

## DEVELOPING FOREIGN FARM MARKETS FOR DAIRY PRODUCTS<sup>1</sup>

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Never before has American agriculture looked abroad as much as it is today. Its major segments and related industries are becoming aware of the importance of export markets for the commodities which we produce in excess of our needs. The dairy industry needs to develop foreign markets, for except as brought about by war conditions, dairy products, volume-wise or value-wise, have constituted only a very minor portion of our total agricultural exports. In 1939 in terms of whole milk equivalents, we exported only 183,000,000 pounds or 0.2 percent of our total production. This increased in 1940 to 472,000,000 pounds or 4 percent of our total production. The upward trend due to World War II began in 1941 and reached a peak of 6,645,000,000 pounds 5.6 percent of the total milk produced in 1944. Exports continued at a high rate through 1947 after which they declined, and in 1952 only 676,000,000 pounds or 0.6 percent of the total milk production was exported.

The preliminary figures for 1954 indicate a substantial increase over 1952 in our export markets. During this year, 2,034,000,000 pounds or 1.6 percent of the entire milk production was exported. However, more than two-thirds of these exports were relief programs and the remaining third contained sales of some products at extremely low prices for child-feeding and similar uses. Therefore, practically no gain has been made in the commercial export of dairy products at a time when export outlets are seriously needed if we are to have a firm production economy.

For many years, the United States dairy industry has promoted the sale at home of its own products and various brand names without unified effort to expand foreign markets. Now, however, there are a few signs that the industry is beginning to see the necessity of directing its energies more cooperatively and, with government assistance, of moving forward and achieving for itself a fair share of world trade.

The Foreign Agricultural Service of the United States Department of Agriculture is directly concerned in this cooperative movement and is attempting to smooth the path for foreign sales of dairy products and other agricultural export commodities. It is em-



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phasized that it is the Service's purpose and function to work with and help private business overcome foreign trade obstacles which limit exports. We do not do any actual selling, preferring to see private enterprise sell, as well as own and handle, the nation's dairy products. Our representatives, however, are working to create new business and point to market opportunities abroad so that private firms already engaged in foreign sales or desiring to engage in such sales can expand their operations.

Before discussing the problem we are encountering, some of the ways in which we hope to aid the industry in expanding export markets should be mentioned. One of these is working with the industry and foreign

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governments in removing such road-blocks to foreign trade as trade restrictions, foreign exchange and discrimination against our products. Another is providing dairy exporters and importers with firsthand information on market situations and trade opportunities. The third is bringing American exporters and foreign importers together under conditions favorable to trade. In addition, we will analyze and interpret international commodity and trade information useful to the American dairy industry and furnish comprehensive appraisals of foreign production and competition.

An important aspect of our foreign market promotion consists of firsthand studies made abroad by our marketing specialists, whom we send continuously to various parts of the world to explore market possibilities and report their findings to the American agricultural interests concerned. Some of you may have seen our reports covering studies of dairy products. A few important points are as follows:

In developing world markets for United States dairy products, it is essential to know (1) the composition standards for these products as they are manufactured in the countries to which we desire to export, and (2) the export, import and domestic quality standards of all dairy products not only in the importing countries, but in competing exporting countries, as well. It also is essential to have information regarding the manufacturing procedures, application of grades, export markets and available prices in the competing countries.

A survey of the dairy industry in Western Europe revealed that in all major dairy exporting countries, and in some of those where dairy exports are not a major factor, definite export grades have been established. With one exception—a minor dairy exporting country—the grades assure that only top-quality products will be exported. All grades are rigidly applied. The exporting countries make detailed studies of the export markets and the requirements of the markets. Based on this information, the products are tailored to meet the desires of the importing countries. It was also learned that the same quality milk is used for all dairy products. By comparison with the United States requirements for milk for fluid use, the raw milk requirements are low. By comparison with the quality of raw milk received for manufacturing purposes in the United States, several areas compared quite favorably. It was also noted that throughout this area the belief is quite general that the United States can not, or at least does not, manufacture butter and cheese of good quality. Such a belief must be corrected.

A survey of the market for dairy products in the Far and Middle East showed that a great potential market exists in these areas that cannot possibly be filled within the foreseeable future by local produc-

tion. In this area, butterfat is utilized mainly as ghee and if we are to place a United States product on this market, it will be necessary to tailor our export to the commercial desires of the area. The actual processing procedures used in the manufacture of ghee and ghee-type products, and the consumer preference as to color, taste and body and texture of this product were therefore determined. The information was made available to the United States dairy industry and cooperative efforts between the Dairy and Poultry Division of the Foreign Agricultural Service and interested firms resulted in a United States manufactured ghee acceptable to the consumer in the Far East. There is great interest in the shipment of American made ghee both by United States exporters and by Far Eastern importers. To date no commercial shipments have been made, but we believe that in the near future the remaining problems, such as price, will be solved and ghee will move into these markets. It has great potentials for disposing of surplus butter and as a future market. It was also established that recombined milk, utilizing high quality anhydrous milk fat and low-heat, spray process nonfat dry milk solids will be the most feasible means of supplying a safe, palatable, nutritious milk for these areas. Some recombining operations have been established and we are working on proposals to establish several more.

In attempting to obtain our rightful share of the world dairy export market, we have avoided entering traditional markets of friendly nations. The Western Hemisphere is historically and logically a United States market. We have, therefore, made surveys in the Caribbean and Central American areas and in parts of South America to determine the feasibility of supplementing their normal milk supplies, especially during the season of short supply, with recombined milk and the further utilization of United States dairy products on these markets. In some of these areas, milk production may drop as much as 40 to 50 percent during the dry season. This fluctuation in consumer supply is a great detriment in maintaining a consistent consumer level of consumption. The recombining of milk was demonstrated in plants in Latin America and shown to be a means of maintaining the normal consumption, and thereby obtaining a gradual overall increase in the consumption of milk and dairy products.

In countries in these areas where the seasonal fluctuation in milk production is not great, the per-capita availability of milk based on United States standards is still low. Most of the existing markets in such countries could beneficially supplement their normal supplies by the introduction of recombined milk.

During visits to foreign countries, information is also obtained with reference to the quality and retail

prices of domestically manufactured dairy products and the quality, packaging and prices of imported dairy products appearing in the retail stores. Latest information is obtained on the quantities of dairy imports and the countries of origin.

We have noted in assisting in the development of increased export markets for U.S. dairy products that handicaps do exist.

In many areas, due to the high retail prices and the low average income of the masses, the possible market for surplus United States dairy products, is for less than carlot quantities. This creates a problem because we are competitive with world dairy prices only on the basis of Commodity Credit Corporation export prices for carlot shipments. This means the exporters must make special efforts and combine several small orders so they can purchase on a carlot basis from the government. However, the potential market for milk and dairy products in the Central and South American countries and the Far and Near Eastern countries is such that it is well worth every effort to supply the present demands even though they may be small. In that way United States products will be well established in these areas when the potential market fully materializes.

A second handicap is the lack of U.S. export grades for dairy products. As previously stated, our major competitors on the world dairy market have export grades applied either by the government or voluntarily by the industry under rigid control. In addition, the products bear an emblem or insignia designating the country or origin. Company brands also appear on the exported products. It would be definitely advantageous to have United States export grades and a symbol associating the product and grade with this country. Neither the grade nor the symbol would be detrimental to established brands. They would be beneficial not only to companies having established brands but to the overall United States dairy industry. As an example of the necessity for such grades, importers of large quantities of United States butter from government stocks have difficulty with the non-uniformity of color of this product. Unless lots of butter are sorted by color, a mottled butter results when the bulk butter is printed. Even if the lots are sorted by color, color variation of United States butter appearing on foreign markets hinders its acceptance. The major exporting countries export butter of uniform color, and color is a part of their export standards.

The United States is the only major butter producing country that does not have a 16 percent moisture standard. With but one exception, all foreign made dry whole milk noted on export markets is a 28 percent fat product as compared to 26 percent for the United

States product. Other examples could be given, but these point-up that export grades are necessary and would assure uniform quality. A national symbol would establish in the consumer's mind that such quality is from the United States. We offer our full cooperation to the industry, in developing United States export standards and insignia. We will then work with other nations for uniform world-wide standards.

It has been mentioned that we are attempting to remove trade barriers which affect United States exports. The existence and form of trade barriers is an interesting story in itself but will be mentioned only briefly here. To prevent an acute dollar shortage, a number of countries find it impossible to continue to import our products much in excess of their exports to dollar areas. Such countries adopt import restrictions, that is, they refuse to issue import licenses; impose high import duties, and make dollar exchange available only for certain imports by selection and restriction.

Other barriers to trade are a noticeable trend toward self-sufficiency on the part of nations, bilateral trading, state trading, inconvertibility of currencies, and the fact that some United States dairy export prices are higher than those of competing countries.

What is being done to eliminate export roadblocks? Continuous studies and reviews are made of all import duties and restrictions on dairy products with a view of recommending changes where warranted.

To alleviate the condition brought about by dollar shortages and the inconvertibility of currency, Congress enacted the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480). That Act provides a means whereby surplus agricultural commodities in excess of the usual marketings of such commodities may be sold through private trade channels, and foreign currencies accepted in payment. These currencies are then expended abroad to the mutual advantage of the United States and the purchasing country. Purposes for which they are spent include expansion of international trade, encouragement of economic development, purchase of strategic materials and payment of United States obligations abroad.

Currently, agreements have been concluded with 18 foreign governments covering agricultural commodities having an export market value of \$361 million. Of this amount \$6.6 million has been authorized for the purchase of dairy products, and \$1,432,000 worth of these products have been delivered.

We hear a great deal about this nation's efforts to sell its surplus commodities abroad, and about concern in other countries that we are going to unload or dump our agricultural commodities at any price we can get

without any regard for the interest of our foreign friends and neighbors. This is simply not true. Some of our dairy export prices are higher than those of competing countries.

As previously stated, we are competitive only with CCC-owned stocks sold for export in carlots. We are not entering into any cut-throat trading operation. We know if we did it would wreck markets, injure other countries, and ruin our chances for long-range market development. At the same time, we are not going to sit back and wait until all other countries have sold everything they have to sell before we try to sell our products.

In discussing prices for dairy products in export trade, we should keep in mind that other major dairy producing countries, in one way or another, have also prevented dairy products from following normal market channels and seeking prices based on supply and demand. There are consumer subsidy programs to maintain or encourage consumption of dairy products and subsidy programs and support programs to maintain production. In some instances the price to the consumer is subsidized to encourage production. Some countries also subsidize the export of dairy products to the extent that the export price of butter and cheese is less than the domestic wholesale price.

Details of subsidies are another interesting story but time does not permit its development.

Some of the ways the Foreign Agricultural Service hopes to be of assistance to the dairy industry in developing export markets have been mentioned. Another medium which we hope to use is the International Trade Fair. The Department of Commerce has been active in promoting industrial exhibits at these Fairs. Foreign Agricultural Service is cooperating with Commerce, and now agricultural products are becoming a part of the exhibits. Our first experience in dairy product display at such fairs has been at the Pakistan Trade Fair at Karachi where American-made ghee is on exhibit. We hope to stimulate interest in these Trade Fairs as they are held in important market cities throughout the world, and are encouraging participation in them by United States producers and exporters.

The members of our organization have as their primary interest, quality control and quality improvement of milk. Through our efforts, this country has the best fluid milk supply in the world. We must do more on quality improvement of the milk going into manufactured dairy products. We must establish some means to assure that only products of uniform quality are placed on the export market. We desire your cooperation in reaching these goals so that the United States can establish its rightful place in the world dairy products' market.