



March 16, 2023

Philippine Tariff Commission
4th Floor West Insula Condominium
135 West Avenue, Quezon City, 1105 Philippines

Dear Sirs/Madams,

The U.S. Dairy Export Council (USDEC) appreciates the opportunity to present this request for consideration of Philippine tariff adjustments. USDEC is a non-profit, independent membership organization that represents the export trade interests of U.S. milk producers, dairy cooperatives, proprietary processors, and export traders. USDEC's mission is to increase the volume and value of U.S. dairy product exports.

USDEC commends the Philippine government for its willingness to evaluate the tariff levels for various agricultural products that best suit the country's economic needs. USDEC encourages the Philippines to consider extending the application of reduced duties for several dairy products to help ensure an adequate supply of healthy, safe and affordable dairy products that meet the demands of the local industry and consumers in the Philippines, particularly in light of a lack of sufficient local production of these products to serve as an alternate supply source.

Most of the products in question – and indeed the vast majority of U.S. dairy exports to the Philippines overall – are used as inputs for the Philippine food processing and food servicing sectors, which benefit from these high-quality inputs in order to locally produce and sell value-added products. For example, skim milk powder (SMP) is used in Philippine production of infant formula, yogurt products, dairy beverages, confectionary and bakery goods, and ice cream. Likewise, whey protein concentrate (WPC) is used to produce infant formula, yogurt products, and dairy beverages. And lactose is used in Philippine production of infant formula and confectionary goods. Looking more closely at just one of those examples: Infant formula has high rates of inclusion of SMP, whey proteins, and lactose and is a critical product needed to complement breast-feeding and help support early-childhood development.

The United States provides these quality tested commodities in larger volumes than other exporters to the Philippines and typically supplies them at lower costs. For instance:

- The U.S is the world's largest producer of Nonfat Dry Milk Powder (NFDM) and Skim Milk Powder (SMP) with over 1 million MT produced annually, accounting for 25% of global SMP Production; 72% of this is exported to markets around the world, including 110,000 MT to the Philippines last year.
- The U.S is also the largest producer of whey in the world with over 1 million MT produced annually, 59% of which is exported, including 32,022 MT to the Philippines last year. U.S. whey suppliers produce a wide array of ingredients, from sweet whey to whey protein concentrates and isolates, to meet varying needs for protein levels, functional properties, in F&B applications. Whey protein concentrate of 80% and higher is a necessary commodity used in both infant formulas and nutritional supplements for seniors.
- The U.S is also the largest producer of lactose in the world, with production volumes exceeding 530,000 MT annually; 85% of which is exported, including 18,122 MT to the Philippines in 2022.
- The U.S. is also the largest cheese producing country, topping over 6 million MT annually, with nearly 8,000 MT going to the Philippines last year.

Despite these strong production capacities, for the vast majority of dairy products, the U.S. is not the primary market share holder in the Philippines, but rather is an additional supplier. Two of the Philippines' primary dairy suppliers, Australia and New Zealand, have duty free access for most dairy products as part of the ASEAN-Australia-New Zealand Free Trade Agreement. However, over-reliance on suppliers from free trade agreement (FTA) markets can disrupt the supply of adequate, consistent, and quality-assured dairy products to Philippine industry and consumers at competitive prices. This is particularly the case given that these FTA partners have production systems that are highly dependent on weather conditions. Moreover, in the case of New Zealand, the government has been exploring avenues to cut back on dairy production in the years to come. Such over-reliance on these two suppliers poses credible risks to ensuring a sufficient supply of commodities needed in Philippine production of goods for its growing domestic consumer base. Such over-reliance also poses risks to maintaining supply chain resiliency as consumption of dairy continues to increase and the world recovers from the COVID-19 pandemic.

COVID-19, the supply chain crisis, and global inflation have all underscored the importance of diversified supply chains both to ensure adequate and consistent supplies of critical food supplies as well as to reduce inflationary pressures. It is particularly important that such diversification include suppliers outside of the drought-prone and seasonally-cyclical Oceania region; in the past such drought conditions have resulted in reduced availability of products from Australia and New Zealand. Both markets also face structural barriers to production growth in land and regulatory limitations. The U.S. is an additional supplier that

does not face such outsized impacts from unpredictable weather-related and structural challenges.

Economies will continue to be on edge as the impact of inflation continues to be felt. Upper- and middle-class consumers will likely be insulated from price increases that occur due to inflation or other exogenous shocks. It is those people living in poverty that will be most affected by future price increases. Lowering MFN tariffs for dairy will provide Philippine companies with greater supply chain flexibility at lower costs and relieve pressure on domestic raw milk prices to maintain prices of goods across all socio-economic classes.

We recognize that it is naturally the Philippines' full right to charge the higher bound rate for MFN shipments if it so chose; we also recognize that for several years now the Philippines has chosen for its own economically competitive reasons to maintain applied Most Favored Nation (MFN) dairy tariffs at levels considerably below its MFN bindings. We support continuation of this course of action and believe it has proven a positive one for the Philippine's dairy and food processing sectors. We believe that raising tariffs to the bound rates would cause a significant disruption in trade for Philippine firms relying on inputs from all those countries that do not receive preferential tariffs under a free trade agreement, including the United States. If the tariff advantage granted to Australia and New Zealand is so significant that other countries are priced out of the market, the Philippines risks losing committed suppliers from other countries and reducing competition, all of which could lead to price increases for consumers. Furthermore, U.S. suppliers have built trading relationships with Philippine importers based on the current business climate. In order to preserve these ties, stable and predictable tariffs are required.

Although the U.S. dairy industry has ardently championed an FTA with the ASEAN nations, including the Philippines, and will continue to do so, we recognize that until such an agreement can be negotiated, imports from the U.S. will continue to enter at the MFN rate. Our industry would prefer to pursue an FTA with the Philippines to ensure that the strong commercial relationship between U.S. dairy exporters and Philippine buyers can be maintained consistently. That would remain the case should our request in this statement be granted for consideration of lower MFN tariff levels.

In light of the factors cited above, we believe it would strongly be in the interest of a stable Philippines dairy processing and retail sector to extend and reduce below-MFN tariff rates on products of economic interest within the scope of this review for the 2024 – 2028 time period, in particular for the products listed below. We have also submitted relevant trade data for these lines to help assist decision-making.

As you deliberate lowering tariffs for the dairy commodities below, we welcome the opportunity to continue a dialogue with the Tariff Commission on specific products, and to discuss the lowering of tariffs on all dairy tariffs in a manner that can provide mutual benefits to both the Philippines and the United States.

Recommended tariff levels for the 2024 – 2028 time period:

- 0402.10, Skim Milk Powder: Maintain tariff at 1%
- 0403, Yogurt: Reduce tariffs from 3-7% to 3% for all yogurts
- 0406, Cheese: Reduce tariffs from 3-7% to 2% for all cheeses
- 1702.11 and 1702.19, Lactose: Reduce tariffs from 1-3% to 1% for all lactose
- 1901.10 and 1901.90, Infant Formula: Reduce tariff from 7% to 3%
- 3504, Milk Protein Concentrate (MPC) and Milk Protein Isolate (MPI): Reduce tariffs from 1-3% to 1% for all MPC and MPI products
- 3502.20, Whey Protein Concentrate 80+: Reduce tariff from 3% to 1%

Points of Contact for Further Questions:

Shawna Morris
Sr. Vice President, Trade Policy
U.S. Dairy Export Council
smorris@usdec.org
703-294-4342

Tony Rice
Manager, Trade Policy
U.S. Dairy Export Council
trice@usdec.org
(703) 469-2375