Oral Testimony by
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To the United States Trade Representative's Office

Regarding

Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement with Canada and Mexico

June 26, 2017

Thank you [Mr./Madam] Chairman and members of the Committee for the opportunity to present the dairy industry's priorities regarding negotiations to modernize the North American Free Trade Agreement.

INTRO:
I am Jaime Castaneda, Senior Vice President of Strategic Initiatives & Trade Policy for the National Milk Producers Federation and the U.S. Dairy Export Council.

BENEFIT OF NAFTA TO INDUSTRY:
Our written submission provides extensive detail on the importance of NAFTA, and Mexico to the U.S. dairy industry. As you all may know, NAFTA is really three distinctive FTAs with different outcomes. So, when it comes to dairy, our goal has been to have a "true" North American free market. As modernization efforts move forward, it is imperative that they focus on a more open and dependable trade; basically, to replicate with Canada the tremendous value that the U.S.-Mexico FTA has generated for American agriculture, including our dairy industry

BENEFIT OF MEXICO:

The importance of our relationship with Mexico cannot be overstated. In 2016, we exported $1.2 billion worth of product to Mexico. Our sales to Mexico support tens of thousands of U.S. farming, food manufacturing and related jobs across this country. Therefore, our negotiating objectives involving our southern neighbor are focused on not just preserving the generally open and smooth trading conditions currently in place, but strengthening the agreement and the relationship.

RULES ADDITIONS ON SPS & GIS + MEXICO GIs:

To support that goal, we believe that much of the work done in rules areas in TPP is an optimal place to draw from and pursue opportunities in this agreement to further improve upon. Those TPP disciplines should form the jumping off point for pursuing even deeper new trilateral commitments in key areas such as on SPS issues and geographical indications.

The latter issue holds particularly strong significance right now since Mexico is actively involved in negotiations on GIs and related issues with the EU and the EFSA bloc of countries. The EU appears intent on using those talks to secure GI restrictions that would severely impair the market access opportunities for U.S. products into Mexico – an effort that must be firmly rejected.

Let me reinforce this statement. We must draw the line here. We absolutely cannot see a replication of the trade violations Canada committed in its CETA agreement. Canada entirely disregarded its IP rules and regulations in order to create new GI restrictions that benefited European producers and Canada’s own manufacturers by preserving their ability to use common names while at the same time violating the rights of US and new producers to continue to use those common terms without burdensome new requirements. We are disappointed that more was not able to be done to address this trade barrier when it was announced and hope NAFTA modernization discussions provide the opportunity to remedy that.

CANADA:

The GIs issue helps illustrate the overall Mexico-Canada dynamic of our NAFTA priorities. While our goal with Mexico is to preserve the open and dependable dairy access that has led to tremendous benefits on both sides of the southern border; when we look north, we face a far different challenge. For years, Canada has used tariff and nontariff measures to impede dairy trade. Most recently, it has shifted from primarily using those tools to restrict access into its own market and is now actively using policy tools to help its industry dispose of excess milk powder onto global markets at fire-sale pricing. This is no different than what Canada tried to do 20 years ago.

Given my limited time, I'll just for now point out that it is leading Canadian provincial marketing boards (government-run), working in concert, that have collectively increased their government-dictated milk quotas by an astronomical 12% between August 2016 and July 2017 with the latest hike being 5%. Even very robust U.S. milk production growth, including over the past year, is typically at most 2%. Canada is using its government-controlled dairy system to continue to prop up farmers' prices at levels far exceeding prevailing world prices while simultaneously using the commercial global markets as a dumping ground for their excess skim milk powder.

CANADA, IF YOU WANT SUPPLY MANAGEMENT, THEN MANAGE YOUR SUPPLY!

Instead, Canada has sought to deflect responsibility for its actions by charging that the fault lies with American dairy farmers' productivity and focus on the marketplace.

Canada's actions are impairing not only bilateral trade but also undermining the global export markets that are essential to our farmers and manufacturers' ability to keep their doors open. The urgency of this matter can be seen by the joined letter sent today by several countries' dairy sectors that urged coordinated measures by Trade Ministries to stop Canada's actions.

We thank President Trump for understanding the severity of this issue and urge the US government to put an end to Class 6 & 7, to tackle Canada's systemic use of nontariff policies that negatively impact dairy trade and to ensure that a modernized NAFTA can truly serve as a model agreement moving forward by filling in the missing tariff elimination gaps – such as on dairy with Canada.

In sum, we agree that NAFTA could use a face lift and our industry looks forward to working with the Administration to explore ways to preserve and strengthen it. We appreciate the work of the U.S. Food & Agriculture Dialogue's North American Working group on the priority areas I touched on today, as well as other key U.S. agricultural export priorities. I thank you for the opportunity to present these views on behalf of the U.S. dairy industry and I would be pleased to respond to your questions.