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MCTCOMPASS

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2021: Year of the Trade Deal?

Some analysts believe that one of the side-effects of COVID-19 could be a step back from globalization. Supply chain and food-security issues have convinced some nations to reevaluate trade, and in some cases, look closer to home for products, especially food. Recent reports suggest China could be committing more land to agriculture and milk production to reduce reliance on other countries. While other nations could contemplate similar measures in the coming year, many, including China, will not be able to achieve self-sufficiency given their limitations in arable land, water, and technology. As a result, most nations in the Middle East and Asia will still rely heavily on food imports from North America, Oceania, and Europe, suggesting that 2021 could be the year of the trade deal—both made and broken.

Given the trade deals Canada has signed onto in recent years, it will be nearly impossible for the country to open its market to dairy while retaining supply management.

The world's largest milk-producing regions, including the United States, rely heavily on expanding dairy exports and trade to allow for growth of internal milk supplies and keep domestic markets balanced. Exports enhance on-farm returns and provide processors with increased opportunities for sales and purchases. Between 2006 and 2019, the United States exported an average of 13.2% of the milk solids it produced each year, with 2018's exports the highest on a percentage basis despite the start of several trade wars.

Since 2018, the United States has rebranded the North American Free Trade Agreement (NAFTA) as the United States-Mexico-Canada Agreement (USMCA), and the U.S. trade representative has consummated two understandings, one each with China and Japan. Shortly following implementation, U.S. dairy saw an uptick in activity with both nations. While USMCA was billed as a complete revamp of NAFTA, from a dairy perspective, it was largely the same trade deal with a few improvements made to quell what U.S. processors viewed as unfair Canadian trade practices designed to preserve the

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Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.

A renewed focus on world trade could help return U.S. exporters to a more level playing field, but the industry also needs to aggressively fight Europe's ongoing success in including geographic indicators in its trade deals.

Many countries have already agreed to recognize specific European dairy products as unique, forcing other nations shipping similar products to those markets to change the name of those products or use a descriptor that suggests the products are imitations of the one that's protected. Currently, the use of more than 20 common cheese names are either restricted or at risk of being restricted.

While some European products are clearly unique, both in terms of the process used to make them and the terroir of the region from which they originate, Europe has successfully laid claim to generic cheese names like mozzarella, cheddar, and feta in some of its trade deals, creating non-tariff trade barriers for U.S. cheesemakers. In August, the U.S. Patent and Trademark Office rejected an application filed by French and Swiss manufacturers to trademark "gruyere" in the United States.

With so much at stake, the United States needs to become more aggressive in both creating access and protecting its current markets for dairy products. **MCT**

Aid Package Restarts Cheese Market

Cheese looked to be in for a dull holiday trading session—but a new stimulus package from Washington, D.C., spurred dairy traders to speculate on whether new rounds of the food-box program could soon kick off 2021. As a result, cheese futures lifted decisively in the final weeks of the year. Still, increases beyond $1.80/lb. could be harder to come by until details of USDA food procurement activities are released and because new Cheddar block capacity continues to come online. Butter and nonfat dry milk trading in the final weeks of the year was subdued. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Dec	1.6475	1.4975	15.69	1.5050	13.68	0.4225	1.1000
Jan	1.7500	1.6800	16.53	1.5625	14.18	0.4450	1.1275
Feb	1.7225	1.6700	17.01	1.5650	14.13	0.4475	1.1200
Mar	1.7225	1.6725	16.94	1.6525	14.31	0.4375	1.0975
Apr	1.6350	1.6000	16.37	1.6925	14.53	0.4150	1.1050
May	1.6650	1.6325	16.06	1.7225	14.67	0.3900	1.1050

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

... Biden administration to soon take the reins

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country's supply-management program. Given the trade deals Canada has signed onto in recent years, it will be nearly impossible for the country to open its market to dairy while retaining supply management. The United States recently leveled a claim against Canada with the World Trade Organization (WTO) for Canada's lack of compliance.

In less than a month, the Biden administration will take the reins of U.S. trade policy. President-elect Joe Biden has nominated Katherine Tai, a seasoned veteran, as the U.S. Trade Representative (USTR). Tai worked on projects like the Trans-Pacific Partnership for the Obama administration, which has many in U.S. agriculture hopeful she will be tough on China while expanding U.S. trade access elsewhere. Next year could result in a pivotal change, as the USTR office shifts from bilateral trade deals to once again seeking multilateral deals to provide the United States both influence and access overseas.

Signed earlier this year, the multilateral Regional Comprehensive Economic Partnership (RCEP) covers a market consisting of 2.2 billion people. While less ambitious than the Trans-Pacific Partnership (TPP), RCEP has China, rather than the United States, anchoring the deal, a statement that the world will not wait for the United States. Many in agriculture still lament stepping away from TPP four years ago and the missed opportunities to hold China in check and provide improved access for U.S. goods. It is still unclear whether the Biden administration will sign onto RCEP, underpinning a concern that the United States continues to fall behind other dairy exporters, causing its goods to be far less competitive in lucrative markets.

In recent years, Europe has been nimble in cementing trade deals and successful in creating non-tariff trade barriers in the form of geographic indicators that will last for years to come. But all is not well in the region. The recent BREXIT agreement ensures that both sides can continue to trade $894 billion in goods without tariffs or quotas, according to the Associated Press, but most expect a bumpy transition as new rules take effect Jan. 1. While the United Kingdom signed a trade agreement with Turkey this week, Prime Minister Boris Johnson's hope for a trade deal with the United States will be complicated because Biden has voiced opposition to the United Kingdom's exit from the European Union. **MCT**

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