WTO and Agriculture

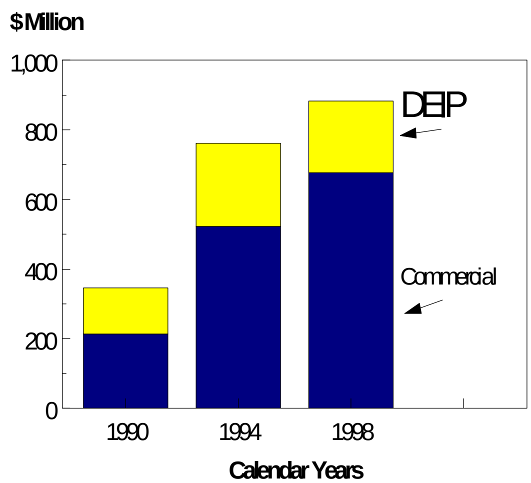
What's at Stake for Dairy?

Export prospects for dairy products depend, in large part, on the United States' ability to maintain and expand market access, ensure fair competition, and further level the international playing field for U.S. producers and exporters. The World Trade Organization (WTO) and trade negotiations offer comprehensive new trade agreements aimed at achieving these objectives.

Why Trade Matters for U.S. Dairy

U.S. exports reached a record $905 million in 1997, approximately one-fifth above the pre-Uruguay Round (1994) level of $763 million and more than 2.5 times the 1990 level of $347 million. Mexico and Japan are the leading destinations for U.S. dairy exports. Exports experienced a modest decrease in 1998 to $885 milion. More important than growth in exports is expansion in commercial exports as subsidy programs, primarily the Dairy Export Incentive Program (DEIP), have been phased down. The non-DEIP dairy product exports jumped from just over $200 million in 1990 to near $700 million in 1997 and 1998. Cheese and whey products have shown especially strong growth. This growth would not have been as rapid without the increased market access gained through the Uruguay Round/WTO implementation and North American Free Trade Agreement. Currently, with the domestic support system scheduled to end in 1999, U.S. dairy producers increasingly need to look to foreign markets to bolster sales, farm prices, and income.

U.S. Dairy Exports Approach $1 Billion



How Trade Agreements Expand Market Opportunities

Trade agreements have opened markets, reduced unfair competition, brought some discipline to sanitary-phytosanitary barriers, and introduced more effective dispute-settlement procedures in global trade. These agreements have helped to expand export market opportunities for U.S. dairy products in a number of ways.

Under the Uruguay Round, for example:

- The EU agreed to reduce both the quantity and the rate of subsidy for dairy products. Since 1994, EU cheese exports have dropped over 100,000 tons from the pre-Uruguay Round level of 553,000 tons. During the same period, with reduced subsidies, U.S. imports of EU cheese dropped from 96,000 to 88,000 tons.

- Japan agreed to establish a quota for whey powder and to increase it incrementally. Also, Japan reduced tariffs on ice cream, pizza and some other cheeses, and other selected dairy products. U.S. exports of dairy products to Japan rose from $72 million in 1994 to $111 million in 1998. Cheese, whey powder, and lactose accounted for most of the growth.

- Korea agreed to partially liberalize its dairy market including specific provisions for whey, cheese, and selected other dairy products. During the 1994 to 1998 period, U.S. dairy products shipments to Korea more than doubled, rising from $10.7 million to $21.7 million. Dried whey and whey protein concentrate accounted for more than half the increase. Korea's 1997 cheese and ice cream imports were sharply higher; however, Korea's 1998 recession subsequently limited demand for those two products.

- Increased access to the Canadian and Mexican markets due both to WTO and NAFTA, plus transportation advantages, have allowed U.S. dairy product exports to show rapid gains to both markets. Mexico's imports of U.S. cheese and dry whey have shown especially strong growth since the 1995 currency devaluation. Canada's imports of U.S. dairy products moved from a 1994 level of $57 million to $118 million in 1998. Cheese, whey products, and processed products showed the strongest growth.

- As part of the WTO dispute settlement process, the United States challenged both Canada's method of subsidizing exports and the management of its tariff rate quota for fresh milk. The WTO panel ruled in favor of the United States on both counts. A Canadian appeal is pending, but most dairy observers expect the ruling to force a change in both the method and amount of subsidies Canada can employ to export dairy products.

Why Further Trade Negotiations Are Needed

Despite the progress already achieved, trade liberalization is far from complete. U.S. dairy product exports continue to face an array of tariff and non-tariff barriers, unfair trading practices, and preferential trading arrangements in key markets around the world. Analysis by the U.S. National Milk Producers Federation indicates that elimination of all trade barriers could add $1.0 to $1.5 billion to U.S. dairy exports. A few possibilities for further negotiations follow:

- The EU's quota and license system still impedes full access to that market. Larger quotas plus less cumbersome licensing procedures would be a boon to U.S. exports. Perhaps, even more important, a reduction in the EU domestic support could cause the EU to produce more in line with domestic needs rather than 10 to 20 percent above domestic requirements.

- In the area of non-tariff barriers, New Zealand, as an exporter, and Mexico, Japan, Korea and other countries, as importers, continue to operate governmental or quasi-governmental bodies that operate as trade distorting State Trading Enterprises.

- Under the Mercosur Agreement, U.S. products moving to Brazil face high tariffs while dairy products from Argentina and Uruguay, competitive exporters, face much lower duties.