

NAFTA Trucking Dispute's Negative Spillover on U.S. Dairy Exports

Background:

Under NAFTA the United States and Mexico agreed to allow trucks from each country to cross the border to deliver cargo, provided that in doing so the trucks and drivers adhered to U.S. transportation requirements while in the U.S. to Mexican transportation requirements while in Mexico. Unfortunately, despite a NAFTA requirement to begin doing this in 1995, the U.S. has not complied with its obligations in this area. In 2001, a NAFTA dispute-settlement panel unanimously ruled that the U.S. was in violation of its NAFTA trucking obligations, giving Mexico the right to retaliate against the U.S.

Mexico held off on exercising this retaliation right until March 2009 when the U.S. shut down a pilot program that was intended to begin implementing NAFTA's cross-border trucking provisions. At that point, Mexico instituted retaliatory tariffs on many U.S. exports. Because of continued inaction by the Administration to propose a solution to this issue, the retaliation list was expanded on August 19, 2010 to include more products. Cheeses are among the new items now included in the retaliation list. Total dairy sales to Mexico have averaged almost \$800 million over the last two years, however, giving our industry a lot at risk here.

Impact on America's Dairy Industry:

Targeted Cheeses:

As of August 19th, Mexico began imposing tariffs of 20% to 25% on several cheese tariff lines which together account for approximately 80% of current U.S. cheese exports to Mexico and roughly a quarter of total U.S. cheese exports world-wide. Those lines targeted are 04061010, 04063099, 04069004, and 04069099.

- **U.S. cheese exports to Mexico under these four tariff lines averaged an estimated \$104 million over the last two years and totaled an estimated \$59 million in 2010 through June.**
- This will impact the considerable investments so many U.S. dairy companies have already made and had planned to continue to make in the future to expand our sales into the Mexican cheese market. **These tariffs on our cheese exports directly impact a large variety of states including but not limited to: CA, CO, IA, ID, IN, MI, MN, NM, OH, TX, VT and WI.**

Other Dairy Products

The U.S. also ships approximately \$700 million a year to Mexico in dairy products not currently facing retaliation such as Nonfat Dry Milk, Whey, Lactose, Ice Cream, Additional Cheeses.

This production encompasses an even broader range of states, including many of those cited above as well as other key dairy states.

Necessary Action:

It is imperative for the Administration to immediately put forward a proposal for resolution of this issue that takes into account our NAFTA obligations to Mexico. Calls and/or letters to the White House regarding the need for swift resolution of this issue are greatly needed.