The WTO and Dairy Trade Prospects

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The WTO and Dairy Trade Prospects

- Dimmed prospects for commodity trade.
- Better prospects for value-added products (dairy, vegetable oils).
- Dairy prospects in Asian markets: China and WTO accession Korea
- Dairy markets are distorted and closed.
- Why is the U.S. not a competitive dairy exporter?
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Trade Expansion Possibilities for Bulk Commodities

Real value of U.S. corn exports (History and FAPRI projections)

- real value of corn exports
- real corn price
- Poly. (real corn price)

$ million at 1996 prices

Real corn price 1996$/mt

years
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Cheese Consumption up but Cheese Price Stagnant to Declining

Per capita cheese consumption and price

- **Brazil**
- **Japan**
- Real price A$/mt 1997 prices
- Fitted polynomial trend
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Same Reality for Other Value-added Products

Soy oil consumption and real price

- Korea consumption
- Taiwan consumption
- Real oil price (1996 $/mt)
- Fitted polynomial trend

Years: 1982/83 to 2010/11
Oil consumption (1000 mt)
Real price ($/mt)
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China

• Dairy consumption in China is changing quickly.
• It is urban for now, but just wait!
• Product quality is evolving fast.
• WTO membership facilitates opportunities for FDI in dairy industries.
• Tariffs will be decreasing quickly (from 50% to 12% on cheese, 50% to 10% on butter, etc…). No TRQ on dairy commodities.
• CARD analysis indicates that WTO membership would increase cheese consumption by 12% in 2010, and cheese imports by 52%. Similar stories for NDM and butter consumption and trade.
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Dairy consumption in China (history and 2002 FAPRI outlook)

Urban fresh milk consumption
Rural fresh milk consumption
Cheese disappearance
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South Korea

• South Korea is another promising market but…
• Borders are closed with skimpy TRQ allocations (e.g., 420 mt for butter in 2004).
• Prohibitive tariffs for out-of-quota imports and high tariff on in-quota imports (e.g., 89% tariff on out-of-quota butter and 40 % tariff on in-quota butter by 2004).
• Who would benefit if the Korean market opened? (Consumers and competitive exporters)
Cheese consumption in Korea per capita (Song and Sumner study)

- per capita cheese consumption
- fitted polynomial trend

Quantity in gram
Years
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Korean dairy consumption (history and FAPRI outlook)

- Fluid milk use
- Cheese consumption
- Butter consumption

Years: 1991 to 2011

Fluid milk use shows a steady increase, with a slight dip around 1995. Cheese consumption starts low in 1991 and shows a consistent rise. Butter consumption starts slightly above 200 tmt in 1991 and also shows a steady increase.
Distortions in Dairy Markets

- Dairy markets are distorted in most countries.
- Policies are complex and arcane but in general protect farmers and tax users (processors, consumers).
- The EU competes "unfairly" with exports subsidies but product quality is excellent and differentiated.
- Many emerging markets are in Asia, but are often closed (see example of Korea).
- The U.S. is a major offender in the free trade game (lots of rhetoric but mostly mercantilism and good-old protectionism).
- Competitive exporting industries have to push politically (Northeast?) to put sacred cows on the block.
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U.S. Sacred Cows:
Support for Dairy, Sugar, Corn, and Soybean
(Estimated by CARD)

- Dairy support (AMS)
- Sugar support (AMS)
- Soybean (AMS before de minimis)
- Corn (AMS before de minimis)
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Competitiveness of U.S. Dairy

• Why aren't we more competitive in dairy products (domestic choice and limited export ambition)?
• We have cheap feed, the genetics, the managerial input, the capital markets, the Italians, the entrepreneurs …so what is missing?
• Cost reasons: milk is expensive.
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Competitiveness of U.S. Dairy

• Policy reasons:
  – trade restrictions make Italian and French cheese prohibitively expensive, limit competition, and restrict consumer choice. U.S. cheese makers can relax…
  – EU subsidies make it harder to compete in third markets.