



December 17, 2009

The Honorable Ron Kirk
United States Trade Representative
Office of the President
600 17th Street, NW
Washington, DC 20508

Dear Ambassador Kirk:

On behalf of the many hardworking Americans employed in our dairy industry, the National Milk Producers Federation (NMPF) and the U.S. Dairy Export Council (USDEC) are writing to express deep concern about the Trans-Pacific Partnership (TPP) Agreement negotiations, in particular the creation of a trade agreement with New Zealand. As you well know, TPP negotiations include several countries with which the United States already has FTAs—Australia, Peru, Chile and Singapore. The remaining nations—New Zealand, Brunei and Vietnam—offer relatively small new potential agricultural export opportunities for the United States.

Our industry faces stiff challenges around the world. The global dairy market is heavily distorted by the European Union's large export subsidies; high tariffs and restrictive TRQs in Canada and other developed countries; and many technical barriers in many developed and developing countries such as India. Yet, one particularly notable aspect of global dairy trade is the astounding market power of the heavily consolidated New Zealand dairy regime. It is in this challenging global environment that our industry is attempting to compete. And it is because of this complex world of dairy distortions and the dramatically consolidated market power that pervades New Zealand's dairy industry that NMPF and USDEC have insisted on the importance of fully excluding all U.S.-New Zealand dairy trade from the TPP.

NMPF and USDEC firmly believe in the value of balanced trade agreements in reducing and ultimately eliminating the types of trade distortions described above. This is why we have strongly supported the vast majority of FTAs pursued by the United States over the years, and it is why we also support the three FTAs currently pending congressional approval. We have also pushed for a strong, ambitious and balanced outcome in the Doha Round.

However, New Zealand's dairy industry poses a completely unprecedented and unfair situation for the United States due to its large control of international markets and its highly concentrated domestic dairy structure. In New Zealand, one company controls over 90 percent of the country's milk production and enjoys market advantages that have resulted from long having the exclusive rights to dairy quotas in lucrative markets. Furthermore, this same company gains financial advantage over other New Zealand processors through milk pricing rules imposed by its government. Finally, this one company also controls over 40% of globally traded dairy products. There is simply no way to create a level playing field for dairy products in a trade agreement between the United States and New Zealand.

Also, the negative impact of additional imports from New Zealand on the U.S. dairy industry would be tremendous. Our estimates are that unfettered dairy trade with New Zealand would plunge milk prices received by producers drastically lower and gross revenues received by U.S. dairy farmers would drop by a total of \$20 billion over the first 10 years of the FTA. Expanded dairy trade with New Zealand would force

several thousand dairy farms, mostly small and medium family farms, out of business, causing the industry to undergo major consolidation. Following the massive drop in farm numbers, hundreds of manufacturers also will go out of business, raising unemployment in rural America.

Another critically important aspect of the TPP negotiations is preserving the well-negotiated agriculture market access and specific rules of origin already in place with our existing FTA partners involved in this agreement. There is frankly much more risk to doing so than potential gain for American agriculture. Instead, we should focus on tackling the many cumbersome sanitary and phytosanitary (SPS) and non-tariff measures that impair access into the TPP markets where we have either already secured agreements regarding tariff reductions or where agricultural tariffs are relatively low already.

Ambassador Kirk, U.S. dairy producers and processors simply cannot accept unilaterally granting higher imports to the world's largest dairy exporter, while attractive dairy markets in countries around the world remain closed off, thereby creating a wholly unbalanced trade dynamic entirely in our industry's disadvantage.

We look forward to working with you on this initiative to ensure that these concerns are taken fully into account. As this Administration focuses on growing U.S. competitiveness in Asia, we urge USTR to focus strongly on the agreement already in hand: the U.S.-South Korea FTA. Although you have been clear that some additional work is needed to improve this agreement, it continues to offer the strongest prospect for growing American exports.

Sincerely,



Jerry Kozak
President and CEO
National Milk Producers Federation



Thomas M. Suber
President
U.S. Dairy Export Council

cc: Secretary of Agriculture Tom Vilsack
Under Secretary for Farm and Foreign Agricultural Services Jim Miller
Deputy U.S. Trade Representative Demetrios Marantis
Assistant U.S. Trade Representative for Agricultural Affairs Jim Murphy