Joint Comments by the
National Milk Producers Federation and the U.S. Dairy Export Council to the
U.S. International Trade Commission

Regarding Investigation No. TPA-105-008:
Economic Impact of Trade Agreements Implemented Under
Trade Authorities Procedures, 2021 Update

October 6, 2020

Our organizations submit these comments in response to the notice of request for public comments concerning the USITC's Investigation of the Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2021 Update (No. TPA-105-008). The National Milk Producers Federation (NMPF) and the U.S. Dairy Export Council (USDEC) appreciate the opportunity to present our views on this important annual report.

NMPF is the national farm commodity organization that represents dairy farmers and the dairy cooperative marketing associations they own and operate throughout the United States. USDEC is a non-profit, independent membership organization that represents the export trade interests of U.S. milk producers, proprietary processors, dairy cooperatives, and export traders. The Council's mission is to build global demand for U.S. dairy products and assist the industry in increasing the volume and value of exports.

Exports have become extremely important to the U.S. dairy industry. Last year we exported $6 billion in dairy products worldwide. Those sales play an indispensable role in supporting the health of America's dairy farms as well as the manufacturing jobs of dairy processors. U.S. trade agreements have had a beneficial impact on the U.S. dairy industry through the reduction or removal of both tariff and nontariff barriers to U.S. dairy products. To continue that job-creating trend that has benefited dairy farmers and manufacturers alike, our industry strongly encourages the retention of existing trade agreements and the pursuit of new ones with key dairy-importing countries as of the utmost importance. Target markets for our industry of particular importance include those in Southeast Asia particularly in light of its importance as a dairy importing region and our competitors' progress in negotiating trade deals within that region.

I. General Comments on Free Trade Agreements and the Uruguay Round Agreement

Free Trade Agreements (FTAs) and the Uruguay Round Agreement, as passed under Trade Authorities Procedures, have been critical to the success and expansion of the U.S. dairy industry into international markets. Beginning with the North American Free Trade Agreement (NAFTA) in 1994 and continuing on through the Phase I Agreement with Japan, FTAs have enabled U.S. dairy exporters to compete on either a more level playing field or at an advantage with international competitors in terms of tariff access, removal of non-tariff barriers and clear and consistent rules for trade. **By way of perspective: in 1993, the year before NAFTA, the United States sold just $618 million worth of dairy products overseas; in 2019, the U.S. sold $2.7 billion to just its FTA partners.**

In total, dairy product exports to countries with which the US has an FTA have grown by $2.14 billion since their respective implementations. **In volume terms, FTAs have played an essential role in growing U.S. dairy exports by 1.5 billion pounds of dairy solids, the equivalent of 1.4 billion gallons of milk, to the U.S.'s FTA partners. That growth is greater than what Michigan, the sixth largest U.S. milk producing state, produces in one year.**

Overall, dairy exports with FTA partners have helped add the equivalent of $17 billion in revenue for dairy farmers.

II. Impact of the Uruguay Round Agreement on U.S. Dairy Exports

The Uruguay Round Agreement helped lay the foundations of success for U.S. dairy exports.

Firstly, the agreement played a key role in helping create a more level international playing field by limiting signatories' export subsidies. Prior to the Uruguay Round, the European Economic Union (EEC), the precursor to the European Union, was a prolific user of dairy export subsidies. The EEC's Common Agricultural Policy was founded on the principle of maintaining a common price for agricultural products, including dairy staples like butter and skim milk powder. However, those prices were consistently above the world market price. This then encouraged excess production, which needed to be exported to avoid undermining that artificially high internal price. In order to do so, the European Commission spent billions on export subsidies to move more dairy into international markets. This essentially priced the U.S. out of the global market. Yet, as a result of the Uruguay Round Agreements, the EEC's export subsidies faced new limits, ultimately leading to the later commitments to abolish them entirely. Without the Uruguay Round, the U.S. could still be facing the immense challenge of trying to compete against artificially low-priced mountains of EU dairy products benefiting from export subsidies. Instead, thanks in key part to the subsidy reforms the Uruguay Round ushered in, coupled with new market opportunities it opened, the U.S. went from a net importer of dairy to the third largest exporter of dairy products in the world.

Just as consequently for U.S. dairy, the Uruguay Round Agreement paved the way for comprehensive multilateral and bilateral free trade agreements. The section below details how every free trade agreement the U.S. has entered has helped increase U.S. dairy exports and revenue.

III. Impact of Free Trade Agreements on U.S. Dairy Exports

NAFTA/USMCA

Prior to NAFTA, the U.S. was a net dairy importer and exported just 2.6% of its overall milk production. Less than half of those exports went to Mexico despite it being a large market where the U.S. enjoyed favorable shipping rates and other logistics advantages. Instead, much of the dairy shipped to Mexico prior to NAFTA was fluid milk to be processed in Mexico rather than finished, higher value dairy ingredients or consumer products. As a result, the average price of milk solids exported to Mexico was just 98 cents per pound compared to $1.27 per pound to the rest of the world.

NAFTA, and now USMCA, spurred the U.S. dairy industry to invest in relationships, supply chains, and Mexican consumers to help spur greater dairy demand in the Mexican market – to the benefit of both U.S. dairy products and Mexican-produced ones. **Since the implementation of NAFTA, U.S. dairy exports have grown by 430% in volume and 625% in value. That is a compound average growth rate of 7% per year for volume and 8% per year for value.** Additionally, the average unit value of milk solids exported to Mexico has risen 34% as the U.S.'s portfolio is much more diverse and higher value than it was prior to NAFTA. Additionally, our agreement with Mexico has provided us with preferential access to Mexico's market, surpassing that available to other major dairy suppliers. As a result of that combination of factors, the U.S. holds a dominant market share of Mexico's dairy imports– accounting for roughly 82% by volume and 67% by value in 2019.

Facilitated by NAFTA, Mexico became the U.S.'s largest market by both volume and value and is the largest market for U.S. non-fat dry milk/skim milk powder (NFDM/SMP) and cheese, two products that have an important direct impact on farmer milk prices. Since 1994, exports to Mexico have generated an estimated $10.5 billion in farmer revenue. With USMCA, this number will only grow.

Canada's dairy market, on the other hand, remained highly restrictive to U.S. dairy products, despite NAFTA. The U.S. exports to Canada just one-fifth the milk solids that it exports to Mexico. Additionally, a significant amount of the dairy shipped to Canada from the United States is part of the Import for Re-Export Program (IREP). As a result, only a minimal amount of U.S. dairy in years past has actually reached the Canadian consumer. USMCA takes a step forward for dairy by providing some additional tariff-rate quota (TRQ) access for U.S. dairy products and by requiring Canada to make reforms to certain market-distorting dairy policies.

Jordan

The U.S.'s other free-trade agreements did not result in export gains of the scale of Mexico, but even still, they have each had positive impacts on U.S. dairy exports. For instance, since the U.S.-Jordan FTA went into force in December 2001, U.S. exports have increased by 177% in value and 919% in volume. The primary dairy product the U.S. exports to Jordan since the implementation of the FTA is cheese, consistently exporting more than 1,000 metric tons (MT) of cheese every year. The success comes despite the proximity of the U.S.'s largest competitor, the European Union (EU), having a shorter and cheaper shipping route than the United States and the presence of a competing EU FTA with Jordan. Although Jordan is not the U.S.'s largest market in the region, the U.S.-Jordan FTA laid the foundation for the U.S. to compete and consistently build relationships in the country for its dairy products.

Singapore

The U.S.'s third FTA since the Uruguay Round presently a different dynamic in light of the fact that Singapore is an established free trading hub with MFN tariff rates for dairy products already set at zero. Still, the establishment of clear trading rules with Singapore has benefited U.S. exporters. Additionally, Singapore's favorable tariff rates create an environment where dairy imports are welcome, thereby encouraging domestic innovation and highlighting the benefits of low tariffs. Since the U.S.'s FTA with Singapore in 2004, U.S. exports have grown 875% in value and tenfold by volume.

Indeed, despite its small size, Singapore has utilized tariff-free access to become a regional dairy hub, acting as a business center for dairy trade and a further processor of high-value dairy products to the whole region. As an example of this, depending on the year, Singapore is either the largest or second largest lactose importer in region; the country alternating this first/second largest role with Singapore is Indonesia, a country with 47-times the population of Singapore. By way of example: Singapore imports lactose as a key ingredient for infant formula manufacturing as several multinational companies have processing facilities in the country. From this investment, the U.S. benefits in volume terms, as the world's largest exporter of lactose, and in value, as infant-grade lactose commands a price premium as well.

Chile

The other FTA the U.S. implemented in 2004 also provided key benefits for dairy. Chile has one of the highest GDPs per capita in South America and is the second largest importer of dairy products by volume and value in the region. **The U.S.'s FTA with Chile has benefited dairy exports in enabling substantial growth in sales to the country – exports to Chile have grown by 30-fold, nearly 90 million dollars more a year since implementation.** In fact, the U.S. ships more cheese to Chile than other country in Latin America besides Mexico, selling more than $43 million dollars' worth in 2019. Indeed, Chile is the U.S.'s fifth largest export destination for cheese exports, behind four other countries with which the U.S. has a trade agreement.[1]

Another key element of the FTA was the negotiation of a workable process for registering U.S. dairy facilities. Without resolving critically important non-tariff barrier matters such as this, even deep tariff improvements can fall short of opening the market. It is the combination of tackling both tariff and non-tariff barriers that yields a successful expansion of real market opportunities for our exporters.

The FTA has enabled the U.S. to compete even as other suppliers – namely the EU, New Zealand, Argentina and Uruguay – invest heavily in the market and have their own FTAs with Chile. Otherwise, U.S. exporters would face additional tariffs on their exports, which would impede the U.S. in a highly competitive market.

[1] Mexico, South Korea, Japan and Australia

Australia

One of the countries where our FTA has led to significant increases in U.S. cheese exports in particular is Australia. **Since implementation of our FTA, U.S. cheese exports to Australia have grown from just 187 MT in 2004 to over 21,000 MT in 2019 to become the fourth largest destination for U.S. cheese.**

Indeed, tariff-free access, as afforded by the U.S.-Australia FTA, remains essential to maintaining existing business and continuing export growth in the market. New Zealand, one of the U.S.'s chief dairy competitors, also has a free trade agreement and harmonized regulatory policy with Australia. It also is much closer to the Australian market. For the U.S. to be able to compete with the largest single country exporter of dairy in the world, the U.S. must be able to compete without the additional costs imposed by tariffs. Although Australia offers a WTO quota for 11,500 MT of cheese to be imported under an in-quota tariff rate of $69/MT – a rate at which the U.S. would still be able to compete with other suppliers such as the European Union – U.S. exports would essentially be cut in half as the best case scenario if forced to compete solely on most-favored nation (MFN) terms. Australia's out-of-quota tariff on cheese translates to $870/MT, which would act as about a 20% tariff on U.S. cheddar at 2019 prices. This would be broadly cost prohibitive.

Yet the U.S. does not just export cheese to Australia. Australia is also the U.S.'s third largest market for ice cream and a substantial customer of lactose. **In total, the U.S.-Australia FTA has helped expand dairy export sales from $6.5 million in 2004 to $148 million in 2019.**

CAFTA-DR

CAFTA-DR, the U.S.'s other regional trade agreement beyond USMCA, has also been a tremendous success for U.S. dairy. **Since the Parties first began implementing the agreement in mid-2006, U.S. exports to its CAFTA-DR partner countries have increased by 300%, growing from $40 million in dairy sales in 2005 to $236 million in 2019.** The U.S.'s largest market in the trade pact is the Dominican Republic, which accounts for roughly 40% of total dairy sales by value to CAFTA-DR countries and buys large quantities of U.S. milk powder and cheese, followed closely by Guatemala, which was the largest CAFTA-DR market for U.S. cheese in 2019. Overall, the U.S. exported the equivalent of 94 million gallons of milk to its Central American partners in 2019, and it maintains a dominant share in the market. **Roughly half of Central America's imports from outside the region are supplied by the U.S.**

The success that dairy companies, processors and exporters have had in the region would not have been possible without CAFTA-DR. For instance, in the Dominican Republic, rather than having open access to the largest importer in the market, U.S. milk powder exporters would face an in-quota tariff rate of 16% or an out of quota rate of 56%; cheddar cheese exporters would face a 20% tariff. Particularly in light of EU trade treaties with the region that were pursued after the implementation of the U.S. FTA, our agreement has been instrumental to forging a robustly competitive position for U.S. products. Thanks to CAFTA-DR and the U.S. dairy's longstanding commitment to the region, U.S. exporters will be well placed to maintain their strong position in the market in the years to come as well.

One element that could have fortified their position yet further, however, would have been if the CAFTA-DR included a provision similar to that found in the subsequent US-Panama FTA recognizing the safety of the US system for processed food products including dairy. Absent this, the U.S. has continued to face intermittent non-tariff challenges in smoothly accessing the Costa Rica market for instance due to the imposition of individual facility registration requirements on U.S. exporters and the effort required to navigate those mandates.

Morocco

One of the other agreements to begin implementation in 2006, the U.S.-Morocco FTA created substantial benefits for U.S. dairy. U.S. dairy exports grew by 1400% from just $64,500 in 2005 to over $7 million in 2019. In fact, exports peaked to over $114 million in 2013. Although the U.S. maintains much stronger exports to Morocco than it did in 2005, the major difference that has driven the reduction from 2013 was the implementation of the EU's association agreement with Morocco, which also eliminated most tariffs for EU competitors. Combine the tariff-free access with lower logistics costs and a much shorter shipping times and U.S. is still competing at a significant disadvantage to EU suppliers. Still, if not for the US-Morocco FTA, shipments of skim milk powder, cheese and whey from the United States would be minimal as the U.S. would face a steep tariff disadvantage as well.

Bahrain

The third agreement implemented in 2006, between the U.S. and Bahrain, also saw similarly impressive growth as Morocco. U.S. exports grew by 1170%, from $565,000 in 2005 to $7.4 million in 2019. Today, the U.S. ships primarily cheese, butter and ice cream – all products targeted directly at consumers. If not for the FTA, U.S. products would face an additional 5% tariff on their shipments.

Oman

As is clearly a familiar theme, the U.S. saw significant growth after implementing its FTA with Oman. In 2008, the year prior to implementation of the FTA, U.S. exports were just $574,000. Since then, dairy exports have grown by 1449% to $8.9 million. Today, the U.S. ships cheese, whole milk powder (WMP), skim milk powder, ice cream and many other dairy products.

Peru

The year 2009 also saw the implementation of the U.S.'s FTA with Peru, another crucial market in Latin America. **U.S. dairy export value to the country has nearly tripled in just the ten years since implementation, growing to over $73 million in 2019.** Today, Peru is the U.S.'s third largest market in South America for cheese, behind only Chile and Colombia, and is the second largest destination in South America for NFDM/SMP, WMP and butter, only ever trailing Colombia, which has 50% more people. Indeed, thanks to the U.S.-Peru FTA, the U.S. was able to become the largest dairy import supplier to the Peruvian market. This is especially important as New Zealand and Australia benefit from expanded access terms under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the EU already has a trade agreement with the country as well. If not for the FTA, the

U.S. would face a variable tariff on its milk powder that could go as high as 25% and rates for its cheddar cheese would range as high as 17.9%. Tariffs at those levels would effectively eliminate U.S. competitiveness when all other competitors have open access.

Colombia

In 2012, the U.S. implemented three trade agreements: Colombia, Panama, and South Korea. Each of which has been tremendously supportive to U.S. dairy. In the years after implementation of the U.S.-Colombia FTA, the U.S. dairy industry utilized tariff-free access to build relationships with one of the largest milk powder buyers in Latin America. In fact, aside from Mexico, the world's largest NFDM/SMP single country buyer in the world, and the countries of Southeast Asia, which collectively import roughly double the amount of Mexico, the U.S. shipped more NFDM/SMP to Colombia than any other country in 2019. **Indeed, the U.S. shipped 24,488 MT of NFDM/SMP to Colombia last year, more 20 times what it exported in 2011.** It is also the second largest destination for U.S. cheese in South America, behind only Chile, with which the U.S. has an FTA as well. Last year Colombia was also the U.S.'s largest WMP destination globally and the largest market for U.S. whey in South America. In total, the U.S. shipped the equivalent of 87 million gallons of milk to Colombia last year.

Panama

Despite the U.S. having seen the smallest growth in its dairy exports to Panama since implementation compared to other FTAs, the growth is still impressive. Since 2011 exports expanded by 76% in value and 35% in volume to reach $59 million in 2019. Panama is the second largest destination for U.S. cheese in Central America in both value and volume terms. It has proven a steady and reliable partner for U.S. dairy, growing consistently over the past five years. Thanks to the U.S.-Panama FTA and maintaining preferential access through a quota, albeit a small one, the U.S. maintains a greater than 50% cheese market share in the country. **Indeed, the agreement will only improve with the potential for even greater growth as by 2028 the U.S. will have full access to the market.**

The recognition of the U.S. food safety system for processed products – and specifically including dairy within that product grouping – was another critical element secured via the FTA that helped to ensure that U.S. exporters would not see declining tariffs only to face rising non-tariff barrier constraints in this market.

South Korea

The final full FTA that the U.S. implemented in 2012 has been one of the most beneficial and essential to U.S. dairy. Since the FTA's implementation, South Korea has become a vital market for U.S. cheese. **The year prior to the U.S.-Korea FTA, the U.S. exported 35,431 MT of cheese to the country. Yet, the U.S. exported more than that in just the first six months of 2020 and is now the second largest destination for U.S. cheeses, only behind Mexico.** In fact, the U.S. has sent more cheese to South Korea from January to June 2020 than it did to Central America, South America and the Middle East-North Africa combined. **In 2019, South Koreans ate nearly as much U.S. cheese as the entire state of New York produced – over 133 million pounds of it.**

That success, which drove total U.S. exports to the country to over $332 million in 2019, was made possible by the U.S.-Korea FTA. Otherwise, U.S. cheesemakers would face a steep tariff of 36% to ship into the world's fourth largest cheese market and be competing at a fierce disadvantage to suppliers from the EU and Oceania which also have FTAs with South Korea. The tariff terms in our FTA ensure that the U.S. is able to maintain and build upon its status as the largest import supplier to the country in spite of all the other major U.S. cheese competitors having FTAs with Korea.

IV. Conclusion

As outlined above, the U.S. has seen growth in its dairy exports in every single trade agreement it has negotiated since their implementation in both value and volume terms. While the U.S. dairy industry has made improvements in its global exports over the past two decades to become the third largest exporter in the world, growth in exports to its FTA partners has been faster than growth to the rest of the world, highlighting the importance of trade agreements to an industry that now ships the equivalent of one in seven milk tankers overseas. A combination of using our FTAs to remove both tariff and nontariff barriers yields the strongest results by reducing the risk that our FTA partner may lower tariffs only to raise unwarranted nontariff constraints.

Yet, much work remains to be done. There remain many international markets where U.S. dairy farmers, processors, exporters and the nearly 3 million jobs they support would benefit from negotiating comprehensive free trade agreements.[2] If we had greater access to other key dairy markets where the U.S. is currently competing at a disadvantage, places like Vietnam, Brazil, and Indonesia, dairy exports could see a similar boom in exports just as we have from NAFTA, CAFTA-DR, US-Korea FTA and the many others outline above.

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[2] Cite GotDairyJobs: IDFA Dairy Delivers jobs analysis