



GETTING TO THE NEXT 5%

What U.S. Dairy Farmers Should Know



We're on this journey together for the benefit of everyone in the U.S. dairy industry, including dairy farmers. USDEC staff is grateful for the generous funding we receive from U.S. dairy farmers through DMI and the state and regional checkoff organizations. We are confident that working together we can reach The Next 5%.

TOM VILSACK
PRESIDENT AND CEO
U.S. DAIRY EXPORT COUNCIL

What is The Next 5%?

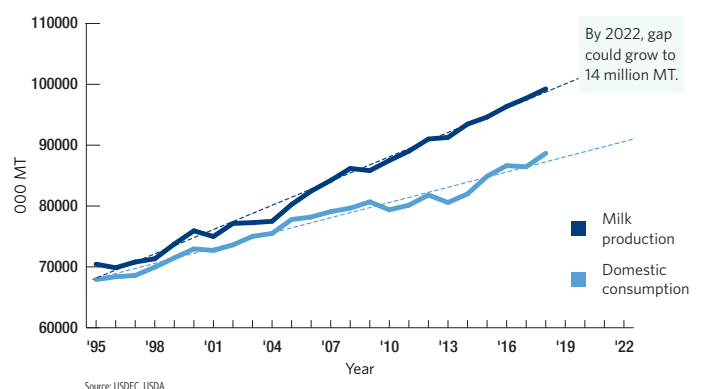
The Next 5%—building U.S. dairy export volume from about 15% of U.S. milk solids to 20%—is a coordinated effort led by the checkoff-funded U.S. Dairy Export Council (USDEC) and U.S. dairy suppliers. While the goal is expressed in terms of volume, it's more than a volume target. That's because the U.S. dairy industry cannot expand volume as needed without heightening the focus on meeting the evolving demands of overseas customers and consumers with innovative, *high-value* products. Thus, The Next 5% is a dual-track goal to deliver volume expansion concurrently while lifting the value of the products U.S. Dairy is selling.

Why is The Next 5% so important to dairy farmers?

In some ways, dairy farmers have become economic victims of their own industriousness, innovation and efficiency. In 1950, the average U.S. cow produced roughly 5,500 pounds of milk per year. With advances in technology, nutrition and animal care, the average cow is now producing about 23,000 pounds per year. That's contributed to a situation in which

U.S. dairy farmers produce more milk than their fellow Americans consume. We must find new markets to keep farmers in business. If we don't move aggressively, the problem is going to become significantly worse in future years, as Figure 1 shows.

FIGURE 1: THE NEXT 5% IS VITAL TO OUR FUTURE
U.S. MILK PRODUCTION AND DOMESTIC CONSUMPTION



Why are overseas markets important to U.S. Dairy's growth?

Ninety-five percent of the world's population—our potential customers—live outside the United States. Looking beyond our borders is where a significant part of our future business lies and where we can find more markets for our milk, products and ingredients. Since 2003, nearly half of “new” milk produced in this country has gone to exports.

What is at stake for the U.S. economy?

Dairy drives American jobs in every state. Dairy Delivers, a groundbreaking study and interactive tool commissioned by the International Dairy Foods Association (IDFA*), quantifies with granular detail the economic impact of dairy in the 50 states and 435 congressional districts. When you factor in the economic ripple effect of dairy processing plants, retail stores selling dairy products and other connected business sectors, dairy creates more than 390,000 jobs in California alone—either directly or indirectly—and nearly 3 million nationally. In short, dairy is a jobs machine, and we need to expand exports to create even more jobs.

How is this connected to the broader agriculture economy?

Dairy is part of the American food and agriculture sector that feeds the world and helps fuel the U.S. economy. According to a recent economic impact study you can find at feedingtheeconomy.org, America's food and agriculture industries are directly responsible for more than 22 million jobs. If you add in the supplier economic impact and the induced impact (spending by people directly or indirectly employed by the food industries), the total number of jobs comes to 43.3 million. That represents more than one-quarter of all American jobs.

How many jobs do dairy exports create?

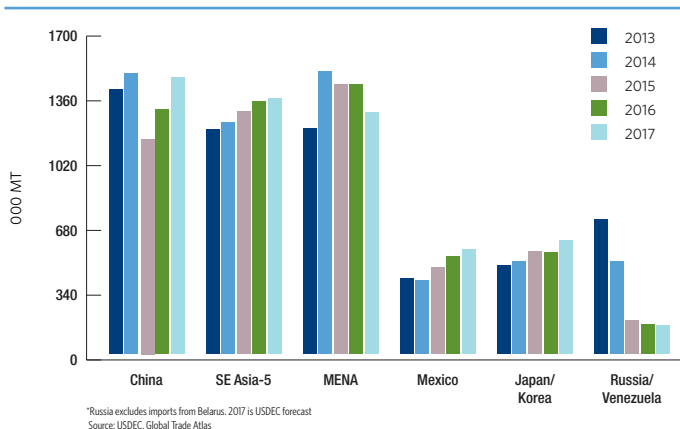
The study commissioned by IDFA did not break out exports. But USDEC and the National Milk Producers Federation analyzed data from the U.S. Bureau of Economic Analysis and other federal agencies to calculate that exports alone create nearly 100,000 jobs nationally. In 2016, U.S. dairy exports totaled \$4.9 billion, with an overall economic impact of U.S. dairy exports totaling \$14.6 billion.

Is there strong global demand for dairy?

With the exception of outliers Russia and Venezuela (see Figure 2), global demand has been strong and consistent. Several factors account for this, including fast-rising populations, health-conscious middle-class consumers who want more dairy and can afford it—and an increasing appetite for Western-style foods, especially pizza and burgers. This means U.S. Dairy has great growth potential due to increased populations, rapid urbanization and a rising middle class that is demanding dairy. USDEC projects global dairy trade will increase by 2.3 million metric tons in the next three to five years.

*To find your state's economic data, go to idfa.org.

FIGURE 2: LARGEST IMPORTERS BY VOLUME
SWP, WMP, CHEESE, BUTTERFAT, WHEY



Where can we grow our business overseas?

In addition to Asia and Latin America, the Middle East/North Africa (MENA) market looks good for more growth. Why? For the same reason mentioned earlier—a growing youth population, rising incomes and more demand for tasty and nutritious dairy products, as well as an increasing capacity of U.S. suppliers to meet the needs of the Middle East/North Africa market.

What is our competition doing to capture growing demand overseas?

The European Union and New Zealand have been making partnerships, expanding capacity and building relationships in the Middle East and elsewhere around the world for years. Meanwhile, the United States faces hurdles in the form of technical barriers to trade, unfavorable market access in certain countries compared to our competitors and, unfortunately, a reputation that we are primarily focused on a limited portfolio of products aimed at serving domestic market needs. If U.S. Dairy wants to capture more growth opportunities, it will need to continue to become more competitive by offering products that are most desired overseas. And to do so, we need a unified plan to overcome the many challenges facing U.S. dairy exports. That's why USDEC has outlined a strategy to reach The Next 5%.

What is USDEC's role?

USDEC doesn't sell product. That's the job of our member companies. Neither can we change economic cycles, drive population growth or raise per capita income. But working closely with our members, USDEC can and does create a unified strategic plan to increase U.S. dairy exports, providing new markets for the milk produced by our farmer-funders. We provide exporters practical guidance on a day-to-day basis by helping them capitalize on opportunities while minimizing costs and risks.

Are additional resources needed?

As part of its ambitious initiative to increase exports, USDEC is hiring nine on-the-ground professionals to expand business opportunities in key global export markets. USDEC's 10 international offices have long been U.S. Dairy's eyes and ears in foreign markets, identifying opportunities for the entire U.S. dairy industry, charting the business climate and monitoring regulatory activity. USDEC plans to add three additional positions in China, two in Southeast Asia, one in Japan, one in South Korea, and two in the Middle East/North Africa. Having more boots-on-the-ground in critical export growth regions—in the Middle East, Southeast Asia, North Asia, Mexico and Latin America—is key. A greater in-market presence will help lift the profile of the United States as a dairy supplier, cultivate seller-customer relationships and energize U.S. responsiveness to shifting consumer trends and market needs.

These expansions are made possible by \$4 million in increased funding, with \$3 million from state and regional dairy checkoff organizations, and \$1 million from Dairy Management Inc. (DMI) through the national dairy checkoff.

What about partnerships?

In 2018, we plan to form “game-changing” partnerships in key export markets that we hope will lead to fruitful new opportunities for U.S. Dairy. For example, on March 30, USDEC signed a new innovation partnership with China's Jiangnan University that we believe will help pave the way for U.S. dairy export growth in China, the world's largest dairy importer. China is a top-priority market for the U.S. dairy industry, and Jiangnan University is one of the best food science schools in China.

What is USDEC's road map for the remainder of 2018?

In short, our plan will focus on people, partnerships and promotions.

For the latter, we'll continue to maintain a high-level of promotions in each of our key export markets. For example, last year in Mexico, we conducted promotions in 160 retail stores, highlighting 165 different types of products, for a total of 250 promotion days—all aimed at getting Mexican consumers to taste and try U.S. products. We'll do the same in each of our key export markets this year, much like we did in February at Gulfood, one of the largest food exhibitions in the world, where representatives from 23 USDEC member companies exhibited.

In the area of trade policy, USDEC will continue to protect U.S. Dairy's interests at all levels, most especially addressing attempts by the European Union to restrict the use of common cheese names such as feta and asiago. As well, we are building partnerships with other countries that share U.S. concerns at international forums such as Codex Alimentarius, which establishes food standards, guidelines and codes of practice on the safety and quality of food traded internationally.

To keep abreast of The Next 5% initiative and more, farmers are invited to subscribe to our blog at SubscribeUSDairyExporterBlog.com.

FIGURE 3: 16 SR CHECKOFFS HELP EXPAND OUR OVERSEAS PRESENCE
A TOTAL OF NINE POSITIONS TO BOLSTER U.S. OVERSEAS CAPABILITIES

