MIDWEST DAIRY COALITION

Comments Submitted to the Office of the
U.S. Trade Representative

on behalf of the

Midwest Dairy Coalition

Regarding the
Proposed

**<u>Trans-Pacific Partnership Free Trade Agreement
with Singapore, Chile, New Zealand et al.</u>**

(Docket Number USTR-2009-0041)

January 25, 2010

On behalf of the member organizations of the Midwest Dairy Coalition, I am submitting this testimony regarding the proposed Trans-Pacific Partnership Free Trade Agreement (TPP FTA), between the United States, New Zealand, Australia, Peru, Chile, Vietnam, Singapore and Brunei.

The Midwest Dairy Coalition is an alliance of dairy farmer cooperatives and State Departments of Agriculture encompassing dairy farmers from 8 Upper Midwestern States. The goal of the Coalition is to provide a unified Upper Midwestern voice on federal dairy policies.

The member organizations of the Coalition are Associated Milk Producers, Inc., Bongards' Creamery, Cooperative Network, Family Dairies USA, First District Association, Manitowoc Milk Producers Association, Mid-west Dairymen's Company, Milwaukee Cooperative Milk Producers, Scenic Central Milk Producers Cooperative and the Wisconsin Department of Agriculture, Trade and Consumer Protection.

Because of our concerns about the negative effects of the TPP FTA on the dairy farmers and manufacturers of our region, and the nation as a whole, the member organizations of the Midwest Dairy Coalition are urging that dairy product trade between the United States and New Zealand be excluded from the TPP FTA.

<u>New Zealand is an Aggressive Dairy Export Monopoly</u>

New Zealand is the dominant dairy exporting nation in the world, and has utilized the monopolistic structure of its major dairy company to secure and retain that status in the world dairy market. New Zealand's major dairy company controls over 90 percent of the milk produced in the country, and boasts responsibility for one-third of all international dairy trade. As a nation of only 4.3 million people with an anticipated milk production of 16.35 million metric tons this year, nearly all of New Zealand's production is exported.

The United States, with its large population and high per capita income, is one of the most sought-after markets for dairy imports. The U.S. is already New Zealand's top market for its dairy exports, and one of New Zealands's clear goals is to expand that market share even further, as a way to address the extreme milk surplus in their nation. According to comments provided by National Milk Producers Federation, over the last five years of full-year data available, New Zealand has exported on average $646 million worth of dairy products to the U.S. each year, reaching a peak in 2008 of $719 million." In contrast, over that same time period, the U.S. has exported an annual average of a $5 million to New Zealand.

<u>It Is Inconsistent to Open the U.S. Market to a Foreign Dairy Monopoly At the Same Time that the Administration is Launching a Major Effort to Scrutinize Anti-Competitive Behavior in our Domestic Dairy Markets</u>

The U.S. Department of Agriculture and the U.S. Department of Justice have announced a series of joint workshops around the nation in 2010 to discuss and gather evidence regarding anti-competitive behavior in the U.S. agricultural sector (http://www.gipsa.usda.gov/GIPSA/webapp?area=home&subject=lmp&topic=doj). The subsectors of primary focus for the workshops will be dairy, seeds, and livestock/poultry. A full day devoted entirely to the discussion of anticompetitive behavior in the dairy sector has been scheduled for June 7, 2010 in Madison, Wisconsin.

The level of concentration in U.S. dairy markets, while significant, pales in comparison to that of New Zealand. And the same economic power of New Zealand's dominant dairy company in their domestic market is wielded with full force on international markets, as well. In fact, because of the extreme power of New Zealand's dominant dairy company, any trade negotiation with New Zealand regarding dairy is essentially a negotiation with that one company.

It would be highly inconsistent for the Administration to be granting a foreign dairy export monopoly unfettered access to our U.S. dairy market at the same time it is proposing to investigate and rein in the power of less-dominant U.S. dairy entities.

U.S. Dairy Farmers and Manufacturers Have Much to Lose and Little to Gain from Deregulated Dairy Trade with New Zealand

The dairy farmers of the United States, and the manufacturers who process their milk into finished dairy products, have nothing to gain by further deregulating our trade restrictions with regard to dairy imports from New Zealand. The gross imbalance of dairy trade between the United States and New Zealand stands only to be worsened by the TPP FTA.

Estimates by the National Milk Producers Federation are that "milk prices received by producers would drastically drop and gross revenues received by U.S. dairy farmers would plunge by a cumulative $20 billion over the first 10 years of the FTA if all U.S. dairy restrictions on products from New Zealand are phased out in the TPP FTA."

Any reductions in U.S. milk prices related to increased imports from New Zealand would have a cost to U.S. taxpayers as well. The costs of the Dairy Product Price Support Program and the Milk Income Loss Contract (MILC) program increase when U.S. milk prices decline. Both programs are funded with mandatory federal funds, meaning that there are no direct limitations on the costs of these programs to the federal treasury. Further opening of the U.S. market to the dairy production of an aggressive export monopoly such as New Zealand could place both U.S. dairy farmers and U.S. taxpayers at significant financial risk

Despite the clear threat of harm caused by the proposed phase-out of dairy restrictions as part of the TPP FTA, there are no clear economic benefits of doing so. Given New Zealand's small population, the historic negative balance of dairy trade between the U.S and New Zealand, and the complete control of New Zealand's major dairy company over their own market, the potential for increased dairy exports to New Zealand are minimal at best. Additionally, New Zealand's dairy tariffs are already either nonexistent or extremely low, therefore the prospect of phasing them out offers no attractive benefits to the U.S. dairy industry.

In addition, the U.S. already has bilateral FTAs in place with most of the other countries that are proposed for inclusion in the TPP FTA. Therefore there is no clear net benefit to U.S. dairy in terms of the TPP FTA, as it currently stands. Dairy tariffs in Singapore and Chile are already at zero or are in the process of being phased out under previous trade agreements with those nations. In the recently negotiated Peru FTA, that nation made dairy concessions that stand to benefit the U.S., and are in the process of being implemented. By reopening some of the aspects of the previously negotiated agreements in order to include them in a multi-lateral TPP FTA, we stand to lose more than we stand to gain.

In short, as it is currently envisioned, the negatives of the proposed TPP FTA to U.S. dairy farmers and manufacturers far outweigh any potential positives. We strongly urge that dairy trade between the U.S. and New Zealand be excluded from this Agreement. Please do not allow the dairy farm families of the United States to be used as a trade off for benefits sought for other sectors of our economy during the negotiation process.

Respectfully submitted,

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