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Airbus Tariffs Impact EU Trade

Last year, the World Trade Organization (WTO) authorized U.S. retaliatory tariffs to resolve a 15-year dispute between the United States and the European Union over unfair subsidies to Airbus that disadvantaged Boeing. The United States opted to implement tariffs on several EU countries with a list of 150 products, ranging from airplane parts to dairy products—including cheese and butter—to extract an approved $7.5 billion in compensation. The 25% tariffs went into effect on Oct. 18, 2019. Unlike other retaliatory tariffs, however, the United States has hinted at rotating the list of products every six months, causing more disruption for importers, exporters and administrators alike. While still early, the impact from the tariffs has already started to trickle through European dairy production and trade data.

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Although Italy and Ireland are not part of the Airbus consortium countries, their dairy products have been feeling the brunt of the U.S. retaliatory tariffs. Through November 2019, Ireland was the largest butter supplier to the United States, with year-over-year import volumes of Irish butter nearly 15% higher than the same period in 2018. In the first month of the tariffs, Irish butter imports fell nearly 15%. Losses accelerated in November, when U.S. butter imports from Ireland collapsed, falling 55% behind the pace set in 2018. While Ireland was able to mitigate some of these losses by making sales to several other countries in November, the strategy could prove challenging in future months.

Italy is the United States' largest cheese trading partner, with 2019 year-to-date imports through November of mostly hard-Italian cheese up nearly 20% from the comparable period in 2018. Post tariffs, U.S. imports of Italian cheese in November fell 28% vs. the previous year. Italy has not yet reported November 2019 exports, but in October, cheese sales to the United States dropped 17.5%. However, Italy was able to offset those declines by shifting exports to other European countries and Japan.

Ireland and Italy are not alone in sustaining loss of dairy sales due to the tariffs. Several European countries

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Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.

Economists often say, "No one wins a trade war." During times of robust demand, exporters of goods can usually look beyond the trade struggle to develop alternative markets, but when macroeconomics sour, world sales of many goods begin to weaken and newly acquired markets are often the first to evaporate. The same is true for dairy.

When world dairy demand is strong and growth in milk supplies is relatively steady—like they are today—a country can work to shift sales from one market to another—although that is often fraught with regulatory and cultural implications. When successful, shifting sales can mitigate short-term damage to an exporter's total sales. However, this strategy often displaces a competitor's product, especially when price cuts are made to acquire new sales. Moreover, if a significant economic downturn in any one region of the world occurs, overall world dairy demand can suffer, further increasing competition among exporters in both new and established markets.

Long-term trade disputes can also negatively impact once solid trading relationships, leading to irreparable damage. While the Airbus tariffs have reduced U.S. imports of EU butter and cheese, the European Union has proven it can shift sales to other markets often to the detriment of U.S. sales. **MCT**

2020 to be Good Year for Cheese

Just weeks ago, most market watchers were not expecting CME spot butter prices to drop into the $1.70 range. But in late January, CME spot butter traded as low as $1.775/lb.—the lowest price since Oct. 16, 2016. Ahead of Super Bowl Sunday, CME spot Cheddar blocks remained elevated, with prices above $1.92/lb., substantially higher than a year ago. While most in the industry expect a seasonal decline, cheese prices will likely remain elevated for most of the year. And barrel prices are expected to remain firm as a result of USDA increasing orders. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jan	1.9225	1.5850	17.12	1.8900	16.85	0.3350	1.2750
Feb	1.8225	1.5975	17.20	1.8800	16.84	0.3500	1.2800
Mar	1.7975	1.5850	16.86	1.9800	17.12	0.3525	1.2625
Apr	1.7775	1.5850	16.79	2.0175	17.39	0.3575	1.2750
May	1.8125	1.7075	17.27	2.0225	17.78	0.3600	1.3200
Jun	1.8575	1.7300	17.68	2.0875	18.09	0.3625	1.3225

** CME prices.*
***NASS prices.*

...mitigating losses

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experienced a slowdown in shipments to the United States after Oct. 18, 2019, demonstrating that the tariffs have started to have an impact on the European dairy industry. Since Russia banned dairy products from Western nations in response to sanctions implemented after the annexation of Crimea, the United States has become the largest destination for European cheese. Following the advent of the EU-Japan free trade agreement last year, Japan has become the European Union's second largest cheese trading partner. So far, EU-28 countries have been able to mitigate trade losses to the United States by sending more cheese to the Middle East and Ukraine. However, continuing these sales could prove challenging over the longer term.

Shifts in Europe's dairy sales have not been contained to shipments sent to the United States. Since October, both Ireland and the United Kingdom have seen milk supplies pull back after 12 consecutive months of year-over-year gains. Ireland reduced butter output in November to 15,080 metric tons (MT), down 14% compared to the previous year, and Italy slowed cheese production by 2.6% to 90,180 MT.

As evidenced by the U.S. trade disputes with Canada, Mexico, and China, punitive tariffs can have a negative impact on the exporter. While there are alternative markets throughout the world, the United States is a large and lucrative market, suggesting that lost sales to the United States could be difficult to replace over the long term. In addition, some countries have been mitigating lost sales by shifting into different products or by adjusting the mix of products they offer. These shifts can be somewhat disruptive as well if the market struggles to anticipate the changes.

While Europe adjusts to the new tariffs, the United States could be queuing up more in response to the French tax on U.S. internet companies. The United States has suggested it could implement 100% tariffs on a variety of European products including French wine and cheese. The United States, by its own actions, has been the recipient of several retaliatory tariffs over the past two years that have stifled a dairy market recovery. New tariffs on European dairy products as well as those that are yet to come also threaten to derail a sustained recovery in dairy markets. **MCT**

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