



Dear Members,

When USDEC launched The Next 5%, staff identified for me two key underpinnings of the plan: First, there would be situations where actions by our competitors or by our government beyond our control might impact trade outcomes; Second, we would need a long-term and patient approach to build opportunities that over time would lead to more exports.

My recent trip this past week to China and Japan spotlighted how circumstances beyond our control can negatively impact trade and where, with patience, the opportunity for more trade is playing out. Let me explain.

China: Maintaining relations despite current trade dispute

In China, I met with high-ranking officials at the Ministry of Finance and Commerce (MOFCOM) and I presented to the Chinese Dairy Industry Association (photo below). At both events, I was politely received.



I realized that there might be little interest in the usual discussion about the benefits of U.S. dairy products as ample, nutritious and safe. So I decided I would approach the meeting and the presentation in a way that would reflect our sincere desire to maintain a positive relationship notwithstanding the current trade dispute.



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Tackling African Swine Fever

I took the opportunity to suggest in the meeting and in my presentation that our industry had learned that more permeate given to piglets in a higher ratio and more whey protein given to lactating sows resulted in faster growth and more pigs per sow. I expressed a willingness of our industry to share our research in the hopes that at some point now or in the future we could export more ingredients to China.

I thought this approach, in light of the devastation of the China hog industry by African Swine Fever (ASF), might be received more positively and might surprise Chinese officials and dairy leaders.



I think the approach worked, especially with government officials at MOFCOM (photo above). I intend to follow up with a letter to these officials and to the Ministry of Agriculture and Rural Development to keep lit the small fire we started with my visit.

Underscoring our sustainability commitment

In addition to my offer of assistance, I raised the challenge of climate change and the opportunity it presents to the global dairy industry. I spoke of the commitment our farmers and



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our industry have to reduce emissions and the bright future that this may create for the global dairy industry generally. I wanted to use my CDIA presentation to offset the message subtly delivered by our competitors from New Zealand and the EU that their dairy is more sustainably produced. I think this is a message that ought to be incorporated in every market we wish to compete in.

The reality of U.S. market share in China being hurt by a combination of tariffs and ASF was brought home in meetings our team set up with some of our customers in China. For most products, we are simply not competitively priced to sell. In that environment the best we can do is look for ways to maintain the relationship, in the hopes that the trade dispute gets settled sooner rather than later and recognizing we have no control over when or if that will happen.

Japan: FTA will level the playing field

The last leg of my trip was Japan. I left the country optimistic that we are on the right track especially in cheese. When the EU completed its free trade agreement (FTA) with Japan and when the Comprehensive and Progressive Agreement for Trans-Pacific Partnership was negotiated, our competitors in the EU and New Zealand gained an immediate competitive edge in key ingredients as many tariffs for them fell to zero and our tariffs remained in place. This circumstance was beyond our control, but I am hopeful that our continued effort to encourage a “mini” FTA with Japan will level the playing field so we can reclaim market share we have temporarily lost on the ingredient side.

Cheese exports to Japan, a reason for optimism

We do not face the same immediate challenge with cheese and that’s my reason for optimism. Our cheese sales in Japan are up 11% for the first six months of the year, compared to the first half of last year. The Japan cheese market continues to grow, hitting record imports for four years in a row.

My visit with leaders of the Japan Pizza Association and Chesco (owner of 10 cheese stores and marketer to high-end grocery and department stores in Japan) convinced me our efforts that are based on a step-by-step planned and strategic approach to building a market opportunity are working. Later this year Chesco will introduce up to eight American cheeses to select high-end grocery and department stores. This is the beginning of the company’s long-term effort to build demand for American specialty cheeses. The Next 5% funding allows us to support the marketing of this campaign.



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One interesting note was the reaction that Chesco officials had upon hearing about our commitment to sustainability and animal welfare. Their positive response and note taking to my comments suggest their customers will be impressed by our effort.

Curves partnership provides opportunities for ingredients

My optimism for the Japanese market is not limited to cheese, especially after my visit with the fitness company Curves. Curves runs nearly 2,000 women's fitness centers with a focus on seniors. The franchise has nearly 900,000 members and approximately 300,000 members who subscribe to receive a monthly supply of whey protein. As a partner, we are helping to market more subscriptions that may in the future help to develop new products for its members. Nearly 50% of the whey protein (photo below) sold by Curves comes from the United States. The company is opening fitness centers for men in Japan and is expanding to other Asian markets.





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With funding provided by the state and regional checkoff organizations for The Next 5%, we have begun to provide key promotional materials touting the benefits of whey protein. This was helpful last year to encourage more than 77,000 members to purchase monthly whey supplements. This year's promotional goal is to add 80,000 more subscribers. This is one project in one market that with patience can lead to a major sales increase.

Educating aspiring chefs to become U.S. cheese advocates



This same patient approach on the cheese side is exhibited by our USA Cheese Guild™ program with our partner, Hattori Nutrition College. At the culinary school, 115 up-and-coming chefs and food leaders (photo above) finished the first of three levels in our USA Cheese Specialist™ Certification Program.

We are building a generation of chefs and food industry leaders in Japan and elsewhere who will be very aware of the quality, versatility and capacity of U.S. cheese. Over the years, those chefs and food leaders will demand U.S. cheese for their menus and



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product development, which will translate into more exports over time.

This trip reinforced my optimistic outlook for the long-term health of our export business, despite the challenges caused by current trade disputes. With hard work and patience, we will continue to grow both volume and value for the U.S. dairy industry. We are on the right track to compete to win.

For photos of people and activities on my trip, see the [U.S. Dairy Exporter Blog's travelogue](#).

Sincerely,

Tom Vilsack, CEO and president

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