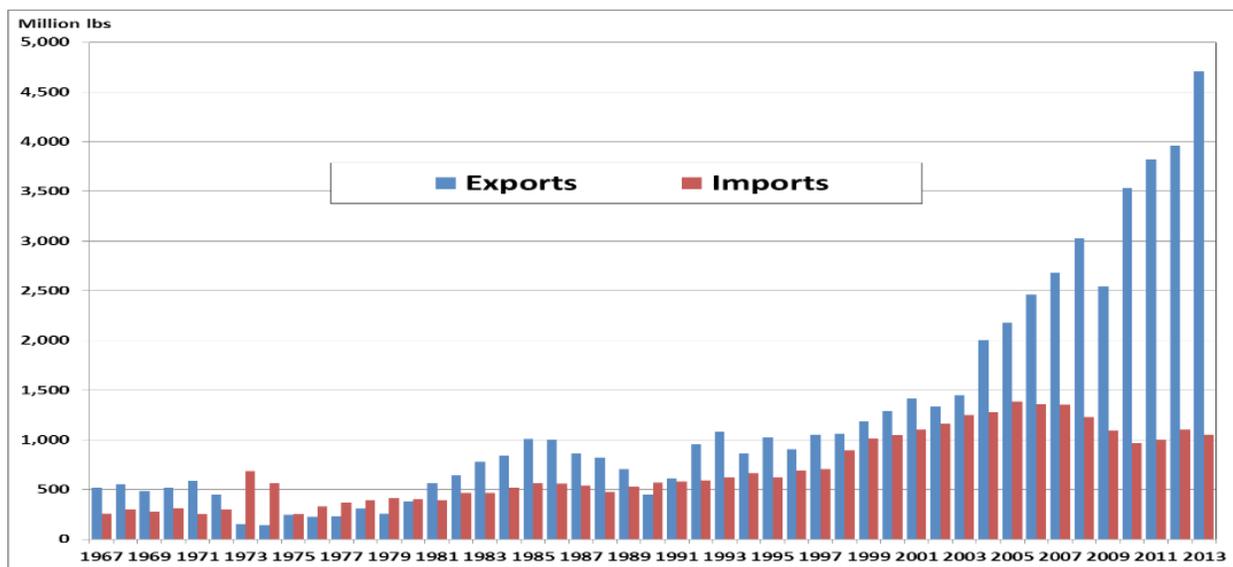


## Codex & IDF Impacts on the US Dairy Export Equation - September 2014

US dairy industry has been exporting a massive amount of dairy products which has put money into the pockets of US dairy farmers, transport companies (trucking, rail and shipping), dairy processors, export brokers and government coffers. In 2013, 201.2 billion pounds of milk were produced on US dairy farms with 31.2 billion pounds of milk equivalent exported (15.5%). Looking at it another way, approximately 70% of all the increased farm milk production growth since 2003 was exported in the form of milk and whey powders, cheese and other dairy products.

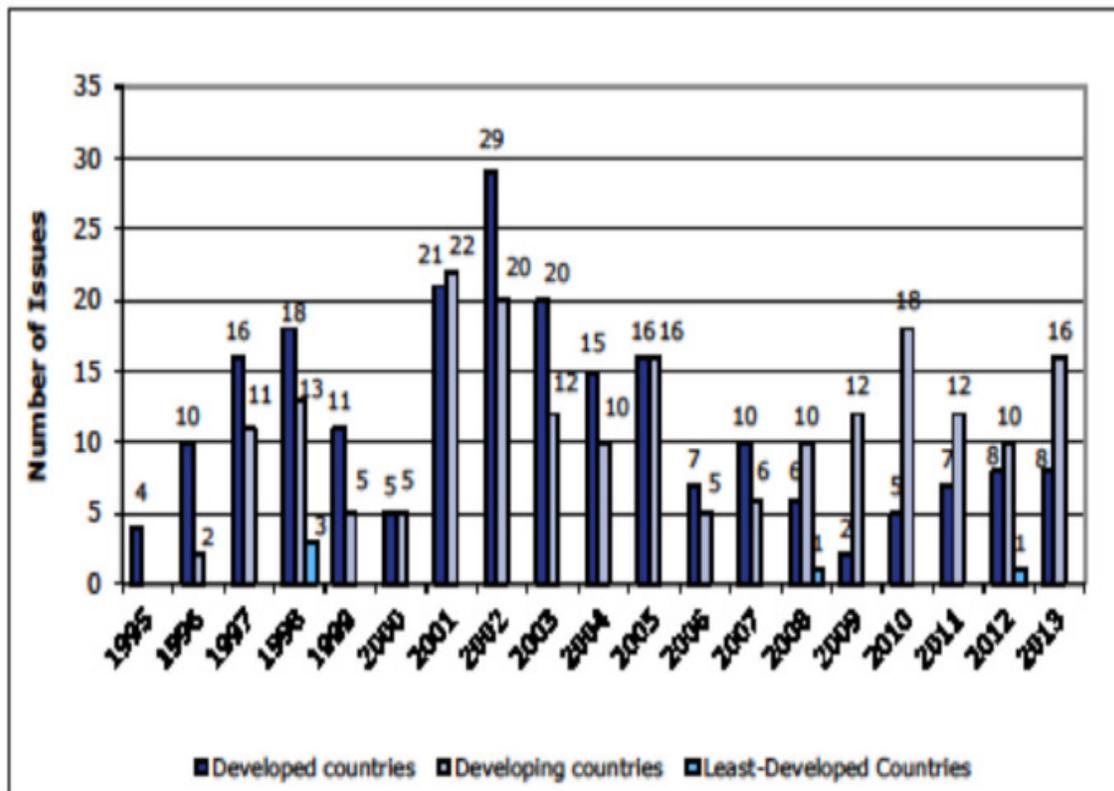


Export markets are dependent upon the US dairy industry producing high quality dairy products in demand by our trading partners that meet their individual country standards. The challenge is that importing country dairy product standards can vary significantly from US standards and other importing countries for the same product. The choice of a US dairy processor is to make the same product but change the formulation, processing, ingredients, labeling and food additives to meet US and all other importing country standards, forego some export opportunities in countries with smaller import volumes or not export a given product.

A better solution would be to have international standards for dairy products that are the same or similar to US dairy standards and adopted by all countries. The goal of the Codex Alimentarius organization, which was formed over fifty (50) years ago and operates under the United Nations is to develop international food

standards that reflect standards used in most countries. The US is one of over 180 countries participate in the Codex efforts, with the intent that these countries adopt Codex food standards into their national laws and regulations. Codex provides forums for government representatives to work on, discuss, debate, finalize and adopt food standards. Essentially, the development of Codex dairy standards should reduce difference in country dairy standards and remove import restrictions, making it easier for US dairy companies to export a wide range of dairy products.

A small but dedicated group of individuals from the US dairy industry and the US government have been working tirelessly for years to represent US dairy industry interests in the development and updating of Codex dairy product standards. The US dairy industry has participated in this process via providing comments to the US government as well as by participation in the Codex-recognized International Dairy Federation (IDF), based in Brussels. The US has its own IDF chapter called US-IDF that allows the US dairy industry to formulate strategies for influencing Codex dairy standards development efforts.



Another benefit of a Codex dairy standard is that if a member country rejects an imported dairy product meeting an adopted Codex dairy standard, the exporting country can challenge this rejection under the World Trade Organization (WTO) SPS and TBT provisions. See the chart to the left, which identifies the number of country challenges utilizing the WTO process to resolve trade disputes.

The current Codex issues that have the potential to impact the US dairy export “equation” are summarized below in a manner that identifies potential threats to US dairy industry exports.

1. Whey Permeate Powder: Development of a new Codex standard, proposed by Denmark. This product has changed from something without a market to one in demand as an exportable product, but without an internationally-recognized standard defining composition. ADPI representatives are currently working with Denmark to agree on compositional requirements for a Codex standard for Whey Permeate Powder. Below is the ADPI recommended composition for Whey Protein Powder versus the initial draft of a Codex standard for the same product. Because of the differences below, it is important that the US dairy industry become active in this effort so the international market for Whey Permeate Powder is maintained and expanded for US dairy processors.

	<b>Protein</b>	<b>Lactose</b>	<b>Milkfat</b>	<b>Ash</b>	<b>Moisture</b>
ADPI Whey Permeate	7% max.	76% min.	1.5% max.	14% max.	5.0% max.
Draft Codex Standard on Whey Permeate Powder	5% max.	81% min.	1.5% max.	12% max.	4.0 % max.

2. Processed Cheese: Development of a Codex standard for Processed Cheese driven by some Latin American countries. Although there was an unsuccessful ten (10) year effort to update old Codex standards for Processed Cheese (opposed by the US dairy industry), there will be a meeting in Brussels, Belgium in January 2015 to restart the effort. The US processed cheese industry had very few problems with exporting its high-quality Processed Cheese. However, since some Processed Cheese sold in the international markets is very low quality, importing countries believe there needs to be an internationally recognized standard for Processed Cheese. At stake is the entire US export market for Processed Cheese because if a Codex standard is developed allowing lower levels of dairy ingredients, competitors could market their product as “Processed Cheese” at lower prices. Poor quality Processed Cheese could also jeopardize the international customer base and drive them to utilize other products

3. Codex Milk Permeate Standard: Currently, this product is in demand by US dairy customers in a number of countries. However, since there is no international standard, competitors try to gain US market share by selling substandard product under the name of Milk Permeate Powder. One way to counter this is for the US dairy industry to propose that a Codex standard for Milk Permeate Powder be developed that would provide a level playing field for all exporters.

4. Food Additives: This subject is covered by the Codex Committee on Food Additives (CCFA), which will be meeting somewhere in China in March 2015.

a. Beta Carotene use in Cheese: Currently, the EU and other nations do not allow the presence of the natural food colorant, beta carotene, in infant formulas and some other products that contain whey. Since beta carotene is allowed and somewhat preferred as a natural food colorant in US cheeses, the whey produced from these cheese carries small amounts of beta carotene. There are intense negotiations ongoing within a few different Codex committees on the acceptability of beta carotene in various dairy products that are used as ingredients in a number of other foods. If the US government and dairy industry are not successful in convincing other nations within Codex that beta carotene is a safe, natural colorant, it is possible that its use by the US cheese industry would have to be stopped or limited to only cheese where the whey was not captured for further processing.

b. Codex Dairy Beverage Category: In order to fit some of the new dairy beverage products into the Codex system for categorizing food, the current structure needs to be changed. The challenge is to ensure that the all of the food additives allowed under the old structure are included in any new structure and to include new food additives that are reflective of these new products. The dairy beverage market in the US is expanding rapidly, making use of milk and whey components with other ingredients to reach consumers that have not traditionally consumed large amounts of dairy products. These products are not as common in other parts of the world and face some resistance, particularly related to the acceptability of food additives. Since many of these dairy beverages have a long shelf life, they are very exportable and a significant opportunity for US dairy processors to sell new products to new international customers.

c. Colors & Sweeteners in Dairy Products: There are two separate activities in the Codex system to evaluate the acceptability of colors and sweeteners in dairy foods. Some countries have a view that dairy-based foods do not need colors and/or sweeteners added and are working to prohibit or reduce the number of allowable sweeteners and colors. It is very important that the US dairy industry participate in these discussions, providing examples acceptable colors and sweeteners in dairy foods, otherwise there may come a day when the US dairy industry will have to reformulate and remove colors and sweeteners in exported dairy products.

d. Processing Aids: CCFA has been compiling a list of food additives that are recognized as processing aids. This list has been very helpful in resolving issues between US dairy exporting companies and importing governments. There is a need for US dairy companies to provide information on their use of processing aids so US Codex representatives can recommend they be added to the Codex list of processing aids, reducing potential disputes and problems for US dairy exporters.

5. Food Labeling: The Codex Committee on Food Labeling meets the week of October 21st in Rome, Italy. Two items on the agenda include revision of the existing Codex provisions on date marking and whether non-retail containers of food need to have specific labeling. Both of these issues could require US dairy exporters to relabel their exported dairy products. For more details, see below.

a. The modification of the date marking, if adopted would require all exported products to have “Use By”, “Best Buy”, “Date of Manufacture” or “Date of Packaging” dates and dictate how they are calculated. These are new requirements and could require significant changes for US dairy exporters that establish their own shelf life dates for exported dairy products.

b. The discussion paper for the labeling of non-retail containers of food would require a list of ingredients on the package, declaration of added water, list of food additives, weight or quantity designation, name and address of the manufacturer, packer, distributor or importer and country of origin (if lack of this would mislead the user). If these requirements become final, the current bulk labeling systems used by US dairy exporters would have to be expanded in a significant way to address all of the additional labeling requirements.

6. Food Hygiene Requirements for Producing Dairy Products: The Codex Committee on Food Hygiene will be meeting in Lima, Peru on November 17th – 21st. The base document on acceptable levels of hygiene (GMPs) for processing dairy products is being amended. In addition, a completely new Codex document on hygienic practices in low-moisture foods will be advanced. The Committee is also working on a document that could lead to inserting acceptable bacterial levels in a number of standards including Codex dairy standards. All three issues need close monitoring to ensure the final wording for these Codex documents does not result in a disadvantage for US processors exporting dairy products.

In summary, there has never been a more important time for the US dairy industry to be involved in Codex and provide information to US industry and government Codex representatives. To learn how to become more involved, for additional details or to provide comments on Codex issues described above, please contact Allen R. Sayler, Managing Partner for CFSRS and a member of the ADPI Center for Excellence at [asayler@cfsrs.com](mailto:asayler@cfsrs.com) or via phone at 571-931-6763. To become more directly involved and become a member of the US-IDF organization that represents the US dairy industry on Codex issues, contact Debra Boyke at [dwboyke@cdr.wisc.edu](mailto:dwboyke@cdr.wisc.edu) or via phone at 608-262-2217.

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