

[BY PERMISSION OF THE CHAIRMAN:]

TELEPHONE: (202) 797-3000
FACSIMILE: (202) 797-3362

1601 MASSACHUSETTS AVE
WASHINGTON DC 20036



EMBASSY OF AUSTRALIA
WASHINGTON DC

IN REPLY QUOTE:

13 June, 2002

The Honourable Bill Thomas
Chairman
House Ways and Means Committee
United States House of Representatives
Washington DC 20515

Dear Mr Chairman

I am writing to register with you the Australian Government's concern about the possible inclusion in the Miscellaneous Trade Bill of language (HR 1786) seeking to impose tariff rate quotas (TRQs) on milk protein concentrate (MPC), casein and caseinate imports.

The Australian Government believes that the proposed TRQs are inequitable. The TRQ language would cut combined casein and milk protein concentrate access to 52 percent of the annual average level applying since the beginning of the Uruguay Round implementing period in 1995.

The average annual value of trade in the period 1995 to 2001 was US\$554 million.

Proponents claim that TRQs are necessary to bolster US demand for non-fat dry milk powder (NFDM). They claim that milk protein imports are directly competitive with NFDM and are taking away sales. However, by and large there is no substitutability between these products. Restrictions on milk protein imports will not solve US problems of a structural oversupply of NFDM.

The rapid rise in MPC imports until 2000 is primarily attributable to the gap between the (artificial) US price and the international price of milk protein and to the growth of the 'nutritional foods' industry. Domestic price supports have encouraged the drying of milk proteins into an oversupplied commodity product rather than the development of value-added dairy ingredients, such as MPC, with superior attributes.

Australia is a non-subsidising exporter of dairy products with no government regulation of pricing. Returns to Australian producers are solely determined by market forces.

In order to introduce TRQs, the US would be required to re-negotiate its Uruguay Round concession under Article XXVIII of the GATT. This will result in compensation in the form of reduced tariffs

on alternative products including other dairy products. Imposition of TRQs could also lead to retaliatory action by major suppliers.

The US dairy industry already enjoys levels and forms of government support similar to those applied by the European Union to its dairy industry. This assistance has been enhanced in the recent Farm Bill by action to establish the first nationwide target deficiency payment for milk. Measures to further restrict imports from nations with unsubsidised and efficient industries would both be unjust and would send the wrong signal at a critical time. The passage of the Farm Bill alarmed and disappointed many fair-trading nations. It is more important now than ever that the United States demonstrate its commitment to reducing distortions to agricultural trade and be seen to work with its allies, like Australia, towards that goal.

Yours sincerely

Virginia Greville
Minister-Counsellor Agriculture