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There's a world of difference between the U.S. dairy and agricultural international trade situation. The first is a big minus, and the second a big plus. This situation has plagued the dairy industry for over a decade, and takes on even more importance in the wake of the highly publicized U.S. surplus butter sale to New Zealand made possible only by cutting our purchase price by more than half, and the recent U.S. International Trade Commission recommendation against import quotas on casein. The butter sale also involved a stipulation that no further U.S. government surplus butter sales can be made internationally without New Zealand's approval until August, 1982.

A look at the numbers illustrates the big difference between dairy trade and agricultural trade.

U.S. agricultural exports have been the bright spot in our otherwise clouded international trade situation of massive trade deficits. They increased about $3 billion in fiscal 1981, to $44 billion, earning a +$27 billion trade balance. This helped reduce the $53 billion nonagricultural trade deficit from petroleum and other nonagricultural imports. Agricultural exports account for more than a million U.S. jobs. Without agricultural exports. U.S. unemployment would be 20 percent higher, Farm exports are therefore very important, not only to agriculture but also to the entire economy.

U.S. dairy exports by contrast were only $251 million in fiscal 1981, compared to $619 million in dairy imports -- over a $350 million minus gap.

Dairy exports were only two-fifths of dairy imports last fiscal year, and averaged only one-fourth of dairy imports during the previous half decade. Also, in three of the past ten years, net dairy imports exceeded dairy price support purchases. Dairy imports were up one-sixth in fiscal 1981, and promise to continue strong for the forseeable future. Net dairy imports in fiscal 1981 were 2.3 billion pounds of milk equivalent, which represented a $.41 per cwt. loss to farmers, based on USDA studies indicating a 9¢ per cwt. loss to farmers for every 500 million pounds of milk equivalent net dairy imports.

Obviously the dairy industry operates in a different export world than the rest of agriculture. Why? A look at foreign dairy subsidies for production, manufacturing, export, and import levies, tells the story.

1. Government Milk Production Subsidies

	U.S. $ Per Cwt.
New Zealand	$.19 (1978)
Australia	$.20 (1978)
EEC (1980 Support Price)	$14.15

EEC Governments support milk prices through purchases of butter at $1.85 per lb., skim powder at $.77 per lb., and cheese (Parmesan) at $2.42 per lb. U.S. support purchase prices are considerably lower for butter, $1.49 per lb., and cheese (Cheddar), at $1.395 per lb., but higher on skim powder, at $.94 per lb.

The EEC support price of $14.15 per cwt. at average test contrasts with our support price of $13.10 per cwt. -- $.95 per cwt. less.

Production subsidies enable our dairy trade competitors to be competitive, since the subsidies reduce their net costs of production, or make it possible for them to sell at lower prices and still cover their costs.

2. Government Export Subsidies

EEC export subsidies are commonplace on skim milk powder, butter, and cheese -- major products we attempt to export. Those export subsidies make it possible for EEC countries to sell dairy products at world prices, even though their internal subsidized prices are far higher. Unless we also subsidize, we cannot compete with EEC subsidized dairy products. Therefore, subsidized foreign dairy products compete head to head with our domestic dairy products in international markets. (See tables on next page.)

EEC export subsidies are also used to move dairy products into the U.S. The 1979 U.S. Trade Act permits fast action by us in preventing domestic price undercutting by subsidized imports, but does permit subsidized imports priced at the same level as our dairy products. Therefore, subsidized imports also compete head to head with our domestic dairy products in the U.S.

For example, last year West Germany undercut our Grade A - B Swiss cheese prices by $.07 per pound, and Denmark undercut our Grade C Swiss price by $.17 per pound, through the use of export subsidies. Both were forced to reduce their subsidy to eliminate the price undercutting, at the threat of cessation of sales to this country.

At the time Germany and Denmark were forced to reduce these export subsidies on Swiss cheese, EEC countries also reduced export subsidies three to eight cents per pound on either other types of cheese -- Gouda, Edam, Danbo, Havarti, Danish Blue, English Stilton, Emmenthaler-Gruyere, and Esrom. This illustrates the wide variety of dairy products that have EEC export subsidies.

Export subsidies are used to move products out of overseas markets to either compete with us, or sell in the U.S. -- both which contribute to our dairy import-export imbalance.

Europeon Economic Community Dairy
Export Subsidies Per Pound in 1981

Nonfat dry milk	$.19
Cheddar cheese	$.23
Emmenthaler cheese	$.46
Butter	$.52
Casein	$.85

Dairy Price Support Costs in 1981

EEC	$4 Billion
US	$2 Billion

Wholesale Dairy Prices Per Pound in December 1981

	US	World	World Less Than US	
Butter	$1.47	$1.09	$.38	26%
Cheddar cheese	$1.33	$.75	$.58	44%
Nonfat dry milk	$.95	$.48	$.47	49%

3. Government Dairy Manufacturing Subsidies, Casein Imports, and Imitation Cheese

Casein subsidies in 1980 were:

	U.S. $ Per Lb.
Ireland	$.82
France	$.83
Netherlands	$.83
Germany	$.87
EEC	$.81 (Increased to $.95 as of January 1982)

Foreign subsidies ($.95 per pound) are therefore approximately two-thirds of current U.S. average casein prices ($1.42 per pound).

Casin imports doubled since 1965, and increased approximately one-third during the 1970's, to 152 million pounds in 1980. In 1955, 99% of the casein was used for industrial products, and only 1% for food and feed. By 1980, 87% of casein imports were used in food and feed.

The opportunity for unlimited subsidized casein imports into the U.S. hurts our dairy import-export balance. One-third (33%) of the approximately 150 million pounds of annual casein imports (which are priced at less than one-half the price of domestic nonfat solids) are used for imitation cheese, now totaling about 5 percent of U.S. annual cheese production. This is in excess of one-half of USDA price support purchases of cheese.

In excess of one-third (36%) of pizza sold in stores contains imitation cheese, and is priced an average of 21% lower than pizza using only natural cheese. Imitation cheese is priced an average of $.33 (27%) less per pound than natural cheese at wholesale, and $.49 (20%) less per pound than natural cheese at retail.

Also, casein imports equate to approximately 330 million pounds of nonfat dry milk annually, representing over $300 million in CCC purchase costs to buy this volume.

Last summer President Reagan directed the U.S. International Trade Commission to investigate the propriety of imposing import quotas on casein, but the I.T.C. recently recommended against import quotas. Import quotas on casein would serve as a deterrent to these foreign subsidized dairy imports, as well as increased production of imitation cheese, but it is uncertain at this time whether import quotas on casein will in fact be imposed. In the meantime, the high level of subsidized casein imports contributes to the negative U.S. dairy export-import balance.

Source of U.S. Casein Imports, 1979 & 1980

Country	1979	1980
	Million Pounds	
New Zealand	92.1	76.8
Australia	21.7	17.9
Ireland	14.8	24.0
France	2.0	8.9
Netherlands	2.5	2.5
W. Germany	.2	.6
Others	17.5	21.5
Total	150.8	152.2

Use of Imported Casein in 1980

Imitation cheese	33%	
Coffee Whitener	10%	
Bakery	9%	
Desserts	5%	
Other foods	3%	
Food total		60%
Animal feed	16%	
Pet food	4%	
Feed total		20%
Medical products		7%
Industrial products		13%

4. Government Import Levies

EEC minimum import prices in 1980/81 were:

	U.S. $ Per Lb.
Butter	$2.04
Skim milk powder	$.89
Cheese (Parmesan)	$2.65
Whey powder	$.25
Dry whole milk	$1.37
Evaporated milk	$.22
Condensed milk	$.70

Import levies are assessed at the difference between the above prices and world prices. Thus, import levies were approximately $.95 per pound on butter ($2.04-$1.09), and $.41 per pound on skim milk powder ($.89-$.48).

Minimum import prices are higher than support purchase prices enumerated earlier -- $.19 per pound higher for butter, $.12 per pound higher for skim milk powder, and $.23 per pound higher for cheese. This import pricing procedure increases import levies, further deterring imports, and increasing our difficulty in moving dairy products into Europeon markets.

Import levies by other countries increase the landed cost of our dairy products, and thus further contribute to our export difficulties.

5. New Zealand Butter Sale

a) 1981 U.S. support price for butter = $1.49 per lb. (Chicago)

b) July 1981 U.S. sale price for butter to New Zealand = $.70 per lb. (220 million lbs.)

With the stipulation of no more U.S. government sales of butter before July 1982, without New Zealand approval, and no New Zealand sale of U.S. butter to Russia.

c) December 1981 New Zealand sale price for New Zealand butter to Russia = $1.02 per lb. (90 million lbs. now, 130 million lbs. later).

d) U.S. price to New Zealand $.32 less than New Zealand price to Russia.

The U.S. - New Zealand government to government butter sale is an outgrowth of the fact that other countries subsidize commercial dairy exports, and we do not. As a result, we have trouble competing commercially -- with world prices one-fourth to one-half less than U.S. domestic prices. The U.S. Government therefore sold the 220 million pounds of butter to New Zealand at less than one half the price it paid for it, and one-third less than the world price, rather than permit a direct sale to Russia.

5. Importance of Dairy International Trade to Wisconsin

Wisconsin exports one-fourth (25.9%) of U.S. dairy exports, and ranks first nationally with $41 million dairy exports annually. Wisconsin also ranks first nationally in the exportation of bull semen -- $9 million annually, and dairy cattle -- $2.9 million annually. Therefore, dairy exports are very important to the overall Wisconsin economy. As a result, trade policies impeding dairy trade impact adversely on the state as a whole. Elimination of impeding policies would therefore be beneficial to the entire state.

Best Dairy Export Possibilities

a) Whey powder soybean meal blend
   Bakery and animal use

b) Whey powder
   Food and feed

c) Lactose
   Baby food, penicillin

d) Dried cheese
   Specialized outlets

e) Hard cheese
   Tie in sales with wine to nearby countries
   Transportation savings

f) Skim milk powder and skim and whey powder mixtures
   To nearby countries
   Lower transportation than EEC

g) Butter -- but only in high priced areas
   Competition from EEC subsidized surpluses

Best Dairy Export Countries Possibilities

a) Mexico
   Transportation savings -- Dried products, whey, skim milk powder, cheddar cheese, wine.

b) Venezuela
   Oil dollar earnings, and dairy consumer preferences

c) Mideastern Countries
   Oil earnings, and increasing demand for dairy products

d) Japan
   Dollar export earnings, large population increasing consumer preference for dairy production

e) Developing countries around the world
   Tremendous build up in need for food

Summary

The U.S. dairy industry faces difficult competitive obstacles in both the import and export market. This is not to say all is hopeless, It is not -- and progress is being made. Nevertheless, the path ahead will not be easy -- it will be hard. The obstacles, particularly those created by foreign

governments, will not easily be displaced. Each competitive country is trying to protect its dairy industry -- and this is likely to continue.

The U.S. dairy industry could compete in world export markets if the USDA directly subsidized exporting plants, rather than buying products for price support, and then subsidizing the export of these products, as in the New Zealand sale. Making it possible for dairy plants to compete in world markets would enable them to sell as aggressively abroad as at home. Now they cannot.

Hopefully this and other programs to make the U.S. dairy industry more competitive in world markets will get top priority. If so, dairy exports would have a better chance of emulating agricultural products by also being a plus.