Alliance of Western Milk Producers

Representing California's dairy cooperatives and their producer-owners since 1991

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June 6, 2002

The Honorable Philip Crane, Chairman
Subcommittee on Trade
Committee on Ways and Means
US House of Representatives
Washington, DC 20515

Dear Chairman Crane:

This letter is in response to your request for comments regarding technical corrections to U.S. trade laws. As a result of prior trade agreements, California dairy farmers are reeling financially because of problems caused by imported dairy products that either are not covered by those agreements or that have entered through loopholes in those agreements.

Specifically, the Alliance of Western Milk Producers is concerned about imports of casein and caseinates which have no tariffs, imports of milk protein concentrate (MPC) for which tariffs are *de minimis* and imported butter and so-called butter substitutes.

<u>Casein and Caseinates</u>. In the 1950s and earlier 1960s, the domestic casein and caseinate industry was shutdown by subsidized imports, primarily from Europe. At that time, virtually all of the use was industrial, primarily in glues and paints. Today, virtually all of the casein and caseinates (200 million pounds per year) are used in foods, primarily non dairy creamers and imitation cheese, further displacing domestically produced milk products.

Each year, the USDA's Commodity Credit Corporation purchases tens of millions of pounds of nonfat dry milk powder (of which casein makes up about a third) because imports of these products were not addressed in trade negotiations. Why? Because the US doesn't produce these products. This type of logic is incredibly frustrating considering that it was the unfettered flow of heavily subsidized imported casein and caseinates that drove US manufacturers out of business in the first place.

<u>Milk Protein Concentrate (MPC)</u>. Milk protein concentrate (MPC) imports are another example of how a prior trade agreement is costing the US treasury and US dairy farm families hundreds of millions, even billions of dollars.

In 1990, imports of MPC were less than two million pounds according to a GAO study. Since the Uruguay Round Agreement went into effect in 1995, imports of MPC have risen dramatically, topping 110 million pounds in 2000. The reason for this growth is that this product is not produced domestically, so no significant tariffs were placed on imports of MPC either. This is especially disturbing because a significant share of MPC imports are nothing more than a little casein or whey protein blended with nonfat dry milk powder.

Because cheap imported MPC has displaced domestically produced nonfat powder, CCC purchases of nonfat dry milk powder have paralleled the rise in MPC imports.

Import Butter and Butter Substitutes. The world leader in exports of butter is the European Union. Its subsidized price sets the world price. As this letter is written, the EU subsidies have driven the world price for butter down to 43 to 50 cents a pound. The US support price for butter is 85 cents a pound and the US market price is $1.10 a pound.

In 2001, 42 million pounds of butter and anhydrous milk fat came in at the quota tariff rate and 48 million at the over quota tariff rate. This was due in large part of the relationship of the subsidized world price to the US butter price. Even though production of butter in the US was down significantly during 2001 (50 million pounds less than in 2000), the year ended with inventories more than double what they were at the end of 2000, up over 28 million pounds.

Compounding the problem are what are correctly referred to as butter substitutes. Like MPC, imports of butter substitutes containing less than 45 percent butterfat have increased dramatically. In 1996, imports of this product were just 16 ,000 pounds. By 2001, that had climbed to over 33 million pounds. And, so far in 2002, imports are running 59 percent ahead of 2001. Most of this product (98 percent) is coming from Canada (mixed with sugar thus circumventing sugar tariffs as well) and is being offered to ice cream manufacturers.

Solutions

> *"Brussels, Belgium – The European Union's Dairy Management Committee this week decided to increase the EU casein production aid by 33 percent, a move that follows a 15 percent increase in EU cheese exports announced earlier this month."* Cheese Reporter, Friday, May 31, 2002

The short-term solution of choice would be to immediately put a halt to the circumvention of the intent of trade agreements by placing substantial tariffs on milk protein concentrate, casein and butter substitutes.

For milk protein concentrate and casein, that would be accomplished by the passage of HR 1786. Frankly, HR 1786 is a very fair way to address this issue. What it does is establish a baseline for these two imports and then applies a reasonable tariff for these products that come in over that level. It is my understanding that WTO protocols were followed in establishing those baselines. Unfortunately, our trading partners could request compensation resulting from the impact of this legislation. To us that seems like paying for an injury that a burglar suffered when he broke into your home and stole all your appliances.

From the Alliance's point of view, we would like to see HR 1786 amended to include a program that would encourage the domestic production of casein and MPC, while at the same time substantially reducing CCC outlays for nonfat dry milk powder. The Alliance attempted during the recently concluded Farm Bill conference to get such a program enacted. The program authorizes the USDA Secretary to supplement the domestic production for these products if supplemental payments will reduce government expenditures under the Dairy Price Support Purchase Program.

As far as the butter substitute situation, perhaps HR 1786 could be amended to include this product as well.

The butter situation is another matter. The short-term solution to the current butter import problem is to immediately use the Dairy Export Incentive Program (DEIP) for US butter to the maximum allowed, 46 million pounds. That would help to offset the negative impact that subsidized imports of butter and anhydrous milk fat are having on US butter prices and inventories. USDA suspended the Dairy Export Incentive Program two years ago when the US butter price was three times the Dairy Price Support Program purchase price for butter. Today, the US butter price is only 25 cents above that level. The DEIP program is a tool that can and should immediately be used.

The long-term solutions to these issues will be more challenging, but are critical to the long-term well being of the US dairy industry.

The long-term solution to these issues will be more challenging, but are critical to the long-term well being of the US dairy industry. In the Alliance's opinion, the trade agreements were too product specific. That is, they address cheese, butter and nonfat dry milk powder. While cheese encompasses at broad range of products, butter and nonfat dry milk powder are very specific and define only one product. Future trade agreements need to be written using more broad categories – milk powders, for example, – such changes could close loopholes that are currently being exploited.

Thank you for the opportunity to comment on these issues of critical importance to California's and America's dairy farmers.

Sincerely,

Jim Tillison

James E. Tillison, CEO