

U.S. Tariffs Could Backfire

At midnight on Oct. 18, 2019, the United States implemented tariffs sanctioned by the World Trade Organization on \$7.5 billion worth of EU goods, including dairy products. The list was somewhat puzzling given the products and countries penalized. Initially,



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most would view the tariffs on European cheese and butter as beneficial to U.S. processors. However, the negative impact on U.S. exports, such as milk powders to Asian markets, could more than offset any potential benefit to U.S. manufacturers of specialty cheese and butter.

Several Protected Designation of Origin (DOP) products, including Parmigiano Reggiano, are now subject to an additional 25% duty. The DOP designation is similar to France's *Appellation d'Origine Contrôlée* (AOC) label. Both designations ensure that 1) the milk used to make a protected cheese comes from a specific geographic region, 2) the cheese is made using a traditional manufacturing process, and 3) that stringent storage criteria are followed.

Tariffs on generic cheeses like Gouda, Munster, and Cheddar tend to have more impact because cost-effective domestic substitutes are available, while the effectiveness of tariffs on DOP and AOC products is less clear.

DOP and AOC standards tend to be more rigorous than the European Union's Geographic Indicators (GI) implemented in the trading bloc's recent trade agreements to secure its position in overseas markets. Unfortunately, GI status has been applied to generic cheeses, such as Mozzarella, that do not reflect the generations of manufacturing traditions used to make Mozzarella di Bufala, diluting the value of GI status.

For consumers who prefer products such as

Parmigiano Reggiano, a 25% price increase on the import value might not be enough for them to forgo the cheese's perceived quality or performance difference. However, Havarti or Cheddar, which are made in several countries, often can be substituted with lower-cost domestic product without much, if any, perceived performance difference.

These cost decisions, however, assume consumers will be

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Ken's Corner

*by Ken Meyers
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Europe has many high-quality DOP and AOC cheeses that rely on region, tradition, and a manufacturing process passed down from generation to generation to impart qualities appreciated globally. That is not to be confused with geographic indicators (GIs), a regulatory

overreach that attempts to appropriate generic cheese names for European trade advantages.

The most recent example is Danish Havarti. There is no Havarti region in Denmark, and the cheese is not made using a traditional process, but rather it is produced in mostly modern facilities. Providing Havarti with a GI is simply a negotiating tactic to try to elevate the Danish-made cheese above the same cheese made in competing regions. Parmigiano Reggiano is called the King of Cheeses for a reason. For cheese connoisseurs, there is no confusing Parmigiano Reggiano with any other Parmesan. The same cannot be said about Danish-made Havarti.

The European Union should only strive to protect those qualities imparted by specific regions where milk is produced and the traditional manufacturing processes of rare cheeses rather than attempt to codify the attributes of generic cheeses. By trying to elevate all cheeses to special status, the European Union risks ensuring that consumers will eventually perceive none of their cheeses as special. **MCT**

Spot Volatility Picks Up

The CME block-barrel price spread continues to chart an erratic path. In September, the spread was

a record-large 43.25 cents. On Oct. 25, the block-barrel price spread reversed, and barrels now hold a 12.75-cent premium to blocks. Thus, in 30 days, the price spread experienced a 56-cent swing. At the same time, CME butter markets tumbled on Oct. 24 to \$2.0575/lb., the lowest price since Feb. 12, 2018. Butter has since found some support ahead of the holidays, but that support could be short-lived with just a few weeks of shipping left in 2019. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Oct	2.0425	1.9575	18.72	2.1150	16.28	0.3425	1.0975
Nov	1.9900	1.8825	19.61	2.1300	16.71	0.3300	1.1425
Dec	1.9250	1.7450	18.60	2.0475	16.40	0.3175	1.1475
Jan	1.8375	1.6700	17.60	2.0325	16.18	0.3150	1.1275
Feb	1.7275	1.6225	16.85	1.9225	15.73	0.3175	1.1200
Mar	1.7075	1.6325	16.46	1.9775	15.91	0.3275	1.1150

* CME prices.

**NASS prices.

...EU agility increases

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faced with a price difference at retail, and that might not be the case.

First, because the new 25% duty was under consideration for months, some importers purchased products ahead of the tariff implementation date. In addition, European cheese prices have been well below U.S. prices. Prior to the tariffs, Parmigiano Reggiano was assessed a 15% tariff, according to the U.S. 2019 harmonized tariff schedule. This year's weekly price through October for Parmigiano Reggiano aged for 24 months averaged roughly \$6.60/lb., or \$7.60/lb. with standard tariffs. The additional duty would add nearly \$2/lb. before freight and insurance, putting the price at nearly \$10/lb. free-on-board (FOB) the port. Amazon recently offered the same cheese for between \$25 and \$50/lb., suggesting retailers could absorb the additional \$2/lb. without having to increase the retail price.

EU exporters have also become more agile in world markets through the use of GIs and adjusting price and product mix since the 2014 Russian import ban on dairy products. If EU cheese maintains a

sizeable price discount to U.S. cheese into 2020, U.S. efforts could be frustrated due to the price disparity, which could offset the higher duty. European cheeses would also have a price advantage in key U.S. markets like South Korea and Japan. In addition, tariffs negotiated in recent trade agreements could favor EU cheese, work to reduce U.S. exports, and ultimately put downward pressure on U.S. cheese prices.

In August, Germany and France shifted milk from cheese vats to milk powder driers. Instead of making more cheese, the European Union can now take advantage of rising global powder demand. With more EU milk powder available, U.S. export opportunities could dry up by early 2020.

Assessing tariffs on EU dairy products appears beneficial to the U.S. dairy industry at first, but if European exporters were to sidestep the tariffs, U.S. processors could face unintended consequences. The current price disparity as well as consumers' willingness to pay a price premium for some EU cheeses could work against U.S. efforts. Headed into the holiday season, retailers are unlikely to increase prices. Instead, they are more likely to absorb the additional cost of tariffs. Thus, any impact from tariffs will—at the very least—be delayed. **MCT**



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