



International Dairy Foods Association
Milk Industry Foundation
National Cheese Institute
International Ice Cream Association

**TESTIMONY OF THE INTERNATIONAL DAIRY FOODS ASSOCIATION
BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS
REGARDING THE PENDING FREE TRADE AGREEMENTS WITH
COLOMBIA, PANAMA AND SOUTH KOREA
AND THE CREATION OF U.S. JOBS**

February 7, 2011

Chairman Camp, Ranking Member Levin and members of the committee, the International Dairy Foods Association (IDFA) advocates on behalf of the nation's dairy manufacturing and marketing industries and their suppliers, with a membership of 550 companies representing a \$110-billion a year industry. IDFA is composed of three constituent organizations: the Milk Industry Foundation (MIF), National Cheese Institute (NCI) and the International Ice Cream Association (IICA). IDFA's 220 dairy processing members and their 175 divisions, subsidiaries and joint ventures run over 600 plant operations, and range from large multi-national organizations to single-plant companies. Together they represent more than 85 percent of the milk, cultured products, cheese and frozen desserts produced and marketed in the United States. In addition, 320 member companies provide processing equipment and supplies, packaging equipment and materials, ingredients and a wide variety of products and services to the dairy processing industry. More than 15 state and regional trade associations are also members of IDFA.

Our member companies compete in U. S. and foreign markets and are deeply committed to advocating for improved international trade opportunities for dairy foods through bilateral free trade agreements (FTAs), such as the pending agreements with Colombia, Panama and the Republic of Korea.

Although the American market is large, 96 percent of the world's consumers are outside U.S. borders. Currently, only about 10 percent of U.S. farm milk production ends up in dairy exports. In 2010 alone, the United States exported over \$3.3 billion worth of dairy products around the world, and there is a huge potential to increase this number. Developing and newly industrialized economies offer stronger consumption growth rates for food products generally and dairy products in particular. To take advantage of these new markets, U.S. dairy exporters must be able to compete in a fair environment. Dairy manufacturers find, however, that current dairy product tariffs and subsidy practices impair their ability to export.

1250 H St., NW, Suite 900, Washington, DC 20005
Phone: 202-737-4332 fax: 202-331-7820 www.idfa.org

As more market barriers fall, and the historical gap between U.S. and world dairy market prices closes, competitive opportunities for U.S. dairy foods expand and more U.S. firms can make inroads into foreign markets. Free trade agreements provide extremely important opportunities to advance trade liberalization and break down trade barriers that obstruct the global growth of the dairy and other industries. The agreements currently pending congressional action, including those with Colombia, Panama and the Republic of Korea, offer enormous potential for growth in new markets for U.S. dairy products.

In particular, the U.S-Korea Free Trade Agreement (KORUS-FTA) is a key building block and a critical step forward for U.S. dairy processors. Assuming the United States is able to make full use of the new market-access opportunities negotiated, this agreement would embody what IDFA believes is one of the most important free-trade deals for the American economy since the North American Free Trade Agreement. The KORUS agreement represents a tremendous opportunity for the U.S. dairy industry to increase and sustain its growing presence in an extremely important economic region.

The Pacific Rim is the U.S. dairy industry's fastest growing export region, totaling over \$1.2 billion in dairy exports during 2010, an increase of over 100 percent from 2009. As these economies continue to develop and incomes grow, consumption of animal proteins such as dairy and other value-added agricultural products increase as well. In the dairy sector, this increasing demand will continue to be met by imports because local production of dairy products in this region is often constrained by the lack of manufacturing facilities. U.S. dairy processors are uniquely positioned to meet consumer demand that local manufacturers are not able to supply.

In the case of the KORUS-FTA, quick action is needed as Korea's dairy market is particularly important to American exporters. Currently, duties on U.S. dairy exports to Korea are subject to high tariffs, starting at 36 percent, while most of Korea's agricultural exports enter the U.S. market at about 10 percent. Despite these barriers, in 2010 South Korea constituted the U.S. dairy industry's sixth-largest export market and imported over \$115 million worth of American dairy products, which was a 72-percent increase over 2009. In addition, Korea was the fourth-largest export destination for U.S. cheeses and curds and the eighth-largest export destination for ice cream and related products.

Estimates from the U.S. International Trade Commission (ITC) Report: U.S.-Korea Free Trade Agreement "Potential Economy-wide and Selected Sectoral Effects" indicate that full implementation of the KORUS agreement would increase U.S. dairy exports by \$175–336 million (249–478 percent).¹ The report notes that the domestic Korean dairy industry is currently unable

¹ Impact relative to a 2008 base. See chap. 2 of U.S. International Trade Commission U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects report for additional information regarding the economy-wide analysis: <http://www.usitc.gov/publications/pub3949.pdf>

to supply total Korean demand for dairy products. One-half of non-fluid dairy consumption in Korea is supplied by imports. If the market-access opportunities for the U.S. dairy industry under the KORUS-FTA are fully realized the U.S. dairy sector, farmers, processors, and their suppliers, are well positioned to meet this demand.

Perhaps most important to the purview of this hearing, the ITC report estimated that the dairy sector would be among the industries seeing the largest gains in output and employment. Based on Commerce Department multipliers, such an increase in U.S. dairy exports could mean 10,000 or more additional U.S. jobs when considering the effect across the dairy industry value chain. This figure assumes the United States is able to make full use of the negotiated new market-access opportunities in the KORUS-FTA; our industry sincerely hopes that this will be the case.

In an economy emerging from a recession, our industry simply cannot afford further delays in the implementation of the KORUS agreement. If Congress fails to act quickly, this tremendous opportunity for market growth will be critically threatened, especially in light of the rapid pace at which Korea has negotiated other FTAs with other dairy exporters, such as the agreement negotiated with the European Union. This agreement is set for an approaching July 2011 implementation that could potentially undermine the U.S. dairy industries market gains in Korea; our industry sincerely hopes that this will be the case.

In addition to supporting the approval of the KORUS-FTA at the earliest opportunity, IDFA also strongly supports quick congressional approval of the FTAs with Colombia and Panama. The estimated benefit to the U.S. dairy industry over the first several years of each of these agreements will be on the order of an additional \$25 million per year, on average. As is the case with the KORUS-FTA, the economic gains estimated here assume the United States would be able to make full use of the new market-access opportunities negotiated in the FTAs; our industry sincerely hopes that this will be the case.

The advancement of these FTAs, especially the KORUS-FTA, is viewed by IDFA as a crucial step forward in the industry's continued overseas growth and logical progression towards becoming a significant global dairy industry player.

IDFA urges members of this committee and Congress to work diligently to approve these long-pending free trade agreements, and appreciates the opportunity to provide comments on the importance of these agreements to our industry. Thank you.

Point of Contact:

*John P. Kelly
Manager, International Affairs
International Dairy Foods Association
1250 H. St, NW, Suite 900
Washington DC 20005
jkelly@idfa.org, 202.737.4332*