Written Testimony
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I am Secretary Thomas Vilsack, President and CEO of the U.S. Dairy Export Council (USDEC). USDEC is a non-profit, independent membership organization that represents the export trade interests of U.S. milk producers, proprietary processors, dairy cooperatives, and export traders. The Council's mission is to build global demand for U.S. dairy products and assist the industry in increasing the volume and value of exports.

I very much appreciate the opportunity to testify before this committee today about the importance of the North American Free Trade Agreement (NAFTA), its benefits to the U.S. dairy industry, and key areas in urgent need of improvement. Today I will share my perspectives as someone who has worked within the parameters of NAFTA almost since its inception. This important agreement has created both opportunities and challenges for myself and the people I have represented as a two-term farm state Governor, during eight years as U.S. Secretary of Agriculture, and today as leader of a dairy export organization that counts Mexico as its largest export trade partner.

Vibrant growth in dairy exports over the last 10 to 15 years has had a net impact of about a $1.25 per hundredweight increased price on milk produced in the U.S. That's an additional $36 billion our nation's 42,000 dairy farmers have received thanks to growth in dairy exports, and is further compounded when one accounts for value-added processing at our nation's 1,300 dairy processing facilities. More than 100,000 Americans livelihoods depend on jobs created by expanding markets for U.S. dairy exports, which now account for about 15 percent of all U.S. milk produced.

Executive Summary of Testimony

Within the agricultural sector the three NAFTA partners each have a unique set of needs and expectations. We operate under different economic systems. Yet we all serve consumers who look to the agricultural sectors of their own nations and NAFTA partners to meet their food, fiber and fuel needs as efficiently as possible. Dynamic duty-free North American trade under NAFTA has helped better satisfy North American consumer needs since the agreement's inception and that has resulted in increased demand for dairy products throughout North America. But NAFTA can be made so much better, for the betterment of all.

Within the U.S. dairy sector, NAFTA has been enormously beneficial in liberalizing dairy trade with Mexico. Under NAFTA, Mexico has grown to become the largest export market for U.S. dairy exports. Through close cooperation, the U.S. and Mexican dairy industries have grown together in a mutually beneficial manner. They are our brethren in a cross-border effort to grow both primary dairy product production and consumption, as well as value-added food production for export.

Canada unfortunately has created a dairy trade relationship with the United States that can best be described as heavily strained. Whenever the U.S. begins to create a small foothold in Canada's dairy market, the Canadian government creates new classifications, categories or standards to make U.S. dairy exports non-competitive with domestic product. The most recent manifestation of this practice was witnessed earlier this year with Canada's new pricing scheme that essentially wiped out an export market for ultrafiltered milk that U.S. processors had developed and for which many U.S. dairy farmers had come to rely upon as a market for their milk?

Canada argues that they import large quantities of U.S. dairy product. However, what Canada is not transparent about is how these imports are coming under a report program that forces the equivalent amount of dairy coming into Canada to be reexported in many cases back to the United States. Canada's special class 7, intended to promote their own production of milk powders, goes against any common sense discussion. How come a country that has supply management, and has one of the highest farm gate dairy prices manages to export product at the lowest prices in the world?

Furthermore, Canada undermine the intellectual property laws of their own country as well as international agreements like NAFTA through the acceptance of trade-limiting geographic cheese names. In short, the United States has a tremendous amount of unfinished business with Canada with respect to NAFTA.

While this hearing will deal with improvements needed to make NAFTA more of a true North American Free Trade Agreement with respect to the agricultural sector, I cannot overstate both the urgency and importance negotiating NAFTA language that addresses the EU's global attempt to win further acceptance of geographic indicators. Canada already recognizes GIs. The EU is talking to Mexico about GIs. And, just recently, Japan struck an agreement with the EU that recognizes Geographic Indicators. Geographical indications can and should be used when they bring value to the consumer to better define a product, but not when they exist solely as a tool for exporters in one country or region to create monopolies and price-setting cartels on what are otherwise common types of cheeses and dairy goods.

The U.S. dairy industry is united in its desire to preserve what is working under NAFTA with Mexico and to address what is not working with Canada. We appreciate the Administration's support for our key priorities, as reflected in the recently released NAFTA trade objectives, and we look forward to working closely with this committee to help ensure that the United States achieves its stated objectives in a renegotiated NAFTA.

Benefits of Trade and NAFTA to U.S. Dairy Industry

Trade is critical to the U.S. dairy sector. The equivalent of one day's worth of milk production each week now gets turned into products that are exported all around the world. The expansion of U.S. dairy exports since 2004 has increased our farmers' milk prices by an average of $1.25 a hundredweight. In other words, rising exports have increased farmers' milk sales income by roughly $36 billion over what they would have gotten in that period if exports had held steady from 2004.

Just as importantly, U.S. dairy exports support up to 100,000 American jobs and cover every state of the Union. Impairing our export sales would therefore deliver a devastating employment hit not only to farmers, but also to workers in companies supplying inputs and services, and downstream processing plant jobs, as well as cities with large port facilities heavily dependent on trade.

As we look at how to ensure we can continue a positive track record of export sales supporting farms and good jobs back here at home, NAFTA, and the ongoing discussions pertaining to modernizing it, is essential to that goal. Mexico is by far the leading export market for U.S. dairy products while Canada clocks in at number two, although a sizable portion of U.S. product shipped to Canada is for further processing and ultimate re-export outside of Canada, including back to the United States.

Last year the U.S. shipped $1.2 billion worth of dairy products to Mexico, up from just $124 million in 1995. For much, if not all, of this we have NAFTA to thank. Mexico now is the U.S.'s largest export customer, by far. Sales to Mexico are roughly triple those to China, our third largest export market, demonstrating just how irreplaceable the Mexican market is. For example, in 2016 Mexico accounted for 47% of US exports of nonfat dry milk, 31% of cheese, and 38% of butterfat. Before NAFTA and before Mexico joined the predecessor to the WTO (the GATT) the only dairy-related U.S. exports to Mexico were some non-fat dry milk shipments for government feeding programs and a small number of breeding cattle.

NAFTA has been the driving force behind this remarkable growth and is the reason the U.S. share of Mexico's total dairy imports is 73% today. As mentioned earlier, total U.S. dairy exports support some 100,000 jobs in the U.S.; our exports to Mexico support roughly a quarter of them. Preserving those sales is therefore essential not only to American dairy farmers, but also to the workers in companies supplying inputs and services, and downstream processing plant jobs all across this country.

Without NAFTA, the duty-free access U.S. companies enjoy into Mexico could evaporate and be replaced by WTO Most-Favored Nation (MFN) tariff levels. These are the rates that other major dairy exporters are currently required to pay. On an applied basis, Mexico's over-quota MFN tariffs can currently reach as much as 45% for skim milk powder and 60% for cheese (with even in-quota rates for cheese applied at 45%). Mexico has the right, however, to raise its MFN rates to considerably higher over-quota tariff levels of 125% for both powder and cheese.

Changes to that preferential tariff situation would dramatically undermine a core advantage of U.S. suppliers as the only major dairy supplier to Mexico currently benefiting from free trade. As we speak, Mexico is negotiating with the European Union (EU) which is actively working to secure its own preferential access to the Mexican market while New Zealand and Australia discuss with Mexico how to move forward with the Trans-Pacific Partnership with the remaining countries. Conceivably, all three of our major competitors could see improved access to the Mexican market in the coming years.

That is what makes NAFTA absolutely essential for our industry – it currently provides U.S. exporters with uniquely preferential access to the Mexican dairy market and, looking forward, is the vehicle the U.S. will need to ensure that we remain competitive in that market should Mexico decide to use its ongoing FTA discussions with major dairy exporting nations to open up new inroads to its market for them.

Because of NAFTA and Mexico's commitment to a mutually beneficial trading relationship, we currently have very few trade problems with Mexico in dairy – it is our goal to use these discussions to help keep it that way. NAFTA has enabled the development of a partnership with Mexico that's benefited not only the U.S. dairy industry, but also the Mexican dairy sector.

Since 1994, Mexican milk production has increased by 58% which has helped meet the ever-increasing demand of Mexican consumers and visitors to Mexico while at the same time continuing to provide market opportunities for American producers as well. Together, Mexico and the U.S. have collectively grown consumption for a large variety of products offered at affordable prices for both the Mexican and U.S. consumer.

Areas for Improvement

NAFTA has accomplished a great deal over the past two-plus decades, but it has also been overtaken by new, unanticipated forms of trade and trade problems. Our industry looks forward to working with this Committee and with the Administration to explore ways to preserve and strengthen NAFTA to address those issues.

As noted above, NAFTA achieved substantial liberalization in dairy trade between the United States and Mexico, and our aim is to ensure that that open trade remains in place – both with respect to tariffs and nontariff measures. At the same time, NAFTA left sizable barriers on trade between the U.S. and Canada largely untouched. With Canada's restrictions already in place, reflected in much higher tariffs facing U.S. dairy exports, an imbalance in market access obligations in the sector has existed for over two decades. Moreover, Canada has taken additional steps over the years to limit imports whenever Canada's already highly restrictive import restrictions were deemed to be insufficiently limiting.

Here below, I would like to spotlight a few areas on our trading relationships with Mexico and Canada that would benefit from improvement as we update this critically important trade agreement.

- ***Canada: Removing Trade-Distorting Policies and Opening a Sheltered Market***

  Canada's exorbitant dairy tariffs are well known. Over-quota tariffs top the charts at 241% for fluid milk, 201% for skim milk powder, 298% for butter and 245% for cheese. Among the developed world, only the island nation of Japan in addition to countries such as Norway and Switzerland have maintained similar dairy fortress walls with the U.S. Under NAFTA many are aware of the unfortunate fact that U.S. dairy exports are one of the very few sectors that do not enjoy duty-free access to the Canadian market.

  What may be less well known by all members of this committee is a more recent threat that has emerged as a result of Canadian policies trialed in Ontario last spring and instituted across Canada this February: Classes 6 and 7 respectively. These classes are part of the new Canadian National Ingredients Pricing Strategy.

  NAFTA modernization discussions are an unmissable opportunity to address just that type of unfinished business in order to truly open up the North American market and put our dairy exports to Canada on par with the vast majority of the rest of the U.S. economy.

  Canada, as a high price country that has refused to enter into the global markets with milk prices at global levels, adopted a new pricing scheme (Class 7) to effectively subsidize protein commodity exports without compromising the internal farm price of milk. These new pricing regulations and the broader Pricing Strategy have already negatively impacted bilateral trade with Canada. Most concerning, however, they are poised to unfairly take away the global markets that are our industry's lifeblood.

  The new Canadian policies effectively subsidize exports and are already being used to undercut U.S. dairy exports of milk proteins not <u>just</u> to Canada but even more importantly to a number of other export markets around the world. Because the U.S. dairy industry depends on a healthy global export market, Canada's strategy poses a very grave threat to America's dairy farmers by unfairly underbidding world market prices.

  The shift in Canadian pricing tools has been driven by an uptick in Canadian demand for butter and cream. Rather than meeting this new domestic-demand growth through imports in order to keep its so-called supply management system in balance, Canada has used its government-dictated milk production system to encourage more of its own milk production, therefore supplying more butterfat, while simultaneously creating a surplus of skim milk, as milk contains both products.

Since Canada had to find a way to "solve" this surplus problem of its own creation and rid itself of the excess milk proteins, it has been using its government-controlled system to keep domestic milk prices at almost double the world and comparable U.S. prices, while creating a new scheme to push surplus milk proteins onto world markets and push out competition in its domestic market.

Canada implemented the new Class 7 pricing system in February 2017. The Class 7 establishes a protein price based on the lowest of US, EU, and Oceania skim milk prices, and then subtracts a very generous processor margin. In recent months, this means that Canada has priced milk proteins available to its processors under Class 7 for export at approximately 15% less than what U.S. processors typically pay. That incentivizes processors to utilize subsidized Canadian milk proteins to modernize and expand their protein business.

Reports to date from various markets around the world indicate that product <u>is</u> being offered even below the lowest world market price. This below cost pricing avenue applies to the manufacture of skim milk powder (SMP), whole milk powder (WMP), milk protein concentrate (MPC), ultra-filtered milk (UFM) and similar dairy protein products.

This recently introduced provision of below market price milk to produce the listed dairy products provides an incentive to substitute those products for their imported counterparts in Canada while enabling the export of Canada's structural surplus of SMP at below the cost of production. It flies in the face of common sense that a country with one of the world's highest milk prices would be offering a commodity product at levels far below those offered by all other major dairy suppliers.

As a result, these pricing schemes have already harmed U.S. exports to Canada of ultra-filtered milk and have begun facilitating the dumping of milk powder onto the commercial global markets on which the U.S. so strongly relies. This is the latest in a series of narrowly targeted milk classes that have been created over the past few years specifically to displace imports, with the added harm of now also displacing U.S. exports to other markets.

Canada is not alone in having different classes for milk usage and the mere existence of milk classes is not an inherent problem. However, the way Canada has utilized its milk class system is unique and very problematic. Canada's milk class system is regularly evolving in order to constrain imports and – in the latest case – provide an incentive to export. The new Class 7 pricing allows processors of non-fluid domestic products to allocate or use a proportion of their milk protein to the new Class 7 pricing. That effectively ensures processors will now use some of the lower priced skim in lieu of imported U.S. milk proteins. We expect that the balance not used internally will likely be used to process a reduced-price exportable surplus of subsidized protein products such as skim milk powder and dried milk protein concentrates.

These special pricing classes are put in place by the Canadian Milk Supply Management Committee (CMSMC), whose voting members are provincial boards and provincial governments and which is responsible for policy determination and supervision of the provisions of the National Milk Marketing Plan. The way in which Canada is operating its milk class pricing system indicates a government policy intention to erect trade barriers and distort global markets.

The production and sales data underscore what a pressing concern this program poses to the international milk powder market that is so critical to U.S. dairy farmers and companies. The full size and scope of the threat to the U.S. dairy industry is not reflected only in what Canada is doing today through its new pricing programs but rather is seen in the sharp surge in production, exports and utilization of the new Class 7 pricing scheme.

For years, Canada's milk production was relatively stable, a situation that should not be surprising for a country that claims to manage its supply to meet internal demand. From 2000 to 2010 for instance, Canadian milk production rose only 2.5% over that decade. However, a distinct upward trend line has more recently emerged with 4% growth per year over the last two years.

In some areas this has spiked even further: five leading provincial marketing boards in the East of Canada, working in concert, have collectively increased their government-dictated milk production quotas by an astronomical 12% between August 2016 and July 2017 with the latest hike this month being 5%. Were these responses to normal commercial market signals – as is the case in the U.S. and in most other major dairy producing countries – these may not be problematic.

In contrast to this, typical milk production growth in the U.S. is in a range of 1-2%, even in years with highest prices. In addition to its magnitude on a percentage basis, the dramatic Canadian expansion is so problematic because it is the direct result of government-run programs in a supply management system with some of the highest milk prices in the world.

Likewise, trade data demonstrates a large basis for concern as well. Canadian milk powder exports have surged in recent times. Canada's 2016 SMP exports set a record at approximately 24,000 MTs, a jump of roughly 75% over the prior year's total. (Reminder: Ontario's Class 6, effectively a pilot program for the national Class 7, was put in place in the spring of 2016.) The first five months of 2017 showed a further year-on-year increase in Canadian SMP exports of 271% to almost 20,000 MT with over 8,000 taking place in May alone – a new monthly record for Canada.

Those SMP exports are going to various markets around the world including Algeria, Mexico, Egypt, Malaysia and Bangladesh, top markets for the U.S. dairy industry. In addition to the substantial increase in SMP exports, Canada is also seeing a spike in milk protein concentrate (MPC) exports with January to May 2017 sales of MPC up 48% over the same period in 2016.

Despite limited information provided by Canada about the Class 7 program, since the February 7 implementation of the pricing scheme, the volume of high-priced milk used to make domestic non-fluid products has declined, whereas the volume of milk protein going into Class 7 has risen. During February – April 2017, Canada reported that 24% of the milk volume and 31% of the protein is now allocated to Class 7. Not surprisingly, the farm price of milk between last year and this year (since Class 7 has been implemented) dropped less than one percent despite that sizable shift towards the new lower-priced Class 7. That's because other prices under Canada's strict government-calculated class prices have been raised. This still works to the net benefit of Canada's dairy farmers given the surging milk quotas the government is granting (thereby permitting that 1% lower price to be paid on a much larger volume of milk and so generate greater total returns to farmers).

As a result of the new Class 7 pricing scheme and a 5% expansion in the milk production quota in 2017 to date, Canada is poised to create an even more significant exportable surplus of milk proteins than we've seen take place to date. Furthermore, taking into account not only Class 7's export disposal goal of moving the remaining excess protein product onto world markets at cut-rate prices, but also its twin goal of import substitution through the displacement of U.S. protein exports from its market, the total impact to the rest of the world's protein markets will be even greater still.

What is most concerning here is the trend line, with a harmful situation creating greater damage to our producers over time and a trend line expected to get even worse as time goes on. That's particularly the case if milk quotas continue to be permitted to similarly grow over time.

It is this escalating threat to global dairy markets that united 10 of the world's leading dairy associations, including USDEC, from around the world last month to collectively write to their six respective Trade Ministers, including Ambassador Lighthizer, urging prompt action to exhaust all available options to put a stop to Class 6 & 7 in light of their violation of Canada's international commitments. As the joint industries letter noted: "Canada's increasingly protectionist policies are diverting trade with attendant global price-depressing impacts, and are in conflict with the principles of free markets and fair and transparent trade." (See attached.)

Examples cited in that letter of united international concern included the following:

- "In December of 2015 at Nairobi, Kenya, Canada became a signatory to the Export Competition Ministerial Decision, thereby undertaking to terminate all scheduled export subsidies by the end of 2020, maintain a quantity standstill at 2003-05 levels until then, and refrain from applying export subsidies to new products or new markets. The 2016 Canadian exports of 23.7 thousand tonnes, noted above, is an amount in excess of the Nairobi standstill agreement amount."

- "As part of the 2003 resolution of the WTO dispute settlement case brought by the United States and New Zealand against Canada's special milk class for exports, Canada agreed "that, for the marketing year beginning 1 August 2003, and thereafter, Canada's exports of dairy products for which export subsidies have been granted will not exceed the quantities and budgetary outlays specified in its WTO Schedule. The upward trend in Canada's exports of SMP, reported above, is rapidly approaching the 44.9 thousand tonnes Uruguay Round annual quantity commitment."

Canada's National Ingredient Strategy and Class 6/7 contravene the spirit of Canada's World Trade Organization and NAFTA trade commitments. After all, does it make sense that a high-priced milk producer with a closed domestic market using a government-sanctioned export program should take market share from countries with a commercially-based and lower cost of production, like the U.S.? The answer is no.

We must see a repeal of Classes 6 and 7 and steps taken to ensure similar programs do not spring up in their place. If Canada wishes to retain a government-run system of micro-managing its milk supply, that is its prerogative but that does not give it the right to use the high returns from that system to disrupt the commercial dairy markets on which competitors in the U.S. and elsewhere rely. If left unchecked, these Canadian programs will grow to become bigger and bigger threats to U.S. exports around the world.

These latest actions are most concerning because they represent a shift by Canada from using policy tools to impede imports into Canada to now also disrupting export markets. Altogether, however, Canada has for years intentionally tried to shirk its dairy commitments, using one policy or regulatory tool after another to chip away at access granted. Another example of this consistent trade-distorting pattern was Canada's decision in its FTA with the EU to impose new restrictions on the use of a number of generic cheese terms (i.e. asiago, feta, fontina, gorgonzola and muenster). Canada provided direct protection to a number of European GIs that have been common names (in order words, generic) in Canada and the United States for decades. By taking this action, Canada abandoned any pretense of due process and the integrity of its own intellectual property system. NAFTA would offer a prime chance to press Canada to hold U.S. companies harmless from this unwarranted nontariff barrier on U.S. cheese exports.

Given Canada's deliberate creation of an environment of policy uncertainty, there can be no clarity on whether or not current dairy sales to Canada – nor new sales established under the NAFTA modernization process – will be allowed by Canada to take place in the future without addressing this underlying problem of Canada's habitual use of policy tools to distort trade.

We greatly welcomed the Administration's NAFTA Objectives' recognition of the importance of these issues in its Agricultural Goods area in particular.

- ***Mexico: Preventing New Barriers to Trade: Geographical Indications (GIs) and Common Names (CNs)***

  As I have stressed above, with respect to Mexico our charge is largely to do no harm to market access opportunities. That's relevant not only on the tariff side of the equation but particularly important on the nontariff barrier portions as well.

  The latter is a particularly timely concern given ongoing FTA extension negotiations between Mexico, the U.S.'s largest and most diverse cheese export market, and the EU. As it seeks to do through all its FTAs, the EU has been attempting to use that process to impose de facto barriers to trade and competition on various common name products that the EU falsely claims as GIs.

  It is essential that ongoing engagement with Mexico and NAFTA modernization discussions make it clear that the U.S. is vehemently opposed to the imposition of any new restrictions on the market access opportunities for U.S. products relying on common names. We must require that Mexico uphold the letter and spirit of its NAFTA market access commitments in order to ensure it does not impair the value of its prior market concessions to the U.S.

  In parallel to these FTA negotiations, Mexico is also dealing with GIs that impact the use of common name products in other avenues as well such as through domestic legislation and ongoing court cases. Each of these venues is an important forum for shaping how Mexico will uphold its market access commitments to the United States.

- ***Mexico & Canada: Improving NAFTA Rules in Key Areas***

  - <u>*Improving Upon the WTO-Plus Sanitary & Phytosanitary (SPS) Agreement*</u>

    To ensure for predictability of trading conditions moving forward and a science-based approach to the development of new regulations impacting trade, NAFTA modernization efforts should incorporate work done in this area within TPP and build further upon that base of "WTO SPS-Plus" commitments. This is needed to guard against the prospect of future problems and also to ensure that the updated NAFTA text can serve as a strong model for future U.S. bilateral FTAs as well. Stronger SPS provisions may have prevented a barrier to the export of U.S. raw milk for pasteurization that Mexico erected a few years ago despite a food safety basis for concern with those exports. We look forward to seeing this issue as well as others that arise from unscientific foreign requirements addressed through the negotiations.

Improving upon the existing WTO SPS rules was cited as a key Trade Promotion Authority (TPA) priority for negotiations and would help to address concerns by agricultural organizations across the board about spotlighting the importance of transparency, predictability and science-based decision-making on SPS matters. We believe this remains a critical area and were glad to see it highlighted accordingly in the Administration's recently published NAFTA objectives document.

- *Establishing Fair Due Process Systems and Market Access Safeguards for Common Names Through Text on Geographical Indications (GIs)*

As noted above, there are unique situations on GIs and Common Names issues with both Mexico and Canada that need to be dealt with appropriately on a bilateral basis. In addition to those efforts, however, NAFTA modernization efforts should incorporate text on the issue of GIs and common names, in keeping with the TPA directive to address this issue. In order to build upon the progress made to date with our trading partners on this issue, the TPP text on GIs should be used as a starting point and further improved upon to effectively preserve U.S. market access opportunities for common name products despite foreign governments' efforts to misuse GIs to erect barriers to those products.

This area too benefited from a clear intended focus in the published NAFTA objectives developed by the Administration; we see this as a very welcome acknowledgement of the critical importance of this issue.

- *Preserving Dairy Rules of Origin (ROO) Approach to Uphold Integrity of NAFTA Benefits*

The driving goal in NAFTA dairy-specific ROO with Mexico for most dairy products was to seek to ensure that high dairy-content products traded under the agreement were being produced from milk from the exporting country. As such, for instance, the U.S. cannot import milk powder from Europe to make cheese and ship that to Mexico, and vice versa. Likewise, Mexico should not be able to import concentrated butterfat from outside the NAFTA region, add sugar or cocoa to it, and sell it into the US as a food preparation. The open trade is intended to be between and to benefit the dairy sectors that have opened their markets under the agreement – a goal that is particularly important for a product that is easily traded in various ingredient forms.

Given that the lines most clearly associated as dairy such as those for cheese, butter and yogurt, all require the product to be made from dairy from the exporting country, it is reasonable to insist that other processed food lines also should be subject to these same provisions in cases where they contain a very high level of dairy content. It is important to ensure that Mexico is not a platform for other major dairy exporters to ship butterfat simply as a conduit to inappropriately access the U.S. market. Based on customs rulings and trade data with Mexico and New Zealand this is a reasonable cause for concern.

In addition to the need for movement towards greater consistency in the dairy ROO, we would also encourage negotiators to examine how to improve the process for investigating potential ROO violations to make it easier to chase down potential violations of the ROO. In our view, these measures are a critical element of the agreement and ensuring that the effectiveness of the ROO in concentrating the agreement's benefits on its Parties that have chosen to open their markets to one another is a vital part of ensuring that NAFTA remains such a strongly successful FTA.

We believe that the goals articulated in the Administration's NAFTA objectives document would help to address these concerns.

In Closing:

NAFTA is indisputably the most important U.S. FTA. An agreement that has done this much good and that supports tens of thousands of jobs in the dairy sector alone must be preserved. That is why we believe we must ensure that no new trade restrictions arise through the NAFTA modernization discussions and that talks are instead focused on pursuing improvements to the agreement that preserve our open trade relationship with Mexico and address Canada's flouting of its trade commitments.

Even as the U.S. negotiates improvements to this critical FTA, however, we believe it's also essential to move forward on other fronts as well. Our competitors are very active all around the world in negotiating their own agreement. This month's news of the EU-Japan agreement in principle is a fresh reminder that the world is not standing still. Given that, if the U.S. stands still, we will slip behind.

We urgently need a proactive trade policy agenda with key agriculture-importing countries in Asia such as Japan, Vietnam and others in order to keep pace in that growing area of the world. In order to ensure that U.S. negotiating time is best concentrated on agreements likely to yield net agricultural benefits for the U.S. with ag-importing countries, we would also strongly caution against sinking scarce U.S. resources into negotiations with countries unlikely to lead to net dairy and agricultural export gains for the United States. There are only so many staff at our government agencies and only so much time in the day; we need to focus it where it can yield the most benefits to American agriculture.

As we stand poised to commence NAFTA modernization discussions in the very near future, the U.S. Dairy Export Council looks forward to working closely with this committee and with the Administration to make improvements to this beneficial FTA so that we can continue to deepen our trade relationships throughout North America.

Thank you for the opportunity to testify before this committee.