

Land O'Lakes, Inc.

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June 13, 2002

The Honorable Phil Crane, Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Rep. Crane:

On behalf of Land O'Lakes and the 6,000 milk producers who are members of our cooperative, we welcome the opportunity to submit comments on technical corrections to U.S. trade laws. Specifically, I'm writing you to urge passage of H.R. 1786, which would impose tariff rate quotas on imports of casein and milk protein concentrates.

We believe this legislation truly meets the definition of a technical correction in that it's intended to close a loophole in our existing trade agreements, a loophole that's been exploited by our trading partners to circumvent negotiated limits on imports of dairy products. Current U.S. restrictions on imported dairy products were principally based on the old Section 22 quotas for cheese, butter, and nonfat dry milk. Cheese, butter, and nonfat dry milk (NFD) received special attention because of the effect that significant imports of those products would have on the dairy price support program. The GATT agreement negotiated in 1994 converted the Section 22 quotas to tariff rate quotas (TRQs).

At the time the TRQs were established under GATT, imports of MPC into the U.S. were small in relation to the current situation. MPC was primarily a specialty ingredient, and not used in any significant volume. Since the technology to produce true MPC was not widely available in dairy exporting countries, protection to the domestic market for dairy proteins afforded by the tariff on NFD was considered sufficient. However, the widespread adoption of this technology in dairy exporting countries has resulted in large amounts of MPC being sent to the U.S. on a virtually duty-free basis. Furthermore, the use of MPC as an ingredient that substitutes for domestic milk or NFD has greatly increased.

MPC imports have increased from 16 million pounds in 1995 to a high of 116 million pounds in 2000. As a result, dairy farm income has declined by approximately \$1.1 billion over this period due to a combination of lower prices and reduced sales of domestically produced milk. The U.S. government, through the dairy price support program, ends up buying the displaced NFD. Efforts by the U.S. Department of Agriculture to reduce purchases of NFD have only led to reduced income for America's dairy farmers. U.S. taxpayers and dairy farmers have suffered as a result of the onslaught of foreign imports of dairy proteins.

There's another aspect to this issue that helps to illustrate the cynical exploitation of our trade laws by some of our trading partners. The current definition of nonfat dry milk found within the Harmonized Tariff Schedule does not encompass products such as MPC. Thus, foreign exporters of MPC effectively avoid the NFDM tariff even though the products are, in most cases, interchangeable. In addition, many foreign exporters deliberately circumvent the tariff on nonfat dry milk by blending NFDM with other forms of dairy protein (such as whey powder) to achieve a product with a similar composition to true MPC, which is produced by ultra-filtration.

The passage of H.R. 1786 would close the loophole relative to MPC and similar products by applying the same tariff-rate quotas currently assessed on comparable dairy products, like NFDM. We recognize that the U.S. cannot unilaterally change its laws regarding tariff applications. Therefore, H.R. 1786 has been written to assure that any corrective measures comply with the rules of the World Trade Organization (WTO) for making adjustments in a country's tariff concessions.

As an organization, Land O'Lakes has vigorously defended the negotiating process, and we've supported ratification of trade agreements that result in freer, more equitable trade. But the members of our cooperative get very frustrated when our government fails to take action against trading partners who violate those same agreements or who exploit loopholes, like the MPC situation. Your decision to move forward on H.R. 1786 will demonstrate to America's dairy farmers that the U.S. Congress is willing to be an advocate for their interests and take action to protect them from unfair trade practices.

Thank you for the opportunity to comment on this matter. We urge you to pass H.R. 1786.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven Krikava". The signature is written in a cursive, somewhat stylized font.

Steven Krikava, Director
Government Relations