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## Dairy Policy Brief #7: U.S. Dairy Trade Policy

### *What Policies are in Place and Under Consideration?*

U.S. dairy trade is governed in large part by trade agreements approved by Congress. The broadest and most important agreement for dairy trade is the World Trade Organization (WTO) *Agreement on Agriculture* (AoA), which became effective in January 1995. The AoA was a landmark agreement for world agricultural trade, the first time that agriculture had been seriously considered in multilateral trade pacts. The AoA involves WTO member commitments in three areas: increasing market access, reducing export subsidies, and reducing domestic support programs that distort trade. WTO negotiations (the Doha Round) on an amended AoA with stronger member commitments within these three areas began in 2001 but little progress has been made. The U.S. has also entered into many *Free Trade Agreements* (FTAs) that govern trade among a limited number of partners. Those most important to dairy are the North American Free Trade Agreement (NAFTA) and bilateral agreements with Australia and Chile.

### *What are the Issues?*

- **Market Access.** U.S. dairy exports have benefited from greater access to foreign markets with the AoA conversion of quotas and other non-tariff barriers to tariff rate quotas (TRQs). At the same time, complaints have been raised about the absence of a TRQ on milk protein concentrate (MPC). MPC enters the U.S. essentially duty-free and substitutes for nonfat dry milk, which is protected by a TRQ. A new Doha Round AoA will require the U.S. to expand access to its dairy markets, but it may also offer the opportunity to include MPC and other dairy proteins within its package of dairy products subject to TRQs.
- **Domestic support.** The existing AoA and current Doha round negotiations include reductions in trade-distorting domestic support levels, classified by the WTO as “amber box” spending. This includes programs that “couple” payments to farmers with current production or that set minimum prices to farmers that are higher than world market prices. The MILC program is an example of the former and the DPPSP is in the latter category. These dairy programs will come under scrutiny when WTO Doha Round negotiations resume and may need to be altered to meet U.S. commitments.
- **Export Subsidies.** The AoA established reductions in the quantity and expenditure levels of subsidized agricultural exports. A new agreement will likely set a timeline for elimination of export subsidies. For the U.S. dairy industry, the Dairy Export Incentive Program (DEIP) would need to be adjusted to be in compliance with export subsidy reductions made in a Doha round agreement. Current levels of dairy products that can be exported under the DEIP are: butter and butteroil, 21,097 metric tons; skim milk powder, 68,201 metric tons; and cheese, 3,030 metric tons. These are very small limits relative to both U.S. production and subsidy limits for the EU.
- **Free Trade Agreements.** Free trade agreements have proliferated in recent years, raising issues about whether they are substituting for the current AoA or reducing interest in negotiating a new AoA. The OECD estimates that more than a third of world trade is covered by existing FTAs and that including FTAs under consideration would raise that proportion to three-quarters. FTAs are a mixed bag for U.S. dairy. NAFTA has been a major benefit to U.S. dairy exports, with Mexico the largest market. The Australia FTA could potentially increase U.S. imports of dairy products, and a proposed FTA with New Zealand is being vigorously opposed by U.S. dairy producer interests.