

Oral Testimony
of the
National Milk Producers Federation
and the
U.S. Dairy Export Council
to the
Trade Policy Staff Committee (TPSC)
Office of the United States Trade Representative
in connection with
The Proposed U.S.-South Korea Free Trade Agreement

Washington, DC
March 14, 2006

The National Milk Producers Federation (NMPF) and the U.S. Dairy Export Council (USDEC) appreciate this opportunity to provide comments on the U.S.-South Korea FTA. 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, dairy cooperatives, proprietary processors, and export traders. The Council's mission is to increase the volume and value of U.S. dairy product exports.

The constituencies represented by NMPF and USDEC have a substantial interest in the prospect of a U.S.-Korea FTA. Over the past decade, the Korean dairy market has shown

high growth rates for dairy consumption, particularly for non-fluid milk products, and this trend is expected to continue in the future. Although Korea is not currently one of our largest export markets, this is solely due to the level of protection that Korea currently enjoys from dairy imports.

The Korean market is certainly one of great interest to us, given its level of prosperity and potential. In addition to providing the U.S. dairy industry with important new market opportunities to this developed country, the FTA would also benefit Korean consumers, food processors, retailers and even producers that desire greater expansion of their dairy market. New access to U.S. dairy products and ingredients, accompanied by promotion, will complement Korea's current production. Our products, coupled with our advertisements, will help to boost the overall level of dairy consumption in Korea.

Due to tariff limitations and the lack of a specific WTO quota allocation, the U.S. exported only \$46 million of dairy products to Korea in 2004, with cheese and whey representing the most significant export product categories. The relative success of exporting U.S. cheeses to Korea demonstrates what a mutually beneficial agreement this FTA could be. While still relatively high, Korea's 36% cheese tariffs are much less prohibitive than those for most other dairy products. As such, U.S. cheese exports have been able to more readily flourish in the Korean market than has U.S. skim milk powder, which is highly protected by a relatively low in-quota tariff quantity and an extremely high out-of-quota tariff of 176%.

The U.S. dairy industry is interested in access for all dairy products in a fast and meaningful way. We are certainly prepared to offer Korea's dairy industry reciprocal access to the U.S. market so that they can take advantage of enhanced export opportunities for their dairy products. In 200⁵, Korea exported \$⁷~~6~~ million in dairy products to the U.S., with ice cream and yogurt making up the largest exported product categories. We expect that they would be interested in better access for these and other products. However, given that the vast majority of the Korean milk supply is used to fulfill Korea's fluid milk demand, we would not expect to see very sizable quantities of Korean dairy exports coming to the U.S.

Timely market access is important to the U.S. dairy industry; but equally vital is a concerted effort to address the many non-tariff barriers that currently exist and could foreseeably arise in Korea. We listed some of the known non-tariff barriers in our written comments. In addition to those issues, we would like to address another related point. In order to attempt to avoid problems with FTA tariff-rate quota administration, we would like to request that quota allocations be handled by the Korea Dairy Industry Association (KDIA), which currently handles the WTO quotas for Korea in a satisfactory manner.

In summation, with proper attention to non-tariff barriers, an FTA with Korea is likely to be a positive development for the U.S. dairy industry. That is provided that the liberalized access to the U.S. dairy market offered by the FTA is restricted to dairy products

produced from milk and dairy ingredients that truly originate in Korea, as the NAFTA rules of origin require, for instance. The U.S. dairy industry sees an FTA with this net dairy-importing country as offering the possibility of many positive developments for our products, as well as benefits for certain sectors in Korea. We look forward to working with the Administration to ensure that the terms of the agreement contain the necessary provisions to make this hope a reality. Thank you for the opportunity to comment on this matter.