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## U.S. Dairy Trade Situation and Outlook: 2011

**Edward V. Jesse and William D. Dobson**

**The Babcock Institute for International Dairy Research and Development**
**University of Wisconsin-Madison, College of Agricultural and Life Sciences**
**460 Animal Sciences Building, 1675 Observatory Drive**
**Madison, WI 53706-1205 USA**

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**The Babcock Institute**
**College of Agricultural and Life Sciences**
**460 Animal Sciences Building, 1675 Observatory Dr.**
**Madison, WI 53706-1205 USA**

**Phone: 608-265-0561; Fax: 608-890-3014**
**Email: babcock@cals.wisc.edu**
**http://babcock.cals.wisc.edu**

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# U.S. DAIRY TRADE SITUATION AND OUTLOOK: 2011

**Edward V. Jesse and William D. Dobson[1]**

## EXECUTIVE SUMMARY

U.S. exports of dairy products in 2010 were up sharply from their depressed level of 2009 and, at $3.71 billion, were the second highest on record. Dairy imports were valued at $2.17 billion, leaving a dairy trade surplus of more than $1.5 billion. This set a new record, $500 million higher than the previous high set in 2008.

Nonfat dry milk, whey and lactose products accounted for more than half of the value of U.S. dairy exports in 2010. Cheese was in third place at nearly 20 percent of export value. And, for the first time, the U.S. exported more tonnage of cheese than it imported.

Mexico, Canada and China were the top three export markets, absorbing 40 percent of total export value. Several East and Southeast Asian countries, Egypt, and Russia were also relatively large buyers among the 163 countries purchasing dairy products from the U.S. in 2010.

U.S. dairy imports were dominated by cheese, milk protein concentrate, casein and caseinates. Most of the cheese imports originated in Europe, with Italy, France and Switzerland supplying half of the cheese import value. New Zealand was the principal source of concentrated milk proteins, accounting for (by value) three-quarters of U.S. imports of milk protein concentrate, 40 percent of casein and 45 percent of caseinates.

Conditions appear favorable for strong U.S. dairy exports in 2011. World milk production is expected to increase modestly and demand should remain strong with robust economic growth in most of the countries that are key markets for U.S. dairy products. World market prices for important U.S. dairy export products have been rising so far in 2011. Prices for skim milk powder, whey products, cheese and butter are all above U.S. wholesale prices. Recent prices for future delivery on the Global Dairy Trade market show continued price strength at least through autumn. This suggests that—even with expected higher freight costs—foreign sales should yield good returns to exporters when compared to domestic sales.

Trade policy issues were nudged off the back burner in the U.S. in 2010. The higher profile gained by trade issues will be reflected in important developments in 2011. First, there is likely to be a vote by the U.S. Congress to approve a U.S.-Korea Free Trade Agreement (FTA). If ratified, this agreement would be the largest FTA entered into by the U.S. since the North American Free Trade Agreement (NAFTA), which became effective in 1994. The U.S.-Korea FTA would substantially expand U.S. exports, including exports of dairy products. Second, previously negotiated FTAs between the U.S. and Colombia, and the U.S. and Panama may be tweaked in 2011 and brought before the Congress for approval. Finally, in March 2011, progress was made toward resolving the long-festering dispute between the U.S. and Mexico over access of Mexican trucks to the U.S. market under the NAFTA. This development promises to end Mexico's punitive tariffs on certain imports of U.S. cheese.

However, the WTO negotiations under the Doha Round, which began in 2001, appear to be hopelessly stalled. It is now no stretch to speak of the Doha Round in the past tense. This paper discusses "What killed the Doha Round?" and "What are some major implications of failure of the Doha Round?"

If, as is likely, the Doha Round is given up for dead this year, major trading nations will pursue additional bilateral and regional FTAs. They will have strong incentives to do this to remain competitive with other nations following similar strategies. Thus, the "spaghetti bowl" of tariffs and trade regulations produced by FTAs will become still more complex.

*1 The authors are emeritus professors in the Department of Agricultural and Applied Economics, University of Wisconsin-Madison. Jesse is Director of Trade and Policy Studies and Dobson is an Agribusiness Economist with the Babcock Institute.*

## TRADE UPDATE[2]

### U.S. Dairy Exports

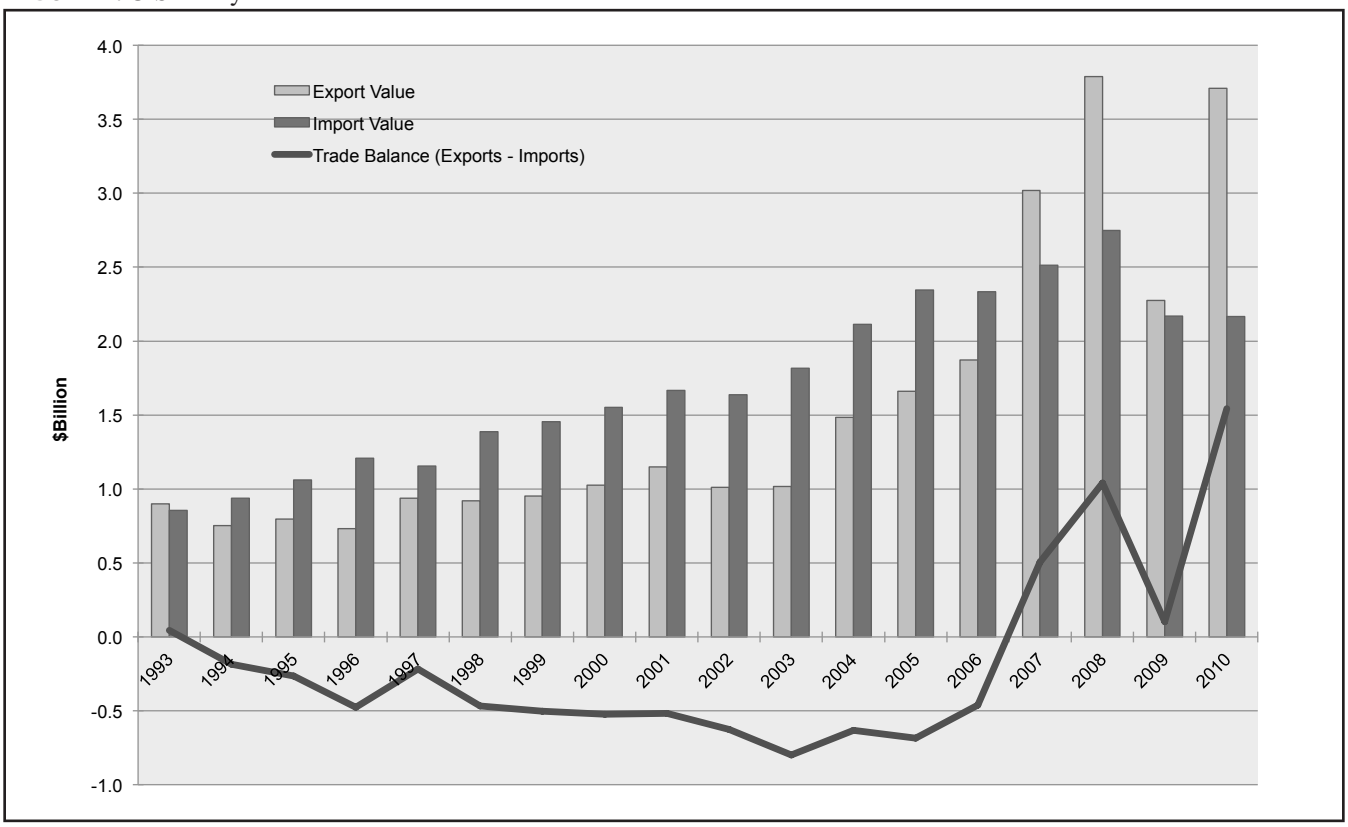
In 2010, U.S dairy exports rebounded strongly from their depressed level of 2009. The value of exports totaled $3.71 billion, up from $2.27 billion (63 percent) in 2009. Export value fell just short of the 2008 record of $3.79 billion. Tonnage exported in 2010 was at a record high, up almost 40 percent from 2009, and 17 percent more than 2008, when export prices were considerably higher.

U.S. dairy imports in 2010 were valued at $2.17 billion, nearly the same as 2009. Combined with the large increase in export value, this resulted in a record trade surplus of over $1.5 billion, $500 million higher than the previous record set in 2008 (Figure 1).

Nonfat dry milk was again the leading export item by value, followed closely by whey and lactose products (Figure 2).[3] Together, these two product categories accounted for more than half of the value of U.S. dairy exports in 2010.

Cheese was the third leading dairy export item and is a rising star in the mix of U.S. dairy exports. For the first time, the U.S. exported more tonnage of cheese than it imported (Figure 3). Because cheese imports consist largely of high-valued specialty varieties from Europe (Figure 4), the cheese trade balance measured in dollars remained negative at $270 million. But the trend is very favorable for the U.S. After steadily deteriorating from -$350 million in 1989 to -$800 in 2005,

**FIGURE 1.** U.S. Dairy Trade




*2 Dairy trade statistics shown in this section are derived exclusively from data drawn from the Foreign Agricultural Service Global Agricultural Trade System (GATS): http://www.fas.usda.gov/gats/default.aspx. Note that export totals differ slightly from those reported by the U.S. Dairy Export Council [11] in two consolidated categories: Butter and milkfat and miscellaneous food preparations.*

*3 The nonfat dry milk category includes skim milk powder, which has a standardized protein content. The whey and lactose category consolidates several products with separate HTS (Harmonized Tariff System) codes.*

**FIGURE 2.** Composition of U.S. Dairy Exports, 2010

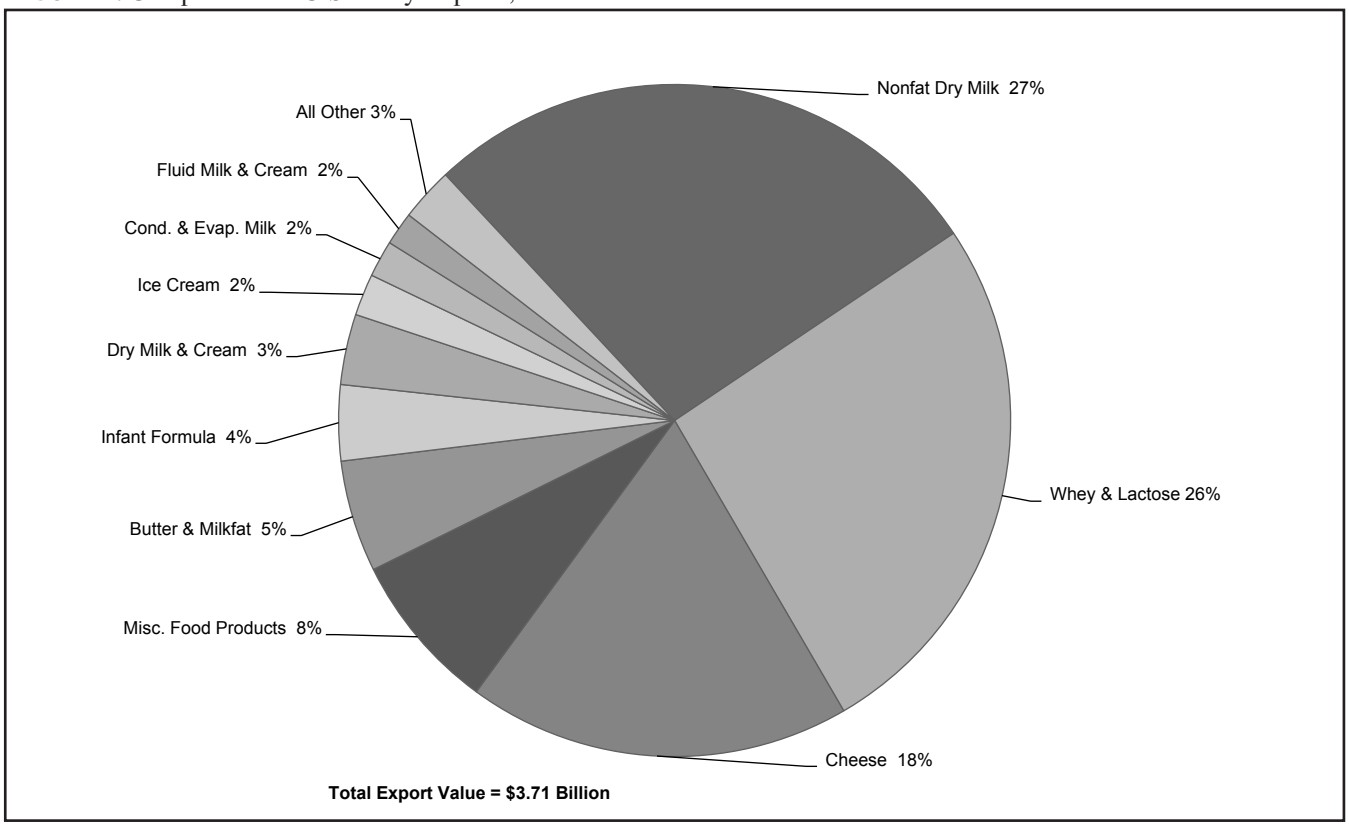
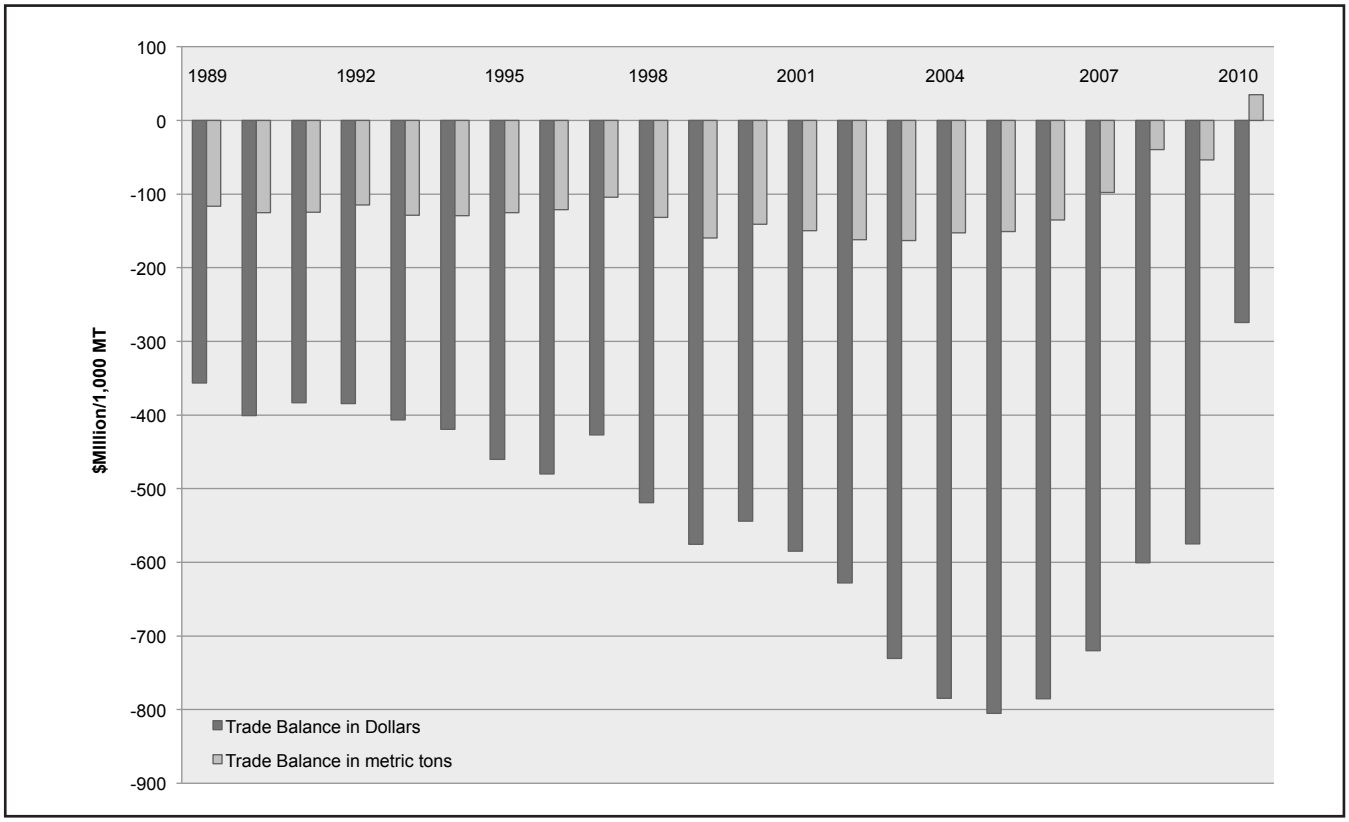



**FIGURE 3.** U.S. Balance of Trade in Cheese



the U.S. cheese trade deficit in dollars has improved every year since.

Improvements in the U.S. cheese trade balance are in large part the result of import substitution —U.S. cheesemakers are producing more of the styles of cheese that were once only available from Europe (Figure 4). Tonnage of imported cheese peaked at 216,000 MT in 2002. The volume imported in 2010 was 139,000 MT. In effect, import substitution has increased domestic utilization of U.S. cheese by 170 million pounds.

Major foreign markets for U.S. dairy exports are shown in Figure 5. The U.S. shipped dairy products to 163 countries in 2010. As has been the case for several years, the top two destinations were our North American neighbors, Mexico and Canada. However, a relative newcomer among top markets is China, which displaced Japan as the third leading export market in 2009 and increased its share of total U.S. dairy exports in 2010.

The growth in U.S. dairy exports to China has been dramatic and in concert with China's seemingly insatiable demand for U.S. agricultural products (Figure 6). China moved into the top spot among importers of all U.S. agricultural products in 2010, absorbing 15 percent of total U.S. agricultural export value of $115 billion. Between 2005 and 2010, U.S. agricultural exports to China more than tripled, from $5.2 billion to $17.2 billion. Soybean exports to China in 2010 were valued in excess of $10 billion and accounted for 60 percent of all U.S. soybean exports.

## Dairy Imports

U.S. imports of dairy products in 2010 were valued at $2.17 billion. Almost 80 percent of import value was in cheese and dry milk proteins (casein, caseinates, and milk protein concentrate). Other imports were a diverse lot, classified in 102 different HTS code categories (Figure 7).

As noted earlier, U.S. imports of cheese were mainly from Europe (see Figure 4), with Italy, France and Switzerland accounting for about half of the total

**FIGURE 4.** Source of U.S. Cheese Imports, 2010

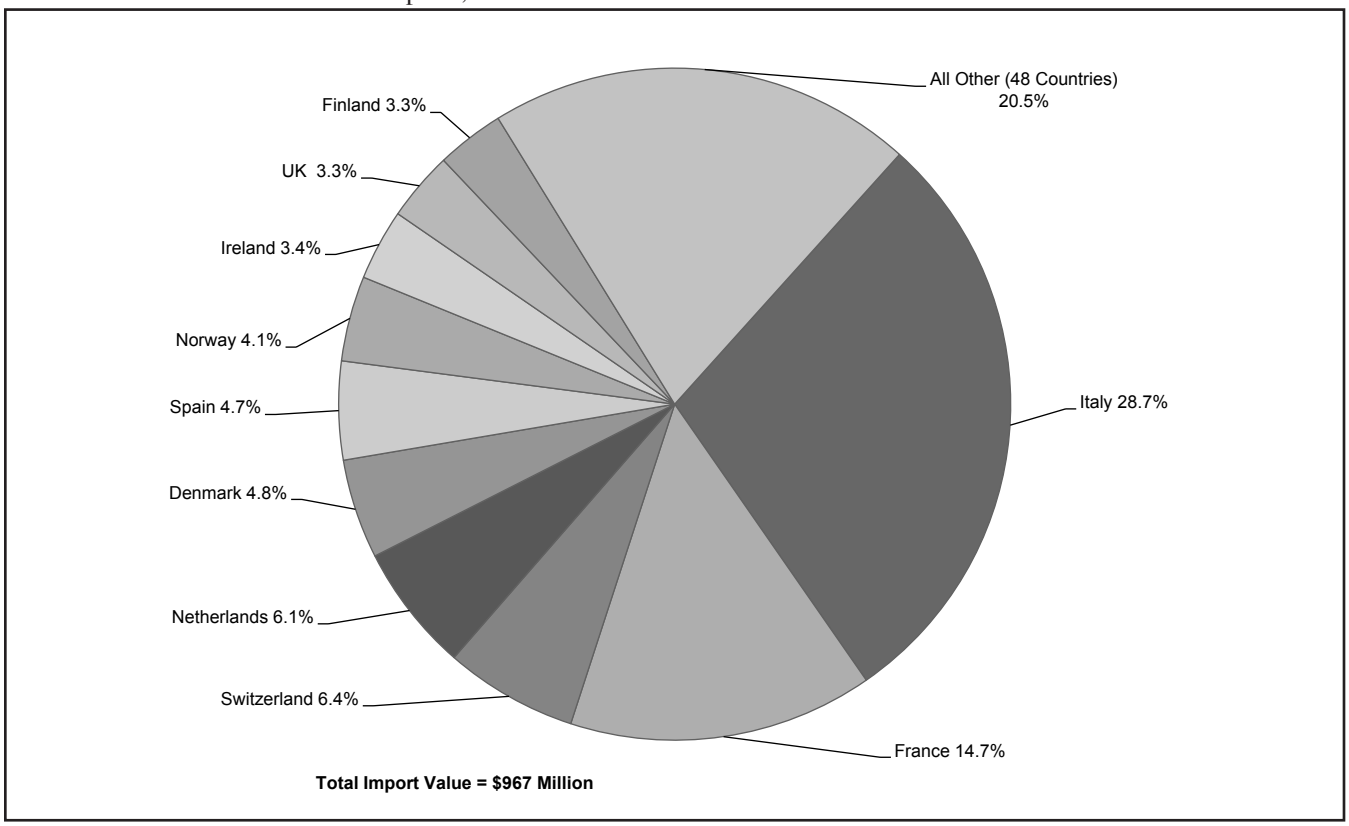


**TABLE 1**. Top Exporters of Concentrated Milk Protein to the U.S., 2010*

| Milk Protein Concentrate | | Casein | | Caseinates | |
|---|---|---|---|---|---|
| **Country** | **%** | **Country** | **%** | **Country** | **%** |
| New Zealand | 76.1 | New Zealand | 40.1 | New Zealand | 34.8 |
| Australia | 18.2 | India | 29.9 | Netherlands | 25.9 |
| Ireland | 2.1 | Ireland | 22.3 | Argentina | 14.2 |
| China | 1.0 | Australia | 2.9 | Poland | 8.9 |
| | | France | 2.7 | Australia | 5.2 |
| | | | | Germany | 3.9 |
| | | | | Denmark | 2.7 |
| | | | | Ireland | 2.0 |
| | | | | India | 1.7 |
| Total | 97.5 | | 97.9 | | 99.3 |

*Countries accounting for at least 1 percent of U.S. imports of the indicated product.

import value. Rounding out the top ten foreign cheese suppliers were 5 EU member countries plus Norway (Jarlsberg) and Finland (Juustoleipa).

U.S. imports of dairy products other than cheese came primarily from Oceania, Europe and North America (Figure 8). Imports by source for milk protein concentrate, casein and caseinates, the principal non-cheese import items are noted in Table 1.

Oceania is the dominant source of U.S. imports of milk protein concentrate, with New Zealand and Australia together accounting for 94 percent of the total import value. Imports of casein and caseinates are less concentrated. While New Zealand is the largest supplier of casein, its market share of U.S. imports for these products is only about half of its share of milk protein concentrate. India and Ireland together supplied more than half of

**FIGURE 5.** Destination for U.S. Dairy Exports, 2010

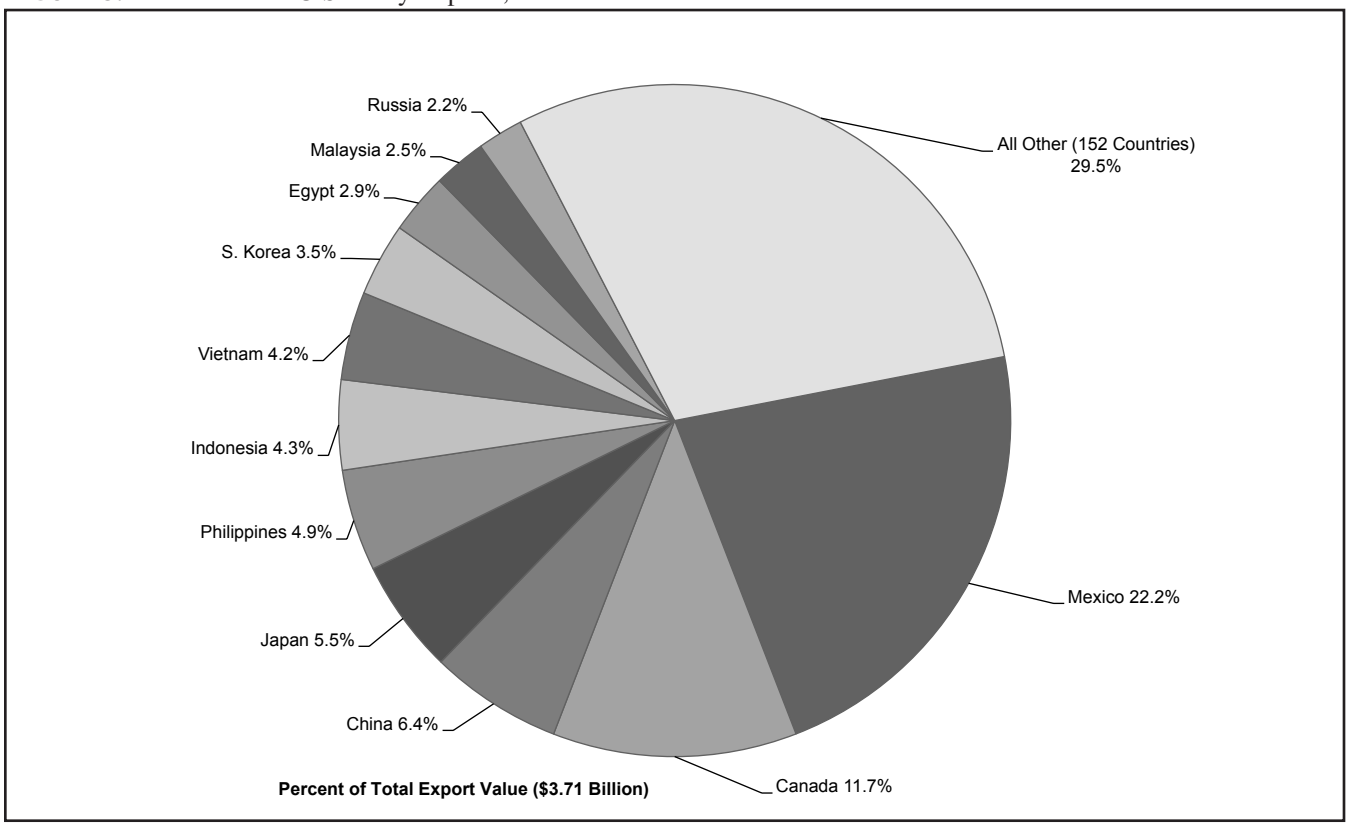


**FIGURE 6.** U.S. Dairy Exports to China

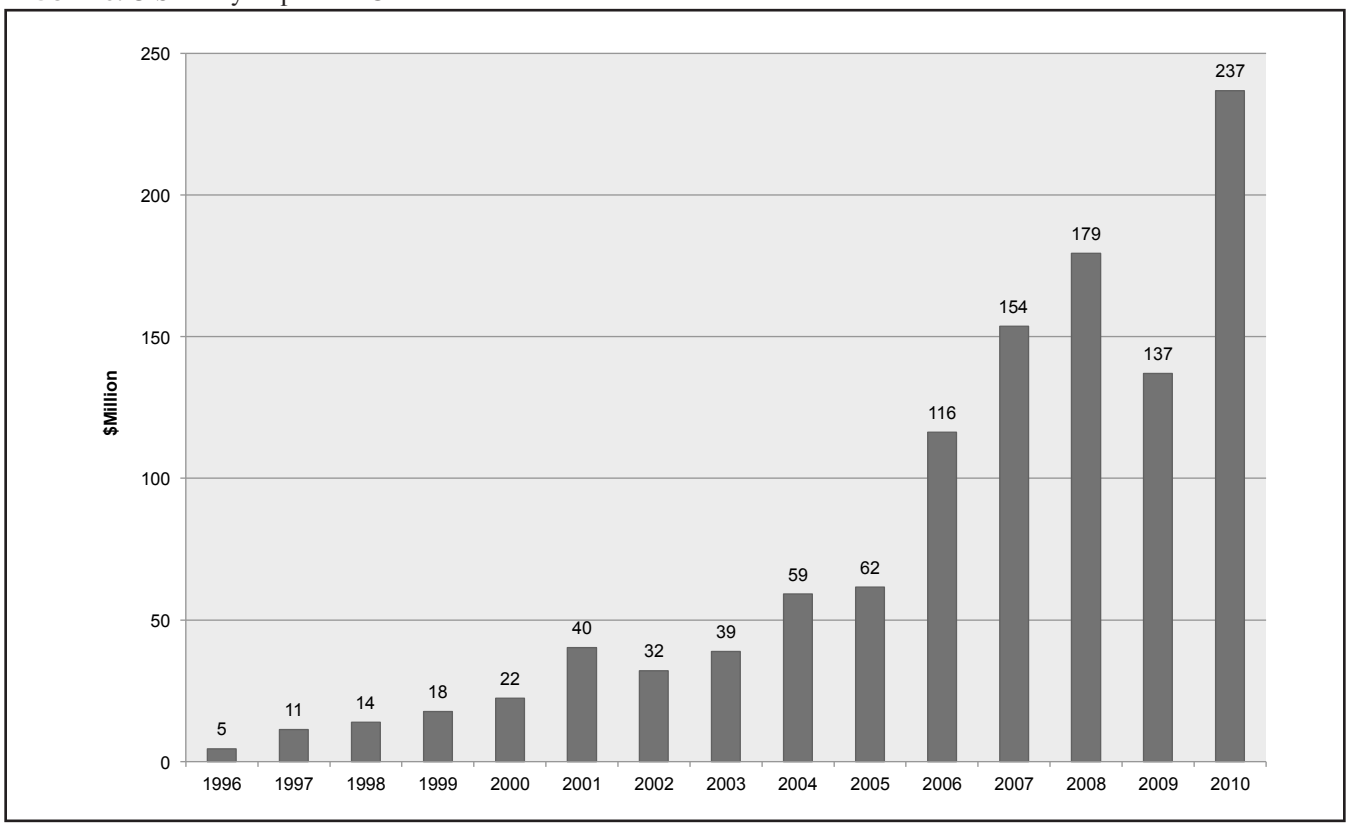



**FIGURE 7.** Composition of U.S. Dairy Imports, 2010

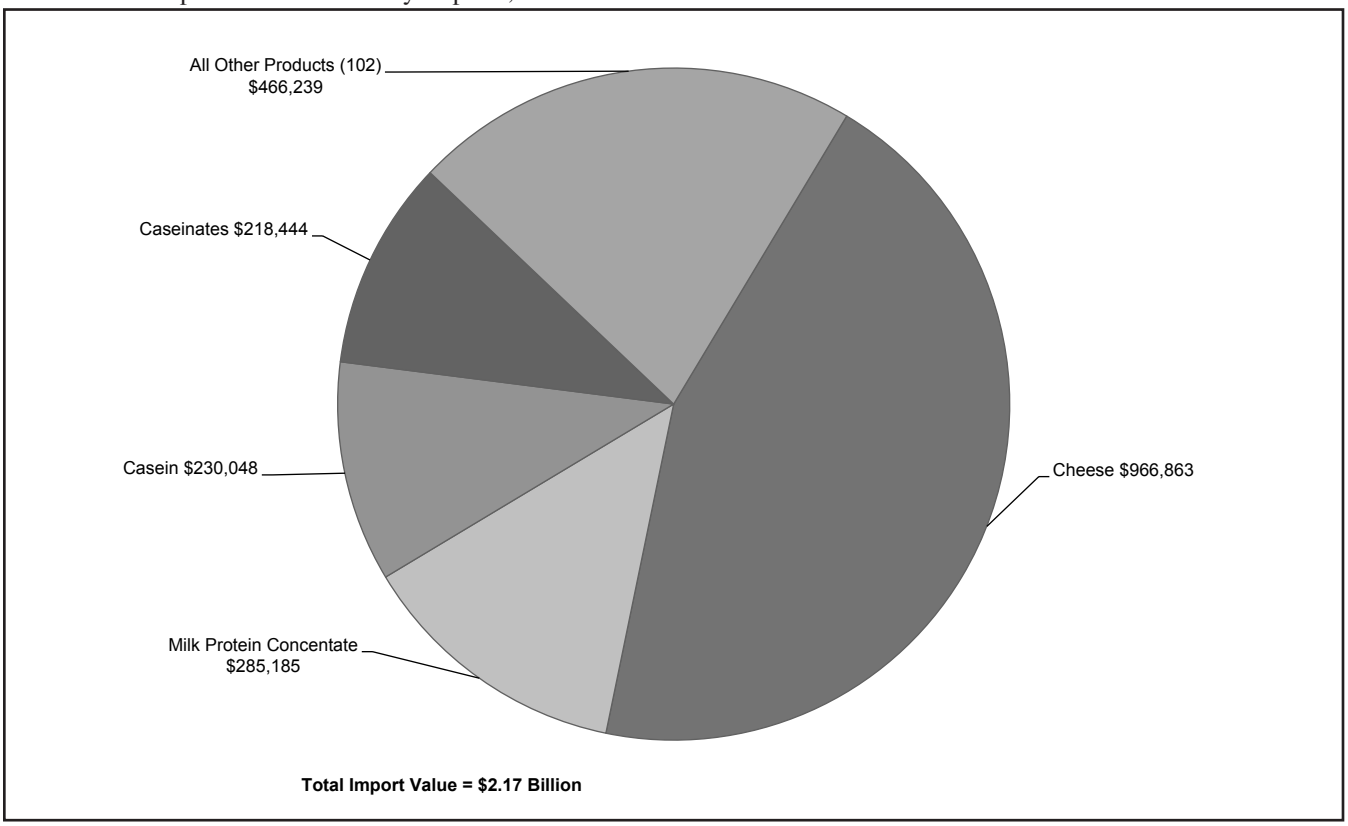
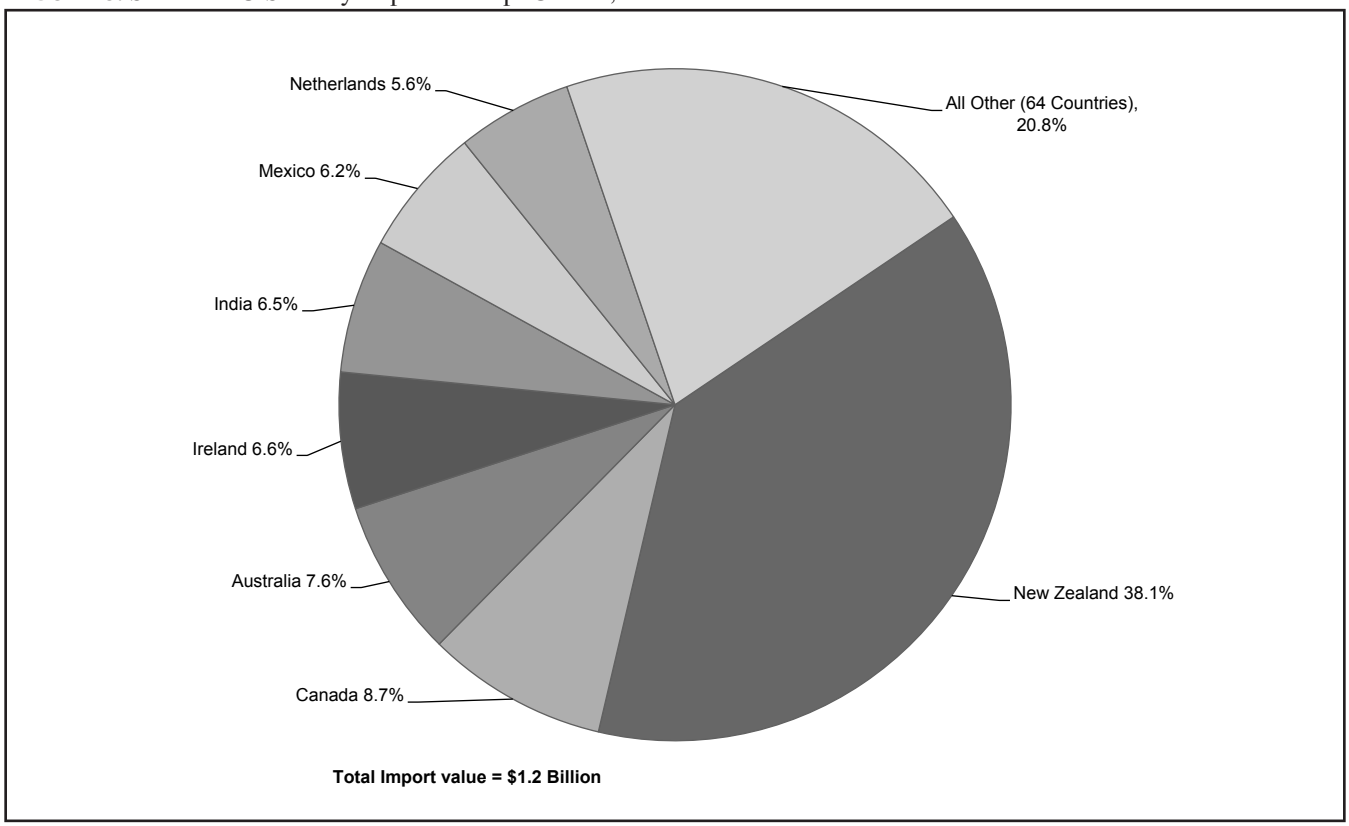


**FIGURE 8.** Source of U.S. Dairy Imports Except Cheese, 2010




U.S. casein imports and eight countries besides New Zealand each accounted for more than 1 percent of U.S. imports of caseinates.

### U.S. Trade Prospects for 2011[4]

Most signs point to 2011 being another good year for U.S. dairy exports. On the supply side, USDA forecast in December 2010 that world milk production would grow about 2 percent in 2011 [14]. Oceania was expected to increase output by 9 percent, but recent weather-related problems in both New Zealand and Australia could make that projection optimistic. The U.S. milk supply is currently expected to grow by less than 2 percent, but strong prices in the first quarter of 2011 could push U.S. milk production even higher. EU production will likely expand by no more than 0.5 percent despite another increase in quotas. Production in Brazil and Argentina could top 3 percent. China's milk production is expected to be up close to 5 percent, but recent changes in milk production there have not matched the growth rates seen in the last decade.

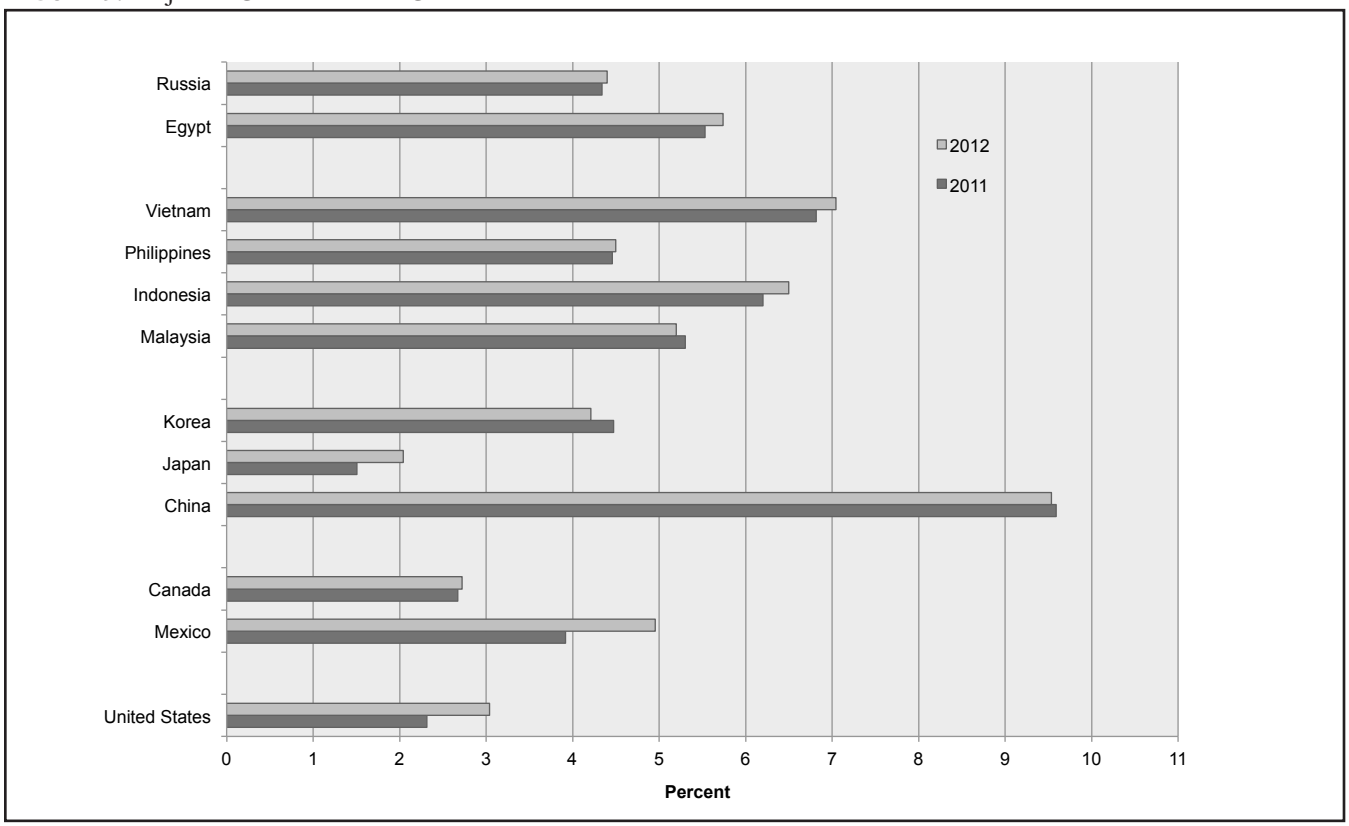
The demand for dairy products in key U.S. export markets should be buoyed by continued strong economic growth in those countries. Figure 9 shows the projected GDP growth in the top destination markets identified in Figure 5.

Note that with the exception of Canada and Japan, GDP growth in countries important for U.S. dairy exports are expected to exceed GDP growth in the U.S. Anticipated economic recovery in Mexico is especially good news given Mexico's number one rank among foreign markets for U.S. dairy products. Progress in settling a dispute over Mexican trucks delivering goods in the U.S—a dispute that led to tariffs on U.S. cheese—should also bolster exports to Mexico.

Economic growth in China is forecast to continue at a scorching pace, making China a promising expanding market for U.S. dairy products. While confirming data are not yet available, Rabobank estimates that China became the largest world dairy importer in 2010, displacing Russia [10, p.15]. USDA forecasts that China will absorb 400 million tons of WMP in

*4 The observations in this section represent an amalgamation of outlook information from [3], [4], [10], [11], [12], [14], and [15].*

**FIGURE 9.** Projected Growth in Real GDP




2011, nearly half of total world export volume, and 100 million tons of SMP [14]. Continued large dairy imports are expected over the next 3-5 years as higher incomes expand demand and as China struggles to increase domestic milk production at a rate matching increases in demand. The inability to supply sufficient dairy feeds domestically combined with much higher world market prices for feed grains and soybeans will put even more pressure on the domestic dairy production sector.

India is a bit of a wild card among major dairy countries. To date, India has relied on higher milk and dairy product prices to ration domestic milk supplies, and is usually a net exporter of surplus milk proteins. But recent escalation in dairy product prices has generated vociferous consumer complaints. It seems likely that continued growth in demand will force India to become a net importer. This will not immediately benefit the U.S. because India will not accept our dairy imports due to questionable phytosanitary restrictions, but it will reduce exportable supplies of milk proteins, tightening markets and expanding outlets for U.S. products.

International prices for dairy products have been steadily increasing since early 2010. In late February, world market prices reported by USDA's Market News Service (Oceania or Europe sources) for butter, cheddar cheese, dry whey and SMP/nonfat dry milk were all above U.S. wholesale prices. World prices for dry whey and SMP—the two largest U.S. dairy export items—have shown especially sharp price increases recently. Oceania SMP prices have risen 30 percent since August 2010 and European-sourced whey prices are up 45 percent over the same period. At $4,000/MT for SMP and $1,500/MT for dry whey, exports represent a very attractive market outlet for U.S. companies producing these products, even though recent surges in fuel prices have increased shipping costs.

The Global Dairy Trade (GDT) forward-pricing auction is indicating continued strength in world dairy prices. In the March 1 auction, contract prices for first month delivery (May 2011) were up over the February auction by about 2 percent for milk fat, 3 percent for SMP, and 15 percent for WMP. Compared to February, prices for June-August delivery were also higher, with SMP up almost 6 percent. However, contract

prices for deliveries of milkfat and SMP in September through November were down slightly, suggesting some late-year softening of those markets.

As of February, USDA was forecasting a 21 percent reduction in the volume of U.S. dairy exports measured on a fat basis and a 4 percent reduction on a skim solids basis [15]. This forecast seems a bit pessimistic. But even if accurate, higher prices should keep 2011 export value close to last year's $3.7 billion.

## TRADE POLICY OUTLOOK FOR 2011

Trade policy issues were nudged off the back burner in the U.S. in 2010. The higher profile gained by trade issues will be reflected in important developments in 2011. First, there is likely to be a vote by the U.S. Congress to approve a U.S.-Korea Free Trade Agreement (FTA) this year. If ratified, this agreement would be the largest FTA entered into by the U.S. since the North American Free Trade Agreement (NAFTA), which became effective in 1994. The U.S.-Korea FTA would substantially expand U.S. exports, including exports of dairy products and other agricultural products. Second, previously negotiated FTAs between the U.S. and Colombia and the U.S. and Panama may be tweaked in 2011 and brought before the Congress for approval. Finally, as noted earlier, progress was made in March 2011 toward resolving the long-festering dispute between the U.S. and Mexico over access of Mexican trucks to the U.S. market under the NAFTA.

These trade initiatives are consistent with the Obama Administration's goal of doubling U.S. exports within five years.

However, the WTO negotiations under the Doha Round, which began in 2001, appear to be hopelessly stalled. It is now no stretch to speak of the Doha Round in the past tense and ask: "What killed the Doha Round?" and "What are some major implications of failure of the Doha Round?" These questions are addressed later.

### U.S.-Korea FTA

The Bush Administration negotiated a FTA with Korea in 2007, but the agreement was never brought to a Congressional vote because of several U.S. concerns. A sticking point relating to access for U.S. beef to the Korean market was resolved in June 2008. The Obama Administration completed re-negotiating the agreement in late 2010, removing an obstacle dealing with access for U.S. autos to the Korean market and other sticking points. Korea's auto safety standards and auto environmental standards had functioned as barriers to sales by U.S. automakers.

The U.S. has important incentives to complete the U.S.-Korea FTA. South Korea has a large and growing economy with a gross domestic product of nearly $1 trillion and is the eighth largest trading partner for the U.S. [16]. The FTA will help the U.S. remain competitive with other exporters, especially those in the EU. For example, the EU has negotiated a FTA with Korea, which is scheduled to be implemented starting in mid-2011.

A U.S. International Trade Commission (USITC) study indicated that passage of the U.S.-Korea FTA would increase U.S. exports by as much as $11 billion per year [1, p.105]. The FTA, which would sharply reduce Korea's import tariffs on U.S. goods, would have substantial impacts because Korea currently imposes relatively high (12.2 percent) average tariffs on most favored nation (MFN) imports, including those from the U.S. By contrast, the average U.S. MFN tariff is 3.5 percent.

Under the U.S.-Korea FTA, Korea would immediately grant duty-free status to about two-thirds of U.S. agricultural exports to the country [7]. Tariffs and tariff-rate quotas (TRQs) on most other agricultural imports from the U.S. would be phased out within 10 to 15 years.

U.S. dairy products would be subject to TRQs under the FTA with Korea (Table 2). The USITC predicts that U.S. dairy exports to Korea would consist primarily of cheese, whey, lactose, and infant formula [16]. The USITC's economy-wide model indicated that output and employment in the U.S. dairy sector would increase by 0.2 to 0.5 percent as a result expanded dairy exports to Korea under the FTA.

**TABLE 2**. Selected Korean Dairy TRQs on Imports from the U.S.

| Product | Initial In-Quota Volume (MT) | Annual Growth Rate of In-Quota Volume (%) | Year of Elimination |
|---|---|---|---|
| Milk Powders and Evaporated Milk | 5,000 | 3 | None |
| Food Whey | 3,000 | 3 | 10 |
| Butter and Butter Oil | 200 | 3 | 10 |
| Cheeses | 7,000 | 3 | 15 |
| Prepared Dry Milk and Other | 700 | 3 | 10 |

*Source: USITC [17, p. 3-36].

The American Farm Bureau Federation estimates that U.S. farm exports will increase by about $1.8 billion per year under the U.S.-Korea FTA, thanks to increases in exports of grain, oilseed, fiber, fruit, vegetable, livestock and dairy products [16].

Mr. Clay Hough, an International Dairy Federation official, noted that per capita consumption of dairy products is rising in Korea because young Koreans have developed a taste for Western fast foods, such as pizzas, cheeseburgers, and sandwiches [17]. Hough predicted that most of the increase in U.S. dairy exports under the FTA could consist of cheese, because local cheese production is limited by industry capacity constraints in Korea.

### U.S.-Colombia FTA

The U.S. completed a FTA with Colombia in November 2006 after the thorny issue of access for U.S. beef was resolved. Colombia's legislature approved the FTA in October 2007. However, the U.S.-Colombia FTA has not been submitted to the U.S. Congress for a ratification vote.

The Congressional vote on the U.S.-Colombia FTA has been held up partly because of concerns expressed by Democratic members of U.S. Congress over violence directed at labor union officials in Colombia and certain human rights issues in Colombia. It is not clear how or when these issues will be resolved to the point needed to permit a Congressional ratification vote.

Colombia is a major market for U.S. agricultural exports, ranking behind only Mexico in Latin America as a market for U.S. agricultural products. Because Colombia protects its agricultural markets with high tariffs and import quotas, the tariff cuts and reduced non-tariff trade barriers provided under the U.S.-Colombia FTA would benefit the U.S. agricultural sector. The USITC estimates that U.S. agricultural exports would grow $170 million (24 percent) after full implementation of the FTA as compared to a baseline assuming no trade policy change [7]. Gains would be mainly for U.S. exporters of corn, wheat, rice and soybeans.

Colombia's dairy imports from the U.S. apparently consist mainly of small amounts of dairy products contained in food preparations. Colombia would employ tariff rate quotas that expire in 15 years to limit U.S. dairy imports under a FTA with the U.S.

### U.S.-Panama FTA

The U.S. and Panama completed negotiations on a FTA in December 2006. But like the Korea and Colombia FTAs, this trade agreement has not been brought up for a ratification vote in the U.S. Congress. The Obama Administration wishes to resolve two main issues before presenting a U.S.-Panama FTA to the Congress for ratification. The first involves changes in Panama's labor laws to address concerns raised by the International Labor Organization (ILO). The ILO wishes to make it more feasible to form labor unions in Panama. The second would resolve questions over Panama's status as a tax haven (where money to be readily laundered) and Panama's refusal to enter into a tax information exchange treaty.

Because Panama is a small market for U.S. agricultural exports, only small gains in those exports would results from ratification of a U.S.-Panama FTA. A USITC study indicated that U.S. agricultural exports would be $46 million higher (20 percent above mid-2000s level) when the agreement is fully implemented

[7]. Most of the gains would accrue to exporters of corn, poultry, pork, beef, and soybeans.

U.S. exports of cheese to Panama represented about 3.0 percent of that country's total agricultural imports from the U.S. in 2008 [7]. U.S. cheese exports to Panama appear to be the only dairy product that could record noteworthy increases as a result of a U.S.-Panama FTA.

**Overall Impacts of the Three FTAs.** The American Farm Bureau Federation estimated that U.S. agricultural exports would expand by about $3.0 billion per year if the three FTAs are approved [7].

The U.S. has maintained large, positive agricultural trade balances with Korea and Panama in recent years. Those positive trade balances would expand after ratification of U.S. FTAs with the two countries. Colombia's positive agricultural trade balance with the U.S. declined in the mid-2000s, coming nearly into balance in 2008 when Colombia's agricultural imports from the U.S. totaled $1.68 billion and the country's agricultural exports to the U.S. totaled $1.77 billion [7, p.13]. However, U.S. farm exports to Colombia fell by 48 percent from 2008 to 2009 and another 45 percent in 2010 [19]. FTAs that Colombia entered into with Canada, Chile, the EU, Brazil and Argentina accounted for part of these losses in U.S. market share [19]. It is unclear how much of the U.S. losses of farm exports to Colombia would be recovered under a U.S.-Colombia FTA.

### Access for Mexican Trucks to the U.S. Market

Mexico imposed tariffs on a number of U.S. imports in 2009—an action authorized by a NAFTA court—because the U.S. failed to honor commitments under the NAFTA to let Mexican trucks deliver products in this country [18]. In 2007, a U.S. pilot program showed that Mexican trucks could operate safely here, but Congress killed the program in 2009 at the urging of the Teamsters Union. No progress was made on the issue in 2010, so in August Mexico revised the list of U.S. items subject to tariffs. As part of this action, Mexico imposed 20-25 percent tariffs on four types of cheeses that previously entered Mexico duty free.

Under a plan agreed to by U.S. and Mexican negotiators in March 2011, half of the punitive tariffs levied by Mexico would be lifted when the truck deal is signed by both nations, possibly as early as May 2011. Williamson, writing in the Wall Street Journal, described how the remaining tariffs would be lifted, as follows [20]:

> *The remainder will be lifted when the first Mexican hauler complies with a series of U.S. certification requirements, including English language, drug and safety tests. The new requirements for Mexican trucks are tougher than those established in NAFTA and somewhat tougher than those currently in force for American trucks. Specifically, Mexican trucks will have to carry electronic recorders to ensure they do only cross-border, not domestic, runs and to track compliance with U.S. hours-of-service laws.*

The plan should improve trade relations between the U.S. and Mexico, this country's largest market for agricultural products in Latin America.

### The Stalled Doha Round of WTO Negotiations

While near-miraculous developments could still permit a Doha Round WTO agreement to be salvaged, the prospects for such a salvage job appear dim.

There is a history of stalemate and collapse of Doha Round negotiations which began in 2001. The Doha Round trade ministerials, mini-ministerials and negotiating sessions held in Cancun, Mexico (2003), Geneva, Switzerland (2004), Paris, France (2005), Hong Kong, China (2005), Geneva, Switzerland (2006), Potsdam, Germany (2007), and Geneva, Switzerland (2008) all ended without a completed agreement. And little serious negotiating on the Doha Round was carried out in 2009 and 2010 because the U.S. and other major trading nations were focused on dealing with the global recession.

WTO Director-General Pascal Lamy claimed in February 2011 that "The window of opportunity is still there (for a Doha Round agreement) but it is narrowing every day [22]." Lamy noted that he was encour-

aged by discussions among senior trade officials, but noted that "A major acceleration at all levels—multilaterally, plurilaterally and bilaterally—is needed [22]." Lamy also expressed optimism over the greater sense of engagement and focus witnessed in the work of trade negotiating groups.

Mr. David Walker of New Zealand, Chairman of the WTO agriculture negotiations, reported that useful consultations were carried out in February 2010 on remaining Doha Round issues relating to the three pillars of agricultural trade liberalization, namely export subsidies, trade-distorting internal support for agriculture, and market access.

But, in a recent assessment of negotiating prospects, Chairman Walker said that he has heard little that is "audibly" new coming out of the agriculture trade talks that began in early February 2011. Walker described the tasks before agricultural negotiators as follows [21]:

> *Negotiators face the targets of revising the 2008 draft 'modalities' text by 21 April (before the Easter break), agreeing on texts in all Doha Round subjects by June or July, and concluding the round by the end of the year.*

The negotiating tasks laid out by Walker are daunting. If, as is likely, negotiators again fail to reach an agreement on agricultural trade, the Doha Round negotiations are likely to wither away and be abandoned.

**What Killed the Doha Round?** The dim prospects and likely death of the Doha Round of WTO negotiations stem from a host of forces.

Optimists point out that agreement has been reached under the Doha Round to completely eliminate all forms of export subsidies and to significantly reduce trade-distorting domestic support for agriculture. But on market access the situation is far less satisfactory.

From the U.S. perspective, failure to gain improved market access has been a big sticking point. The 2008 negotiations collapsed partly because U.S. negotiators objected to special safeguards insisted upon by India, China and certain other nations to protect farmers from import surges that push down prices. U.S. negotiators argued that the bar was set too low by India and China and would allow tariff increases after small price drops such as those that occur when prices decline seasonally by larger than normal amounts. Such tariff increases would reduce exporters' chances for consistent gains in market access.

The numerous Doha Round trade negotiating blocs (e.g., G-19, G-20, G-33, G-90, Cotton 4, etc.) have found it difficult to maintain cohesion during the many years of Doha Round negotiations. For example, the G-20 group, which has stuck together on some issues, has split apart into importing and exporting groups. On the special safeguards issue, Brazil, a G-20 member and major exporter, accommodates the U.S. and EU positions in opposition to special safeguards favored by China, India, and Argentina [8]. This sort of lack of cohesion will complicate efforts to complete the Doha Round

Failure of Doha Round negotiations to deliver interim results probably has undermined the confidence of certain countries in the WTO. Mazzei describes the presumably disappointing experience of the Cotton 4 (Benin, Burkina Faso, Mali and Chad) and Brazilian cotton exporters, as follows [8, p.3]:

> *The WTO framework agreement of July 2004 and the Hong Kong Ministerial Declaration of 2005, mandated that WTO members immediately address trade cotton issues and requested elimination of all cotton export subsidies by 2006. Nothing happened. The US cotton farming lobby is powerful. The US, which signed the …Hong Kong Ministerial declaration, now says that it will do nothing until there is 'progress' in all of the Doha agriculture negotiations. Brazil even won a panel on the cotton dispute, but the US disregarded it and later on convinced the Brazilians to postpone retaliations.*

This experience presumably provides little motivation for negotiators from the Cotton 4 and perhaps other small trading nations to push for completion of the Doha Round.

Concerns have arisen over failure of the WTO to adequately address important trade issues. The USDEC, for example, notes that non-tariff barriers (such as Sanitary and Phytosanitary regulations) have increased in importance as a barrier to U.S. dairy

exports [12]. The WTO does not adequately deal directly with all important non-tariff trade barriers of this type.

The WTO does not address the huge issue of oil trade. Thus, OPEC can develop and operate an oil cartel with impunity without facing challenges from the WTO.

Finally, and perhaps most importantly, world exports have grown sharply since 2001 in the absence of a Doha Round agreement. Total global exports doubled from $6.5 trillion in 2001 to $13 trillion in 2010 [9]. This development reflects China's increasing exports, lower shipping costs and the rise of global supply chains. The more than 100 bilateral or regional FTAs that have emerged since 2001 also have helped to expand global exports.

Other trade figures for 2010 show continued strong growth in world exports. The WTO says that world export growth in 2010 will be the largest ever year-over-year increase in records dating back to 1950.

Farm exports—and U.S. farm exports in particular—are part of the global expansion of trade. In February 2011, the FAS-USDA described the record U.S. farm exports in prospect for fiscal 2011, as follows [5]:

> *U.S. agricultural exports will hit a record of $135.5 billion in fiscal year 2011, eclipsing the previous record set in 2008 by more than $20 billion and surpassing 2010's exports by 25 percent. Additionally, the agricultural trade surplus is expected to reach a record $47.5 billion, far surpassing the previous record of $36 billion set in 2008.*

U.S. dairy exports in 2010 exceeded expectations, rising to $3.71 billion. This figure was second only to the record $3.79 billion in dairy exports in 2008.

In the face of export growth figures like those just noted, the obvious question is: Who needs a Doha Round Agreement?

**What are Major Implications of Failure of the Doha Round?** Of course, there would be negative impacts of failure of the Doha Round negotiations, but, the consequences of failure of the Round are probably such that U.S. negotiators will hold out for a decidedly favorable agreement. The negotiating rule of "No deal is better than a bad deal" can be expected to govern U.S. negotiations.

The positives associated with reaching a good Doha Round agreement include less complexity for traders and some increase in world exports.

The more than 100 bilateral and multilateral trade agreements entered into by various countries since 2001 have produced a complex "spaghetti bowl" of tariffs and regulations that must be taken into account by traders. The proliferation of FTAs under consideration in the absence of a Doha Round agreement will make the trading environment still more complex. This is unfortunate. The current world is characterized by global supply chains, which calls for global trade liberalization and a strong multilateral system of rules [2].

EU Trade Commissioner, Karel De Gucht, reported in early 2011 that what has been agreed to so far in the Doha Round would "bring an additional 135 billion euros (185 billion U.S. dollars) to global output, and an extra 310 billion euros (424 billion U.S. dollars) to world exports on an annual basis [2]." The $424 billion increase in world exports—while not trivial—amounts to only 3.3 percent of the value of global exports for 2010. Critics of the negotiations might argue that if the Doha Round can't produce more than a 3.3 percent increase in global exports, probably the entire WTO negotiating framework needs to be re-thought.

The WTO's dispute settlement machinery will continue to operate if the Doha Round negotiations fail. This machinery is costly and time-consuming for member countries to employ to seek relief from trade violations by trading partners. However, the machinery has produced at least one useful result for the U.S. dairy industry. For example, in 2003 after several years of effort via the dispute settlement machinery, the U.S. and New Zealand stopped Canada from using dairy export subsidies exceeding the amounts that the Canadians agreed to under the Uruguay Round of the WTO agreement.

**The Bottom Line.** If, as is likely, the Doha Round is abandoned, major trading nations will pursue additional bilateral and regional FTAs. They will have strong incentives to do this in order to remain competitive with other nations following similar strategies. Thus, the "spaghetti bowl" of tariffs and trade regulations will become still more complex.

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