Nonfat sour milk drink
Colombia / fluid milk	Avena con Canela La Alquería ultrapasteurizada	Productos Naturales de Cajicá SA	Long-life/UHT RTD flavored milk drink with extra cinnamon

*Continued—*

Appendix table 1

**Major new product launches in global dairy markets, 2003-04—Continued**

Country/product market	Brand name	Company	Product description
<b>East Asia</b>			
China / flavored drinks	Bright Wheat	Shanghai Bright Dairy Co Ltd	With added wheat and chocolate
China / milk	Bight Shu Shui Nai (Sleeping Milk)	Inner Mongolia Mengniu Group	Brand extension in fresh milk, claims to aid sleep
Hong Kong / flavored milk	High-Calcium DHA chocolate milk	Kowloon Dairy	Flavored milk (focused on children under 10 years old)
India / flavored drinks	Amul Chocolate Milk	Gujarat Co-op Milk Marketing Federation Ltd	Flavored milk launched in the South, aiming at regional market
India / yogurt	Amul Lassi	Gujarat Co-op Milk Marketing Federation Ltd	Drinking yogurt launched in West India, targeting a regional market
Indonesia / fluid milk	Mimi UHT milk	Ultrajaya Milk Industry	UHT milk targeting children, available in small sizes
Japan / yogurt	Genso Mango	Chichiyasu	Mango-flavored yogurt
Japan / yogurt	Meiji Probiotics Yogurt LG21	Meiji Dairies Corp	Plain probiotic with reduced sugar
Taiwan / drinks milk	Kuang Chuan I Love Milk Beer Yeast High Calcium	Kuang Chuan Dairy Co Ltd	Flavored milk containing beer yeast, vitamin B complex, DNA and RNA

Source: Prepared by USDA, Economic Research Service using data from Euromonitor International 2005.

Appendix table 2

**Changes in world market prices of dairy products**

	Dairy reform only	All sectors liberalized
	<i>Percent change from base</i>	
Butter	66.4	68.2
Cheese	50.2	54.3
Nonfat Dry Milk (NFDM)	13.2	14.2
Whole Dry Milk (WDM)	24.0	26.4

Source: USDA, Economic Research Service, simulated from PEATSim model.

Appendix table 3

**Changes in milk price and production with trade liberalization**

	Dairy reform only		All sectors liberalized	
	Milk price	Milk production	Milk price	Milk production
	<i>Percent</i>			
United States	-11.4	-5.7	-8.8	-7.3
EU	-9.4	-3.2	-6.6	-4.3
Japan	-7.4	-1.8	-7.4	-3.1
Canada	-11.5	-2.9	-8.5	-3.4
Mexico	14.2	3.5	20.7	3.9
Brazil	4.2	1.1	8.6	0.7
Argentina	27.1	6.3	31.1	5.5
China	7.3	1.8	10.2	1.9
Australia	34.1	7.7	37.3	7.3
New Zealand	33.2	7.5	35.9	7.4
South Korea	-47.6	-14.8	-46.1	-14.9
Rest of world	9.2	2.3	8.4	2.8

Source: USDA, Economic Research Service, simulated from PEATSim model.

Appendix table 4

**Changes in dairy product export shares with dairy policy reform<sup>1</sup>**

Country	Butter		Nonfat dry milk		Cheese		Other dairy products	
	Base	Scenario	Base	Scenario	Base	Scenario	Base	Scenario
	<i>Percent</i>							
United States	0.8	0.8	11.8	12.2	2.8	2.2		
EU	16.6	2.1	23.3	17.5	54.1	54.2	28.3	48.5
Japan							2.8	9.8
Canada	1.7	2.0	3.4	3.4	1.9	1.7		
Mexico								
Brazil								
Argentina	1.3	2.3	2.4	2.8	2.3	3.9	27.3	16.3
China								
Australia	22.9	27.5	24.7	27.3	17.0	17.6	41.6	25.2
New Zealand	53.1	61.0	19.9	21.5	18.8	18.9		
South Korea								
Rest of world	3.6	4.3	14.6	15.2	3.1	1.4	0	0.1

<sup>1</sup> Changes in export shares of whole dry milk are insignificant.

Note: Blank cell indicates no significant share of commodity market.

Source: USDA, Economic Research Service, simulated from PEATSim model.

Appendix table 5

**Changes in dairy product export shares with all commodity liberalization<sup>1</sup>**

Country	Butter		Nonfat dry milk		Cheese		Other dairy products	
	Base	Scenario	Base	Scenario	Base	Scenario	Base	Scenario
	<i>Percent</i>							
United States	0.8	0.9	11.9	12.4	2.8	2.2		
EU	16.2	0.7	23.5	18.0	54.5	54.9	27.9	47.1
Japan							3.6	12.0
Canada	1.7	2.1	3.4	3.4	1.9	1.7		
Mexico								
Brazil								
Argentina	1.2	2.0	2.2	2.4	2.1	3.4	27.0	15.6
China								
Australia	23.0	27.7	24.6	27.1	16.9	17.5	41.4	24.8
New Zealand	53.5	62.3	19.7	21.1	18.8	18.9		
South Korea								
Rest of world	3.6	4.4	14.7	15.5	3.1	1.4	0.1	0.5

<sup>1</sup> Changes in export shares of whole dry milk are insignificant.

Note: Blank cell indicates no significant share of commodity market.

Source: USDA, Economic Research Service, simulated from PEATSim model.

Appendix table 6

**Effects on milk price and production from multilateral liberalization, 2007**

Country	Milk price change	Milk production change
	<i>Percent</i>	
EU	-54.7	11.6
Japan	-57.2	-21.5
United States	-4.1	-1.8
Canada	-51.7	8.8
New Zealand	24.5	8.1
Australia	-3.5	-1.3
South America-South (Argentina)	9.5	3.1

Source: USDA, Economic Research Service, from University of Wisconsin World Dairy Model.

Appendix table 7

**Effects on dairy trade of multilateral liberalization, 2007**

Country/region	Exports	Imports
	<i>Percent change</i>	
EU	24.8	-100.0
Japan	--	95.2
Australia	-6.9	--
New Zealand	30.3	--
Canada	-17.5	-35.2
United States	-5.9	62.9
Mexico	--	16.0
South America-North (Brazil)	--	134.9
South America-South (Argentina)	66.7	--
World	18.6	18.6

-- = not available due to insufficient trade.

Source: USDA, Economic Research Service, from University of Wisconsin World Dairy Model.

Appendix table 8

**Welfare effects of multilateral liberalization, 2007**

Country/region	Total welfare change
	<i>Percent change from base</i>
EU	-2.3
Japan	0.3
Australia	2.2
New Zealand	3.5
Canada	0.7
United States	0.8
Mexico	2.3
South America-North (Brazil)	-0.9
South America-South (Argentina)	1.0

Source: USDA, Economic Research Service, from University of Wisconsin World Dairy Model.

Appendix table 9

**Milk production in selected countries and regions, 2004<sup>1</sup>**

Country/Region	Cows milk production	Cows
	<i>1,000 metric tons</i>	<i>1,000 head</i>
<b>North America</b>		
Canada	7,885	1,057
Mexico	9,874	6,800
United States	77,477	9,010
Subtotal	95,236	16,867
<b>South America</b>		
Argentina	9,250	2,000
Brazil	23,317	15,200
Chile		
Colombia		
Peru		0
Venezuela		
Subtotal	32,567	17,200
<b>European Union (EU)</b>		
EU-25	130,812	23,963
<b>Eastern Europe</b>		
Romania	5,723	1,694
<b>Former Soviet Union</b>		
Russia	32,000	11,200
Ukraine	13,787	4,313
Subtotal	45,787	15,513
<b>North Africa</b>		
Egypt		
Algeria		
Subtotal		
<b>South Asia</b>		
India	37,500	37,000
<b>Asia</b>		
China	22,606	5,466
Indonesia		
Japan	8,329	936
Korea		
Malaysia		
Philippines		
Taiwan		
Thailand		
Subtotal	30,935	6,402
<b>Oceania</b>		
Australia	10,377	2,036
New Zealand	15,000	3,920
Subtotal	25,377	5,956
<b>Total selected countries</b>	<b>403,937</b>	<b>124,595</b>

<sup>1</sup>Source: Prepared by USDA, Economic Research Service using final estimates by USDA, Foreign Agriculture Service, December 2005.



**Whole dry milk production, consumption and trade data, 2004<sup>1</sup>**

Country/Region	Production	Consumption	Imports	Exports	Ending stocks
	<i>1,000 metric tons</i>				
<b>North America</b>					
Canada	0	0	0	0	0
Mexico	0	35	35	0	0
United States	19	22	3	0	1
Subtotal	19	57	38	0	1
<b>South America</b>					
Argentina	260	86	1	177	25
Brazil	420	435	21	16	11
Chile	51	52	4	8	4
Colombia	0	0	0	0	0
Peru	0	0	0	0	0
Venezuela	0	0	0	0	0
Subtotal	731	573	26	201	40
<b>European Union (EU)</b>					
EU-25	857	346	3	514	0
<b>Eastern Europe</b>					
Romania					
<b>Former Soviet Union</b>					
Russia	90	109	25	6	0
Ukraine	28	10	0	18	0
Subtotal	118	119	25	24	0
<b>North Africa</b>					
Egypt					
Algeria	0	140	161	0	30
Subtotal	0	140	161	0	30
<b>South Asia</b>					
India	0	0	0	0	0
<b>Asia</b>					
China	832	898	91	25	0
Indonesia	45	65	21	1	6
Japan	0	0	0	0	0
Korea	0	0	0	0	0
Malaysia	0	0	0	0	0
Philippines	0	17	45	28	0
Taiwan	6	36	30	0	0
Thailand	0	0	0	0	0
Subtotal	883	1,016	187	54	6
<b>Oceania</b>					
Australia	187	23	12	173	28
New Zealand	658	1	2	669	53
Subtotal	845	24	14	842	81
<b>Total selected countries</b>	<b>3,453</b>	<b>2,275</b>	<b>454</b>	<b>1,635</b>	<b>158</b>

<sup>1</sup>Source: Prepared by USDA, Economic Research Service using final estimates by USDA, Foreign Agriculture Service, December 2005.

**Nonfat dry milk production, consumption and trade data, 2004<sup>1</sup>**

Country/Region	Production	Consumption	Imports	Exports	Ending stocks
<i>1,000 metric tons</i>					
<b>North America</b>					
Canada	88	56	2	16	41
Mexico	170	338	168	0	25
United States	638	621	1	231	232
Subtotal	896	1,015	171	247	298
<b>South America</b>					
Argentina	35	19	0	18	4
Brazil	110	112	4	2	0
Chile	10	15	3	0	3
Colombia	8	8	0	0	0
Peru		8	8	0	1
Venezuela					
Subtotal	163	162	15	20	8
<b>European Union (EU)</b>					
EU-25	1,066	950	25	282	77
<b>Eastern Europe</b>					
Romania					
<b>Former Soviet Union</b>					
Russia	125	170	65	20	0
Ukraine	78	15	0	63	2
Subtotal	203	185	65	83	2
<b>North Africa</b>					
Egypt	24	24	0	0	
Algeria	0	90	90	0	10
Subtotal	0	114	114	0	10
<b>South Asia</b>					
India	235	231	15	10	14
<b>Asia</b>					
China	68	127	61	2	0
Indonesia	0	115	125	12	10
Japan	183	222	37	0	83
Korea	25	31	4	0	7
Malaysia	0	0	0	0	0
Philippines	0	104	120	16	2
Taiwan	0	17	17	0	0
Thailand	0	0	0	0	0
Subtotal	276	616	364	30	102
<b>Oceania</b>					
Australia	203	20	2	187	5
New Zealand	294	5	1	305	55
Subtotal	497	25	3	492	60
<b>Total selected countries</b>	<b>3,336</b>	<b>3,298</b>	<b>772</b>	<b>1,164</b>	<b>571</b>

<sup>1</sup> Source: Prepared by USDA, Economic Research Service using final estimates by USDA, Foreign Agriculture Service, December 2005.

**Cheese production, consumption and trade data, 2004<sup>1</sup>**

Country/Region	Production	Consumption	Imports	Exports	Ending stocks
<i>1,000 metric tons</i>					
<b>North America</b>					
Canada	305	319	24	10	59
Mexico	134	214	82	2	0
United States	4,026	4,189	209	61	322
Subtotal	4,465	4,722	315	73	381
<b>South America</b>					
Argentina	370	338	0	31	23
Brazil	470	468	4	6	0
Chile					
Colombia					
Peru					
Venezuela					
Subtotal	840	806	4	37	23
<b>European Union (EU)</b>					
EU-25	6,430	6,021	106	515	0
<b>Eastern Europe</b>					
Romania	26	25	3	4	5
<b>Former Soviet Union</b>					
Russia	350	528	190	10	12
Ukraine	224	133	3	94	2
Subtotal	574	661	193	104	14
<b>North Africa</b>					
Egypt	455	459	9	5	0
Algeria					
Subtotal	455	459	9	5	0
<b>South Asia</b>					
India					
<b>Asia</b>					
China					
Indonesia					
Japan	35	254	219	0	15
Korea	24	65	41	0	2
Malaysia					
Philippines					
Taiwan					
Thailand					
Subtotal	59	319	260	0	17
<b>Oceania</b>					
Australia	389	230	49	212	51
New Zealand	308	28	2	289	29
Subtotal	697	258	51	501	80
<b>Total selected countries</b>	<b>13,546</b>	<b>13,271</b>	<b>941</b>	<b>1,239</b>	<b>520</b>

<sup>1</sup> Source: Prepared by USDA, Economic Research Service using final estimates by USDA, Foreign Agriculture Service, December 2005.

**Butter production, consumption and trade data, 2004<sup>1</sup>**

Country/Region	Production	Consumption	Imports	Exports	Ending stocks
	<i>1,000 metric tons</i>				
<b>North America</b>					
Canada	86	96	28	17	14
Mexico	88	141	53	0	0
United States	567	615	23	0	20
Subtotal	741	852	104	17	34
<b>South America</b>					
Argentina					
Brazil	75	75	1	1	0
Chile					
Colombia					
Peru					
Venezuela					
Subtotal	75	75	1	1	0
<b>European Union (EU)</b>					
EU-25	2,154	1,936	90	352	232
<b>Eastern Europe</b>					
Romania	9	12	3	0	0
<b>Former Soviet Union</b>					
Russia	270	437	170	5	15
Ukraine	138	103	0	42	5
Subtotal	408	540	170	47	20
<b>North Africa</b>					
Egypt	12	40	28	0	0
Algeria		15	15	0	1
Subtotal	12	55	43	0	1
<b>South Asia</b>					
India	2,600	2,608	10	2	0
<b>Asia</b>					
China					
Indonesia					
Japan	80	88	7	0	23
Korea					
Malaysia					
Philippines					
Taiwan		11	11	0	0
Thailand					
Subtotal	80	99	18	0	23
<b>Oceania</b>					
Australia	132	60	9	75	8
New Zealand	390	26		374	21
Subtotal	522	86	9	449	29
<b>Total selected countries</b>	<b>6,601</b>	<b>6,263</b>	<b>448</b>	<b>868</b>	<b>339</b>

<sup>1</sup> Source: Prepared by USDA, Economic Research Service using final estimates by USDA, Foreign Agriculture Service, December 2005.