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October 20, 2014

The Honorable Michael Froman
Ambassador
United States Trade Representative
600 17th Street, NW
Washington, D.C. 20508

The Honorable Thomas J. Vilsack
Secretary of Agriculture
United States Department of Agriculture
1400 Independence Avenue, SW
Washington, D.C. 20250

Dear Ambassador Froman and Secretary Vilsack:

The U.S. dairy industry would like to draw your attention to one element of the Japanese dairy program that is especially troublesome to us. Unless dealt with appropriately, we are fearful that this issue could be the Achilles heel in the Trans-Pacific Partnership negotiations.

The U.S. dairy industry has been a leading advocate for comprehensive market access, including elimination of all tariffs. However, beyond the issue of market access, we also believe that Japan's so-called ALIC (Agriculture and Livestock Industries Corporation) program could readily be used to deny the real-world benefits of Japanese tariff concessions on dairy products.

ALIC is a state-trading enterprise owned by the government that administers the manufacturing milk quota and imports of dairy products under tariff rate quotas. Suffice it to say that its administration of Japan's import constraints on dairy products is the antithesis of free and open trade. ALIC is in total control of Japan's dairy imports. The financial benefits of the system flow entirely to the government, after which those financial "gains" are shared with Japanese dairy producers. It would be difficult to imagine an import management system that is more trade distortive than this one.

Japan's TPP negotiators will undoubtedly argue that elimination of ALIC's import-related functions or a similar approach outside ALIC would do severe damage to the domestic dairy industry, but we do not concur. Japan for years had a similar system, with the acronym LIPC (a predecessor of ALIC), for beef imports. In a bilateral negotiation with the U.S. in the late 1980s,

that system was eliminated and replaced by a tariff rate quota program. Doing so did not destroy the Japanese beef industry, as was argued during that negotiation. To the contrary, it resulted in significant growth in Japanese beef consumption, to the benefit of both the domestic industry in Japan and to exporting nations such as the U.S.

What occurred with beef is precisely the outcome we would anticipate if ALIC were replaced by a traditional TRQ program for dairy products. In our view this would be a win/win proposition for both Japan and the U.S., and a very positive development for the TPP negotiations. Therefore, we are requesting that the United States seek replacing the current ALIC system with a tariff rate quota system as part of our bilateral negotiations with Japan in the TPP.

Sincerely,

A handwritten signature in cursive script that reads "Connie Tipton".

Connie Tipton
President and CEO
International Dairy Foods Association