

# NDB, American Institute Study Finds Markets

ARLINGTON, Va. — A market study funded jointly by the National Dairy Promotion and Research Board and the American Dairy Products Institute shows that increasing exports of whey and lactose has great potential for boosting the U.S. dairy industry.

Tom Suber, director of export programs at the National Dairy Board, reminded National Dairy Board members at their annual meeting May 18-20 that the study was conducted because of the following trends in the U.S. dairy sector:

- U.S. exports of whey and lactose were rising and broadening their geographic coverage;
- Domestic production was increasing; and
- Elements of the industry were trying to determine how to coordinate or increase their export activity.

Just as significant was an earlier study by the Dairy Marketing Initiative in Wisconsin which estimated that every 1-cent rise in the price of whey results in a 5-cent increase in the farm-level price of raw milk for cheese, Suber said.

"Given recent trends in U.S. dairy processing and exporting and the fact that studies show dairy farmers receive a considerable benefit in their milk price from the sale of whey and lactose prompted the Dairy Board to fund the study with the help of ADPI," Suber said. "We (Dairy Board) wanted to find out what we and the rest of the industry can do to help move whey and lactose overseas."

U.S. suppliers currently have a favorable position in eight key

overseas markets studied due to their abundant supply and competitive prices, Suber said.

Despite U.S. price and supply advantages, the study found that rising concerns among overseas buyers over U.S. quality and consistency could limit long term whey and lactose exports. To compound the problem, U.S. whey product producers have little contact with their buyers since brokers play a major role in handling U.S. exports.

This is not surprising since cheese is the primary business — not whey and lactose — for most U.S. producers, Suber said. This insulation from the customers prevents whey product producers from learning and correcting the problems in packaging, lack of purity and inconsistent specifications. In addition, without personal contact, the overseas buyer feels no commitment to the U.S. supply source.

Suber said, the U.S. dairy industry must work together to correct quality and image problems before it can reach its full potential in increasing whey and lactose sales abroad. Suber cited the following recommendations from the study:

- The U.S. industry should provide more customer services such as technical information regarding uses for whey and lactose while offering to help solve quality problems;
- Foreign whey and lactose buyers need more information through trade missions, while the U.S. industry needs to learn more about overseas markets through export marketing seminars and

U.S. government trade reports;

- U.S. whey and lactose manufacturers and exporters must create uniform product standards and grades to boost buyers' confidence.

- The industry needs to build a awareness of U.S. whey and lactose, identify customer needs and facilitate two-way communications with customers using a regional industry representative; and

- The industry needs to help create better market access by raising the profile of whey and lactose trade barriers with U.S. government trade negotiators.

The study analyzed condensed whey, whey powders and lactose trade as well as the specific competitive position of those U.S. products in eight key overseas markets — Mexico, Japan, Korea, Hong Kong, Taiwan, the Philippines, Thailand and Venezuela. Suber said these countries represent about 74 percent of the total U.S. 1992 whey and lactose exports.

## Whey

As a direct consequence of growing cheese industries, the European Community and the U.S. account for 39 percent and 24 percent respectively of total raw product. Fresh whey production in 1991 grew at just under 1 percent compared with the late 1980s.

The EC dominated whey powder production and utilization in 1991 with 57 percent of the market. The U.S. was second with 31 percent of the production and 26 percent of the utilization. World production of whey powder amounted to 1.7 million tons. In

1991, growth equalled 4.6 percent, which was slower than the early 1980s.

The growth of whey powder production indicates more low-value fresh whey was processed and used as a higher-value powder than just thrown away, Suber said.

Utilization or consumption of whey powder is growing at a strong 6 percent on a worldwide basis. Quoting the study, Suber said, this reflects the technological advancements that have made milk proteins competitive with vegetable (primarily soy) proteins.

In most of the countries studied though, the primary use of whey was for the animal feed. Even in Japan, over half of the whey, most of which is imported, is used in feed compounds. However, most everywhere this ratio is shifting to more high-value uses in human foods and infant formula.

## Lactose

The EC produces more than half of the world's lactose, while the United States was second at 34 percent. Total world lactose production in 1991 was about 250,000 tons with U.S. supplies growing at the fastest rate.

Japan had the highest lactose utilization in 1991. Japan used 36 percent of the total world lactose supply. The U.S. used the second largest portion at 26.1 percent. Japan's heavy lactose use comes from its value as a milk sweetener, better suited to local taste preferences than other sweeteners.

In 1991, Japan dominated lactose imports with 58.5 percent of world imports. The EC and U.S. imported an insignificant amount.

The EC dominated lactose trade with 54.3 percent of the world's exports. The U.S. ranked a distant second with 18.5 percent, but the U.S. and Finland (4.9 percent of world exports) have had the fastest recent growth rates.

## Conclusions

The research cited Japan and Mexico as remaining good markets for importing U.S. dairy products, particularly whey and lactose. On a volume basis, the two countries will generally lead all other markets, but the fastest growth for both products will come in Southeast Asia.

The study offered the following basic conclusions regarding whey and lactose production, use and export:

- Among the products studied, whey powder is the most widely used, with a broad shift from animal feed to human food use;

- Whey product sales are growing most rapidly for those whey products with the highest value. One dramatic exception is China and its huge and rising use of condensed whey;

- The EC dominates the production and overall utilization of whey, but at present has a lower share of exports than the U.S.;

- World demand will grow faster than production. U.S. exports will continue to rise through the year 2000 due to a competitive price and abundant supply. But certain constraints exist that will prevent the U.S. from keeping up with world trade, thus losing market share.

For a copy of the complete report, call the National Dairy Board's Export Market Enhancement Department at (703) 528-4800.

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