



The Babcock Institute

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HOT WORLD MARKET FOR MILK PROTEINS GOOD NEWS FOR U.S. DAIRY SECTOR

U.S. exports of nonfat dry milk (called skim milk powder in international markets) and dry whey products set new records in 2006, continuing the blistering pace of the last three years. Whey exports in 2006 totaled \$341 million, up 53 percent from 2005 and 2.5 times larger than the 1996–2003 average. Nonfat dry milk exports last year were \$589 million, marginally higher than 2005, but more than 4 times larger than average annual exports in 1996–2003. The U.S. sent more than 40 percent of its whey and nonfat dry milk overseas in 2006 and together, these products accounted for half of the total value of U.S. dairy exports.

U.S. exports of these important sources of dry milk proteins have benefited from tight international markets dating to early 2004. World market prices for nonfat dry milk, the major dry milk product in international commerce, languished around the \$0.80 per pound mark during most of 2003. Since the U.S. support price for nonfat dry milk is \$0.80 per pound, selling to the government gave a higher net return than shipping the product overseas. Most U.S. exports were subsidized under the Dairy Export Incentive Program and nonfat dry milk stocks held by the government mushroomed.

By the spring of 2004, world nonfat dry milk prices began rising steadily, reaching \$1.00 per pound by year-end. Exporting became more profitable than selling to the government, and the value of U.S. nonfat dry exports doubled in 2004. World prices held fairly steady in 2005, dipped slightly in mid-2006, but rose sharply by year end to more than \$1.25 per pound. U.S. government stocks disappeared.

As world nonfat dry milk prices rose on short supplies, many users began to substitute less-expensive whey products as a milk protein source. This increased world whey prices and encouraged U.S. whey exports.

The tight world market for milk proteins is primarily a result of declining milk production in the EU, which is the largest world producer of nonfat dry milk and traditionally the largest exporter. Between 2003 and 2006, EU milk production fell only about 1 percent. But the shortened milk supply combined with rapidly expanding production of cheese meant much less milk allocated to dryers. EU nonfat dry milk production dropped 26 percent between 2003 and 2006, and exports fell by more than 60 percent. The U.S. took over the top exporter spot.

World protein markets are expected to remain tight in 2007. Milk production in the EU will continue its slow decline in response to lower support prices. Australia, another major supplier of nonfat dry milk, experienced a severe drought in 2006 and will not recover quickly. So the U.S. dairy sector will continue to enjoy strong world prices for nonfat dry milk and whey.

