# AGRICULTURAL TRADE NEGOTIATIONS

## HEARINGS

BEFORE THE

## COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

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SUBMITTED MATERIAL

# AGRICULTURAL TRADE NEGOTIATIONS

**WEDNESDAY, APRIL 28, 2004**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
*Washington, DC.*

The committee met, pursuant to call, at 10:05 a.m., in room 1300 of the Longworth House Office Building, Hon. Bob Goodlatte (chairman of the committee) presiding.

Present: Representatives: Boehner, Pombo, Smith, Lucas, Moran, Jenkins, Gutknecht, Hayes, Johnson, Osborne, Rehberg, Putnam, Burns, Bonner, King, Chocola, Musgrave, Nunes, Neugebauer, Stenholm, Peterson, Dooley, Holden, Etheridge, Hill, Baca, Ross, Case, Alexander, Ballance, Marshall, Chandler, Pomeroy, Boswell, and Davis.

Staff present: Lynn Gallagher, Brent Gattis, Jason Vaillancourt, Matt O'Mara, Christy Seyfert, Ryan Weston, Callista Gingrich, clerk; Matt Schertz, Teresa Thompson, and Andy Baker.

## OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF VIRGINIA

The CHAIRMAN. Good morning. This hearing of the House Committee on Agriculture to review agricultural trade negotiations will come to order. I have an opening statement.

On behalf of the committee, I welcome our distinguished witnesses, Secretary Veneman and Ambassador Zoellick. We are honored to have you both appear before this committee to discuss issues related to agricultural trade negotiations.

This has been a busy year for both of you in the area of agricultural trade and will, in all likelihood, become much busier as the year progresses.

I note that the WTO has issued a preliminary decision on the matter brought by Brazil concerning U.S. farm programs, and reports indicate that the administration intends to appeal that decision. I support that action. To the extent you can, I hope, Secretary Veneman and Ambassador Zoellick, that you will discuss this matter.

Under the WTO rules, countries are permitted to support their farmers in ways that are the least trade distorting, and WTO rules govern the amounts countries may provide their farmers. The United States abides by the WTO rules, and is, and has been in accord with its rules on agriculture.

World trade in agriculture is highly competitive, and barriers, such as high tariffs, are rampant. Countries regularly deny access for U.S. agricultural products for many reasons, including non-scientific barriers for U.S. beef, grains, poultry, and fruits and vegetables. I have said repeatedly that gaining access for U.S. agricultural products is the most important objective of the ongoing WTO negotiations. Our agricultural tariffs are low; the average is 12 percent, while worldwide agricultural tariffs average 62 percent.

Changes to countries' agricultural policies should come through the give and take of negotiations, not through decisions that do not appear based on WTO rules.

Regarding trade negotiations, agreement has been reached in the Morocco, CAFTA, Dominican Republican, and Australian negotiations, and talks are still going on in the South African Customs Union and the Free Trade Area of the Americas, although very slowly. Free trade negotiations are beginning in Thailand, Panama, the Andean countries, and Bahrain. However, I encourage the administration to work towards initiating trade agreements with countries with larger populations that offer greater opportunities for U.S. agriculture exports.

On top of all that, there are trade disputes with several other countries. For example, the European Union has a moratorium on approval of biotechnology products, will not accept U.S. beef, and wants to take away U.S. trademarks and certification marks that are properly registered, and allow EU companies to claim such products as their own.

Mexico has passed a tax on products containing U.S. high fructose corn syrup, assessed anti-dumping duties in questionable investigations on U.S. apples, rice, and beef.

China has not kept its WTO accession agreement on access to its market for U.S. cotton, pork, and poultry. Now, especially with regard to China, I know that Secretary Veneman and Ambassador Zoellick have worked under the auspices of the U.S-China Joint Commission on Commerce and Trade to help resolve these issues, and I anticipate hearing from them this morning.

United States agriculture depends on exports and a vibrant trade policy is important to the United States farmers and ranchers, and to all of agribusiness. We want to see greater opportunity for our agricultural products, and trade negotiations can make that possible. We want to see markets open around the world.

U.S. agricultural markets are already open to imports, and our tariffs are low. Agricultural tariffs worldwide average about 62 percent, while U.S. agricultural tariffs are 12 percent. If you look at this chart, the European Union, 31 percent, Japan 51 percent, Korea 66 percent, and India, a whopping 114 percent, are indicative of what we face when we attempt to export our products. It is to the advantage of U.S. agriculture that we continue to open markets and remove barriers to our agriculture exports.

The overall U.S. trade deficit in 2003 is $489 billion. This means U.S. borders are open and U.S. consumers have significant access to foreign goods. Our borders are open, we import significantly more than we export, and countries around the world know this, and on a daily basis successfully sell their products in the United States. How about the EU? Its trade deficit for 2003 is $14.8 billion. And if you look at the figures for 2002, you will find that the EU has a trade surplus of $10 billion. What does that tell you? It tells you that U.S. farmers and ranchers experience barriers to beef, poultry, and other U.S. products, and they continue to exist in the EU.

These barriers come from high tariffs, the EU's geographical indications policy, and other non-scientific barriers, such as those related to biotechnology and beef hormones.

In 2002, the U.S. trade deficit with the European Union was $82 billion and the U.S. trade deficit with Japan was $70 billion.

Trade negotiations offer an opportunity for the United States to increase agricultural exports. U.S. goals for these negotiations are to decrease and harmonize tariffs, eliminate export subsidies, and reduce and harmonize trade distorting domestic support policies.

Just look at the status quo. The EU is allowed to spend more than three times as much as the U.S. in domestic agricultural payments. Japan is allowed to spend one and a half times the amount the U.S. is allowed to spend under the Uruguay Round Agreement. That chart reflects that disparity.

It is wrong to continue the Uruguay Round kind of reductions in domestic support. That is, just applying a percentage reduction to allowable spending. The disparity in spending among the U.S., the EU, and Japan must be reconciled, and harmonization must be a central part of the agricultural negotiations. The U.S. and the EU have similar agricultural output, and yet, the EU can spend significantly more than the U.S. under the current WTO agreement. Japan has fewer acres dedicated to agriculture than the U.S. and they also can spend in excess of the U.S.

American farmers and ranchers recognize the necessity of exports for their success. However, I am concerned that confidence in trade agreements and agriculture's place in those agreements in weak. The reasons why include the beef hormone WTO decision affecting U.S. exports to the European Union, and enforcement of the provisions agreed to in negotiations over China's accession to the WTO. I am also concerned about the problems with agricultural trade with Mexico and its efforts to restrict U.S. exports.

Our two distinguished witnesses will address these issues and provide the committee with information regarding the status of agricultural negotiations.

I made a promise at the beginning of this Congress that the committee intends to pay very close attention to all trade negotiations and to listen to U.S. agriculture's views on this important matter. Last year, the committee held hearings on agricultural trade, biotechnology, and geographical indications. The committee will continue to follow these issues.

This includes ongoing multilateral trade negotiations and all regional and bilateral negotiations. It also includes oversight of past agreements, such as with China, and other accessions to the WTO, such as Russia. It means looking closely at problems U.S. agriculture faces regarding sanitary and phytosanitary issues, such as those with Australia.

Again, I welcome our witnesses and look forward to their testimony. At this time, it is my pleasure to recognize the ranking member from Texas, the gentleman from Texas, Mr. Stenholm.

**OPENING STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. STENHOLM. Thank you, Mr. Chairman, and I join you in welcoming Secretary Veneman and Ambassador Zoellick to our discussion this morning.

The chairman is right about the Brazil case. We are entitled to support our farmers under the rules agreed to in the Uruguay Round. We have designed our programs in our compliance with those rules, and will not abandon our farmers in the face of decisions that appear to ignore those rules.

And let me take this opportunity to commend both of our witnesses for their continuing commitment to opening markets for U.S. agricultural products.

Secretary Veneman, you mentioned at our May 2003 hearing, about a third of our production capacity is devoted to export sales. In that testimony, you also pointed out the Harbison draft, which had been issued only two months before, would leave too much trade distorting support concentrated in one member, the European Union. As you mentioned under Harbison, the EU would be allowed to provide about three times the support the United States is permitted. You also mentioned that Europe and Japan were both considering reforms on domestic support, and as a part of today's discussion, I look forward to discussing the results of those reform efforts, and whether Europe and Japan have gained enough flexibility in their negotiating mandates to get us beyond the 3 to 1 scenario on domestic support the chairman has just demonstrated.

Ambassador Zoellick, thank you for taking the initiative in the Doha Round with your letter of January the 11th, and the 32,000 mile trip to meet with representatives from 40 countries to discuss the Doha Round. That is where we ought to be settling our trade disputes. As you know, most in agriculture believe that the multilateral negotiations in the WTO provide the best opportunity to increase U.S. agricultural exports and all world exports. I believe that priority is reflected on page 2 of your overview of the U.S. trade agenda, with "a global WTO agreement," at the top, followed by regional initiatives, "bilateral FTAs, enforcement of trade laws and agreements, and worker adjustment and education." I would just add that if those are intended to be listed in the order of priority, I would move enforcement of trade laws and agreements to the top of the list.

Ambassador Zoellick, I would also like to thank you for a couple of points in your January 11 letter. First, that cotton was not specifically mentioned in the Doha mandate, and for reaffirming our intention to include cotton in the broader negotiations on agriculture. Second, for calling for a common methodology providing for substantial, and again I quote, "substantial openings in markets of developed and developing countries, especially those that are competitive in sectors of agriculture and with stronger economies." As you may be aware, Brazil has increased production of cotton, soybeans, broilers, pork, corn, and beef by 25 to 75 percent since the late 1990's.

Reuters recently reported that the Chinese government is studying the potential investment of between $3 billion and $4 billion in infrastructure projects in Brazil. Brazil's Agriculture Ministry said last February that China was interested in building railways and other infrastructure in Brazil in exchange for commodities like soybeans, cotton, and cane-based ethanol. In fact, a deal could be signed this month. With a deal like that in the works, it is difficult to see why Brazil needs special and deferential treatment for its agriculture sector.

In closing, I would like to quickly address Ambassador Zoellick's comment that the United States could live with commodity-specific limits on aggregate measures of support, as proposed by Derbez text presented in Cancun. Such limits might prevent another WTO member from lowering support for one commodity so that they could raise support for another, but it could also make our farm programs more vulnerable to conditions outside the United States, such as adverse policy decisions by other countries.

I would like to address this point further in my questions and give our witnesses a chance to respond. Thank you, Mr. Chairman, and I look forward to hearing from our witnesses.

The CHAIRMAN. I thank the gentleman. In order to proceed directly to our witnesses, and allow Members the maximum amount of time to be able to question the witnesses, we will put other Members' opening statements in the record. At this time, we would welcome again Secretary of Agriculture Ann Veneman.

Mr. STENHOLM. Mr. Chairman, I have a new Member.

The CHAIRMAN. I am going to suspend that, because we do have another important activity to acknowledge. The gentleman from Texas.

Mr. STENHOLM. Thank you, Mr. Chairman. I would like to introduce the newest member of the House Agriculture Committee on our side, Ben Chandler, from the Sixth Congressional District, the heart of Kentucky bluegrass country. He served as Kentucky State auditor and attorney general, well versed in agricultural policy, has a solid reputation as an independent thinker throughout his distinguished career in public service. He is also serving on the Homeland Security and International Relation Committees, and I join and I hope the whole committee joins, Ben, in welcoming you to the House Agriculture Committee.

The CHAIRMAN. I too would like to welcome Congressman Chandler, and tell him that I spent a couple of days in his district, just about 10 days ago, and it certainly is beautiful in and around Lexington, KY. So you are very fortunate to represent a great part of the Bluegrass State. Would the gentleman care to say anything?

Mr. CHANDLER. Thank you, Mr. Chairman. I am very pleased to have the opportunity to serve on the Agriculture Committee. I am very much looking forward to it. I hope that you managed to go to a race while you were in the Bluegrass. This is a good time of year to be in central Kentucky, and we would invite you back often. Mr. Ranking Member, thank you very much for that kind introduction, which of course is well beyond my due, but I look forward to being a useful, contributing Member to this committee, and I appreciate the kindnesses that have been displayed to me.

Thank you very much.

The CHAIRMAN. I thank the gentleman for his kind words, and for his invitation to come back. I probably will, since that time, I didn't leave much behind.

Mr. CHANDLER. That is good.

The CHAIRMAN. And now, we will turn to our distinguished witnesses, Secretary of Agriculture Ann Veneman, and United States Trade Representative Robert Zoellick.

We are pleased to have both of you with us, and we will start with Secretary Veneman.

**STATEMENT OF HON. ANN M. VENEMAN, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE**

Secretary VENEMAN. Thank you, Mr. Chairman and members of the committee. I appreciate the opportunity to appear before you today. I would like to add my words of welcome to Mr. Chandler, and to the committee and to the Congress.

I am very pleased to be appearing, once again, with my good friend, Bob Zoellick, who does an outstanding job as Trade Ambassador, and is a strong partner with USDA in advancing agricultural trade interests. And I appreciate, Mr. Chairman, the importance that this committee has placed on international trade, and the interest that you and other Members of the committee have shown in the trade issues.

We share your concern about the news of the Brazil cotton case that was announced just this week, and Ambassador Zoellick will be addressing that in his opening comments. The importance of exports—Mr. Chairman, I do have a longer statement, which I would ask that be included in the record. The importance of exports to agriculture simply cannot be overstated. Exports solidly underpin farm income and support almost 900,000 jobs, of which 40 percent are in rural areas. It is estimated that every additional $1 billion in exports adds another 15,000 jobs on farms, facilitating trade in processing, in manufacturing, in transporting commodities and food products.

Let me begin by briefly noting the current global supply/demand situation. In short, the position we are in today is a historic one. Our farmers and ranchers are benefiting from strong prices across most of the agriculture sector. For the major grains, global consumption continues to outpace production, and we are experiencing the lowest carryover stocks in relation to utilization since records have been kept.

Our agricultural exports are clearly benefiting from this situation, reinforced by the lower valued U.S. dollar, accompanied by stronger growth in U.S. and world economies. In 2004, Gross Domestic Product growth in the world economy is expected to grow about 3.6 percent, a clear improvement, but the pace is expected to be even more rapid in some of the faster growth markets for our agricultural products.

I am pleased to say that we are forecasting near record agricultural exports for fiscal year 2004, at $59 billion. This is $2.8 billion above the fiscal year 2003 export values. This is also in spite of the one case of bovine spongiform encephalopathy, or BSE, in the state of Washington, which disrupted our beef exports originally forecast this year at $3.81 billion. Without this negative factor, our exports easily would have surpassed the 1996 record of $60 billion, although we remain optimistic that a new record might be set.

Let me update the committee on the current outlook for our most important export markets. First, Canada is our largest export market, and we forecast sales for the fiscal year at $9.9 billion, up $9.1 billion from last year, a 9 percent increase. Our second largest market is Japan, with sales now forecast at $7.8 billion. This number is lower than the $8.8 billion of last year, due to the halt in our beef sales and the interruption of our poultry sales. Our third largest market is Mexico, now forecast at $7.7 billion for fiscal year 2004, which is slightly more than last year. However, we expect this to be larger now that Mexico has lifted nearly all of the restrictions on U.S. beef following the BSE incident.

Finally, our fourth largest market, the European Union, has forecast sales of $6.7 billion, up from $6.1 billion last year, or a 10 percent increase. Despite the adversities of animal diseases, this is still an extremely bright export sales outlook. There are also two particular market areas that merit special mention, our NAFTA partners and China.

As you know, this year marks the 10th anniversary of NAFTA. We recognize that there are still issues about this trade agreement, but it is proving advantageous in all three countries. It certainly has greatly benefited U.S. farmers. Before NAFTA, our food and agricultural exports to Canada and Mexico together were only equal to Japan, which was then our No. 1 export market. While sales to Japan are down slightly from 10 years ago, exports to our NAFTA partners this year have increased to more than double our sales to Japan, or an unprecedented $17.6 billion to NAFTA partners, versus $7.8 billion to Japan.

The second area that deserves special mention is China. This is an extremely bright spot in the agricultural trade horizon, and it could well be the world's top agricultural growth market over the next decade. Our sales last year of $3.5 billion to China moved it to our fifth largest market. Sales this fiscal year are now forecast to be a record $5.4 billion, triple the amount in 2001, when China joined the WTO.

China accounts for nearly 10 percent of our agricultural export sales, and has quickly become our No. 1 market for our soybeans, cotton, and our hides and skins. In addition, it is now our sixth largest market for wheat, and our analysts continue to speculate that corn purchases could also be in the offing.

China's GDP this year is expected to grow more than 9 percent, or an additional $540 billion in spending power. While the trade figures are impressive and encouraging, they do not take away from the fact that China must fully implement the commitments it made upon joining the WTO.

This administration is aggressively working with China to implement its WTO commitments. China has made great strides, to be sure, in modifying over 3,000 laws and regulations in the past three years to comply with the accession agreement, but we continue to be vigilant to ensure that it lives up to its previous commitments. Our recent meetings here in Washington were focused on that task. Last week, on April 19, I met with Minister Li, of the Quarantine and Inspection Ministry, to review several specific SPS issues, and to seek ways to improve our cooperation and prevent trade disruptions.

Then, on April 21, I participated along with Ambassador Zoellick and Secretary Evans in discussions with Chinese Vice Premier Wu Yi and a large delegation of high ranking officials from some 12 Chinese ministries. In preparation for the agriculture portion of these talks Under Secretary Penn had been into China only days before to emphasize our issues. We have had numerous discussions with their policymakers, for example, concerning biotechnology. It is extremely important that China has approved the biotech crop varieties that are grown in the United States to avoid disruptions in trade. In February, China approved some key products, such as Roundup Ready soybeans, and in recent days, approved additional biotech varieties for both U.S. corn and canola.

This year, China has already purchased more than 300 million bushels of soybeans, valued at $2.4 billion, accounting for 44 percent of total sales. There are two pending corn varieties that we now expect Chinese authorities to consider in May. One of the challenges China faces is becoming familiar with our regulations and our procedures, as well as improving its overall capacity to deal with sanitary and phytosanitary issues.

To help meet this challenge, Minister Li—who heads the Ministry with jurisdiction over these matters—and I agreed to develop a memorandum of understanding that will provide for professional exchanges, seminars, and training, and joint research projects to increase our mutual understanding in these areas. In the long term, such increased cooperation and communication should help to both facilitate our trade and prevent sporadic disruptions.

A top priority for the Department since December 23 of last year has been reopening export markets that suddenly were closed after the finding of a single case of BSE in Washington State. We are engaged with our major export markets, one by one, to personally assure them of our robust safeguards, and to indicate that trade can safely resume.

I have personally engaged with my counterparts in a number of foreign governments, including Secretary Usabiaga in Mexico, Minister Speller in Canada, Minister Kamei in Japan, and Secretary Lorenzo in the Philippines, to assure them of the safety of our food supply, and to work with them toward resumption of trade. We also dispatched high level delegations to Mexico and our Asian trading partners on several occasions for more extensive personal engagement. The Vice President raised these issues during his recent trip to Japan, Korea, and China.

All of this support has proved to be instrumental. This past weekend, Under Secretary Penn led a policy level delegation to Japan, and we are very pleased with the progress that has been made in our most important beef market. There now is agreement to a process, which we believe will lead to the full resumption of our trade in our No. 1 market some time this summer.

Our experts will begin discussions with their counterparts on technical issues almost immediately. Our second largest beef export market is Mexico, and that has now reopened trade for more than 90 percent of U.S. beef, variety meats, veal, and tallow products. Last year, these products accounted for about $1 billion in sales from the U.S. to Mexico. This is an extremely positive step, and we continue to work with our Mexican colleagues to restore trade to full normal levels.

In Korea, our third largest market, we continue to have high level consultations, and to provide extensive information on the significant new actions we have taken to further ensure the safety of U.S. beef. We expect a technical team from Korea to visit in the next two weeks to further this information exchange.

We now have the market with Canada moving toward normalcy, and our policy officials are working diligently to harmonize our regulations to reflect the current economic realities. Canada now permits the entry of beef and beef products from cattle aged 30 months or less, live cattle destined for immediate slaughter, dairy products, and other selected ruminant byproducts. These four countries account for roughly 90 percent of our beef and beef product trade, but let me assure you that we are pursuing the elimination of restrictions imposed by a large number of other countries as well.

I will now quickly update you on the status of poultry exports since the disruptions that resulted from the outbreaks of both low pathogenic and high pathogenic avian influenza earlier in the year. Those exports had reached $2.3 billion in the fiscal year 2003. The incidents earlier this year of low pathogenic avian influenza in the mid-Atlantic states, and then our first case in 20 years of high path avian influenza in Texas, have shown how important it is for us to have strong safeguard systems in place.

Our transparency and swift responses to eradicate these diseases, especially in the high path avian influenza in Texas, served to reassure many of our trading partners of the high value we place on the safety of our food products, and the strict control of animal disease. The top two destinations for poultry meat exports from the U.S. are Russia and Canada, and those two countries continue to receive our product from AI-free states. On April 6, shortly after the announcements that high path avian influenza was eliminated from Texas, Canada immediately recognized the United States as free of the disease, and resumed trade entirely.

After numerous discussions with our Mexican counterparts at all levels, the ban was lifted on selected poultry meat products from non-AI states, and unnecessary testing requirements were dropped. Our focus is now on Hong Kong, China, Japan, and Korea, which accounted for 22 percent, or $435 million of our poultry meat exports last year. These countries maintain bans on all products from all the states, and we are working to reduce this immediately.

Two weeks ago during meetings on a number of issues, Under Secretary Penn met in Beijing and Hong Kong with his counterparts to fully inform them of our actions to press for high path avian influenza free status. We continue to exchange technical information with their experts, and are optimistic trade will be resumed soon.

We have invited technical teams to visit our scientists and to inspect U.S. processing operations firsthand. We are extremely gratified by the wholehearted cooperation of our industry in all of these endeavors.

Mr. Chairman, let me summarize by noting that the outlook for our exports is positive this year. We expect to continue that to be the case in the next year as well. And it will remain true over time, if we can continue to open up lucrative markets in the fastest growing parts of the world that want to buy U.S. agricultural and food products.

Thank you again for the opportunity to talk with you today about our trade situation and prospects. Ambassador Zoellick will complete the picture with specifics on the status of WTO, the FTA negotiations, and discuss the cotton case.

I look forward to our subsequent discussion. Thank you very much.

[The prepared statement of Secretary Veneman appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Secretary Veneman. Ambassador Zoellick, welcome.

**STATEMENT OF ROBERT B. ZOELLICK, U.S. TRADE REPRESENTATIVE, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE**

Mr. ZOELLICK. Thank you very much, Mr. Chairman. I would like to begin by thanking Mr. Chairman, Mr. Stenholm, all the Members of the committee, on both sides of the aisle, because you have given us a lot of good support and advice, not only over the past year, but over the past three years, and I really appreciate the chance to work with you. I know we have had a number of informal sessions as well as formal ones, which I think are very helpful for us, to have a sense of your priorities. Al Johnson and I have had a chance to talk with probably almost everybody on this committee, if not all of them, about their individual concerns, but it is really important for us, as we go around the world, to make sure we know your priorities.

And I want to thank Secretary Veneman and her staff. They are excellent partners. The President sets us with a direction. He is emphasizing the importance of agricultural trade for him and his administration, but in many countries around the world, the trade and the ag teams don't work as well as ours do, and I just want to thank them and take this opportunity to do that publicly.

I prepared a longer statement for you, but what I was going to do today, Mr. Chairman, if you would just agree to enter that in the record, is just to take you through this PowerPoint presentation. It may be a little easier.

Just a starting point, again, as an overview, as Mr. Stenholm talked about, we have about $59.6 billion of agricultural exports, and that amounts to about 26 percent of cash sales for the American farm community. What does that mean? Well, in row crops, it means about 1 out of every 3 acres is exported. 15 percent of poultry. Pork and beef are now up to almost 10 percent. And the horticultural exports, which Mr. Dooley will remind me is important, were up to about $6 billion worth.

So, this is a growing part of what we do in American agriculture, and as Mr. Stenholm mentioned, it is a combination of activities. Our top priority on the trade side is the WTO agreement, and then how the regional and bilateral FTAs support them. Enforcement, as you probably say, Mr. Stenholm, is a critical aspect of everything we do. And then I also mention, because whether it is for the agricultural community or others, we know this is an adjustment process, and if we are going to have change, you have to help people adjust.

The next page emphasizes, this committee gave us very strong support in the Trade Act of 2002 in getting trade promotion authority. I just wanted to give a brief report of how we have tried to use the past couple years to put it to good use.

With your help, we have completed and passed the free trade agreements of Singapore and Chile. We have now launched and completed free trade agreements with Australia, five countries of Central America, plus the Dominican Republic and Morocco. We have in progress free trade agreement negotiations with the five countries of the Southern African Customs Union, Bahrain, and just this week, starting Panama. We are about to start with Thailand and a number of the Andean countries, and going to a point that I think the Chair mentioned, one of the reasons these were high on our list is the ag community emphasized these as being very good, important markets. They are growing markets. They have high agricultural consumption. They are good opportunities for the future, and they have both got high barriers, too, as a matter of fact.

The Miami framework to advance the Free Trade Area of the Americas, and then the Doha negotiation, which we were able to launch at the end of 2001, a number of you were with us in Cancun. I think there is a sense around the world that it was a missed opportunity, but our key point is that 2004 need not be a lost year.

Now, picking up on the point of enforcement, because I know it is the point that is raised with many of you and with us by your constituents, I just wanted to emphasize how we approach this. Some people talk about litigation, but as you see, I noted at the bottom, there is really a range of tools here. There is the case of persuading, for example, in Mexican beef. If we had brought a case on BSE, that would have taken a year and a half. Secretary Veneman and I worked very closely with different ministries, emphasizing that Mexico was frankly having a much higher cost for protein because of the blockage for beef and for poultry.

An explanation case, India. Many countries, their ministries frankly, some of their customs ministries aren't as informed about the trade rules. So India recently stopped our almond exports because of some methyl bromide requirements. It is about $70 million of exports of almonds, and we probably just had to explain to them what the rules were.

Building local support, part of our effort with Japan is, frankly, to get the consumers in Japan to emphasize how the loss of American beef is very important to them.

Other incentives. Before we launch these free trade agreements, we put a lot of emphasis on countries of cleaning up problems, so whether it be a problem with Colombia, or another SPS issue, we try to get things cleaned up before we do.

Providing assistance. For a lot of developing countries, they are willing to abide by the sanitary and phytosanitary rules, but they don't really have the capabilities to do so. We work with AID and others to try to emphasize that. And then of course, ultimately, negotiate and litigate.

So you see a little bit of the record here of brief times in terms of the $935 million market for beef. We felt our progress with Mexico was not sufficient, so we brought the case that the chairman mentioned with high fructose corn syrup. I mentioned the almond case, and a lot of people are unaware. We now have about $1 billion of almond sales around the world, so this is a very important area for us. And cotton and soybeans, this is an area that obviously we work closely with Mr. Stenholm, Mr. Chocola, Mr. Hill, and others, and the numbers, in terms of the China market, that Ann was referring to, that is now at $2.9 billion of sales of soybeans.

So I was talking to Mr. Peterson about the price of soybeans being about $10 a bushel, and a lot of that, thankfully, can be traced to the demand in China. And cotton, $740 million of sales, and in the first two months of this year, our sales of cotton to China were about $500 million. And so we hope this is even going to be a much bigger banner year on this.

In poultry, pork, and beef, we negotiated with Russia an access agreement, and this is one that we worked closely with the chairman on. He wrote us about this, particularly with the poultry market. And in next month, Al and I hope to be finalizing some of the details of that with our Russian counterparts. Again, the apples case. Mr. Larsen isn't here, but he worked very closely with us on this, about the case against Japan. Hogs, I know it is an interest to a lot of you, Mr. Etheridge particularly was focusing on this case with us with Mexico and opening the market.

So, if you actually look, Mr. Chairman, at our WTO cases we filed in this administration, over half of them are agriculture, so this is very high on our list.

Now, to go to the negotiations. The challenge is trying to get 147 economies to develop a consensus to move forward. And as I mentioned, the sense that we had by December was that in the aftermath of the Cancun breakdown, a number of countries were seeing this as a lost opportunity, but they didn't really have a sense of how to move back to the table. And that is what prompted us to send out the letter that I sent to all my ministerial colleagues, followed with a trip, and we have now had meetings in Geneva in March and April. And in fact, I am leaving this afternoon to another session, to try and push this forward ahead by the summer.

Our focus, which is the focus that you have guided us towards in this committee and the ag community has had, which is the key three pillars. We want to eliminate export subsidies by a date certain. That has been a big goal for U.S. agriculture, and frankly, I think it is a goal that is now within reach. The European Union is getting a lot of pressure on this, and for a lot of products. About a third of their agricultural export subsidies go to sugar, beef, and dairy. It makes a big difference around the world. I am sorry, about 90 percent of their subsidies go to those three.

And as both the chairman and Mr. Stenholm mentioned, looking back at that chart that the chairman had, is that the Uruguay Round left us with a real asymmetry in terms of those overall numbers, and so our goal is not just to cut domestic support, but to do it in a harmonized fashion. And that is another area, Chairman, that I think, following up on the CAP reform, that we have some acceptance even by the European Union that we will have to do that.

Now, there are some other areas that we have dealt with like the Blue Box, which we have emphasized if Europe is going to keep it, we are going to need to keep it in an equal way, and which I think will also help.

But also, a key point is market access to both developed and major developing countries. With your support and the support of the Agriculture Committee, we are willing to cut, if we can get others to cut, but it is critical that we get others to move with us. And I have mentioned some of the other items here that are part of this, but agriculture will be the core of these negotiations, for us and others going forward.

The next page duplicates some of the points that the chairman mentioned, so I won't go over them, but I will just even point out that because of exchange rates, the numbers that the chairman mentioned, I think he used about $67 billion for the EU, their bindings are in euros, so as the euro value changes, that is actually up to about $80 billion now, in terms of dollar amount, and for Japan, about $37 billion. But you can see, just as the chairman had on the chart, the U.S. average tariff level in agriculture is about 12 percent. The world is 62 percent. Export subsidy expenditures, the chart to the right. 88 percent of that comes from the European Union, 2 percent from the United States, and then you have a domestic support chart, like the chairman had.

Now, we do complement this by trying to move in regional areas. With the Free Trade Area of the Americas, we have settled on an approach for the Enterprise for ASEAN Initiative. This is really a pathway to try to move through countries in Southeast Asia. A lot of these countries are good potential agricultural markets. The incomes are going up, the populations are up. Their tariffs are relatively high, and that is what led us to start with Singapore, move on to Thailand, and then try to create some momentum.

And we are taking a similar approach in the Middle East. Now, I get a question, and I am sure many of you get it, about well, why does the United States do bilateral agreements? Obviously, the biggest bang for the buck is in the case of Doha. That is definitely true, but when you have to move something along with a consensus with 147 players, we decided we don't want to let somebody hold us up. We don't want to give somebody a veto of us, over us, so we want to try to use some leverage.

Just to give you a little basis of our new impending free trade agreement partners, and these are just the players we have had since you helped us pass TPA. That is 300 million people. That is the same size as the United States. It amounts to the world's sixth largest economy, fifth largest market for U.S. agricultural exports. $4.2 billion in U.S. agricultural exports today, but these are growing markets, so I would expect that to move ahead.

And I mentioned Thailand. Mr. Dooley has been one of our co-chairs of this effort with the Thai Caucus in Colombia. One of the reasons we focused on these is that in the case of Thailand in 2003, we had record U.S. agricultural exports, including beef, pork, horticulture, and soybeans. And because of various trade preference programs that have been in place for many years, 99 percent of Thailand's agricultural exports already come into the United States duty-free. But Thailand's bound tariffs, not necessarily their applied level, but the ones they could go up to, are about 35 percent, and they have tariff rate quotas on a lot of products. So frankly, if the other guy has got 99 percent of his product coming in duty-free, and we are limited with a 35 percent tariff, you can see the benefit of opening this market.

Same in the case of Colombia. That is already the largest market for U.S. ag products in South America, including corn, wheat, soybeans, and cotton. If you take Colombia, Peru, and Ecuador together, and we are trying to resolve some investment issues to move ahead with Peru and Ecuador, that is almost a $1 billion ag market for us.

Now, looking at some of the agreements we have concluded, starting with the Central American Agreement and the Dominican Republic, again, you have the same phenomenon that I mentioned for Thailand. Today, 99 percent of these countries' farm goods enter the United States duty-free, and we don't have reciprocal U.S. access, so our free trade agreement is the best way to level the playing field.

What this agreement does is take more than half of current U.S. farm exports and make them duty-free immediately, so that is product as varied as apples, French fries, soybeans, wheat, and cotton. Did analysis of the agreement and said it could mean another $1.5 billion for U.S. farms. Now, we know we have sensitive products, and the most sensitive one is sugar. The way we handled sugar was very important. We made no change in the above quota tariffs, which all of you know are actually quite high.

The only thing we changed was the quota amount, and the increased access amounts to 1.3 percent of U.S. production. That increase is about one day's production. Now, some of you from sugarbeet or sugar cane states say why did you have to do anything, and the reason I would answer, or what I would say in an answer is you have to look at the rest of the columns to be able to get the addition for pork and beef and corn and wheat and other things. We had to do some opening for your sugar, but we did it within the bounds of the sugar program that the Congress has created. This agreement also includes some strong labor and environment provisions which we believe will also help these countries enforce the rule of law and have better protections.

Now, let me move to the Australia Free Trade Agreement. On this one, all U.S. farm exports will enter duty-free from day one. That is about $400 million of trade. That benefits processed foods, oilseeds, oilseed products, fruits and juices, vegetables, nuts. We worked with Mr. Nunes about, I know, it is a sensitive one, is distilled spirits. Sensitive products, and so we work very closely with the ag communities, and Members of this committee on these topics. In the area of dairy, we did the same approach that we did for sugar in CAFTA. We didn't touch the above quota tariff. And so what we did is put a modest quota increase that amounts to about 2 percent of the value of U.S. production.

In beef, we put in a quota that grows very, very slowly, over the course of 18 years. The quota is only for manufactured beef, which is a complement for a lot of the corn-fed beef that we have. The above quota tariff phases out over 18 years, and it is back loaded. The tariff reductions don't even start until year 9. And we were to able to have safeguards not only during the 18 years, but a price based safeguard after the 18 years going forward.

Sugar, no change, and then for our sensitive products like avocados, cotton, peanuts, and tobacco, we worked with our TRQ system.

Now, another important element that the chairman and others have emphasized is moving ahead with sanitary and phytosanitary commitments with Australia, because they have had a more restrictive system. Here, we not only affirmed the process in the WTO, but we established a special structure working with USDA to try to get through these problems and resolve them on a scientific basis. And again, I think we share the view with this committee, we don't negotiate SPS issues. We have sensitive subjects that we want to make sure are done as a science-based method. We want to make sure that people do them fairly and quickly, and not use this as a reason to drag out, and so we have already moved ahead with risk assessments on track. There is one most far ahead on pork, stone fruit, poultry, and Florida citrus.

The Morocco Free Trade Agreement. Here is one where we managed to get some benefits that are really going to help us compete with Canada and the European Union. Beef and poultry, obviously, give poultry important to the Chair, but Mr. Hayes, I know, was here, just came back, is a very important issue we worked on with him. This was formerly a closed market to us. We now have new tariff rate quotas that could mean a five times increase in wheat exports, two times increase for almonds. Significant tariff cuts for corn, soybeans, corn and soybean products, immediate duty-free access for cranberries, pistachios, pecans, whey byproducts, processed poultry products, and pizza cheese. Zero tariffs within 5 years for walnuts, grapes, pears, and cherries. And again, we try to deal with some of the sensitive subjects. Mr. Nunes and I were deeply involved with this issue of olives, trying to deal with the most sensitive tariff line and put in a very long phase-out.

Trade with China. As Secretary Veneman mentioned, this is a major market today, and it is going to become an even more important market in the future. U.S. agricultural exports grew 140 percent from 2002 to 2003. This is already our fifth largest export market for agriculture, and if you include the fishery and the forestry products, it is $5.4 billion of exports.

U.S. soybeans to this market are already bringing home more money than you get from sales of U.S. airplanes, $2.9 billion, and in this JCCT meeting that we just had a week or so ago, we managed to elevate the dialogue by involving a Vice Premier that supervises a lot of the ministers, to try to bring forward some good results, and again, this shows, I think, some of the payoff of the work with your help that we do with China, as all of you know, we have had biotech issues, and we are pressing the Europeans in a suit, but we solved these problems with China with soybean, corns, canola, cotton, and the last two corn ones, we expect to get in May. That is a real big benefit to be able to get a major developing country to back us on biotech.

We had problems in transparency in TRQ administration, but Al Johnson, and J. B. Penn, and the Secretary have made progress with these cotton, and indeed, we made additional progress where just over the past couple of weeks, they give our people the list of the people who get the quotas, so they can be able to do the deals directly. And then commitments in other areas important for the U.S. economy, in IPR, trading distribution rights, high tech.

Just a concluding point, looking ahead, we recognize that American agriculture is as much a part of this as any other sector of our economy. We have got technological changes. We have got big changes in terms of population growth around the world. So we have to manage this in a way that takes advantage and seizes advantage for American farmers and ranchers.

One thing we know won't work, and that is economic isolationism, raising barriers. You have got almost $60 billion of exports around the world, and you start to raise our barriers, well, what do you think people are going to do to us? Trade benefits more Americans through more markets, more choices, lower prices. So, our strategy has been to open new markets for products and services through trade agreements, but at the same time, emphasizing a level playing field, with full enforcement, cutting hidden import taxes that hurt American working families, and also, on the side that many of you in your districts, from the business side, trying to create an environment here where we can in-source jobs with investment, and also helping people adjust with change, whether it be through education, worker training, portable pensions, helping people save their own hard earned dollar.

Let me just close with a point on cotton, because given that this case came down, the chairman's point, I just wanted to share with you, we had some chance to—Al, I think, had a chance to talk with some of you yesterday and brief your staff. But let me just tell you where we are on this.

What the WTO panel issued was called an interim report, some 375 pages long. At this point, it is supposed to be confidential—but you always start to see leaks about the nature of it—until mid-June. Now, the reason why it is in a confidential state is we and the other party has an opportunity to review the report and make suggestions before it is made final in mid-June, which we are clearly doing.

The key point that I want to emphasize that guides our direction on this is the point that the chairman and Mr. Stenholm started with, which is we believe U.S. farm programs are fully consistent with the WTO rules. Now, if this panel comes out in final form, in a similar pattern as the interim report, you can be 100 percent sure we are going to appeal this and press this all along the way, as the chairman and Mr. Stenholm urged us to do.

There is no immediate impact for farmers and ranchers around America, because this litigation process will continue, and this could last months and possibly a year or years. Now, depending on the result, we will need to work with you, because this can have opportunities and problems, both offensively and defensively, related to our trade policy, related to our relations with the WTO, related to our farm policies. So, of course, one of our key efforts, and in that way, this hearing is very timely, is to work closely with you formally and informally to make sure, as we analyze it and see the results, that we can get the guidance of this committee. As Mr. Stenholm mentioned, and I didn't realize he was a citrus district, but sometimes you can make lemonade out of lemons, as he told me, and I think there may be some opportunities for that, too.

The key point here is to stress what we have always emphasized, which is unlike some countries, the United States has been willing to negotiate its subsidies and willing to negotiate its tariffs. We were the country that put forward a very bold offer after we launched the Doha negotiation, to eliminate export subsidies, to cut domestic support, and frankly, cut tariffs very significantly. And we haven't changed in that position. That is one of the reasons why I sent the letter that Mr. Stenholm referred to. We want to get people back at the table to move forward.

But as the chairman and Mr. Stenholm mentioned, we are not doing it by ourselves. Everybody has got to come to this party and play, because of the numbers that the chairman put in his chart. And my message is that I think it would be a very big mistake to try to solve these very complex agricultural issues through the process of litigation country by country. It will be piecemeal, it will be uneven, it is going to be very drawn out, it is going to be long, and in my view, it is going to be contentious and ultimately counterproductive. I don't believe that approach is going to lead to a sustainable solution, and that means that it is going to be very important for everyone to be willing to negotiate together. And what I want to assure this committee is to make no mistake, that we are going to fight to defend U.S. ag interests, regardless of the forum, whether it be litigation or negotiation. I would see this decision as one stage in the process. This is a marathon. It is not a sprint. And this is an early mile in this process, and as we go forward, we will be working with this committee to keep pace with you.

Thank you.

[The prepared statement of Mr. Zoellick appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Ambassador. In that light, let me introduce to the committee another distinguished visitor that we have with us this morning, and that is the new Ambassador to the United States from Brazil, Ambassador Roberto Abdenur.

Ambassador, we are pleased to have you with us to listen to our side of the story. In that regard also, Ambassador Zoellick, and Secretary Veneman, I am pleased to hear that you will consult with and keep the members of this committee fully informed of all activities related to this case, and that you will aggressively pursue all possible appeals in this case, so that we can maintain our farm programs, that were designed to be and are fully consistent with our WTO obligations.

Secretary Veneman, in that same regard, I wonder if you would comment on the participation of developing countries in the negotiations on agriculture. I understand that the Doha Development Agenda directs that special and differential treatment for developing countries is to be part of all negotiations.

The real question is what is a developing country? Is Brazil? I have been to Brazil. We are not talking about small farms, inefficient processes. We are talking about very large, massive farms. I visited one company that raises 500,000 acres of soybeans, and has developed quite an infrastructure in the country for the export of this product. They are a very modern and advanced and very competitive country when it comes to agricultural products. They are the world's largest exporters of soybeans, citrus, the world's largest exporters of coffee and tobacco, and the world's largest exporters of sugar. Is it expected that a country will continue to be able to declare itself as a developing country with no opportunity for any other country to object, and thereby have a longer time period to implement reforms to its agricultural program without being challenged on that basis?

Secretary VENEMAN. Well, Mr. Chairman, thank you for the question, and certainly, as you know, developing countries are playing a key role in this round of WTO negotiations, hence the Doha Development Agenda. The developing countries, as I said, be they in Africa or around the world, have been very proactive in the discussions, and certainly I think when you joined us in Cancun, you saw the significant role that they are playing.

But the question you raise is a very, very important one, and one that we have continued to press in the negotiations as well, and that is that while countries may be deemed to be developing countries generally, many times in agriculture, that is not the case. And particularly in the case of a country like Brazil, where they are very developed from an agricultural perspective, and we don't believe that Brazil and countries like it should be deemed to be developing countries for purposes of their commitments under a WTO agreement.

This is a point of negotiation, but certainly something that we in the United States feel very strongly about.

The CHAIRMAN. Thank you. Ambassador Zoellick, can you update the committee on the issues related to geographical indications and the WTO agricultural negotiations? I understand that the European Union included provisions in its market access proposal for agriculture that could, if adopted, harm exports of U.S. products such as meats and cheeses. I would appreciate if you would bring us up to date on the issue of geographical indications as related to the current WTO negotiations, and the USTR's recent action to seek consultations in the WTO over the European Union's action on geographical indications.

As you know, this is already a problem for U.S. companies in Europe, and now they want to extend that to the United States and elsewhere around the world. I am sure everybody in the room is very familiar with this green can that contains Parmesan cheese. Most Americans have one in their refrigerator, and they do, not because of anything that anybody in Parma, Italy did, but because of the marketing efforts of Kraft and a great many other food processing companies in the United States and elsewhere in the world.

In Europe today, we found this in Europe on my last visit. This is what Kraft is reduced to. They must sell it under the name Pamesello Italiano. It does not allow them to use the name Parmesan because of rules in Europe, and I would appreciate your comments on that.

And on a brighter note, I was also pleased to learn that you have been advised that the EU will not allow the Czech Republic to use the terms they listed as GIs in their accession treaty to the EU in translation, which means that they will not be able to translate their terms to Budweiser. This is obviously an important American trade name as well and one that has been talked about as being excluded from being able to be used in Europe, so we thank you for those efforts.

I wonder if you would comment on the subject in general.

Mr. ZOELLICK. Well, Chairman, you will appreciate knowing that, and the committee may be interested, when I had lunch with the chairman, and he brought out the Parmesan cheese, I thought it was for my salad, but I realized it was now a larger point being made. And I keep it in my office, and sometimes some people from other countries say why do you have that there, and I point out the importance of the issue.

A couple points, Chairman. First, in terms of trying to get the WTO negotiations back on track. This issue hasn't really changed since you last left it, and our position has remained as it has been, which as you know, in the area of wines and spirits, we are willing to negotiate a voluntary register, but we do not want this to become a new device for protectionism.

One way we wanted to drive home that point is the second issue that you mentioned, which is that there is a real irony in the European Union's position, because we believe the European Union's treatment of other countries' geographic indicators violates WTO rules, because they are not allowing national treatment.

You can only register a name if it is based on an EU place name, or unless you accept their system, which is a reciprocity requirement, not national treatment, and so, we thought this is a way of combining a case with our larger point.

And then third, as you said, we had been working closely with the European Union as the Czech Republic came in. They managed to protect three Czech names. We wanted to make sure that the translation to Budweiser wasn't something accepted, and we were just able to verify that in the past day or so.

The CHAIRMAN. Well, thank you. We are inclined to call all this a bunch of bologna, but then we find that that is indeed another name that the Europeans want back and don't want to allow us to use in this country. So we appreciate your efforts, and hope you will persist in that.

It is now my pleasure to recognize the gentleman from Texas, Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman. I think it would be important to reiterate the comments, Mr. Chairman, you made, and both the Secretary and Ambassador made regarding the importance of world trade. And also, for the world to begin answering the question as to how long you believe that the United States of America can keep buying $540 billion from you every year, more than we buy from you, without the law of economics taking over, or politics. And that is what the WTO round, the Doha Round, is all about, is attempting to open markets, all markets. And as has been pointed out, ours is relatively open. But we are not perfect, and in being not perfect, that means you negotiate through good faith negotiations to do something about it.

You know, something my colleagues in the Congress had better start thinking about is when we buy this $540 billion from the rest of the world, what happens to the money? Thank goodness these same folks that we sometimes criticize are buying our debt, because if they were to stop buying our debt that we are running up at an even more alarming rate, we would have real problems. And it is time that we start thinking about that, other than doing what we are going to be doing on the House floor later today, just building up more debt, and saying it doesn't matter.

I think my colleagues on this committee particularly ought to start thinking about that a little more than we do. China, right now, buying a lot of cotton, and we are very appreciative of that. But the question is are they going to buy it next year? Are they going to live up to their WTO agreement? I hope so. That is the critical to all of this. As the chairman has made it very specific, this committee, certainly I will speak only for myself, but I believe that in a very bipartisan way, we will live up to our agreements, and we believe to the best of our ability that the 2002 farm bill did live up to our agreement, that which was negotiated.

Now, we are facing with the potential, it is allegedly, it is hypothetical, we don't know, as I understand, Ambassador, you pointed out what came out in the papers is an initial report. We do not know any specifics of what we are talking about as yet, and therefore, will not comment on that which we do not know. By June, we will know. But I think we can safely say this, we now know that we have got a new dimension in our trade negotiations. It is called litigation. And it is very difficult to be in the courts litigating at the same time that you are going to be having good faith negotiations.

That is something that we all need to think. It has certainly gotten me to thinking, because the bilaterals that you spoke about, each of them have got some problems of their own merit, but one of the strengths of agriculture, and one of the great strengths of this committee, for as long as I can remember, has been we work together. We don't have Republican and Democratic ideas on this committee. We have agricultural ideas. And I know as one that is now saying, taking a look at these bilaterals, we have got a new dimension that has been thrown in that is going to cause at least this one Member to sit back for just a moment until we can fully analyze what this WTO finding really means, because we, I know, once we find out what it really means, we will address it. But by doing that, I have always been a little nervous about us negotiating bilaterally until we can get some of the multilateral deals made.

You have caused a lot of criticism, Mr. Zoellick, because of the exclusion of sugar from the Australian agreement. Well, my question to you is isn't that fairly normal in negotiations that something gets excluded?

Mr. ZOELLICK. Mr. Stenholm, it certainly is. When I was in South Africa on this trip that—pushing the WTO—I was talking to my South African counterpart, and he was saying how delighted he was that some 45 percent of their agriculture was covered in their free trade agreement with the EU, and the Mexicans covered about 45 percent of their agriculture, they told me, with Japan.

Now, we do try to be comprehensive. Now, in the NAFTA, actually, many people forget, with Canada, we excluded sugar and some dairy, and some eggs, so we have already done this. The reason we try to be comprehensive is because we need to get other people to put their items on the table, and in the case of Central America, for example, there was a very strong export interest to the United States in agriculture, and to draw out their positions on a number of these items, corn, soybeans, beef, poultry, and others, we had to be able to say we will be able to discuss everything.

But then what we tried to do was deal with sugar very sensitively. Frankly, in the case of Australia, we felt there was enough diversity in this agreement, and there was enough interest, and we knew there was enough sensitivity in the agriculture community, we had to deal with beef, dairy, and sugar in special ways, and that is what we did. That is why I think it is a good agreement on the manufacturing as well as the agriculture side.

Mr. STENHOLM. My time has expired, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. The gentleman from Michigan, Mr. Smith.

Mr. SMITH. Give us the timeline as you see it on the followup on this interim decision of the WTO judges on cotton.

Mr. ZOELLICK. As Mr. Smith and I were talking a little bit before the hearing, the final report should be due out, I think it is June 18, about the middle of June. After that, assuming that it comes down in somewhat similar to the form we saw the interim, we will definitely appeal. There is not a definite time for appeal, but basically, look towards the end of the year, sort of a period for appeal.

Then, depending on what happens under appeal, then at least under WTO rules, a party can determine, it has a time to come into compliance. And now, we are starting to get very hypothetical, Mr. Smith, because we don't know what will happen at the final ruling, what will happen in terms of an appeal, but there is a period, and this also depends on what the elements are. There may be some elements that we could meet them, if there have to be changes, with rather modest changes. It is really starting to be very hypothetical.

But I think the key, Mr. Smith, is the one that I think all of us have mentioned. And this is important to also know, is that we can decide not to meet them, in which case other parties can retaliate against the United States. That path, in my view, is a destructive path for the world economy, and that is why the key path, and I hope that the countries that are bringing these cases recognize that could get us into a spiral that could get——

Mr. SMITH. So how is this going to affect WTO negotiations, with that sticking out there with this issue, some of the concern and some of the failure at Cancun, how is this going to affect WTO negotiations?

Mr. ZOELLICK. Well, from the U.S. part, it doesn't change the commitment that we have shown from the start. In other words, we have said if we can get others to cut their subsidies, eliminate export subsidies, cut the tariffs, particularly some of the major developing countries as well, we want to go forward. But we are now looking at a—we potentially are looking at a new definition of what is an export subsidy.

Mr. SMITH. If this goes through. Is that right?

Mr. ZOELLICK. Well, it depends on—in some ways, it is a little preliminary to say exactly how that is going to come out, but that is a subject that we are negotiating right now, Mr. Smith. In other words, right now, as we have been committed to eliminating export subsidies, the European Union has a cap of about $5 billion, they use about $3 billion. As part of that, we have said that we are willing to take the subsidy element out of export credits, which deals with the maturity and the aspects of the fees that you pay and others, because frankly, that is a very good deal for American agriculture, to wipe out pure subsidies, as opposed to the subsidy aspect of export credits.

But the key point I want to come back to, Mr. Smith, is the real effect this has on the Doha decision will depend on other countries, because if other countries decide to stand back and litigate their way as opposed to negotiate, I think it is going to be a very complicated and nonproductive result for everybody.

Mr. SMITH. Switching gears a little bit, what is our trade deficit, $500 and how many billion?

Mr. ZOELLICK. It is about $500 billion. It depends if you use current account or the number the chairman uses a little, it is about $530 with goods. It is about $503 with goods and services.

Mr. SMITH. Now, what that means, and Mr. Stenholm started talking about a little bit, is these other countries make a decision what to do with those extra American dollars, and there is $500 billion that they have decided not to buy American products, but decided to buy Treasury bills, and buy some of our businesses through equities. And at that—I mean, at this point, they consider that a better investment than buying more of our products. If the glow of the investment opportunity in the United States diminishes, does that mean they will look for other countries to invest in and take money out of the United States, or does that mean they will buy more American products?

Mr. ZOELLICK. I am not sure I could say for sure what their choice would be, and it would probably be a combination of both, Mr. Smith, and let me explain at least one reason why.

If they start to take money out of U.S. securities, that means the demand for dollars goes down. That means the value of the dollar will go down. That probably means our goods are cheaper relative to theirs, so they will probably be buying more U.S. goods, so that is where the exchange rate aspect fits in.

So, it is pretty—it is a hypothetical question. I can't—that is something I just couldn't——

Mr. SMITH. Yes, I asked it pretty much just to call to everybody's attention the dilemma this country is going to be in if we continue to have deficit spending, continue to make promises without the money to pay for them, and unfunded liabilities, and the disaster that can occur if the United States ceases to be a good place to invest money.

So thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. I would say, Mr. Ambassador, I speak for myself, I know Mr. Stenholm, and I suspect most of the Members of the committee, we strongly support your efforts to fight these attacks on our programs, and we have said that all of this is subject to negotiation, and that if we can accomplish major reductions in European export subsidies and domestic subsidies elsewhere in the world, and most especially in tariffs, that we are prepared to negotiat. But we are not prepared to unilaterally disarm and receive nothing in exchange for what is already the most open agricultural market in the world.

At this time, I would like to recognize the gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. Ambassador Zoellick, you have consistently stated that you will not negotiate domestic support programs in either the bilateral or regional free trade agreements, and you have said, I think, that domestic support programs should be reserved for the WTO, and I concur with that, and I can also tell you that my farm groups concur with that. Am I correct in characterizing your position on that?

Mr. ZOELLICK. Yes, but where you are going is to say we can negotiate tariffs or quotas, and that is not my position.

Mr. PETERSON. I wasn't going to say that that was your position, but anyway, what I am concerned about is that I think that with some of these commodities, we have a different situation. Sugar, which is an important product in my area, is a different situation, with the $7.17 sugar market today, there isn't anybody in the world that can produce sugar for that. The Europeans are screwing this up, mostly, as you know, with their export subsidies. I understand the pressure you have got in CAFTA from the Guatemalans. The reason for that is because their cost of production is $0.10, and whatever they can get out of us, in an $0.18 price, is going to benefit them considerably. So I understand that.

But the problem is that I don't see with these bilaterals how we are going to get where we need to get. We are just going to further erode our situation, and then whenever we do get to the WTO, we are going to have less of an industry here in the United States. We have 700,000 tons of surplus sugar right now, we just put on market allocations, because we have 300,000 tons too much this year. We have a world market that is not a real market, a dump market, and it just seems to me that it is not fair or consistent that you make market access concessions in CAFTA and in the Dominican Republic, because what it is going to do, it is going to undermine our domestic sugar program. That is the only possible outcome of this.

And 1.3 percent is not an insignificant amount. It is equivalent to closing one of the sugar plants in the United States, and if we continue, and I commend you what you did with Australia, but this is a big deal not only in sugar, but in dairy, 2 percent in the dairy market, which is what the Australia agreement is, will collapse the dairy market to price supports. We have seen that happen time and again over the last number of years, as this thing has gone up and down. So it doesn't sound like very much, but in the past, 2 percent has been the difference whether we are at supports, or whether we are at $15.

My question is, and I guess you probably won't agree that this isn't going to undermine our domestic situation, but we have got this surplus now. We have got 700,000 tons stored. We have got market allocations. How can you say that this isn't going to put pressure on to change our domestic program?

Mr. ZOELLICK. No, it is a good question, Mr. Peterson, and I appreciate it. I know a number of you and your colleagues have had this concern. Let me put it in the context we are trying to work at.

You know, nationwide, sweeteners and sugars are about 1 percent of U.S. farm cash receipts. I know it is very important, but it is 1 percent of what we are dealing with. And it is about less than one-half of 1 percent of U.S. farms. In the case of Minnesota, you probably still have family farming, it is 2 percent of the farms in Minnesota are sugar beet producers. It is about—the total cash receipts in Minnesota were $7.5 billion, of which $400 million were for sugar. That is 5 percent. The top 5 commodities just in Minnesota are corn, hay, soybeans, cattle, and oats. So how do we help all those people, and most of the farmers that are in the United States, while, and this is the key point, while dealing sensitively with the sugar issue.

And there is no hard and fast rule on this, as you said. We kept sugar out of Australia, because of the overall, the balance. In the case of the CAFTA agreement, there would have been no way that we would have been able to get an agreement that the Farm Bureau thinks would boost our farm position by $1.5 billion, and help a whole bunch of commodities, unless we opened up some with sugar.

So what we did is not undermine the fundamental program created by dealing with the tariff, which normally you do in a free trade agreement, and we just expanded the quota. Now, how did we come to that determination? Well, frankly, it was based on the program that the Congress has decided about how much has been allowed in to still preserve the price level that you have in sugar, and we are well under that amount. And the 1.3 percent of production rises over 15 years to 1.9 percent, so over 15 years, we have still kept this very, very much under control.

I understand the sugar industry doesn't want to open up anywhere to anything. But the challenge I have, Mr. Peterson, is I have also got to watch out for your soybean farmers and your corn farmers and your wheat farmers and your beef producers and your pork and poultry and others that all want to export. And so, we try to strike a balance there within the rules, and I think we, frankly, struck a pretty good balance overall.

Mr. PETERSON. Well, my folks don't agree in the Red River Valley, you are going to get 25,000 signatures on petitions here in the next week or two. And in the Valley, the only people making money are the sugar beet farmers. Most of the soybean guys that sold their crops at $6, so hopefully, they will have soy, the price will be there next year.

Mr. ZOELLICK. I don't want to comment on the Minnesota soybean farmers, but they sold at $6 and it is now selling for $10, but——

Mr. Peterson, if I could just say one thing on this. Where—I realize that you all have a difficult issue with this, too. If you could help us, there has been a lot of stories out there, and I know in the Red River Valley, about how this is going to undermine the sugar program. It isn't, and we will be happy to look over the numbers. It won't. One of the things I know you have to deal with and I have to deal with is people get scared out there when people put things out, but that isn't what is going to happen to the sugar program.

And there is a lot of other agricultural interests in this room, including in Minnesota, that are going to benefit from this.

The CHAIRMAN. I thank the gentleman. The gentleman from Florida, Mr. Putnam.

Mr. PUTNAM. Thank you, Mr. Chairman. And I thank Secretary Veneman and Ambassador Zoellick for all the work that you have put into these efforts, to these issues. And I think that the exchange between you and the gentleman from Minnesota highlights the complicated tasks that both of you have in balancing the needs of all agriculture and weighing the consequences of trade negotiations on existing farm policy and domestic support and things like that.

And so I use that complicated discussion to make the point that there is a great deal of American agriculture that is very uncomplicated, because it receives no domestic support, no assistance, no safety net. There are no unintended consequences. It is a pure free market enterprise, just as other pieces of our capitalistic system, and so when you take domestic support off the table and push it only to the global round, that is fine, that makes a lot of sense for a lot of American agriculture. But it leaves very vulnerable remnants of American agriculture that are no net cost to the American taxpayer, and I appreciate the effort that you have put out for produce producers, for fruits and vegetables, and I just continue to remind you that the unintended consequence of moving domestic support issues to the global level are that at the regional and bilateral level, we are the only ones left on the chopping block. And that is a very sensitive issue.

The Australian agreement did have some precedent in there as it related to sugar, and you have commented on that to a great deal. Is the Derbez draft still the underlying document, and does it still provide for certain sensitive commodities to be excluded for purposes designated by those nations?

Mr. ZOELLICK. Well, thank you, Mr. Putnam, and as you and I know, I had a wonderful chance to talk to the growers in Polk County, and get it directly from them, so I know the balance you are trying to strike, too. The Derbez text is the general working draft, but not all countries have formally said they are willing to work from it in all aspects. And the part that you are focusing on, Mr. Putnam, deals with the market access aspect, and there was an element of there that divided the market access into two categories, one for sensitive products, and then another category—and in the sensitive products, they would use more modest tariff decreases and tariff rate quota increases, and then for the rest, would use what American agriculture was pushing us very hard, a harmonizing formula, a Swiss formula. That is still very much a subject of debate, but I would suggest this is that I think there will remain in any result a need to treat certain sensitive products with care.

Now, we as a country, Mr. Putnam, because of many of the interests in this room, are trying to be as aggressive as possible, and as you know, most of our agriculture interests have said if everybody can move, they will move. But my best judgment is there is going to be sensitivities in certain countries, like rice and others in Japan, and so we will have our sensitivities, and that is why it is important we stay in close touch with you and others on those products.

Mr. PUTNAM. Well, I think that it is very important to stay in close touch, and certainly, there have been very open lines of communication between you and Ambassador Johnson and the Secretary's office, and everyone else. Let me just move—change gears. The chairman raised this issue of the definition of a developing nation. Do we—have we attempted to come up with an alternative definition of a developing nation, something that moves beyond per capita income, perhaps whether they are net exporters of a particular commodity. Whether a particular commodity in that nation represents a threshold of percentage of world production, or some alternative approach to defining developing nations, even if it is a sliding definition that—where they may be a developing nation for some pieces of the agreement, but not qualify for special consideration in other pieces of the agreement. Is that something that we have come up with some alternatives on?

Mr. ZOELLICK. There are some precedents for that in the WTO, dealing with countries like the least developed countries, and a group called IDA, which is related to the World Bank definition of what a particularly poor country is. But I think on the issue that you and the chairman are focusing on, our approach has been not to get lost in endless debate of that, because it may vary by country and product and frankly, I am worried it will just lead us to, in some ways, just to a dead end, where the debate will get locked on this.

We have tried to make the more basic point that all of you are making, which is that particularly for some of the mid-level competitive developing countries, they have got to also ante up. I have been, in the letter that Mr. Stenholm referred to and others, I have referred to these generally, but I have referred to them in other contexts, we are not trying to ask much of the poor country in Africa, or the poor country in the Caribbean, but some of the major Latin American economies, southeast Asian economies, south Asian economies, and even the case, take India as an interesting example. India has about 600 million people in a rural area that are very much subsistence. And that will be a challenge to deal with, because that, in some ways, fits a category of special and differential. But it also has a couple hundred million people that are an emerging middle class, so we need to have a way to be able to sell into those markets. So, in a way, I think the way we are trying to address your question is to focus on the countries individually, and say if we are cut our subsidies and cut our tariffs, you are going to have to open up some of your markets, too. And we know which of those countries are, and we work closely with American agriculture in terms of targeting the markets of opportunity.

Mr. PUTNAM. Thank you.

The CHAIRMAN. I thank you. The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you. Thank you, Mr. Chairman. And let me welcome both of you, as others have, Secretary Veneman and Ambassador Zoellick. We appreciate having you here.

This has been covered to some extent, but I want to touch it again, Mr. Ambassador and Madam Secretary. If the WTO Dispute Panel ultimately should rule against us, we hope it won't, and I know you are working hard to make sure that dose not happen. But I sense that there would be a lot of erosion among farmers and producers very quickly on trade agreement, that is already, as you have already heard and know, is declining to some extent, but I think it would decline very quickly overnight. And I think if that should happen, it would be unfortunate, because then, I think, it would be—all the works gone, and I think it would be ultimately almost a waste of time to bring the FTAA before this body. I think it would be awful hard to be able to get the kind of votes we need for a trade agreement that would reward Brazil, a nation that has attacked one of America's valuable agricultural exports, cotton, and continues to be an obstacle, in my opinion, to the progress of the WTO agriculture talks. I think it would be hard to get something done.

I know your team is working hard to ensure the ruling does not go that way, and I applaud you and thank you for your efforts, because you have got some tough decisions ahead. Decisions about whether to ask Congress to vote on trade agreements that you have already worked on, decisions on where to focus your resources regarding negotiations of future FTAs. The consequences of a bad WTO decision this summer, even if not a final decision, I think would impact the administration's trade agenda for the rest of the year, and I know you don't want to have to get prepared for that today.

So my first question to you, Mr. Ambassador, and it deals with the criteria for deciding with whom we negotiate free trade agreements. Australia and Chile are understandably given, because of their—are given the kind of look they are because of their outlook on trade and generally, which is similar to ours in this country. But I wonder about some of the administration's other choices, Bahrain, Panama, Morocco, Colombia, Peru, Ecuador, Thailand, Southern Africa Custom Union. Of these nations, I believe only Thailand is among the top 25 trading partners. You alluded to this earlier.

And I want to support trade agreements that not only make economic sense, but also are with nations that truly believe in fair trade with us and others as well. No one wants to reward a nation with access to the best market in the world if they obstruct the progress of WTO.

What can you tell us about the behavior in the WTO and the trade principles of the nations with whom we are currently negotiating FTAs, and are they members of the coalition working for freer, fairer trade in that body, or are they obstructionists, like some other nations?

Mr. ZOELLICK. Well, thank you, Mr. Etheridge, and let me thank you for your support, and I know together we worked on a lot of these poultry issues together, and I am very pleased with the success with the Secretary and others, we have made on that. We know, particularly with the avian influenza, it is an ongoing issue, but we will keep at it with you.

First, let me address the size issue. Because of our NAFTA agreement, we already have free trade with about a third of our trading partners. Because I get asked this question a lot, and I am glad you gave me the opportunity to come back to it. We would pleased to try to have free trade with Europe, Japan, and Korea, but they are not willing to put agriculture on the table, and just so this committee knows, many other groups say to me, why don't you do free trade and leave agriculture out? We are not going to leave agriculture out. So, when you take those countries and China, and state out, and look at the rest of the world, our free trade agreements amount to about a third of that market, not even including the Free Trade Area of the Americas. As we have seen in a lot of things, particularly in votes, right, small numbers add up. So some of these do create opportunities for us.

Second, in terms of the criteria we use, Mr. Etheridge, we look first to Congressional guidance. Some of the laws are passed, like on the Caribbean Basin Initiative, urged us to move forward with free trade agreement with Central America. The African Growth and Opportunity Act urged us to move forward with Southern Africa countries. Then we look at business and agricultural interests, and this is where particularly, working with this committee, that Colombia and Thailand, we see as important, big markets.

Special product sensitivities, and some of you have touched on them, we have to be able to bring something home that we can get passed, so that is an issue. The seriousness of a partner to engage in a free trade agreement, and this goes to part of your points, Mr. Etheridge. We often work with them in advance. We try to work with them on an earlier process. I mentioned trade and investment framework agreements. See where they clean up some problems with intellectual property and customs issues, their record on reforms, and then their cooperation with us in the FTA and the WTO and larger negotiations. And here, I would say all countries are going to have their differences, but by and large, the countries we have as free trade agreement partners are committed to that process, and in some ways, as we really liberalize with our free trade agreements, which are much deeper openness than you get in the WTO, they become good partners on a number of issues.

But then other issues we have to look at is whether we can try to support economic reform and development. We have environment and labor provisions, will they go along with those items. And there is an element, obviously, you mentioned the Middle East, where we do have some larger goals here. This country has a lot at stake in the Middle East, and if we can try to help Morocco and Jordan and some of the countries in the Gulf region move towards more openness and parliamentary systems and rule of law, that also has a long range benefit for us.

So, it is a combination, but this type of a dialogue that we have with this committee is a critical element. We listen very closely where you see the priorities are. But one point we often can't address, Mr. Etheridge, is sometimes many of you have said why don't you negotiate a free trade agreement with Japan or Korea? I can't, because they are not willing to open up their ag market.

Mr. ETHERIDGE. Thank you, Chairman.

The CHAIRMAN. I thank the gentleman. The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman, Madam Secretary, Ambassador Zoellick. So many questions, so little time. First, quickly, to Secretary Veneman. Where do you think we are in the process, a lot of the beef producers in my area are wondering, the opening up Canada again to beef coming into our country from Canada? Live cattle, I guess, more particularly.

Secretary VENEMAN. Thank you for that question. We have been engaged in this issue of BSE since, obviously, the Canadian find on May 20, so it has been nearly a year now. Following that find, we cut off all beef exports from Canada. We then opened up to a limited amount of low risk products. We subsequently put out a proposed rule for live animals and some other products, primarily that live animals under 30 months would be allowed. The commnet perioid for the proposed rule was scheduled to close on January 5. In the meantime, as you know, we found our own case of BSE, and so we allowed the rule to close, and then reopened the rule on March 7, and it closed on April 7.

We are now in the process of evaluating over 3,300 comments that we have received on this rule. In the meantime, we have had some court actions filed, in terms of some of the actions that we have taken, and we are evaluating and dealing with that as well. It is impossible for me, at this point, to anticipate or tell you an exact time frame. I can tell you we are evaluating those comments as quickly as possible and working to write the final rule based upon what was proposed, and the comments that we received.

Mr. NEUGEBAUER. And I appreciate your work on the whole issue, and I, just to encourage you as you begin to look at that, to do it in a way that is least disruptive to the marketplace as possible.

Ambassador Zoellick, where are we with China in respect to—I get a lot of comments on the fact that China is manipulating their currency, and that in many ways hurts our ability to increase our exports there. Can you comment on that a little bit for me?

Mr. ZOELLICK. I have to be a little careful on this one, in that this is really the Secretary of the Treasury's area, and they get real anxious when I talk about exchange rates. But what I will say is that the President well over a year ago, focused on this issue, and Secretary Snow has been having discussions with his counterparts in the Central Bank and others about moving to a more flexible exchange rate. And this was the good news, even over the weekend, he has also got the G7 countries, all the other countries, pushing China on this.

China has—the leadership has said they want to move to a flexible exchange rate, and the question is when and how. And their challenge is going to be that if you start to open up what they call a capital account, let money go in and out, you really have to have a banking system that can take it, and they don't have that yet.

So I think they share the goal, and actually, Secretary Snow also appointed a special emissary to work directly with them on it.

There may be some reasons of their own, while they may want to adjust that currency system. You have probably read some of these articles about China overheating a little bit. Well, what is associated with that is to keep the currency peg where it is, they actually have to use their currency, the renminbi, and buy dollars. And as they do that, they are expanding their money supply. So there may be a domestic reason also working with that as well.

And so one doesn't have a sense of the exact time frame, the good part is they accept that is where they have to go.

Mr. NEUGEBAUER. Are there any efforts by the U.S. to modify and to move into CAFTA now, I know I am moving around a little bit, but to modify some of the textile agreements portion of the CAFTA agreement, particularly where I think some think that we have opened up the door for third parties to introduce their goods into the U.S. through some of the trading partners in CAFTA.

Mr. ZOELLICK. Well, that is one of the aspects that actually we worked very hard to limit in CAFTA, and let me explain. In some agreements, most of our textile trade is focused on what is called the yarn forward rule. They have to use our yarn and fabric and they do the sewing. And actually, that is one of the potential benefits of our industry in the future to compete with China, is to get an integrated business with Central America and Mexico.

In past agreements, we have had a certain amount of third party fabric that came in. We didn't allow that in this agreement, except a limited amount for Nicaragua, and it phases out over time. And so, actually, one of the topics I have talked with Mr. Ballenger about, who has got a strong interest in this industry, knows it well, is we have got to get some of our people to understand this is probably one of the best ways they are going to have to compete against China when the quotas come off at the end of 2004 for textile and apparel, is to have an integrated business with Central America.

Mr. NEUGEBAUER. Well, and I appreciate that. I don't think they are totally convinced at this point in time, and I encourage you to continue to work with them, and if we are not communicating, let us communicate. But if there are some issues that—we are still unresolved, I encourage you to try to see if we can work those out.

The CHAIRMAN. I thank the gentleman. The gentleman from Hawaii, Mr. Case.

Mr. CASE. Madam Secretary, Mr. Ambassador, good morning. Aloha. Aloha means Hawaii, Hawaii means sugar. Sugar in the context of being the major agricultural product in Hawaii. Sugar in the context of being the largest employer on the agricultural front. Sugar in the context of not having soybeans, not having some of these other products. So when we are talking about the concerns that a place like Hawaii has with the sugar negotiations, Ambassador, I appreciate the comment that I have to look at my colleagues, and basically ask, am I also helping export products.

Yes, I am willing to do that, but it is a very hard thing to swallow that I would do that at the expense of the No. 1 industry in my district, and so—and my state. And so, although I am in solidarity with the other jurisdictions, the impact, proportionately, is much larger. So what I want to do is follow up on some of your comments and thoughts, which I definitely appreciate and understand, and make a couple of comments in response.

First of all, from the perspective of the off-limits-ness of some of the domestic support programs, and the comment that you made to my colleague from Minnesota along the lines of not putting those on the table, I would suggest to you that sugar is really no different. It is another form of government action. It just doesn't happen to be a support program. It happens to be an import control issue.

I would suggest to you that although one could argue that CAFTA did not undermine the fundamental sugar program, at some level, of course, increasing imports does, in fact, undermine the fundamental program offered for sugar in our country, because as you increase those imports, you are in fact destroying the program. The program is one of imports. The program is not a support program. It is an import program, no different in intent, really.

I think the third thing I would suggest to you is that although I sense in your testimony and perhaps some of the other remarks you have made, some comment that we have got some room still to negotiate from an import perspective. I am not sure that that is true, given that in some countries, I think Mexico is the primary example of that, we haven't really maxed out the imports, and so the definite concern of the sugar industry is that you would have permissible imports maxed out, adding on to the top of it CAFTA, and where would you go from there?

So as the sugar industry well knows, CAFTA is not probably, probably, we don't know this, not in and of itself going to bring down the entire sugar industry of our country, although it may well bring down some of the producers. In combination with some further negotiating along these lines, it could. It is definitely of great concern, again, particularly for a place like Hawaii, which is an exclusive arrangement. The impact there would be incredibly devastating. So I think the question I have, we have got CAFTA. We have got it on the table. You have done what you have done. I understand why you did it. You gave just a little bit, enough to get some of these exports on the table. There was an impact on the industry, a clear impact on the industry, and they are scared about it. You took it off the table in Australia. I think everybody is happy about that. What is next? Because you have got some negotiations coming up down the road with some major sugar producers, and you have got the FTAA, you have got the Andean countries. You have got Panama, Thailand, South Africa, any one of which if you follow the same CAFTA model and took it to the proportional level, would, in fact, have, no question, a major impact on the industry. So I think the basic question is No. 1, what are you thinking about doing next on sugar, and No. 2, why not just take it off the table altogether until you do it on a Doha level, just as apparently, we have chosen to do with the outright sugar support programs?

Mr. ZOELLICK. Well, I appreciate the thoughtful way in which you asked the question. I know it is very important for you and your district on it. You made one comment saying I think it would please everybody if we took it off. As many of your colleagues around the table, I actually came under extreme criticism from the rest of the farm community for taking it off, and from much of the other people who want to try to move forward on free trade. So that is the balance that we have to try to strike.

Mr. CASE. Well, they are willing to bargain it away for their exports, and——

Mr. ZOELLICK. Well, even in the case of Hawaii, I was looking at the numbers here, I know that it is an important overall product, but when we look at, I think I had about 17 farms, but they are big. It is about 12 percent of your cash receipts, but the last time I was in Hawaii, which is a beautiful state, I had a chance to visit. I saw the beef cattle business, and so there are other businesses that—agriculture businesses that benefit from these.

But to go to your question. The way we tried to approach this was that under the current farm bill, Congress had a trigger of about 1.4 million metric tons of total imports. And in 2003, the U.S. imported about 1.1 million metric tons, OK. Now I know the industry doesn't like the idea of a 300,000 metric ton cushion, but I am trying to work with what I had with the farm program, and what it gave us to try to look at the parameters of this overall. And so in that context, you could see that under CAFTA, if one just takes those numbers from the Congress' own program, the initial amount is about 107,000 tons, and over 15 years, it rises up to about 150,000 tons. Now, Mexico you mentioned, Mexico is not now a net sugar exporter. It is a net sugar importer, overall. So, the best way I could answer your question on other negotiations is we are highly sensitive to the points that you mention. Obviously, in one negotiation, we left it out. In others, we tried to do it in a modest way, and we tried to work within the bounds of the farm program going forward, and we will continue to discuss with the industry and members that have a particular interest in it. Because we know it is a sensitive commodity and we know it is one that matters for a lot of members.

The CHAIRMAN. I thank the gentleman. The gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman. I would like to thank the Ambassador and the Secretary for your testimony here today, and your attention to the details of these issues as they unfold, and I would—I have a series of disconnected questions that I would like to bounce around on.

Initially, I would like to thank you for the free trade agreement with Australia, and from an Iowa perspective, it has the potential to put almost 100 percent of our exports into Australia duty-free. That is an important thing to the people in my state, and of course, that reflects across the country.

I direct my first question to Secretary Veneman, with regard to pork, though, entering Australia, and the import risk assessment, and with regard to pork. It is my understanding there is a chance that we can get that opened up, and what kind of time frame could we anticipate?

Secretary VENEMAN. As you indicate, in referring to an import risk assessment, the issue with Australia, like many of the issues that we have in agriculture with Australia, is very restrictive sanitary and phytosanitary measures.

We are in the process of working with Australia on a number of these issues. I can't give you an exact time frame in terms of the risk assessment with regard to pork. We may be able to get you some more specific information.

Mr. ZOELLICK. Let me just reach in on that beat. That is one where the bio-Australia issue, the final risk assessment, in February, but there have been a bunch of court cases filed against it, and so that is the part of uncertainty. But they have taken the step that would open at least part of the pork market that we wanted to try to get, and obviously, then, we want to keep working on other aspects, in terms of some of the fresh pork, too. But right now, it is held up by the court cases that they have.

Mr. KING. Thank you, Mr. Ambassador, and Secretary. Then, Mr. Ambassador, could you just speak a little bit to the issue of G21 and where they are today, and where they potentially might be in the next round of trade agreements?

Mr. ZOELLICK. Well, that group, which refers to a number of developing countries, I think has mixed interests. And we have some interests in common with them. They want to try to cut subsidies and eliminate export subsidies, which is what we would like to try to do with Europe and Japan.

Our major concern is that we think it is also important to have market access, to be able to open their markets, and open markets in major developed countries, Japan, Europe, as part of the negotiation. And the nature of that group deemphasized that, unlike the Cairns Group, which was a broader group of developed and developing countries. Now, since the time of Cancun, the Cairns Group has been working more with the G20, and so if out of that you get a group that, again, emphasizes overall agricultural liberalization, that could be a positive thing.

But that chapter hasn't been written yet, because we know people want to reduce subsidies, and we are partly for that, too, if we can get others to reduce subsidies. The part that we have to emphasize is we also need to get at some of those tariff numbers that the chairman was focusing on, and for people who are concerned about developing countries, what the research all shows is the biggest effects are actually the effect of tariffs, and what people are missing is there is a lot of what people call South-South Trade. Over 50 percent of Argentina's exports are developing countries. So by keeping those tariffs high in the developing world, they are hurting each other, too.

Mr. KING. Thank you, Mr. Ambassador. And then, Mr. Stenholm and Mr. Smith both addressed the imbalance in trade, and those numbers being between $540 billion or down to $503 billion, the number that you gave for goods and services. That is the number I have been using for some time, and I appreciate that precision, exactly. With the discussion of the relative values of currency affecting our foreign trade being part of it, I would raise this issue, and I would like to know from a trade perspective, if we are able to do what I think we should do, and that is eliminate our taxes on—eliminate the IRS, eliminate the entire Code, and go to a national retail sales tax base, we are able, then, with competition, to take the costs of our goods and services down about 22 percent on average. That would affect our export markets as well. It would discount our export prices accordingly, and that research is there. There are $22 million worth of research that supports what I have just said, but how does that affect your negotiations with trade, and how do you think that affects our imbalance in trade, if we are able to discount our export products to that 22 percent on average?

Mr. ZOELLICK. Well, now we are getting in a real dangerous area, because not only deal in with currency policy, which is the Treasury, but you are getting me into tax policy, which is the Treasury. So I guess, what I had best say on this one is anything that is a combination of tax, regulatory, health care, that makes America more competitive is going to help us and help our producers here. And the one point, just though to bring it back to the current account, the other side of the trade imbalance is what people call the capital account. As Mr. Smith mentioned. People are investing here, making up that gap, and so, the other issue, though, is as you make the United States a better place to invest, you could actually increase that number, because you are investing capital into the United States. But for the long run of the United States, the combination of tax policies domestically that make us more productive and competitive have got to be good.

Mr. KING. And does it cause you any trade negotiations difficulties if we should implement that policy?

Mr. ZOELLICK. Well, I am not sure exactly, but if you are talking about basically the domestic tax changes that you are talking about, no, that wouldn't interfere with our negotiations.

Mr. KING. Thank you. Thank you, Mr. Chairman. I see I am out of time.

The CHAIRMAN. Excuse me, the gentleman from North Dakota, Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman. Mr. Ambassador, good to see you again. Madam Secretary. Mr. Ambassador, I think that you have impressed all of us with the sheer force of energy you have brought to trade negotiations. I have never seen the Trade Representative work harder to get trade deals done. On the other hand, I haven't seen a Congressional majority more disinterested in bringing them up for consideration and action.

Do you have any sense in terms of whether or not there will be consideration and possibly a vote on either the CAFTA agreement or the Australian agreement before the election?

Mr. ZOELLICK. Well, thank you for your kind words, Mr. Pomeroy, and you have been a good colleague to work with, and we have made some headway, I think, on some of the issues for your state, I hope. I think the President is very strongly interested in trying to move forward the Australia agreement. We obviously need to work with the leadership. We understand it is a schedule that has to be worked with here, and there is limited calendar in an election year. From what I have seen the reports of, the environment of that one has improved, but I don't want to be definite about it.

And part of our challenge, Mr. Pomeroy, under TPA, after we complete the agreement, we have to give a 90-day notification before we can sign the agreement. So we can't sign that agreement until the middle of May, and so that is a close window, and we understand that, but we would like to try to get that through.

Morocco we can't sign until early June, so we even have a smaller window, but I don't see a lot of anxiety about that agreement. It is just a question of the calendar. And in terms of CAFTA and the Dominican Republic, I think our key point is we want to make sure the agreement gets passed at the appropriate time, and here we have to work with the leadership and both sides of the aisle to see where we can get the support of that.

It is a good agreement. My sense is Australia is probably ahead of it in the queue, but that is a decision that the leadership will also have to determine, given the schedule you have.

Mr. POMEROY. The sugar issue is perhaps the largest concern I have about everything that is pending. It has been quite well covered in the earlier series of questions, by both sides of the aisle. But I would ask you this, I think you could do a great deal to alleviate concern about the CAFTA agreement if you could indicate that there won't be any more sugar imports coming in any other agreements that you might negotiate.

You have correctly said this is an amount that they ought to be able to live with. In and of itself, it isn't fail, but I have discussed this as a possible threat of one cut in the death by a thousand cuts. We can't take a lot more in a lot of other agreements, and if I were some of the other countries in the queue waiting to enter negotiations, having seen the opening for CAFTA, I would be most interested in demanding, as a condition precedent to a deal, that I have additional sugar access as well, so you want to make us all feel better this morning by saying no more sugar in any other trade deal?

Mr. ZOELLICK. Mr. Pomeroy, let me answer it this way. One of the challenges about this energetic position, as you describe it is that I negotiate, I am talking in public fora, and I am also negotiating in private fora. And the best thing that I can try to say is what we try to signal to that very sensitive constituency is, is that we know they are sensitive. In one agreement, they were left out. In one, they were put in, but without dealing with the tariffs in a quota form, and as we go forward, we are keenly aware of that sensitivity, and pleased to discuss it with them, but I can't negotiate in public fora. You wouldn't want me to.

Mr. POMEROY. I would have been pleasantly surprised had you answered my question. There is presently a WTO decision relative to the Canadian Wheat Board. It was certainly not the full victory that we wanted, because we believe that the Canadian Wheat Board has been determined, in certain respects, is operating illegally to the advantage of their farmers and the disadvantage of ours. Have you made a determination in terms of whether you will appeal the decision?

Mr. ZOELLICK. Yes, we have, Mr. Pomeroy, and it was in my long written statement, but I didn't draw it up, but we, following your encouragement, that of the chairman and others, have decided we will appeal.

Mr. POMEROY. Great. Great. Thank you. Madam Secretary, the issue of getting our beef markets back has been a very tough challenge for you. I appreciate the efforts you and your team have made to try and get our former major markets for beef exports to consider this matter based on science, another product in. It seems to me that before we do much more by way of consideration of additional imports from Canada into the United States, we ought to make certain we get our product, our own export markets back. It seems to me your burden of proof would increase significantly if we are talking about a blended North American market you are trying to get in, as opposed to just the United States market, subject to the response you have made to the whole BSE matter.

I have written a comment to that effect among the 33,000 comments that you are evaluating, but I would like your response to that line of thinking.

Secretary VENEMAN. Thank you, Mr. Pomeroy, and it is 3,300, not 33,000.

The CHAIRMAN. I thank the gentleman. The gentleman from California is the last questioner. If you would like to ask some before you go. But I have voted, and you haven't, by way of full disclosure.

Mr. NUNES. Can she——

The CHAIRMAN. I don't think she got a chance to finish.

Mr. NUNES. Thank you.

The CHAIRMAN. If you want to yield to him to allow him to answer the question, that would be fine, but time had expired.

Mr. NUNES. Sure. I actually had the same question from the Secretary, so——

Secretary VENEMAN. Let me briefly review what we have been doing to reopen our beef markets. As you know, we did have most of our markets cut off as a result of the BSE find in the United States on December 23. Our largest—first of all, it is important to point out and to recognize that 90 percent of the beef that we produce is consumed domestically, and we have maintained consumer confidence in this country, and we have not lost any market in the United States. That is No. 1.

Insofar as our export markets are concerned, which takes about 10 percent of our total production, or did take about 10 percent. Our No. 1 market is Japan. We have worked very, very hard to try to reopen the Japanese market. As you know, I sent a team to Asia within three days after the find. They left over the weekend, between Christmas and New Years, and began the discussions with our Asian trading partners. There have been a whole series of exchanges. We have made proposals. There have been a lot of discussions. It is a sensitive issue in Japan, primarily because of the way their consumers have responded to the BSE finds they have found in their own country, where they saw a significant drop in demand after they first discovered BSE on September 10, 2001.

As a result of Dr. Penn's—and his team, which was an interagency team, including USTR, FDA, State Department, and so forth this past weekend, we have a process now in place, and people are beginning to work in technical teams to determine how we can best open that market. We expect to have those discussions continuously throughout the next few months.

Our No. 2 export market is Mexico, and we have succeeded through extensive discussions with our counterparts in Mexico to reopen that market over 90 percent. We have also worked closely with Mexico and Canada to look at the entire North American market, and to determine how we can best harmonize our regulations, because it is a North American market, before the—certainly the disruptions.

And so we have been working in technical groups to try to harmonize to the greatest extent possible our regulations. The most important thing is that we use science in all of our decisions, and that the harmonization group is looking at the science and comparing the science. And that ought to be the guide as we seek to open up markets, both whether it is an import market or an export market.

Our third largest market is Korea. We have continued discussions with them. As I indicated in my remarks, we are hoping that we may have a team from Korea come as early as the next couple weeks.

The CHAIRMAN. I think both the gentleman who started the question and the one who finished it are gone. But the gentleman from California has voted, and so we will recognize him as our last questioner. When the next bells go off, that will be a signal for a five minute vote, and he and I will depart very rapidly when that occurs.

The gentleman from California.

Mr. DOOLEY. So you will be saved by the bell, so to speak, once again. I want to thank both of you for taking the time to come up, and also commend you for the work that you have done on so many issues that are important to U.S. agriculture. In reference to the WTO apparent decision on cotton, I think I agree with pretty much the statements that have been made by a lot of my colleagues, but there is a little bit of a nuance here, I think, is that we can, in our appeals, I think, be on solid ground with our contention that they are fully consistent with our WTO commitments and rules, but also, the European Union can back up their Common Agricultural Program and their export subsidies as being consistent with WTO rules. Japan can contend that the 500 percent tariff they have on rice, it is totally consistent with WTO rules.

But what is also true is that that is totally inconsistent with our ability to make progress in the Doha Round of the WTO. And that is where I think we have somewhat of a decision to make here, in terms of where are we going to be placing the resources of the USTR, as well as the Department of Agriculture?

Is it to play defense and to primarily try to protect some of these programs that we also recognize, I think, as the proposal that we have made to some of our trading partners, that they need to be reformed? Or how can we use this, perhaps, as an opportunity to make progress in restarting the Doha Round?

And Ambassador Zoellick, I am very complimentary of the work that you have done over the past few months in trying to demonstrate the U.S. is clearly willing to engage. The only other—and that is more of a commentary, obviously. But my question is, is that—and I know that there were some officials and the Ambassador of Brazil that was here. You won this case, it appears. You are probably also going to win the case with sugar against the EU, which actually some of us hope you do, but this is also a little bit analogous to the dog catching the car here, is that you have to be a little careful on what do you do with it when you achieve this.

And I think one of the critical components here, not only is the EU and the U.S. making reforms of our domestic programs and our export subsidies, but also is the market access piece, which Brazil and the G20 were not necessarily as committed to in Cancun.

And Ambassador Zoellick, in your conversations and maybe Secretary Veneman, have you seen any evidence that Brazil is providing the leadership among some of the developing countries to ensure that they add the market access component to their proposals at the Doha Round, which is absolutely going to be critical to making progress?

Mr. ZOELLICK. Well, Mr. Dooley, I will let you know after the weekend, but the point you are making is absolutely critical, in my view, is that—and I like your analogy about the dog catching the car here. As you know, and you have been a leader in this, and the chairman has, and you know our position, we are a big developed country, but we are ready to reform. That isn't the case for all the other developed countries. And we are willing to cut those subsidies. And goodness sakes, we are willing to take all our tariffs down to a top tariff of 25 percent, a very drastic cut. But we are not going to do it on our own, and if people think they are going to litigate their way to a solution, it is going to be a long time, and it is never going to be fully done, as we have seen how this works in courts, whether domestic or international. The United States has got lots of equities around the world. It is not going to be pretty.

And so what I hope the message of this is, is that countries realize, take us up on the offer. And the key point, as you have emphasized, is it is not just a question of subsidies. We would like to get that cut, too. We have got to get some of the market access open for some of the middling developing countries.

I will share this with you. When I took this trip around the world, the South Africans were pretty much of this view. They are a key G20 player, although I just learned this morning my South African counterpart is moving to a different portfolio. And I think Brazil recognizes the issue, whether it will show the leadership, we will have to see over the next coming months.

India is obviously another key player in here, and this, we need to deal with the sensitivity of the 600 million very rural subsistence farmers, and an economy that we have seen elsewhere as being quite globally competitive. So, we are going to need to succeed in this task. We are going to need some of the developing countries, China, India, Brazil, South Africa, to play a leadership role, and frankly, that is exactly what I am trying to do, Mr. Dooley. I am trying to move forward, and get that group and say we are willing to move. Just believe what I say for once. We will take these steps if you move. But we can't do it alone, and a litigation route—and it is easy for people to say now, because they will say, oh well, it looks like the case has been lost at least at this first round. But I truly mean it, I just think of litigation of something as complex as all these subsidies, it will just end up being a circle. It will be a cul-de-sac, and it won't get us where liberalizers want to go.

Mr. DOOLEY. Well, yes. I think it would be of interest to the chairman, too, is I wonder if you would give me a little bit of an update on another issue, which is really the GMO issue with the EU. We filed the action there. They appear that they are making some progress in terms of approval of some commodities, but we still have the traceability and labeling, and if you could just give us an update on that.

Mr. ZOELLICK. Well, we are following the two tracks. We were all kind of patient, because we didn't want to go a litigation approach, but when we saw absolutely no movement, we have gone the WTO route on that limited issue of the moratorium. The panel has been formed. There will be the arguments over the course of the spring, and I expect a decision sometime later this year on that one and the GI one, Mr. Chairman, that you have a particular interest in.

Meanwhile, what I think we have seen in the paper, Mr. Dooley, is that the member states still haven't agreed on ending the moratorium, but now it goes back to the Commission. The Commission has certainly said they want to end the moratorium, and then there may be another step again back with the member states, that I would have to check on. I asked about that this week, actually.

But the other point is that, as you suggested with the traceability and labeling rules, it is not only a question of ending the moratorium, it is actually allowing the product to come in. And that one, it is too early to tell, because they have just started to institute the traceability and labeling rules. But this is where I will come back to the point on China that the Secretary mentioned, too. It is no small thing that we have now gotten China, one of the major players, to back us on biotech, and to go forward with these products, because eventually, one thing I am quite convinced of, the world will recognize, biotech is the key, not only to dealing with questions of productivity, but also nutrition and a lot of other issues related to health. It will be a long slog, but I am quite convinced where the conclusion will eventually be. Scare tactics won't work, ultimately.

The CHAIRMAN. Thank you. I want to reiterate what Ambassador Zoellick said, and I think Mr. Dooley, that this litigation is the beginning, not the end, of the process. And it is certainly not the end of farm programs. But I want to reiterate my concern that if these kind of things are not negotiated at the table, we are going to find that it could be the end of the ability to negotiate deals at the table. We thought we had a deal. Now we are told there may be a different rule to abide by, and the farm community, which has provided great support for trade negotiations for trade promotion authority and so on, is going to be concerned about that.

That is our warning that we have 5 minutes to go, so let me thank both Secretary Veneman and Ambassador Zoellick for appearing before the committee today. We look forward to continuing to work with you. We will continue to watch these issues carefully as we proceed through the summer.

On May 19, the committee will hold another trade hearing, and farmers and ranchers representing various farm organizations will testify. We want to hear the agriculture community's reaction to agriculture negotiations, as they are completed, and as they are being discussed.

Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from witnesses to any question posed by a member of the panel. I don't see anybody here to object.

This hearing of the House Committee on Agriculture is adjourned.

[Whereupon, at 12:15 p.m., the committee was adjourned.]

[Material submitted for inclusion in the record follows:]

## STATEMENT OF ANN M. VENEMAN

Mr. Chairman, members of the committee, I appreciate the opportunity to appear before you today with Ambassador Zoellick to discuss food and agricultural trade.

The importance of exports to our agricultural industry cannot be overstated. Exports solidly underpin farm income and support 888,000 American jobs, of which 40 percent are in rural areas. Each $1 billion in agricultural exports supports, on average, 15,000 jobs on farms, facilitating trade, in processing and manufacturing, and transporting commodities and food products.

### EXPORTS AT NEAR RECORD; OPPORTUNITIES ABOUND

I am pleased to report a projected near-record $59 billion in export sales in fiscal year 2004, which is critical for our producers. In the United States, our agricultural production capacity far exceeds domestic demand. To keep our agricultural economy growing, we must build overseas markets.

The forecast for fiscal year 2004 sales is $2.8 billion above fiscal year 2003. The discovery of one case of Bovine Spongiform Encephalopathy (BSE) in Washington State has disrupted our exports of beef and certain beef products, valued at $3.81 billion last year. Without this negative factor, our exports would have easily exceeded the fiscal year 1996 record of $60 billion.

Agricultural exports have been helped by the U.S. and world economies recovering from the sluggish growth of Calendar Year (CY) 2001 through early 2003. In 2004, gross domestic product (GDP) growth in the United States is forecast to be well over 4 percent, and the world economy is expected to grow about 3.6 percent.

- China is expected to experience rapid and extensive GDP growth of 9 percent.
- Overall growth in developing countries in Asia led by China, Thailand, and India is forecast at 6 percent.
- Argentina and Brazil are expected to expand GDP around 4 percent.
- Mexico's GDP is forecast to be up, to 3.8 percent.
- Growth for Russia is forecast at 5.8 percent.
- The overall average for African countries is expected to be 3 percent.
- GDP growth in the European Union (EU) and Japan is forecast to exceed 1 percent.

The world's population is estimated to grow by 25 percent in the next 20 years an additional 1.4 billion customers, many of whom are located in these countries with expanding economies. As incomes rise for these consumers, their demand for higher-value products will increase, and much of this demand will be satisfied by our farmers and ranchers.

Even today we see the benefits of such growth in the expanding purchases of some of our fastest growing trading partners—Mexico and China. Today, roughly 20 years after joining the international trading community by acceding to the General Agreement on Tariffs and Trade (GATT), Mexico is our third largest export market. Last year, Mexico had the world's seventh largest expenditures on food $93 billion and that was double the amount in 1995. The U.S. has supplied 75 percent of each additional dollar spent on food in that country.

This year marks the 10th anniversary of the North American Free Trade Agreement (NAFTA), the United States' banner trade agreement with Canada and Mexico. There is probably no better example of the success of trade liberalization and trade agreements than NAFTA. If we measure results by growth in sales, access, and market share, NAFTA is working to the advantage of all three countries and has greatly benefited U.S. farmers.

Before NAFTA, U.S. food and agricultural exports to Canada and Mexico together equaled sales to Japan, then our top export market. While sales to Japan are down slightly from 10 years ago, exports to our NAFTA partners this year have increased to more than double the sales to Japan (or an unprecedented $17.6 billion to NAFTA partners, versus $7.8 billion to Japan.)

Looking at each market separately, our exports to Mexico have doubled in the last 10 years, reaching $7.9 billion. We sell 39 percent more of consumer-oriented products to Mexico now than we did 10 years ago with red meats and processed fruits and vegetables leading the way. And U.S. agricultural exports to Canada have increased fivefold since the implementation of the U.S.-Canada Free Trade Agreement in 1989, making Canada our No. 1 export destination, today valued at $9.3 billion. U.S. consumer-oriented export sales to Canada have increased by 70 percent in the last 10 years with fresh and processed fruits and vegetables and snack foods best sellers. We expect these trading relationships to grow even further and projected economic growth for our NAFTA trading partners translates to benefits for U.S. producers.

## CHINA

China is a very bright spot on our agricultural trade horizon and is expected to be the world's top agricultural growth market over the next decade. In CY 2003, U.S. agricultural exports to China were $5.0 billion, making it our fifth-largest overseas market. USDA's forecast for U.S. agricultural exports to China, which is done in fiscal years, projects a record $5.4 billion in agricultural sales to China in fiscal year 2004. This is triple the amount in 2001, when China joined the World Trade Organization (WTO), and accounts for nearly 10 percent of our projected agricultural export sales.

China is now our No. 1 market for soybeans, cotton, and hides and skins, and our sixth-largest market for wheat.

- China purchased $2.9 billion worth of soybeans in CY 2003, a 200 percent increase over export levels prior to its WTO accession.
- China imported $737 million worth of cotton in 2003, up by 1500 percent from 2001.
- China purchased a record $457 million worth of hides and skins, a 15 percent increase over two years.
- And recently China has committed to purchase nearly 3 million tons of U.S. wheat, valued at $500 million, over this and the next marketing year. China will be our sixth-largest wheat market; this is a tenfold increase from 2 years ago.

This remarkable upswing in sales to China is due to the increased prosperity that trade has brought to China and the market access the United States negotiated with China as a condition of WTO accession in 2001. As China's economy grows, incomes rise, and its policies become more trade-supportive, we anticipate ever-greater opportunities to supply Chinese consumers with food and agricultural products.

While these trade figures are impressive and encouraging, they do not take away from the fact that China must fully implement the commitments it made upon joining the WTO. The administration is aggressively working with China to implement its WTO commitments. In the last two years, it has had to modify over 3,000 laws and regulations to comply with its accession agreement. Progress is being made.

On April 21, I participated with Ambassador Zoellick and Secretary Evans in talks with Chinese Vice Premier Madam Wu and a large delegation of high-ranking officials from some 12 ministries. One of our priorities has been encouraging China to adopt internationally recognized, science-based guidelines. An area of focus has been in biotechnology, where we have engaged their policy makers in frequent discussions with ours. China has just approved additional biotech varieties for U.S. corn and canola, adding to those announced in February. We now have approvals for Roundup Ready soybeans, two cotton varieties, six corn varieties, and seven canola varieties. There are two pending corn varieties that Chinese authorities will consider in May.

We also encouraged China to improve its compliance with WTO rules affecting import licenses. It committed to improved transparency and efficiency in its quarantine import permit system, and for licenses to be valid for 6 months rather than three.

We requested that China become active in the World Organization for Animal Health (OIE), to better understand the international guidelines for trade impacted by incidences of animal diseases. It agreed to follow and adopt these, a substantial change in policy.

One of the challenges China faces is becoming familiar with our regulations and procedures as well as improving its capacity to deal with sanitary and phytosanitary issues. To help meet this challenge, I signed a letter of intent to enter into a memorandum of understanding with Chinese Minister Li, who heads the ministry with jurisdiction on these matters. We propose to have professional exchanges, seminars and training, and joint research projects to increase our mutual understanding in these areas. In the long term, increased cooperation and communication will facilitate our trade.

### Maintaining Our Current Markets

USDA devotes a great deal of time and diligence to market maintenance, assuring that our trade partners adhere to their WTO commitments and follow sound scientific practices to guarantee food safety. Conversely, when our crops or livestock suffer from disease and trading partners stop importing our products, we must provide them with factual assessments of progress in controlling any outbreak and with the science-based steps that lead to a clean bill of health. We have been challenged this year with diseases reducing our exports of beef and beef products and poultry and related products.

### Efforts to Resume U.S. Beef Exports

A top priority has been the reopening of our export markets after the finding of a single, imported case of BSE in Washington State December 23. USDA has a transparent process for providing information and reassuring the public. It has been very satisfying that demand for beef has not diminished in the domestic marketplace. It demonstrates that Americans have faith in their government's ability to regulate the food supply and to respond swiftly and effectively when food crises arise.

But for trade, we are in uncharted territory that is still evolving. In CY 2003, the United States exported $3.9 billion of beef and veal, beef variety meats, and processed beef products. About 90 percent of our exports are to Japan, South Korea, Mexico, and Canada. We exported an additional $3 billion of products such as meat and bone meal, gelatin, cattle semen and embryos, tallow, and pet food to a range of countries.

Very quickly after BSE was discovered in the State of Washington, our export markets were shut off to varying degrees for these items. We are estimating export levels of beef and beef products in the current year to decline 83 percent below CY 2003 levels. Among the most affected items were beef and live cattle exports. Both items remain banned in the majority of the top 10 markets and export values of both declined over 90 percent in the first two months of this year. Exports of meat and bone meal, sausage casings, and fats and greases also declined. Bans on U.S. pet food are mixed and CY exports through February were valued at $102 million, a decline of nearly 30 percent from average years. On the other hand, U.S. exports of tallow and hides and skins have been up for this time period.

Since immediately after finding BSE, I have personally engaged with my counterparts in foreign governments—in particular Secretary Usabiaga in Mexico, Minister Speller in Canada, Minister Kamei in Japan, and Secretary Lorenzo in the Philippines— to assure them of the safety of our food supply and to work with them toward the resumption of trade. We sent high-level delegations to Mexico and our Asian trading partners on several occasions. The Vice President also raised this matter during his recent trip to Japan, Korea, and China.

Shortly after we found BSE in one cow, USDA announced aggressive actions to further assure the safety of our beef banning downers from the human food chain, and prohibiting air injection stunning, mechanically separated beef, and specified risk material from animals over 30 months. We have also moved to accelerate the implementation of a national animal ID program.

One key milestone was the U.S. Government's response to the report of an international review team that assessed the BSE situation in the United States. At the recommendation of the review team, USDA ramped up the surveillance of the higher-risk cattle population. We will test a significant proportion of this population with recently approved rapid tests to detect whether BSE is present in the U.S. herd and, if so, at what prevalence.

The re-opening of a market often requires extensive efforts. We are approaching our major export markets, one by one, to personally assure them of our robust safeguards that allow for safe trade in U.S. products. We have informed our key trading partners of the aggressive and extensive measures we have taken against BSE and to request their cooperation in lifting import restrictions on U.S. beef and bovine products. We have hosted technical delegations from Japan and Mexico and expect South Korea will be sending a team shortly. Overseas, our FAS and APHIS staff keep agricultural officials in 90 markets updated on the steps we have taken to assure the safety of our beef products, and have discussions with foreign governments on how to re-open markets.

It is very important that we re-open our top markets as soon as possible. A prolonged delay could result in longer-term diminished demand for U.S. beef, displacement by alternative products, substitution of suppliers, and permanent shifts in consumer-purchasing patterns. It may also have ripple effects on other agricultural sectors, such as the feed grain and oilseed sectors.

We are making some progress. Our second largest beef export market, Mexico, has reopened trade for more than 90 percent of U.S. beef, beef variety meats, veal, and tallow products. In CY 2003, these products accounted for $1 billion. This is a substantial positive step.

Canada currently permits the entry of beef and beef products from cattle aged 30 months or less, live cattle destined for immediate slaughter, dairy products, and other selected ruminant byproducts.

In January I met with Minister Speller and Secretary Usabiaga to discuss BSE and the policies and regulations that affected trade. We agreed to implement a coordinated North American policy on BSE, to work toward harmonizing our regulations and policies in light of our integrated markets and as a model to our trading partners. This is an on-going process that is actively engaging USDA at senior policy levels. Together, we are encouraging the OIE to further clarify risk classifications based on sound science.

This past weekend, Under Secretary Penn led a policy-level delegation to Japan, and we are very pleased with the progress that was made in our most important beef market. There now is agreement to a process, which we believe will lead to the full resumption of trade in our No. 1 market by this summer. Our experts will begin discussions with their counterparts on technical issues almost immediately.

Poland, Saudi Arabia, and Venezuela also have opened their markets to a variety of U.S. products.

Our experience highlights the importance of increasing awareness of and support for internationally recognized guidelines for trade in products impacted by animal diseases. We have been encouraging countries, at every opportunity, to take the OIE's science-based standards for BSE into account when establishing import conditions for U.S. ruminant animals, beef and other ruminant products.

### U.S. Poultry Meat Exports Returning After Avian Influenza Outbreaks

The incidences earlier this year of low pathogenic avian influenza (AI) in the Mid-Atlantic States and then the first U.S. case in 20 years of highly pathogenic AI (HPAI) in Texas have shown how important it is for us to have strong safeguard systems in place. Our transparency and swift response to eradicate these diseases, including the HPAI in Texas, have reassured many of our trading partners of the premium we place on the safety of U.S. food products and control of animal disease.

A substantial amount of U.S. poultry meat and product exports, valued at $2.3 billion annually, was immediately disrupted by bans. However, about one-fifth of our traditional trade was not. And, foreign governments importing nearly half of our poultry meat exports (valued at $942 million a year) only banned product from affected areas rather than the entire country, following much more closely the OIE guidelines.

The top two destinations for poultry meat exports, Russia and Canada, continue to allow in product from AI-free states. On April 6, shortly after we announced that HPAI was eliminated from Texas, Canada immediately recognized the U.S. as free of the disease and resumed trade entirely. After numerous discussions with our Mexican counterparts at all levels, Mexico lifted its import bans on selected poultry meat products from non-AI states and recently agreed to discontinue unnecessary testing requirements.

Our focus now is on Hong Kong, China, Japan, and Korea, which accounted for 22 percent, or $435 million, of the U.S. poultry meat export market in CY 2003, where import prohibitions remain on products from the entire United States.

Earlier this month, Under Secretary Penn met in Beijing and Hong Kong with his counterparts to discuss a variety of issues, including an update on our actions to eliminate HPAI. We are continuing to exchange technical information with their experts, and are optimistic that trade will be resumed soon. We have invited technical teams to visit our scientists and see U.S. poultry operations and expect these to occur in the coming weeks.

Trade resumption to Japan is covered by a protocol between our nations; trade should resume in June.

Despite these outbreaks, domestic prices have remained strong, thanks in part, to consumption of poultry in high protein diets and tighter world supplies of poultry meat.

### The Importance of Trade Liberalization

Besides assuring the economic health and prosperity of our agricultural sector, expanding markets serve the best interests of trading partners in both developed and developing countries. The Bush administration has mapped out an ambitious course in the pursuit of global trade liberalization.

The United States has stepped up to the plate and taken a leadership role in negotiations, and is keeping the pressure on all members to achieve success. Ambassador Zoellick will discuss our current efforts in detail.

For agriculture, free trade agreements are critical, because they address tariff phase-outs and duty-free, quota-free access for all agricultural products. They also establish mechanisms for easing trade differences, such as SPS issues, that can arise between trading partners.

As trade is opened to farmers around the world, it can also help raise standards of living. As consumers in these countries become more affluent, they will buy more of our products.

## TRADE AGREEMENTS—IN THE WORKS AND COMPLETED

Important as WTO negotiations are, we have to move forward on many fronts. The bilateral and regional agreements we have negotiated since this administration took office will give our agricultural producers increased access to 119 million consumers, with a combined annual GDP of $820 billion. Current agricultural trade with these countries is valued at $2.8 billion.

Negotiators recently concluded talks for adding the Dominican Republic to the proposed Central America Free Trade Agreement (CAFTA), which includes Guatemala, Honduras, Nicaragua, El Salvador, and Costa Rica. This market of 45 million customers purchased $1.65 billion worth of U.S. agricultural products last year. Our sales to these countries have been growing at a pace of $70 million per year.

This FTA levels the playing field, and in many cases, creates preferences for U.S. agricultural exporters over other suppliers, including those in Canada, Europe, and South America. Commodities expected to gain and in some cases regain market share lost to countries with existing trade preferences include apples, pears, cherries, corn, rice, soybean products, poultry, beef, and dairy products.

We also concluded negotiations for an FTA with Morocco in March, which covers all agricultural products and offers new opportunities for exports of beef, poultry, wheat, feed grains, and many fruits and vegetables.

The recently completed U.S.-Australia FTA negotiations will give U.S. farm exporters duty-free access from day one to 20 million, high-income consumers. Ambassador Zoellick will tell you more about this year's negotiations with Thailand, Panama, Bahrain, Colombia, Ecuador, and possibly Peru.

We have been implementing two other agreements as well. In our own hemisphere, the free trade agreement (FTA) with Chile provides important immediate tariff reductions for our agricultural exports. In four years, three-quarters of U.S. products will enter Chile tariff-free; after 12 years all products will be duty-free. As a result of technical discussions held in tandem to the FTA negotiations, we also obtained new market access for U.S. citrus, Northwest stone fruit and processed dairy products.

Another recent agreement with Singapore locks in their zero-applied tariffs for agricultural products. U.S. exports to Singapore, now valued at $266 million, have been rising over the past three years. Organic and other value-added agricultural products from the United States are gaining shelf space in Singapore groceries. Our trade with Singapore is singular because two-thirds of our agricultural exports there are high-value products, a trend that provides our agricultural industry with increased profitability and creates more jobs here at home.

## EXPANDING OPPORTUNITY THROUGH SCIENCE AND TECHNOLOGY

Along with negotiating efforts, USDA is helping developing countries to participate more fully in the trade arena. These countries represent our future growth markets. To help achieve this, we also must commit to the reduction of hunger and poverty around the world.It is a sad irony that acute poverty and hunger are worst in many areas where agriculture is the predominant way of life.

About one billion of the world's poorest people depend on agriculture for their livelihood. Many of them are trapped in a life of subsistence. In many developing countries, 90 percent of the food consumed is locally grown. It follows that people who are hungry are less able to feed themselves and to be productive members of society.

The global ramifications of hunger are hard to overstate, not just for people in the least developed countries, but also in nations with greater wealth. Persistent hunger causes human suffering and death. It results in lost productivity and the unrealized potential of entire nations and regions. It leads to political instability, economic stagnation, civil unrest, and war. It limits economic growth and trade opportunities in other countries.

A recent analysis by the International Food Policy Research Institute suggests that an annual productivity increase of just three to four percent in Africa would triple per capita incomes. It would reduce the number of malnourished children by 40 percent.

As ministers gathered in Rome two years ago to discuss ways to speed the pace of hunger reduction, there was agreement that science and technology play a key role in accelerating agricultural productivity. It was in Rome that I announced the United States would host a Ministerial Conference on Agricultural Science and Technology, which was held last June in Sacramento, California.

The Sacramento ministerial was a next logical stop on a road that took us through Doha, where developing countries became a major focus of international trade negotiations, to Monterey, Mexico, and the International Conference on Financing for Development, to Rome and the 2002 World Food Summit, and to Johannesburg and the World Summit on Sustainable Development. It was one of the largest and most diverse gatherings ever of decision-makers from around the world to address global hunger with more than one thousand participants, including 119 ministers of agriculture, science and technology, health, environment, and commerce.

We looked at technology's role in helping feed the hungry and provide nutrition to the malnourished and lift those in need out of poverty. The application of science and technology, along with supportive policies, can help achieve all of this by raising agricultural productivity in an environmentally sustainable way. Raising productivity will not merely reduce hunger, it will provide a whole host of additional benefits, including higher incomes and economic growth.

This story has been repeated over and over throughout history, most recently in Asian countries that have been transformed from subsistence economic into powerhouses of manufacturing and high technology. We can make great strides by helping developing countries adopt and develop their own appropriate agricultural technologies, from the conventional to the state-of-the-art.

In order to achieve many of our goals, the building of additional partnerships between and among nations, academia and industry will be critical. The momentum and enthusiasm that were generated in Sacramento are still continuing today. Already we are working to build on these efforts. A Central American regional conference is now scheduled in May in Costa Rica. An African conference will take place in June in Burkina Faso.

The United States is committed to finding solutions to global hunger and poverty. We are by far the largest contributor to the World Food Program, accounting for more than 50 percent of donor funds.

USDA has been working hard in many areas to support that agenda. We help administer the international food-assistance programs, which are budgeted this year at nearly $1.6 billion. This includes $50 million for the new McGovern-Dole International Food for Education and Child Nutrition Program for 2004, and the President's fiscal year 2005 budget provides a 50 percent increase in funding. This program is based on a pilot that provided school meals to nearly seven million children in 38 countries. Food for Education not only encourages greater numbers of children to attend school, but it also enhances the performance and learning ability of students in the classroom.

We are also looking for ways in which our experts can help replicate our own successes in the developing world. For instance, our Food and Nutrition Service is providing guidance for domestic food-assistance programs in other countries. The Zero Hunger initiative in Brazil is based on our own Food Stamp program. USDA also has a close partnership with the 1890 Land-Grant Institutions, which are addressing nutrition and food assistance in Africa.

## Iraq and Afghanistan

When we consider the need for food security in the world, it is critical to consider the agricultural economies of Iraq and Afghanistan. Last November I traveled to these countries to learn about our current activities in the regions and what more we can do to help.

Overall, we found that people in both countries are tired of conflict, abuse, repression, insecurity and neglect. They are eager to build better lives for themselves and thankful for the opportunity for stability and normalcy.

There is one common theme that was evident: Agriculture policy plays a very important role in the economic and social lives of a majority of the people and is a sector suffering in every case from hostilities, but also serious neglect, whether it is under-investment, poor policies or exploitation.

As I met with many of the agriculture leaders and university presidents, and even the farmers in Iraq, several things emerged as important next steps:

First, they are in desperate need of information. They feel as if they have been left behind in learning about the kinds of changes that have taken place in every sector, especially agriculture. They want more extension, teacher exchanges, and student exchanges. They do not have use of the Internet, which in many instances precludes them from getting the latest information on research, practices and technology.

Regarding U.S. trade, Iraq was once a significant commercial market for U.S. farm products, with sales approaching $1 billion in the 1980's. It has the potential once again to be a significant commercial market as its population with growing incomes enriches its diet. USDA is active is assessing ways to establish export credit guarantee programs to help U.S. exporters re-enter this market at the right time. The Export-Import Bank's Board of Directors has approved a $500 million short term insurance facility to support trade financing from the Trade Bank of Iraq, which could include agricultural products. In the interim, USDA and U.S. agricultural groups have sponsored technical seminars with Iraqi buyers to help familiarize them with our products. In May, a group of Cochran fellows from Iraq will be visiting the United States. Rice and wheat industry associations will help sponsor their visit.

In Afghanistan, people are tired of years of repression, exploitation, Soviet-era rule, factional fighting of warlords, and the Taliban. They want an opportunity for stability and to develop their lives the best way they can.

Our PL–480 program is donating soybean oil with proceeds earmarked for rural development projects. The first group of Afghan women sponsored by the Cochran program will be coming to America in June. USDA has employees on the ground to help in the Afghan reconstruction effort. Short-term advisors are being sent to assist the Afghan Conservation Corps in implementing soil, water, and forestry conservation projects. This puts money into the hands of the rural population that desperately needs income.

In both Iraq and Afghanistan, USDA has and will continue to play an important role in helping citizens rebuild their agricultural economies, improve their domestic capacity to produce and buy food and agricultural products, and help U.S. exporters sell and market U.S. product into these markets. In both countries, our government is working hard to foster change that will benefit not only Iraq and Afghanistan, but America and the rest of the world.

### Creating Opportunities for the Future

I have talked today about the many fronts we are working on to continue to improve export opportunities for the American food and agriculture sector. To emphasize the importance of our agricultural trade, consider this:

- The United States is the world's largest agricultural exporter.
- Agriculture is two times more dependent on trade than other sectors in the U.S. economy. We estimate about 27 percent of farm sales will come from exports this fiscal year.
- Long term, exports are growing at twice the rate of domestic sales.
- Every dollar of exports creates $1.60 in supporting economic activity and over 90 percent of U.S. exporters are small firms, which employ three of every four workers in America.
- With 96 percent of the world's consumers living outside the United States, access to international markets for U.S. agricultural products is all the more critical.

Thank you for providing me with the opportunity to talk about foreign trade with you today. Ambassador Zoellick will complete the picture with specifics on the status of WTO and other FTA negotiations. I look forward to your questions.

## Statement of Robert B. Zoellick

Chairman Goodlatte, Congressman Stenholm, members of the committee:

I appreciate the opportunity to be here with Secretary Veneman. She and her team at USDA have been excellent partners in our efforts to expand opportunities for America's agricultural trade and to enforce agreements vigilantly.

It is a pleasure to be with you again. I want to start by thanking all of you—from both sides of the aisle—for the support and advice you have provided us, not only over the last year, but for the past three years.

The leadership of this committee has been invaluable in shaping our trade agenda as well as in bolstering our capabilities in key ways that empower us to advance the interests of U.S. farmers, ranchers, and the agriculture industry overseas. Your important support has been vital to turning tough negotiations and hard compromises into the reality of new opportunities for all those involved with agriculture from our small rural communities to the Nation's largest agribusinesses.

In particular, I would like to thank you for your strong support of our enforcement efforts. Strong enforcement and ground-breaking trade agreements are two sides of the same coin. Our enforcement efforts grow stronger when we negotiate world-leading agreements with solid and specific commitments by our trading partners. With clear enforceable commitments in hand, we can ensure that our trading partners live up to their promises or suffer a losing hand in litigation. Only when wielded in unison can the tools of negotiation and enforcement reach their full potential.

As we move forward in all these areas, we will continue to consult with the agricultural community as well as the members of this committee. We understand that sometimes our farmers and ranchers do not face a level playing field, and we are committed to keeping those sensitivities in mind as we have in all our recent trade agreements.

## INTRODUCTION: THE CHALLENGE AHEAD OF US

Together we are accomplishing some important results for America. Yet I know the benefits of trade are a subject of debate.

Just read a week's worth of headlines and one thing is clear: Even at this stage of an economic recovery and even after good news like the 308,000 jobs created last month, Americans are concerned about how trade influences the lives of their family, friends, and neighbors. Americans are concerned about pressure on jobs, enhanced productivity, and the threat of unfairly subsidized foreign competition and trade barriers.

But we need to consider these apprehensions carefully and not take actions that will undermine American economic strength and kill jobs. Sometimes the economic isolationists who fear trade and change claim that those who advance the cause of open trade rely on blind faith in economic theories while farmers and workers must live with the hard day-to-day reality.

Only people who fail to understand the history of America's farmers and ranchers could peddle such defeatism. It is farmers' and ranchers' openness to international trade and the competition that goes with it that has made American agriculture the most productive in the world.

Consider this fact: Seventy-five years ago, Americans spent 20 percent of their incomes to put food on the dinner table. Today we spend only one out of fourteen dollars. And today's table is arrayed with vastly improved food: safer, fresher, better tasting, more nutritious, endless in variety, and freed from the harvest calendar.

Why? Because, for 200 years, the tradition of American farming has been a spirit of inquiry, improvement, and adaptation. The constant efforts to become more productive by adopting the newest methods and best technologies are not something born with the global agricultural business, but rather with Washington's and Jefferson's experiments with seeds and plantings, the cast iron plow patented in 1797, the first grain elevator built in 1842, barbed wire thirty years later, the all-purpose, rubber-tired tractor in the 1930's, and advanced hybrids and bio-tech more recently.

Two hundred years ago, U.S. farmers could do little more than feed themselves and the ten percent of the population that did not work the land. Today, every American farmer feeds more than 100 people, including vast numbers overseas. When America's domestic markets were protected by insurmountable tariffs, agricultural exports measured only a few million dollars. Today U.S. farm exports are at near record levels in the tens of billions, with a growing trade surplus. The value of U.S. soybeans surpasses airplanes as an export to China.

The forward-looking tradition of America's farmers and ranchers is not only a powerful example for the rest of the U.S. economy; agricultural productivity is part of the reason the rest of the economy exists. When industrialization was isolated and fragile, farmers' surging productivity freed workers for the mines and factories of the industrial revolution. Technology-hungry farmers were the consumers for many new industrial goods.

When a newer technological age arrived with the peeps from Sputnik's low-Earth orbit, growing productivity allowed more educated workers to populate expanding industries such as financial services and aerospace while others built new industries that would spread from behind garage doors to desktops around the globe.

Whether Americans are selling Boeing 777s or Sun Microsystems networking products to overseas customers, they should thank farmers.

As we have learned from farmers and ranchers, isolating America from the world is not the answer to economic challenges. We need to open markets for Americans to compete in the world economy, so we can create new jobs and build economic strength at home. When we work with the world effectively, America is economically stronger and more secure.

Ninety-six percent of the world's customers live outside our borders. The fastest growing populations and economies are outside our borders. We need to open those markets. America's farmers and ranchers simply cannot afford walls that stymie global trade and development.

Opening foreign markets to U.S. products and services is vital to economic growth, and an expanding economy is the key to better-paying jobs. U.S. exports accounted for about 25 percent of U.S. economic growth during the last decade and supported an estimated 12 million American jobs.

Although we have opened many markets, too many foreign countries still will not let us compete on an equal footing. They keep our products out, they use dubious science to block food behind a facade of "safety" concerns or construct elaborate export subsidies that warp international markets. We want to make sure our agricultural products get a fair chance to compete, and to be vigilant and active in enforcing our trade agreements so that Americans have a level playing field.

Recent U.S. trade agreements have cut hidden import taxes and saved every working family in America as much as $2,000 a year, and our newest agreements could add more to these savings. Arguing for trade barriers is like arguing for a tax on single working moms, because that is who pays the highest percentage of household income for food. Our goal is to cut those hidden import taxes—while other countries cut theirs too—to give working families a boost. Not only do families get a tax cut through the products they buy, but they also earn better paying jobs in industries that export products and services.

Today's economic isolationists, like those of yesteryear, want to retreat, to cut America off from the world. But we need to remember that what goes around, comes around: If we close America's markets, others will close their markets to America. And the price of closing markets is larger than economic isolationists recognize. Over the last decade, trade helped to raise 140 million people out of poverty, spreading prosperity and peace to parts of the world that have seen too little of both. Americans will not prosper in a world where lives of destitution lead to societies without hope.

America's farmers and ranchers know this best because they are among our most vibrant international traders. When we put up walls, the first place foreign countries retaliate is agriculture. And with a near-record $59 billion in exports, U.S. agriculture is a big target. Economic isolationists should know that every one of their proposals is aimed squarely at the wallets, jobs, and communities of farmers, ranchers, and agriculture-related industries from packaging to bio-tech.

That's why President Bush's vision is of a world that trades in freedom—a world where America's agricultural communities can prosper and thrive.

## Strategic Overview

Three years ago, to support growth, innovation, development, and engagement with the world, the Bush administration outlined a trade strategy for America. At the heart of our effort has been a plan to pursue reinforcing trade initiatives globally, regionally, and bilaterally while enforcing our current agreements. Through an ambitious trade agenda, the United States is working to secure the benefits of open markets for American families, farmers, ranchers and agriculture-related businesses. By pursuing multiple trade initiatives, we are creating a Acompetition for liberalization that provides leverage for openness in all negotiations, establishes models of success that can be used on many fronts, and develops a fresh dynamic that puts America in a leadership role.

This strategy is producing results.

With the strong support of this committee, the President secured congressional approval of the bi-partisan Trade Act of 2002.

The United States was instrumental in defining and launching a new round of global trade talks at the World Trade Organization (WTO) at Doha in late 2001. That same year we completed the unfinished business of China and Taiwan's entry into the WTO, working from the bilateral trade terms established by the Clinton administration, so as to establish a legal framework for expanding U.S. exports and integrating China's economy into a system of global rules. Also in 2001, the administration worked with Congress to pass a Free Trade Agreement (FTA) with Jordan and a basic trade accord with Vietnam. After the 2000 election, President Clinton had announced an interest in FTAs with Singapore and Chile, and this administration negotiated state-of-the-art accords in 2001–02 and gained Congressional approval in 2003.

A critical aspect of the Trade Act of 2002 was the renewal of the President's trade negotiating authority. In 2003 and early 2004, the administration put that authority to good use, promoting global negotiations in the WTO, working toward a Free Trade Area of the Americas (FTAA), completing and winning Congressional approval of free trade agreements with Chile and Singapore, launching bilateral free trade negotiations with 15 more nations (concluding talks with eight of them), announcing its intention to begin free trade negotiations with five additional countries, and putting forward regional trade strategies to deepen U.S. trade and economic relationships in Southeast Asia and the Middle East.

These interlocking efforts have kept the pressure on WTO members to find a way forward. And, as WTO negotiations continue, the newly completed FTAs with eight more countries create the equivalent of the world's 6th largest export market for our agricultural products.

PRESSING FORWARD IN THE WTO

At key points, the United States has offered crucial leadership to launch, prod, advance, and reenergize the Doha Development Agenda, the global trade negotiations at the WTO. At the same time, we have emphasized that in a negotiation with 148 economies seeking consensus, others must also work constructively with us.

After the Doha launch, the United States proposed the global elimination of tariffs on consumer and industrial goods by 2015, substantial cuts in farm tariffs and trade-distorting subsidies, and broad opening of services markets. We are the only major country to put forward ambitious proposals in all three core areas. These proposals reflect extensive consultations with Congress and the private sector.

At the Cancun WTO meeting in September, however, some wanted to pocket our offers on agriculture, goods, and services without opening their own markets, a position we will not accept. Since Cancun, I believe many countries have concluded the breakdown was a missed opportunity that serves none of our interests. That recognition is a useful starting point for getting the negotiations on track.

Only a few weeks after Cancun, more than twenty diverse APEC economies—encouraged by the United States and joined by some of our free trade partners—called for a resumption of WTO negotiations, using the draft Cancun text as a point of departure. In December, the WTO General Council completed its work for the year with an important report by its Chairman on the key issues that need to be addressed if the Doha Development Agenda is to move forward.

By late December, we sensed many WTO members were interested in getting back to the table, probably working from the draft text developed at Cancun, but U.S. leadership was essential. So in January, I wrote a letter to all my WTO colleagues putting forward a number of common sense suggestions to move the Doha negotiations forward in 2004. I emphasized that the United States did not want 2004 to be a lost year. The letter suggested that progress this year will depend on the willingness of Members to focus on the core agenda of market access for agriculture, manufactured goods, and services.

In agriculture, we believe that WTO Members need to agree to eliminate agricultural export subsidies by a date certain, substantially decrease and harmonize levels of trade-distorting domestic support, and seek a substantial increase in real market access opportunities both in developed and major developing economies. We emphasized that the United States continues to stand by its 2002 proposal.

Finally, we are asking that countries not permit the so-called Singapore Issues to be a distraction from our critical work on market access. We need to clear the decks. Based on extensive consultations in Africa and Asia, I believe we can move forward together on trade facilitation, which cuts needless delays and bureaucracy at borders and ports and is of vital importance to U.S. agriculture. I have urged my colleagues to drop the other topics.

The initial response to this initiative has been encouraging both from overseas and among domestic constituencies. To follow up the January letter, in February I traveled some 32,000 miles—around and up and down the world—to meet with representatives of over 40 countries to hear their ideas and encourage their commitment.

In March, USTR's Chief Agricultural Negotiator, Ambassador Allen Johnson, traveled to Geneva for discussions with more than 70 countries intended to move the Doha Round forward. While no specific major breakthroughs were achieved, Ambassador Johnson was able to foster a more focused and cooperative environment with key WTO members on the core issues.

As a result, I believe we are regaining some momentum, although the road ahead is marked by risks. Our ability to make notable progress by this summer depends principally, in my view, on two steps: one, reconciling the conundrum of the Singapore Issues by agreeing to focus solely on trade facilitation; and two, by concentrating on the draft agriculture text to see if we can agree on specific frameworks for reform. To secure movement on agriculture, all countries will need to agree to eliminate export subsidies, including the subsidy element of export credits, to end state trading enterprise monopolies, and discipline food aid in a way that still permits countries to meet vital humanitarian needs.

The framework will also need to show a strong basis for meaningful reductions in trade-distorting support and real improvement in market access. Such moves will create the opportunity to address our long-standing objectives of eliminating export subsidies, making substantial reductions in trade-distorting domestic support that results in greater harmonization, and gaining substantial new access to markets.

With this new momentum, and decisions by the European Union, Japan, Canada Australia and key developing nations such as Brazil, China, India, and Korea to make strong new commitments to the WTO, a completed framework for progress is possible by July. Of course, methods for addressing unique agricultural sensitivities like those in the United States as well as the needs of hundreds of millions of subsistence farmers around the world must also be found as the process moves forward.

## PUSHING THE WTO FORWARD WITH POWERFUL ALTERNATIVES

The American agriculture community believes that the Doha Round of WTO negotiations should be the centerpiece of our agenda. They are right.

But the surest way to let Doha falter is by negotiating in a vacuum. By moving forward regionally and bilaterally, as well as globally through the WTO, we remind the world that the United States is committed to achieving trade liberalization. If some countries stand in the way of one opportunity, we will find another. Only steady trade-opening progress can infuse momentum into Doha.

Remember that in the WTO, it takes only one member to derail the process. We do not want to be held hostage to any one of 147 economies. Farmers and ranchers know this instinctively. No businessperson wants to be selling to only one buyer. If a potential buyer makes unreasonable demands, a farmer and rancher would move on to someone more willing to work together.

Equally important, our progress outside the WTO provides important opportunities for American agriculture. Since the Doha Round was launched, we have initiated or completed negotiation on FTAs representing the fifth largest market for U.S. agricultural exports.

Consider the Central American Free Trade Agreement alone: Currently, 99 percent of food and agricultural products exported by CAFTA countries enter the U.S. duty-free + without reciprocal access. Only after Congress approves the agreement and it is implemented will U.S. farmers and ranchers have a level playing field. A broad coalition of agricultural trade groups reports that CAFTA and the DR will grow our exports of feed grains, wheat, soybeans, poultry, pork, cotton, beef, and dairy products, among others, with projected gains of almost $1 billion.

There are numerous specific benefits for U.S. farmers and ranchers in each of our most recent FTAs:

- In CAFTA, more than half of current U.S. exports will become duty-free immediately, including high-quality beef, cotton, wheat, soybeans, key fruits and vegetables, processed food, and wine. Central America will also work to resolve sanitary and phytosanitary barriers to agricultural trade.
- In the Morocco FTA, our farmers and ranchers are gaining new tools to compete with Canada and the EU, among others. Our beef and poultry producers will get new access to a market that was formerly closed. Tariff rate quotas for durum and common wheat could lead to five-fold increases in U.S. exports over recent levels. Almond exports could double under a new TRQ. Moroccan tariffs on sorghum, corn, soybeans, and corn and soybean products will be cut significantly or eliminated immediately. Morocco also will lift its duties immediately on cranberries, pistachios, pecans, whey products, processed poultry products, and pizza cheese. Tariffs on some other products will be phased out in five years, including on walnuts, grapes, pears, and cherries.
- In our Australian FTA, every American agricultural export will receive immediate duty-free access and there are new mechanisms to smooth cooperation between U.S. and Australian officials on sanitary and phytosanitary barriers.

A static analysis only captures part of the benefit. Our trading partners' economies grow faster after they have joined an FTA with the U.S. That means more export opportunities across economic sectors as their incomes rise.

Even while negotiating these strong benefits for agriculture, we keep import sensitivities foremost in mind. In the Australia agreement, for example, some U.S. tariffs remain in place or are phased out over 18 years while safeguards remain in place for sensitive horticultural products and beef.

One-on-one negotiations also provide opportunities to implement innovative solutions to old trade problems or adopt unique new disciplines that can foster trade. For example, the Chile FTA recognizes U.S. beef grading and inspection, while language in the Australia and Morocco FTAs advances our goal of global export subsidy elimination and our goals on state trading enterprises at the WTO. The Australia FTA and CAFTA provided leverage to reform sanitary and phytosanitary barriers. Once good ideas are put into practice and their success can be observed from around the world, the best ideas can be exported to other FTAs and the WTO negotiations.

As we push the WTO forward regionally and bilaterally, we are targeting markets that offer the biggest opportunities to our agricultural exporters. We chose Thailand and Colombia to be among our newest negotiating partners knowing of their commercial significance to our agricultural producers.

We would like to pursue FTAs with the largest markets around the world, including the European Union and Japan among others. But right now, those countries are unwilling to move forward. As a result, we are pushing for the liberalization of their markets through the WTO. At the same time, as another facet of competitive liberalization, we hope our progress on other FTAs will encourage these important markets to reconsider their stance.

## Advancing Negotiations in the Free Trade Area of the Americas

Since taking office, the administration has been working to transform years of general talks about a Free Trade Area of the Americas (FTAA) into a real market-opening initiative, with a focus on first removing the barriers that most affect trade. When complete, the FTAA would be the largest free trade zone in the world, covering 800 million people with a combined GDP of over $13 trillion. It would expand U.S. access to markets where tariff barriers are high and non-tariff barriers are abundant. Since many of these countries already have enhanced access to the U.S. market through our preference programs, U.S. farmers stand to gain the most since the U.S. has few trade barriers left to remove.

As we proceed in the FTAA, we will continue to take into account not only the export opportunities this Agreement offers our farmers, but also the particular sensitivities they have to certain agricultural imports from our FTAA trading partners. We will also continue to insist that the WTO, and not the FTAA, is the place to negotiate on domestic supports, export credits and guarantees, and food aid.

## Spanning the Globe With Bilateral Free Trade Agreements

In 2003, the United States signed free trade agreements with Chile and Singapore, and those agreements won strong bipartisan majorities in Congress. These comprehensive, state-of-the-art FTAs set modern rules for 21st Century commerce and broke new ground in areas such as intellectual property protection, transparency and anti-corruption measures, and enforcement of environmental and labor laws to help ensure a level playing field for American workers. They also built on the experience of prior free trade agreements and will serve as useful models to advance other U.S. bilateral free trade initiatives in 2004.

In Latin America, for example, the long-sought FTA with Chile took effect on the tenth anniversary of NAFTA, and only two weeks after the administration concluded a U.S.-Central American Free Trade Agreement with El Salvador, Guatemala, Honduras, and Nicaragua. In January, we finalized CAFTA by resolving a few remaining issues with Costa Rica, and on February 20, the President notified Congress of his intent to enter into that agreement. Last month, we completed negotiations for the Dominican Republic to join CAFTA. The expanded agreement would create the second-largest U.S. agriculture export market in Latin America, behind only Mexico.

Just this week, the U.S. launched FTA negotiations with Panama. Later this spring the United States intends to launch similar negotiations with Colombia and possibly Peru and Ecuador, while continuing preparatory work with Bolivia. Added together, the United States is on track to gain the benefits of free trade with more than two-thirds of the Western Hemisphere (not counting the United States) through state-of-the-art, comprehensive sub-regional and bilateral FTAs.

In February, we concluded a landmark free trade agreement between the United States and Australia. All U.S. farm exports—more than $400 million per year—will go duty-free to Australia. At the same time we have been able to ensure that our import sensitive areas of agriculture such as beef, dairy, and sugar are treated carefully.

In Southeast Asia and the Middle East, the President has announced initiatives to offer countries a step-by-step pathway to deeper trade and economic relationships with the United States. The Enterprise for ASEAN Initiative (EAI) and the blueprint for a Middle East Free Trade Area (MEFTA) both start by helping non-member countries to join the WTO, strengthening the global rules-based system. For some countries further along the path toward an open economy, the United States will negotiate Trade and Investment Framework Agreements (TIFAs) and Bilateral Investment Treaties (BITs). These customized arrangements can be employed to resolve trade and investment issues, to improve performance in areas such as intellectual property rights and customs enforcement, and to lay the groundwork for a possible FTA.

President Bush announced the Enterprise for ASEAN Initiative in October 2002. Significant progress was made in 2003, and the stage has been set for further achievements in 2004. With the newly enacted Singapore FTA to serve as a guidepost for free trade with ASEAN nations, last month we began to prepare for upcoming free trade negotiations with Thailand. At the Cancun WTO Ministerial last September, Cambodia was offered accession to the World Trade Organization, so it could take another step toward active participation in the global rules-based economy. Spurred by the progress of its neighbors, Vietnam is also working toward WTO membership, building on the foundation of a basic bilateral trade agreement with the United States that was approved by Congress in 2001. The United States signed a bilateral trade agreement with Laos in 2003. The United States is using TIFAs with the Philippines, Indonesia, and Brunei to solve practical trade problems, build closer bilateral trade ties, and work toward possible FTAs. Malaysia also now wants to proceed towards a TIFA with the United States.

The Middle East Free Trade Area initiative, announced by the President in May 2003, offers a similar pathway for the Maghreb, the Gulf states, and the Levant. In addition to helping reforming countries become WTO Members, the initiative will build on the FTAs with Jordan, Israel, and now Morocco; provide assistance to build trade capacity and expand trade so countries can benefit from integration into the global trading system; and will launch, in consultation with Congress, new bilateral free trade agreements with governments committed to high standards and comprehensive trade liberalization.

The U.S.-Jordan FTA entered into force in December 2001 after close bipartisan cooperation between the administration and Congress.

In 2003, the administration launched free trade negotiations with Morocco, which we are pleased we completed last month. Our terms with Morocco provide immediate cuts in Moroccan trade barriers to wheat, corn, and soybeans, and new access for U.S. beef and poultry.

In January 2004, the United States began free trade negotiations with Bahrain. Agricultural products that could benefit from the FTA include meats, grains, fruits and vegetables, and dairy products.

Morocco and Bahrain have been leaders in reforming their economies and political systems. Our market opening efforts with these two Arab states are part of the administration's broader goal of fostering prosperity, encouraging openness, and deepening economic and political reforms throughout the region.

In 2004, the United States will continue its efforts to bring Saudi Arabia into the WTO and will expand its network of TIFAs and BITs throughout the region. The United States now has nine TIFAs in the region, most recently signing agreements with Saudi Arabia, Kuwait, Yemen, Qatar, and the United Arab Emirates. As additional countries in the Middle East pursue free trade initiatives with the United States, the administration will work to integrate these arrangements with the goal of creating a region-wide free trade area by 2013.

In Africa, the United States launched FTA negotiations with the five countries of the Southern African Customs Union (SACU): Botswana, Lesotho, Namibia, South Africa, and Swaziland. The U.S.-SACU FTA will be a first-of-its-kind agreement with sub-Saharan Africa, building U.S. ties with the region even as it strengthens regional integration among the SACU nations. Farmers would gain expanded opportunities in wheat, rice, and poultry.

The bilateral FTAs we have concluded or are pursuing constitute significant markets for the United States. U.S. goods exports to these countries were $66.6 billion in 2003. This would have made them the third largest U.S. export market behind only Canada and Mexico, and ahead of Japan. Our $4.2 billion in agriculture exports in 2003 made them our fifth largest market. The economies of these countries totaled $2.5 trillion in 2002 at purchasing power parity exchange rates, which would rank them as the world's sixth largest economy. And most are developing countries that offer significant growth opportunities in years to come. We are laying free trade foundations for win-win economic ties between America and these partners.

ENFORCEMENT: A CONTINUING TASK

The vigilant enforcement of existing trade agreements is no less important than producing new ones. Indeed, enforcement is inherently connected to the process of negotiating new agreements. Without determined enforcement, new agreements will serve as a source of disappointment and frustration instead of an opportunity to create new jobs for workers and new opportunities for business. We need to assure the American public, and forewarn our trading partners, that we are determined to use all available resources and remedies to combat unfair trade practices and secure a level playing field for American workers, farmers and businesses.

Over the past three years, we have been aggressive in ensuring that the interests of U.S. farmers and ranchers are vigorously protected.

Some of our efforts on behalf of farmers and ranchers include:

- Reopening the Japanese apple market. We won a case against Japan in which the WTO overruled unscientific claims that U.S. apples could carry fire blight and damage Japanese agriculture. As a result, Japan has agreed to reissue import rules for U.S. apples by June 30th
- Winning a WTO case against Canada's discriminatory grain handling practices. Canada must now reform extra hurdles placed in the way of U.S. wheat exports including rules against mixing U.S. and Canadian grain as well as preferential pricing rules for transportation. We intend to appeal the remaining issues.
- Filing a WTO case against Mexico's illegal high fructose corn syrup taxes. We attempted to settle this dispute through negotiations, in close consultation with our industry. Unfortunately, the negotiations did not resolve the matter, so now we will enforce our rights under the WTO.
- Reopening the Indian market for American almonds. With a dubious scientific basis, in January, India instituted fumigation rules that blocked our almond exports. Before the regulations could stifle $70 million of U.S. exports, we convinced India to hold off until June to allow time to work out a long-term solution that will not undermine U.S. farmers' 2nd most important export to India.
- Reopening the Mexican market to American beef. Mexico has lifted restrictions on 91 percent of U.S. beef products, a $935 million market in 2003. In another Mexican beef issue, a NAFTA dispute panel recently handed down a ruling that should pave the way for the reconsideration of some anti-dumping duties on U.S. beef exports to Mexico.
- Pressing our geographical indicators case against the EU. In February, the WTO created the dispute panel to address the fact that the EU's regulations do not provide national treatment for agricultural products and foodstuffs GIs and fail to protect pre-existing trademarks. We expect a decision this fall.
- Convincing China to certify biotech foods, including soybeans. In March, after two years of working together, China issued permanent safety certificates for biotech soybeans, corn, canola, and cotton assuring that the quick-growing multi-billion dollar market will remain open to our farmers. Soybeans reached a record last year and so did our agriculture trade surplus with China. China has said decisions on other products' safety certificates will follow.
- Winning a WTO case against Canadian dairy export subsidies. In May 2003, USTR followed up the WTO victory by signing an agreement between the United States and Canada that Canada would not export subsidized dairy products to the U.S. We are carefully monitoring Canada's compliance with the WTO ruling and its NAFTA obligations.
- Continuing to push our WTO challenge to the EU's biotech moratorium. On March 4, the WTO dispute panel was created and we expect a final report by October. USTR is also working with industry to evaluate whether filing another WTO objection to the EU's new biotech traceability and labeling regulations is the best course to address the issues.

There are many other examples because our day-to-day, bread-and-butter work at USTR is to work with American agriculture—and other U.S. exporters—to solve problems. We have worked to ensure exports of beef, pork, and poultry to Russia and Mexico. We have protected dry bean growers from Mexican restrictions, rice farmers from Taiwan's unjustified trade barriers, and kept EU markets open for our wheat farmers.

These efforts will continue. For example, we are working closely right now with Secretary Veneman to remove new barriers against U.S. beef, related to BSE, and restrictions on U.S. poultry exports caused by recent outbreaks of avian influenza.

ENSURING A LEVEL PLAYING FIELD WITH CHINA

In the future, few relationships will be as important to U.S. farmers and ranchers as our trade ties with China. Since China joined the WTO, it has become America's 5th largest agricultural export market. Total U.S. exports to China grew 75 percent over the last three years, even as U.S. exports to the rest of the world declined because of slow global growth.

In 2003, senior administration officials met frequently with Chinese counterparts to address shortcomings in China's WTO compliance. We delivered a clear message: China must increase the openness of its market and treat U.S. goods and services—including agricultural products—fairly if support in the United States for an open market with China is to be sustained.

As a result, China has taken steps to correct systemic problems in its administration of the tariff-rate quota (TRQ) system for bulk agricultural commodities, and relaxed certain market constraints in the soybean and cotton trade, enabling U.S. exporters to achieve record prices and sales. Approval of biotech soybeans, cotton, canola, and corn earlier this year—and promised additional approvals—has created greater certainty for U.S. exporters.

Nevertheless, China must do more. We continue to stress the need for structural change that ensures ongoing, open, and fair access—not reliance on one-off sales and market access granted only after high-level political intervention.

U.S. farmers and ranchers are already benefiting from trade with China. Growth in exports to China of agricultural products has been robust; for example, U.S. exports of soybeans reached an all-time high in 2003 of $2.9 billion and cotton exports were $737 million, up almost 430 percent over 2002. Exports of hides and skins were $460 million in 2003. In addition, China has committed to buy $500 million of wheat. After growth of 140 percent between 2002 and 2003, China is the destination for 8 percent of all U.S. agricultural exports.

Since China is a growth market, particularly as the nation's middle class grows into the hundreds of millions, we are working to ensure that China becomes an integral part of the international trading system. China must not only import from the rest of the world, but also accept the practices and rules that create a level playing field.

Earlier this month, Commerce Secretary Don Evans, Secretary Veneman and I met with Chinese Vice Premier Wu Yi as part of the U.S.-China Joint Commission on Commerce and Trade (JCCT). The JCCT focused on many issues. In the area of agriculture, China agreed to implement new transparency procedures, announce approvals for several new biotech canola and corn products, ease the way for agriculture exports into China by providing the names of domestic quota holders and lift some of the BSE-related restrictions on U.S. beef exports.

Our attention remains focused on China to resolve new issues as they come up. With the help of new appropriations from Congress we have established a new office and added new staff to deal more specifically with China. At the same time, we reorganized our North Asia office to focus on Japan and South Korea, two critical agricultural markets.

In 2004, the administration will concentrate on ensuring that: U.S. firms are not subject to discriminatory taxation; market access commitments in areas such as agriculture and financial services are fully met; standards are not used—whether for technology or farm products—to unfairly impede U.S. exports; China's trading regime operates transparently; and promises to grant trading and distribution rights are implemented fully and on time. The administration will consult closely with Congress and interested U.S. stakeholders in continuing to press China for full WTO compliance, and will not hesitate to take further action to enforce trade rules.

During 2004, we will continue to push forward, step-by-step, toward the vision set out by President Bush of Aa world that trades in freedom. It is a vision of a world in which a Virginia turkey farmer, a Texas rancher, a Minnesota corn farmer, a Washington State apple grower, and a North Carolina poultry farmer can sell his or her products or services in Costa Rica or Australia or Thailand or Morocco as well as across America. It is a vision of a world in which free trade opens minds as it opens markets, supporting democracy and encouraging tolerance, thereby making Americans more secure. It is a vision of a world in which a working family can save money at the grocery store because trade agreements have cut hidden import taxes. And it is a vision of a world in which hundreds of millions of people are lifted from poverty through economic growth fueled by trade. It is the vision that builds a future for America's farmers and ranchers.

# The U.S. Trade Agenda

## *Creating and Maintaining Opportunities for U.S. Agriculture*

*The Committee on Agriculture*

*U.S. House of Representatives*

**Robert B. Zoellick**

**U. S. Trade Representative**

April 28, 2004

# Overview

- Expanding trade through multiple initiatives:
  - A global WTO agreement
  - Regional initiatives
  - Bilateral FTAs
  - Enforcement of trade laws and agreements
  - Worker adjustment and education

# Putting TPA to Good Use

*Highlights of 2003-2004 to date*

- Completed and passed:
  - Singapore and Chile
- Launched and completed:
  - Australia, CAFTA + D.R., Morocco
- In progress:
  - Southern Africa, Bahrain, Panama
- About to start:
  - Thailand, Andeans
- Advanced regional initiatives in Middle East, SE Asia
- Miami framework to advance FTAA
- Doha WTO:
  - Cancun was a missed opportunity
  - 2004 need not be a lost year

# Staying Vigilant

*Enforcement is at the Heart of our Work*

- **Our goal: effective results, as quickly as possible**
- **Recent gains for U.S. agriculture:**
  - Beef: reopened Mexico's market, working on Japan, Korea, & China
  - HFCS: filed WTO case against Mexico
  - Almonds: reopened India's market
  - Cotton/Soybeans: expanded U.S. exports to China
  - Wheat: U.S. calls for reform of Canada's practices
  - Poultry, pork, and beef: negotiated access to Russia; finalizing details
  - Apples: won WTO case against Japan
  - Hogs: settled dispute with Mexico to expand market
- **Our enforcement toolbox:**
  - Persuade, explain, build local support, offer incentives, provide assistance, deploy disincentives, negotiate – and litigate

# WTO in 2004

*Proposals for Progress*

- **Challenge: 147 economies, need to develop broad consensus**

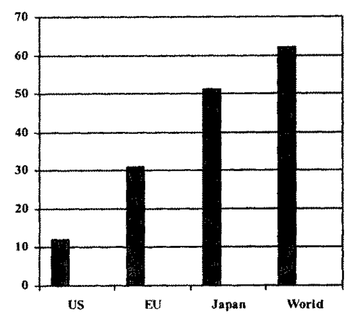
- **U.S. leadership:**
  - **January letter to all Ministers**
  - **February strategic dialogue with more than 40 countries**
  - **March/April: Geneva agriculture meetings**

- **A focus on "3 pillars" in agriculture:**
  - **Eliminate export subsidies by date certain**
  - **Substantial cuts & harmonization in trade-distorting domestic support**
  - **Market access to developed and major developing economies**

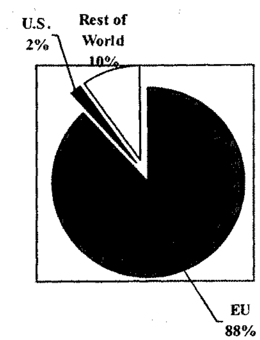
- **Other key elements:**
  - **Don't let "Singapore Issues" distract from core agenda**
  - **Manufactured goods: tariff cuts, non-tariff barriers**
  - **Services: get more (and better) offers on the table from others**

# Core Problems in Agricultural Trade

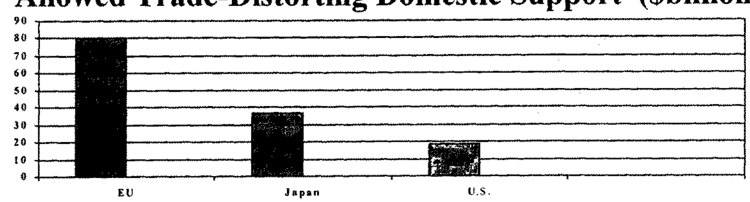
## Avg. WTO Allowed Tariff (%)




## Export Subsidy Expenditures




## Allowed Trade-Distorting Domestic Support ($billion)*




*Data reflects current exchange rates.

# Regional Initiatives

*Help build WTO consensus*

- FTAA
  - Agreement on common set of rights and obligations
  - Creates incentives for countries to do more
- Enterprise for ASEAN Initiative
  - Network of FTAs in South East Asia
  - TIFAs are stepping stones
- Middle East Free Trade Area
  - Already have TIFAs with 9 countries in the region
  - Offer graduated steps to encourage reforms

# Why Bilaterals?

- **Doha remains our top priority, but we don't want our trade agenda to be held hostage by one negotiation**

- **Our new and pending FTA partners:**
  - **300 million people**
  - **World's 6th largest economy**
  - **5th largest market for U.S. agriculture exports**
  - **$4.2 billion in U.S. agriculture exports**

- **FTAs could increase farm exports to these countries substantially**

- **Thailand, Colombia are good opportunities for U.S. agriculture:**
  - **Record levels of U.S. ag exports to Thailand in 2003, including beef, pork, horticulture, and soybeans**
  - **Colombia largest market for U.S. ag products in South America, including corn, wheat, soybeans, and cotton**

# CAFTA + D.R.

*Highlights for U.S. Agriculture*

- Today 99% of CAFTA/DR farm goods enter the U.S. duty-free… without reciprocal U.S. access. Our FTA levels the playing field.
- More than half of current U.S. farm exports duty-free immediately
  - Includes apples, french fries, soybeans, wheat, and cotton
- Farm Bureau: FTA could mean $1.5 billion for U.S. farmers
- Sugar handled with care:
  - Increased access = 1.3% of U.S. production; no change in above-quota tariffs
- Strong transparency, anti-corruption, and good governance rules
- Strong labor and environment protections
- D.R. assumes the same basic set of obligations and commitments

# Australia FTA

***Highlights for U.S. Agriculture***

- **All U.S. farm exports duty-free from day one:**
  - **Benefits processed foods, oilseeds and oilseed products, fruits and juices, vegetables, nuts, and distilled spirits**
- **Sensitive products "handled with care":**
  - **Dairy: didn't touch the above-quota tariff, modest quota increase**
  - **Beef: quotas grow slowly; above-quota tariff phases-out over 18 years, back-loaded. Safeguards available during and after transition.**
  - **Sugar: access unchanged**
  - **TRQs: avocados, cotton, peanuts, and tobacco**
- **SPS commitments:**
  - **Affirms WTO Agreement**
  - **Establishes SPS structure to work through problems on scientific basis**
  - **Gained market access for table grapes**
  - **Risk assessments on track for pork, stone fruit, poultry, and Florida citrus**

# Morocco FTA

*Highlights for U.S. Agriculture*

- U.S. farmers gain new tools to compete with Canada and the EU
- Beef and poultry get new access to a market that was formerly closed
- Wheat and almonds: new TRQs could mean 5x increase in wheat exports, 2x increase for almonds
- Significant tariff cuts: corn, soybeans, corn and soybean products
- Immediate duty-free access: cranberries, pistachios, pecans, whey products, processed poultry products, and pizza cheese.
- Zero tariffs within 5 years: walnuts, grapes, pears, and cherries.
- Olives: Special rule of origin & long phase-out of tariff on product with most trade

# Trade with China

- China is a major market:
  - U.S. agriculture exports grew 140% from 2002-2003
  - Now America's 5th-largest export market for agriculture
- U.S. soybeans bring home more money from China than U.S. airplanes: $2.9 billion
- JCCT: Elevated dialogue brought good results to U.S. farmers, businesses, workers, and consumers
  - More biotech approvals: soybeans, corn
  - Transparency in TRQ administration: wheat, cotton
  - Commitments on standards, IPR, trading/distribution rights

# Looking Ahead

- The challenge: to manage global economic and technological changes
- Economic isolationism won't work - will kill jobs and opportunities
- Trade benefits Americans: more markets, more choices, lower prices, good jobs
- Our strategy:
  - Open new markets for U.S. products and services through new trade agreements
  - A level playing field: monitor and enforce existing trade agreements
  - Continue cutting hidden import taxes that hurt working families
  - Keep America open to "insourced" jobs and investment
  - Help Americans adjust to change (education, worker training, portable pensions, ability to keep and save hard-earned dollars)
  - Remember that a world where poor people have no hope is not good for America's future

U.S. House of Representatives
Committee on Agriculture
Washington, D.C. 20515

March 30, 2004

# The Farm Bill: A Law That's Working

Dear Republican Colleague,

As you head home for the Easter recess, I am writing to share with you a success story that the Washington Post seems to have missed. It is a story about a law that's working—a law that not only has provided much needed hope and support for some of our nation's hardest working business men and women but during its first years has cost much less than estimated at the time of enactment. The law is, of course, the 2002 Farm Bill. The information below is useful to share both with your farmers and ranchers and those who have criticized the Farm Bill for spending too much.

As shown in the chart below, CBO's current estimate is that the costs of the farm safety net for the first three fiscal years of the Farm Bill are $15 billion less or 30 percent lower than CBO's final estimate at the time of passage.

But the Farm Bill success story is more than the budget. The Farm Bill's stable farm income safety net allows our producers (and their lenders) to do the long-range planning and make the investments needed to compete in an increasingly global economy. By providing this safety net, the Farm Bill makes a significant contribution to a strong farm economy.

And the farm economy has strengthened substantially in the last couple of years. The USDA estimate of net farm income for 2003 is $54.9 billion—the second highest on record. And USDA forecasts the value of U.S. agricultural exports for 2004 at $59 billion—also the second highest on record. The higher prices of a strong farm economy have been the major source of Farm Bill savings.

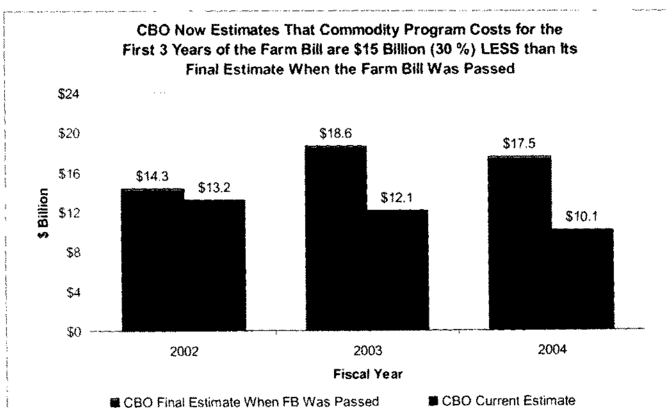
Yet the Farm Bill's safety net is robust. As opposed to programs whose costs seem to increase automatically every year, the farm safety net reduces support when prices are high and support is not needed. But if prices fall, the safety net is there to provide support so that farmers can survive until prices recover.

The final Farm Bill passed the House by a two-thirds majority. For those of you who originally supported the farm safety net and other Farm Bill programs, the success of this law vindicates your vote. And for those of you who did not, I ask you to reconsider your position now that we have a better understanding of the success of the Farm Bill—not only from a benefit perspective, but from a budget one as well.

Sincerely,

Bob Goodlatte

Bob Goodlatte
Chairman



**EU vs. U.S. Spending on Domestic Support for Agriculture (Commitment Levels and Actual Spending)- Updated 5/17/04**

The Uruguay Round Agreement provides that countries will reduce the domestic support programs that have the largest potential effect on production and trade by 20%. Those programs are considered "amber box" programs. The numbers below reflect the ceilings on domestic support for amber box programs for the U.S. and the EU. Examples of U.S. "amber box" programs are dairy, sugar and peanut programs; marketing loans; and loan deficiency payments.

**URUGUAY ROUND AGREEMENT COMMITMENT LEVELS**

| | **United States** | **European Union** |
|---|---|---|
| Base AMS | $23.9 billion | $81.0 billion |
| 1995 | $23.1 billion | $78.7 billion |
| 1996 | $22.3 billion | $76.4 billion |
| 1997 | $21.5 billion | $74.0 billion |
| 1998 | $20.7 billion | $71.8 billion |
| 1999 | $19.9 billion | $69.5 billion |
| 2000 | $19.1 billion | $67.2 billion |
| 2001 | $19.1 billion | $67.2 billion |
| 2002 | $19.1 billion | $67.2 billion |
| 2003 | $19.1 billion | $67.2 billion |

**Based on Uruguay Round commitment levels, the EU can spend more than three times what the U.S. can spend on domestic support.**

**The Uruguay Round directed countries to reduce their domestic spending by a specific percentage. It did not address the huge gap in domestic spending that exists between the EU and the rest of the world. The next round of negotiations must reduce this gap.**

**ACTUAL DOMESTIC SPENDING (Reported to the WTO)**

| | **United States** | **European Union** |
|---|---|---|
| 1995 | $6.2 billion | $47.5 billion |
| 1996 | $5.9 billion | $51.0 billion |
| 1997 | $6.2 billion | $50.2 billion |
| 1998 | $10.4 billion | $46.7 billion |
| 1999 | $16.9 billion | $47.9 billion |
| 2000 | $16.8 billion | $43.6 billion |
| 2001 | $14.4 billion | Not yet reported |

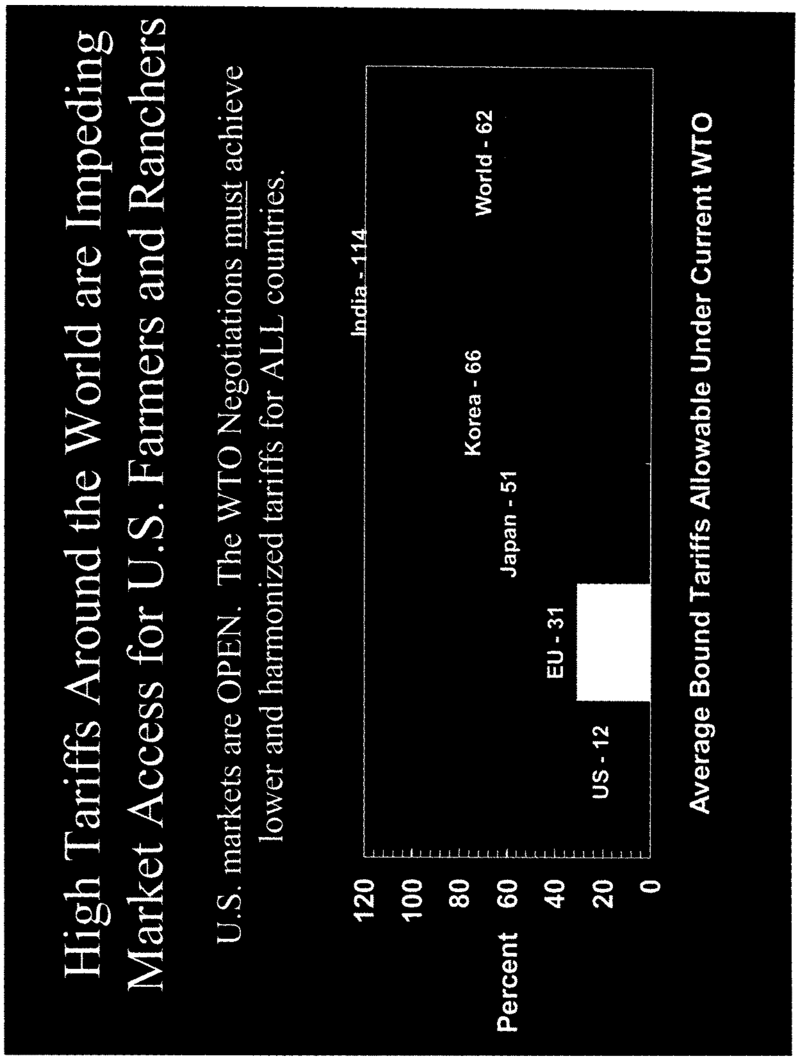
**According to the Organization for Economic and Cooperative Development (OECD), the average Producer Support Equivalent (PSE) per acre from 2000-2002 between the U.S. and E.U. amounts to approximately $45 for the U.S. and $271 for the EU.**

**ADDITIONAL EU SPENDING (Blue Box Payments)**

1995 $23 billion 1996 $24 billion 1997 $ 20 billion 1998 $21 billion 1999 $ 20 billion
2000 $22 billion

**Blue box are payments linked to production-limiting criteria. Unlike "amber box" payments, blue box compensatory payments are exempt from reduction (ie. unlimited).**

Source: USDA, Foreign Agricultural Service and OECD 2003 Monitoring and Evaluation Report. EU actual numbers based on average exchange rate with US$ since 1998. Average: 1Euro = 1 US$


High Tariffs Around the World are Impeding Market Access for U.S. Farmers and Ranchers
U.S. markets are OPEN. The WTO Negotiations must achieve lower and harmonized tariffs for ALL countries.
Percent
120
100
80
60
40
20
0
US - 12
EU - 31
Japan - 51
Korea - 66
India - 114
World - 62
Average Bound Tariffs Allowable Under Current WTO


HARMONIZATION MUST BE ACHIEVED
THROUGH THE WTO DOHA NEGOTIATIONS
European and Japanese Domestic Support
far Exceed that of the United States
$Billions
80
60
40
20
0
EU -$67 billion
Japan- $33 billion
US - $19 billion
Uruguay Round Domestic Support Commitment
Limits

# REVIEW OF AGRICULTURAL TRADE NEGOTIATIONS

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**WEDNESDAY, MAY 19, 2004**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
*Washington, DC.*

The committee met, pursuant to call, at 10:00 a.m., in room 1300, Longworth House Office Building, Hon. Bob Goodlatte (chairman of the committee) presiding.

Present: Representatives Pombo, Smith, Lucas of Oklahoma, Moran, Gutknecht, Ose, Hayes, Pickering, Osborne, Rehberg, Putnam, Burns, Rogers, King, Musgrave, Neugebauer, Stenholm, Peterson, Dooley, Etheridge, Hill, Baca, Case, Alexander, Ballance, Scott, Chandler, Pomeroy, Boswell, Udall, and Davis.

Staff present: Brent Gattis, Lynn Gallagher, Jason Vaillancourt, Ryan Weston, Matt Leggett, Christy Seyfert, Callista Gingrich, clerk; Teresa Thompson, and Andy Baker.

## OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF VIRGINIA

The CHAIRMAN. Good morning. This hearing of the House Committee on Agriculture to review agricultural trade negotiations will come to order.

On behalf of the committee, I welcome our distinguished witnesses representing agriculture from around the United States, from Arkansas to Wyoming. We are honored to have you all appear before this committee to discuss issues related to agricultural trade negotiations.

Last month, the Secretary of Agriculture and the U.S. Trade Representative testified before this committee about the status of agricultural trade. This month, we will hear from those who are most affected by agricultural trade, both the positive and negative aspects of trade.

There is an ambitious program in place regarding trade, especially agricultural trade. Agreement has been reached in the Morocco, CAFTA, Dominican Republic and Australian negotiations; talks are still going on in the Southern African Customs Union and the Free Trade Area of the Americas, although very slowly.

In fact, the U.S.-Australia Free Trade Agreement was signed by Ambassador Zoellick yesterday, and CAFTA will be signed on May 28. The timetable for consideration of these agreements by Congress is as yet undetermined.

Free trade negotiations are beginning in Thailand, Panama, the Andean countries, and in Bahrain. However, as I said last month to the administration's representatives, I encourage them to work toward initiating trade agreements with larger populated countries that offer greater opportunities for U.S. agriculture exports.

Over the past couple of weeks, the Doha Development round negotiators have noted some progress in these agricultural negotiations. On top of ongoing negotiations, there are trade disputes with several other countries. For example, the European Union has had a moratorium on approval of biotechnology products for the past 6 years, will not accept U.S. beef or poultry, and wants to take away U.S. trademarks and certification marks that are properly registered and allow EU companies to claim such products as their own.

Just to note on the biotechnology issue, I have seen reports that some time this month, the EU may approve an additional use of a corn biotechnology product so that canned sweet corn or other similar products can be sold to its consumers. However, it still will not allow this product to be grown in the EU. The EU policy is illogical. This same corn product is sold in the EU for animal feed and the high fructose corn syrup delivered from it is used for fruit products, all ending up in products available for consumption by EU consumers. So people in the EU already consume biotech products and have for years, but they will not allow U.S. biotech products into European countries.

Mexico has placed a tax on products containing U.S. high fructose corn syrup, assessed antidumping duties in questionable investigations on U.S. apples, rice, and beef. There are concerns remaining that China is not abiding by its WTO accession agreement on access to its market for U.S. cotton, pork and poultry. United States agriculture depends on exports, and a vibrant trade policy is important to U.S. farmers and ranchers and to all agribusiness. We want to seek greater opportunity for all our agricultural products, and trade negotiations can make that possible. We want to see markets open around the world.

U.S. agricultural markets are already open to imports and our tariffs are low. Agricultural tariffs worldwide average 62 percent, while U.S. agricultural tariffs are 12 percent, as indicated by the chart. It is to the advantage of U.S. agriculture that we continue to open markets and remove barriers to our agricultural exports. These barriers come from high tariffs, the EU's geographical indications policy, and other nonscientific barriers such as those related to biotechnology and beef hormones.

Trade negotiations offer an opportunity for the United States to increase agricultural exports. U.S. goals for these negotiations are to decrease and harmonize tariffs, eliminate export subsidies, and reduce and harmonize trade-distorting domestic support policies. Just look at the status quo. The EU is allowed to spend more than three times as much as the United States in domestic agricultural payments. Japan is allowed to spend 1.5 times the amount the United States is allowed to spend under the Uruguay Round agreement.

It is wrong to continue the Uruguay Round kind of reductions in domestic support. That is, just applying a percentage reduction to allowable spending. The disparity in spending among the United States, the EU, and Japan, must be reconciled and harmonization must be a central part of the agricultural negotiation. The U.S. and the EU have similar agriculture output, yet the EU can spend significantly more than the United States under the current WTO agreement. Japan has fewer acres dedicated to agriculture than the United States, and they also can spend in excess of the United States.

I made a promise at the beginning of this Congress that the committee intends to pay very close attention to all trade negotiations and to listen to U.S. agriculture's views on this important matter. Last year the committee held hearings on agricultural trade, biotechnology, and geographical indications. The committee will continue to follow these issues. This includes ongoing multilateral trade negotiations and all regional and bilateral negotiations. It also includes oversight of past agreements such as with China and other accessions to the WTO such as Russia. It means looking closely at problems U.S. agriculture faces regarding sanitary and phytosanitary issues such as those with Australia.

Before I close, I read an April 28 editorial in the New York Times concerning a preliminary decision on a case brought by Brazil concerning U.S. farm programs, specifically cotton. I do not often take advice from editorial boards of the New York Times, and this is no exception. They suggest that the United States concede its so-called loss at the WTO and dismantle our agricultural programs. I strongly disagree, and I said last month, reports indicate that the administration intends to appeal that decision, and I support that action.

Under the WTO rules, countries are permitted to support their farmers in ways that are the least trade-distorting, and WTO rules govern the amounts countries may provide their farmers. The United States abides by the WTO rules and is and has been in accord with its rules on agriculture. Changes to countries' agricultural policies should come through the give-and-take of negotiations, not through decisions that do not appear based on WTO rules, no matter what the opinion of the New York Times.

With that, it is my pleasure to recognize the ranking member of the committee, the gentleman from Texas, Mr. Stenholm.

## OPENING STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. Thank you, Mr. Chairman. As we move towards a framework for negotiations on agriculture in the Doha Round, I am concerned that we do not move too far away from the negotiating principles we set out at the beginning of the process.

Three important principles were put forth in the negotiating proposal of June 2000: the elimination of export subsidies; the reduction or elimination of disparities in tariff levels among countries, which, Mr. Chairman, you have just shown us; and the harmonization of trade-distorting domestic-support allowed levels.

On the subject of food aid, the U.S. position called for a renewal of the Uruguay Round commitment to food aid, including the disciplines in article 10.4 of the Agreement on Agriculture. As we approached the Cancun ministerial, trade ministers attending a

World Trade Organization meeting in Montreal, asked the United States and European Union to work together on developing a compromise for negotiating agriculture farm in the Doha Round.

In order to rekindle the negotiations, the United States and the EU reached a compromise and put forth a proposal. According to many in the U.S. agricultural community, however, the compromise left the EU with too much flexibility on domestic support. We pressed on in the negotiations, hoping that a U.S. demonstration of the willingness to compromise on the issue of harmonizing domestic support would inspire others to follow suit on other issues like market access. But in Cancun, there was no compromise to be found. In fact, it seemed to me like we took a step backwards, with many countries giving no ground on market access, and some making new demands for special treatment.

Most recently, there has been some encouraging news. The EU has said it is willing to talk about an end date for export subsidies. This is not very surprising, given the fact that the EU is the world's largest user of export subsidies and is isolated on the issue. In addition, the demands made in the EU's statement are also not surprising. The EU wants elimination of the de minimis exemption, which would have a greater effect on the United States than on Europe. It wants new rules to prevent the transfer of subsidies between boxes, just after Europe has finished such a transfer. It wants early action on cotton, an important export crop for the United States, but not for Europe; and it wants new disciplines on humanitarian assistance which the U.S. provides in the form of food aid and Europe provides largely in grant form.

Meanwhile, the world still awaits a new offer on market access from the so-called G–20 led by Brazil. Coincidentally, the Financial Times reported the following last month:

> As part of a preferential trade agreement, the EU is offering concessions on market access to farm products from members of the Mercosur customs union, namely Argentina, Brazil, Paraguay and Uruguay. It hopes, thereby, to split the ranks of those pushing for agriculture liberalism in the Doha Round of trade negotiations.

Brazil is the world's eighth largest economy, and yet it calls itself a developing country. It is difficult to anticipate what will come next from a group led by such a nation. Amazingly, Brazil maintains a trade surplus with the United States of $1.1 billion in agriculture alone, and despite its strength as an agricultural exporter, it deliberately subverted negotiations on agriculture in Cancun and seems to prefer litigation over negotiation.

Now, despite these discouraging developments, I am still waiting to hear what our trading partners have to say about market access. I just hope we do not have to wait too long, because the window of opportunity will soon be closed.

The CHAIRMAN. I thank the gentleman.

The Chair advises the other members of the committee that we will make your opening statements a part of the record. We have a lengthy list of witnesses, and we will get to them right now.

[The prepared statements of Messrs. Smith, Ose, Davis, and Ballance follow:]

**Committee on Agriculture- May 19, 2004**

**Hearing to review agricultural trade negotiations: commodity perspectives**

With a focus on CAFTA, Australia, and Morocco

Congressman Nick Smith Opening statement:

Thank you Chairman Goodlatte and Ranking Member Stenholm for holding this important hearing to review agricultural trade and pending trade agreements.

US farmers and ranchers are the most efficient producers of food and feed in the world. It is a tribute to our agriculture industry that we will export roughly $57 billion in agricultural products in 2003. With nearly 25% of farm income resulting from agricultural exports, it is easy to decipher that the success, profitability, and future of American agriculture is directly dependent upon maintaining existing export markets and creating new market opportunities through free trade agreements like we are discussing here today.

To the groups represented on the panels today, I thank you for your informative testimony. At past hearings on agricultural trade negotiations, this committee has heard from representatives from the USDA and USTR. I believe that it is equally important to hear from farm and commodity groups who speak directly for the producers of these various agricultural commodities.

Michigan leads the United States in the production of ten agricultural commodities. The dairy industry in Michigan accounts for over $20 billion dollars in farm receipts and is our number one agriculture industry. The U.S. dairy industry will benefit from trade agreements under CAFTA and with Morocco. While Australia sought immediate and substantial openings for its dairy products shipped to the United States, the Australian agreement provides for limited access under quotas to the U.S. market over an 18-year transition period. In addition, some "over quota" tariff protection on dairy product imports will continue indefinitely with Australia.

As we move forward with other trade agreements, the dairy industry has tremendous potential for growth in the Free Trade Area of the Americas (FTAA). Overall, the 34 countries in the Western Hemisphere import 3-1/2 times as much dairy product as it exports.

We must also continue to push the EU to reform their export subsidies, which significantly distorts world dairy prices. The $1.3 billion dollars in dairy export subsidies from the EU dwarfs the United State's dairy export subsidies of $8 million dollars.

It is imperative that this Administration and Congress continue to pursue free and fair agricultural trade agreements that allow US producers to compete in the world market. Reducing export subsidies and tariffs throughout the world and making sure that government regulation and taxes on American farmers are fair should be our top priority. In addition, we should aggressively seek to strike down scientifically unjustified barriers to trade such as regulations on GMO products and sanitary and phytosanitary (SPS) measures.

**WTO: U.S. Ag Subsidies Illegal**

It is important we mention the World Trade Organization (WTO) issuing a nearly 400 page preliminary decision on April 26 against U.S. farm subsidies. The decision, which is still subject to revision, will be released to the public in June. In my meeting with U.S. Trade Representative (USTR) Robert Zoellick and Agriculture Secretary Ann Veneman April 30, they outlined the substance of the preliminary decision and the next steps for American agriculture. I followed up with Chief USTR Agricultural Negotiator Allen Johnson, and Brazilian Embassy's First Secretary Marcia Donner.

Brazil challenged domestic subsidies for all U.S. crops, and the "trade distorting" subsidies for cotton. This decision came as a surprise because the WTO agreement reached in 1992 has a so-called "peace clause" that stipulated that programs in effect in 1992 cannot be challenged. Brazil argued that the program for cotton had grown from $2.1 billion a year in 1992 to $4.1 billion now paid to America's 25,000 cotton farmers, and that such a large expansion is tantamount to a new trade-distorting program outside of the peace clause. While subsidies have grown faster for cotton than other commodities, this opinion could call other American programs into question if it stands. The United States will appeal the decision.

If the decision is upheld, the U.S. will have to reduce cotton subsidies and possibly farm payments for other crops. It will take years before farmers will see the effect. It will probably take a year or more for the decision and any appeals to be finalized. Typically, a country found in violation will have several years to comply after that and will have the opportunity to reduce their subsidies gradually.

In Cancun, Mexico last year, I was a member of our Agriculture Committee delegation and saw those negotiations break down over U.S. and EU subsidies. This ruling will affect the ongoing negotiations. The EU spends more than three times as much on agricultural subsidies as the U.S., and more than six times as much per acre. The decision could end up putting as much pressure on EU subsidy programs as it does on ours. If we reach an agreement in the Doha Round, that could and probably would preempt the decision.

The entire controversy underscores the need for a more aggressive trade negotiation position on behalf of U.S. agriculture. Too often we've given ground on agriculture issues in trade negotiations in exchange for advantages in other areas. The results have been unfortunate for our farmers. Despite having much more efficient farms than most of the rest of the world, we have allowed advantages for the EU, Japan and other countries to be written into WTO agreements. At the same time, we end up as a target for the WTO's first ruling ever on agriculture. We must do better for agriculture in the present Doha Round, and Amb. Zoellick has reassured me that we will.

We will know more when the final decision is released. Ultimately, there can be some advantage in reducing other countries' subsidies that prevent our farmers from competing on a level playing field. Regardless, because of pressure from poor countries to stop high subsidies and because of our record high budget deficits, farmers can expect significant reductions in the next farm bill.

I look forward to the testimony.

**Opening Statement by Congressman Doug Ose**
**House Agriculture Committee**
**Hearing to Examine Agricultural Trade Negotiations**
**May 19, 2004**

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Chairman Goodlatte, I wish to extend my sincerest thanks for your holding today's hearing on a topic, or should I properly say, **THE TOPIC**, of key importance to the future of U.S. domestic agriculture production and the industry's continued viability. The impact that international trade strategy, globalization, and subsequent Federal policy has on U.S. agriculture is significant in shaping markets and annual productions levels for both producers and processors. The Administration's aggressive and confident pursuit of bilateral Free Trade Agreements (FTAs) with both developing and developed countries throughout the world have brought concerns to bear that global liberalization advocates had never envisioned. Concerns exist that include relinquishing some sectors of agriculture in favor of others and the net value of the exchange as a consequence. Concerns exist with respect to the well-being of the trade of all goods in both the agricultural and commercial sectors bring weight to bear on the necessity of creating liberalized global competition among countries. The need to open markets through a fair and transparent process is fundamental to the U.S. domestic agricultural industry, however, it is imperative that the U.S. and its negotiators not give up the store when it comes to agriculture. The genesis of these concerns and much of the focus of fear revolves around an area of agriculture, that although vast by majority, is often the neglected during global trade negotiation store stashing.

The domestic specialty crop industry accounts for a third of the value of all crops sold in the United States. This industry constitutes the production and sale of over 99% of all free-market agriculture in this country and weighs in as the largest farm gate value, $51.6 billion in 2002; fruits and vegetables alone comprised a $29 billion farm gate value in 2002. Over 50 percent of all crops exported from the U.S. were specialty crops resulting in a farm export value of over $9.3 billion.

Specialty crop growers are the true "free traders" in today's global markets. The Administration's decision to not enter into negotiations regarding subsidy levels and domestic support programs in these regional and bilateral trade agreements which we will review here today has been done with the utmost care for those sectors of agriculture, leaving those discussions to the

WTO, has truly shown the definitive position of power and the assertion of a strong, vibrant, subsidized agricultural sector domestically. The casualty of this decision to not negotiate these domestic support payments is that those commodities that are free market, those commodities whose only support costs are borne by those who import into this country and not by the American consumer, or the taxpayer, is that they are the ones left behind on the negotiating table. Is it the true destiny and tragedy that the specialty crop industry, which provides an example to all areas of commerce, a free market model of competitiveness that we ought to be so proud of, be traded away and left with no resolve in these trade agreements? The future of this sector of U.S. agriculture, with the highest value and the most direct nutritional worth, stands on the edge of a knife, left waiting on the chopping block of these trade liberalizing negotiations.

Concerns about the future of global liberalization, however are not isolated to this sector of agriculture, as evident by the witnesses present here today. As the U.S. continues to proceed with the completion of these FTAs, it has been continually disappointing to see that there still exists outstanding Sanitary and Phytosanitary concerns posed by either foreign or domestic commodities that have continually failed to be resolved prior to the completion of these FTA's. I remain dissatisfied with the lack of priority given to these issues by the negotiators. Given the likeliness and potential for the introduction of exotic pests and diseases into the U.S., a better cooperation is needed between the U.S. and its trading partners in this important area.

Thank you Mr. Chairman for holding this important hearing.

# Agriculture Committee Trade Hearing 5-19-04

## Opening Statement for Congressman Davis (TN)

First I'd like to thank the Chair and the Ranking Member for holding this hearing today. I would also like to thank the witnesses for appearing and I look forward to their testimonies.

As many present may be aware, I represent an extremely rural district in the Cumberland Plateau Region of Tennessee. My district relies heavily on agriculture and many of the farms are considered small. In addition to agriculture, the economy of my district also depends on manufacturing jobs like those at the Saturn Plant in Spring Hill, as well as research and development work being conducted at Arnold Engineering Development Center. That being said, there is a real concern back home about the consequences of these trade agreements. Given the levels of unemployment, the recent plant closings we've had to deal with, and all the national news about job outsourcing, trade is not a popular topic for my constituents. In fact, many view trade in a very negative light. I share many of their concerns.

When the U.S. engages in trade agreements it is my hope that we do it with the goal of finding new costumers for our products, goods, and services, and not the opposite. I do not want to create an avenue where the U.S. becomes the world's costumer. We have the best workforce in the world and we should always make sure our constituents have good jobs so they can provide for their families and continue to make this country the standard bearer of human achievement. It is my hope that these new agreements with Central America, Australia, and Morocco are not creating a scenario where it will be easier for companies and business (whether they be agriculture or manufacturing) to take advantage of cheap labor and weak environmental standards so products that used to be made in my home district can be instead sold to my constituents for a higher profit margin. Perhaps these agreements will be positive. Perhaps they will create a Fair playing field for all those involved. I certainly hope so.

PREPARED STATEMENT OF HON. FRANK W. BALLANCE, JR.

Mr. Chairman, thank you for holding this hearing. Many farmers from North Carolina are watching these proceedings very closely, and I welcome this opportunity.

Mr. Chairman, it would be imprudent to create solutions where problems do not exist. Today's American cotton industry is as strong and vibrant as ever despite the many crises it faces. Cotton prices are over 70 cents a bale, and domestically produced cotton is having tremendous success in the international markets. Self-regulation has brought about the highest quality fiber product in the world. Domestically produced cotton is highly competitive internationally.

Tinkering with this successful system is simply unwise. The programs in place have kept farming viable and allowed amazing new technologies to develop. By tinkering with this system we risk losing our farms and the many jobs that depend on them, and as a result we risk future dependence on foreign nations for yet another domestic need...America simply cannot outsource food or fiber production.

Today, when a textile company goes bankrupt, its equipment is sold to pay creditors. Among the items sold is the infrastructure of the company—the advanced textile machines and equipment that so many companies around America have bought in recent years to offset competitors' advantage of cheap foreign labor costs in China, Pakistan, Vietnam, and India. The buyers waiting for this advanced equipment to hit the auction block are from China, Pakistan, Vietnam, and India. They buy equipment at pennies on the dollar and ship it half way around the world where it is used to compete with remaining textile companies in the United States. We call this an export, but I call it an outrage.

Mr. Chairman, I do not support payment limitations, or a wholesale change in the program as proposed by our friends in Brazil and the World Trade Organization. Competing nations such as China and Brazil devalue their currencies to create de facto tariffs as high as 40 percent against our products. Not even in the worst of all crop years do subsidies reach 40 percent, yet they keep tens of thousands of American family farmers productive and competitive against severe trade-distorting practices.

I strongly support the appeal of the WTO decision and a cooperative effort to create effective trade agreements that complies with WTO rules and allows the U.S. cotton program to maintain its level of effectiveness process.

Thank you, Mr. Chairman

The CHAIRMAN. I would like to welcome our first panel, Mr. Greg Lee, chairman, National Chicken Council, Springdale, AK; Mr. Woody Anderson, chairman, National Cotton Council, Colorado City, TX; Mr. Dee Vaughan, president, National Corn Growers Association, Dumas, TX; Mr. Bart Ruth, past president, American Soybean Association, Rising City, NE; and Mr. Dan Gertson, vice chairman, U.S. Rice Producers Association, Lissie, TX.

Gentlemen, we welcome all of you. Your complete statements will be made a part of the record. We ask that you limit your oral remarks to 5 minutes, and we will start with Mr. Lee.

## STATEMENT OF GREG LEE, CHAIRMAN, NATIONAL CHICKEN COUNCIL, SPRINGDALE, AR

Mr. LEE. Good morning and thank you, Chairman Goodlatte, Congressman Stenholm and committee members, for the opportunity to present the National Chicken Council's views and recommendations regarding international trade issues. Please be assured U.S. poultry companies appreciate the chairman's invitation to be a part of this very vital discussion.

My name is Greg Lee, chief administrative officer and international president of Tyson Foods, and current chairman of the National Chicken Council. NCC works very actively with Congress and the administration to help promote an expanding export market for U.S. poultry. This committee's leadership on international trade issues is recognized and appreciated.

Having a vigorous, robust, and expanding export market for chicken is critically important to the chicken industry. Whether one of these companies exports directly or relies entirely on the domestic market, the prices received and the economic well-being is heavily dependent on the health of the export market. American consumers, through their purchasing decisions, continue to increasingly express an overwhelming preference for breast meat. Therefore, it is critical that export markets be found for the dark meat of the chicken less preferred by the American consumer.

Last year exports accounted for over 15 percent of the total U.S. broiler marketings. In terms of share of total market, the highest level was in 2001 when 5.6 billion pounds were exported, or 18 percent of total marketing. This year, exports will slip for the first time in 20 years. In 2004, the quantity exported is likely to be 4.6 billion, or less than 14 percent of total marketings. In a normal market situation, the export market must take the leg quarters from one in three chickens for the overall market to be in good balance. When adequate foreign market access for U.S. chicken leg quarters is not possible, the supplies of leg quarters tends to back up on the domestic U.S. market and negatively impacts overall chicken prices, but also creates an imbalance in overall supply of competing meats and affects the market value of pork and beef. Thus, I hope that Congress and the administration can now take appropriate and needed actions to lessen or even prevent a continued erosion of U.S. chicken exports.

It is good to see that negotiations involving agriculture in the World Trade Organization's Doha Round have begun again. It is most important to U.S. poultry exporters that greater market access is achieved. Actually, the market access provisions needed are not the ones primarily being negotiated in the current round of multilateral talks. Having no import quota restrictions nor high import duties are important basic requirements. However, as tariff and quota protections have been reduced, the nontariff protective measures have increased measurably. More and more countries are using poultry health issues such as avian influenza and veterinary requirements to restrict or control U.S. poultry access to their markets. The issue of nontariff barriers is where U.S. poultry exports need the most help.

Russia is the United States' largest export market for chicken by a significant measure. This market in 2003 accounted for 30 percent of total U.S. exports. In 2002, it was 32 percent, and in 2001, it was 42 percent. Russia has recently imposed an import quota for poultry. Although we were not pleased to see a price, we hoped that this restriction on exports would lessen Russia's disruptive activities with regard to our exports. We were wrong. Before the Russian veterinary team came to the United States last year to inspect U.S. poultry plants and related facilities, the Russian Minister of Agriculture publicly predicted that only 70 percent of the U.S. plants would pass Russian inspections.

Not surprisingly, that is exactly what transpired. Their findings for delisting plants, in our opinion, were arbitrary and without merit. Since then, Russia's Ministry of Agriculture has claimed to have tested U.S. poultry and found product from 11 different U.S. plants to be positive for certain pathogens. Russia has delisted these plants without an opportunity for the USDA or the industry to respond to the findings. Recently, Secretary of Agriculture Veneman has made repeated requests to her counterpart in Russia to have a Russian veterinary team come and inspect the delisted plants. Much delay has occurred in trying to get a response to her requests. Because the list of approved plants is relatively short, and becoming shorter with these delistings, the import quota for Russia is not being filled. Failure to fill the quota jeopardizes our agreed-upon percentage. We find ourselves in a difficult situation and Russia is not responding to help.

When the low-pathogenic avian influenza outbreak first occurred in Delaware this year, more than 60 countries banned U.S. poultry.

China and Hong Kong represent the second largest export market for U.S. chicken. Earlier this month, Hong Kong finally partially lifted its import ban. However, since 85 percent or more of the chickens exported to Hong Kong is transshipped to China, and the fact that we have not opened China really makes the Hong Kong partial approval of little benefit to the U.S. chicken industry.

The main point of discussing this situation is to better explain that despite trade agreements, whether bilateral or multilateral through the WTO, countries will continue to use veterinary and sanitary issues to restrict and halt trade.

The National Chicken Council recognizes that agriculture trade negotiations are difficult. Nonetheless, we respectfully suggest the following recommendations: work diligently towards a successful conclusion to the WTO negotiations and assure better market access. Continue to work on successful conclusions of bilateral free trade agreements that include provisions for poultry; continue to have full and complete compliance by signatories to trade agreements that are already concluded and encourage U.S. Trade Representative's office to respond appropriately and timely when these provisions are violated; have trading partners agree to predetermined procedures for expedited resolution of sanitary and veterinary issues; postpone negotiations for Russia's accession to the WTO until Russia fully demonstrates it will abide by the agreements; encourage USDA to organize a more permanent and dedicated task force to work with countries that are using nonscience-based sanitary and veterinary measures that result in disruptions or halt U.S. poultry and red meat exports; and provide more funding to the USDA/Foreign Agricultural Service's Foreign Market Access Program and Foreign Market Development program; and more funds to USTR, with a more adequate budget so we can have sufficient resources to try to resolve agricultural trade issues.

I would like to thank the committee for the opportunity to present the National Chicken Council's views.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Lee appears at the conclusion of the hearing.]

The CHAIRMAN. I am pleased to recognize the gentleman from Texas for the purpose of making some introductions.

Mr. STENHOLM. Thank you, Mr. Chairman. I am delighted to welcome my neighbor from Mifflin County, Mr. Anderson, here today; good to see you here, and also Mr. Vaughan and Mr.

Gertson. Noting the majority of this panel are Texans, I move the vote on the question.

The CHAIRMAN. Not hearing a second, we will recognize Mr. Anderson.

**STATEMENT OF WOODY ANDERSON, CHAIRMAN, NATIONAL COTTON COUNCIL, COLORADO CITY, TX**

Mr. ANDERSON. Thank you, Mr. Chairman. Thank you for having this hearing today.

My name is Woody Anderson, and I am a cotton producer from Colorado City, TX, and currently serve as the chairman of the National Cotton Council of America. The success of the cotton industry is directly affected by trade policy developments, as well as overall supply and demand conditions in world fiber markets.

Approximately 80 percent of the yarn and fabric produced by our textile industry leaves the United States for further processing. It is also the case that many of these exported products are manufactured into consumer goods abroad and returned to the U.S. retail market for final consumption. Imported textile products constitute over 90 percent of U.S. retail sales.

Over the past 6 years, a dramatic decline in the U.S. textile industry has forced U.S. cotton producers to rely on the much more volatile export market. U.S. textile mills are now consuming about one-third of U.S. annual production. The U.S. share of world production has essentially been unchanged, but our exports of raw fiber account for more than 60 percent of the total U.S. offtake.

China continues to expand its already significant role in the world cotton market and is now the largest importer of U.S. cotton. China purchased over 2½ million bales in 2003 and has announced supplemental increases in its tariff rate quota for 2004. The United States must remain vigilant and continue to push for China to reform its TRQ system. The "processing trade" distinction in China's import system essentially requires that apparel made from imported cotton be reexported. This distinction is not the market access required by the terms of the U.S.-China WTO assessment agreement. Should internal pressures to purchase foreign cotton subside within China, the private "processing trade" distinction will once again become a significant barrier to U.S. exports.

Preferential trade agreements and free trade agreements are having a greater impact on our trade situation than ever before. From a cotton-fiber perspective, these agreements are generally acceptable. However, while the cotton and textile industries have worked to achieve agreements that would help the U.S. industry, many of the recent agreements have contained rule of origin exceptions that are not in the best interests of cotton farmers or textile manufacturers in the United States or partner countries. The United States has agreed to allow an essential amount of third country fabric to qualify for preferential access to the U.S. market. This is detrimental to the U.S. cotton and textile industry and discourages the development of production capabilities in the participating countries.

The National Cotton Council is encouraged by Ambassador Zoellick's efforts to get the Doha Round restarted. Since Cancun, our industry has been working to open a dialog with several West

African countries. This is a small step, but reflects our belief that there is more than enough room in the world cotton market, more than enough room in the world cotton market for African production, and we can work together to increase consumption and returns to all farmers.

The developed versus developing country dichotomy advanced by some in Cancun was a clear attempt to move the Doha Round negotiations away from reciprocity. Additionally, under the current structure of the WTO, which allows self-designation, Brazil claims the same economic position as Mali, and China claims the same exemptions as Nigeria. We fully support the efforts of Ambassador Zoellick to plug this loophole in the WTO.

Truly less developed countries should receive concessions within the WTO agreements, but countries that are competitive in world agricultural trade cannot have it both ways.

Speaking of Brazil, it has been a frustrating few weeks for the U.S. cotton industry. We have heard and read reports in the news that the WTO panel initially ruled against the United States. The confidential report has not been shared with the National Cotton Council, so I cannot comment with precision concerning this apparent ruling. We appreciate the statements and support offered by the chairman and ranking member of this committee and by other members. They have had a calming effect in the country during planting time.

We also appreciate Ambassador Zoellick's commitment to appeal this decision if it is as adverse to U.S. interests as is being reported in the press. What concerns us most is that the U.S. cotton program in 1992 and 1994 were fully coupled to production and had a higher loan rate and start price than any cotton crop subject to the 2001 farm bill. The United States has moved toward decoupling, slightly reduced loan rates and reduced the start price, yet today's program was somehow ruled to support cotton at a higher level than in 1992.

Other aspects of the decision reported by the press indicate that the panel interpreted the Uruguay Round differently than the United States could have expected. For example, the panel apparently ruled that the export guarantees are, in fact, covered by the reduction and commitments under the agreement on agriculture, and that the green box programs are not exempt from actions under the subsidy codes.

Mr. Chairman, this concludes our statement and comments before the committee, and once again, we thank you for the opportunity to deliver these comments.

[The prepared statement of Mr. Anderson appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Anderson.

Mr. Vaughan.

**STATEMENT OF DEE VAUGHAN, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, DUMAS, TX**

Mr. VAUGHAN. Good morning, Chairman Goodlatte, Ranking Member Stenholm, and members of the committee. My name is Dee Vaughan, and I am a farmer from Dumas, TX, and president of the National Corn Growers Association. I would like to thank the committee for allowing me to testify here this morning.

Trade is vital to the future of corn growers as we search for new markets and provide grain that is more abundant and of better quality. Over 20 percent of the domestic corn crop is exported, and USDA estimates that U.S. corn exports are up 50 million bushels this year. As a result, corn farmers are enjoying the benefits of the commodity boom. However, we need to ask ourselves, how long will this price streak last and how do we ensure that farmers are in a position to favorably take care of this competitive international marketplace?

We believe trade is a vital component in the farm economy and we support trade agreements that will open markets for U.S. farmers and increase market development opportunities throughout the world. We reaffirm our commitment to an aggressive trade agenda. However, farmers and ranchers have already expressed frustration with free trade agreements and import-sensitive commodities are rallying against efforts to lower tariffs and expand market opportunities. In order to maintain the confidence of our grass-roots producers, we need to evaluate our successes and our failures. For corn growers, Mexico represents our greatest success and our greatest failure of U.S. trade policy.

In the 10 years since the NAFTA passed the Congress, U.S. corn exports to Mexico have grown from 1.1 million metric tons in 1992 to 5.6 million metric tons in 2003. Mexico is now our second largest export market as the domestic livestock industry in Mexico continues to grow.

However, as you know, the U.S. corn industry has been embroiled in a trade dispute with Mexico for more than 7 years over high fructose corn syrup. This sweetener dispute has exacted a heavy toll on this sector.

NCGA is currently engaged with the Corn Growers Association, the U.S. sugar industry, and the Mexican sugar industry in an effort to craft a proposal for our respective governments that we hope will resolve this dispute and restore trade in HFCS.

Future efforts to successfully liberalize international agricultural markets hinges on the Doha development agenda. Exports and trade liberalization are vital to global economic development and to U.S. agriculture's continued profitability. We applaud the efforts of Ambassadors Zoellick and Johnson and remain hopeful that negotiations will yield a framework by July.

Regardless of the approach agreed to for lowering tariffs, developing countries need to be full participants and meaningfully liberalizing import tariffs in order to facilitate trade. They cannot retrench behind rhetoric and ignore the benefits of liberalization. Higher tariffs not only hurt exporting countries, but agricultural producers around the globe.

Perhaps the most sensitive topic for U.S. producers will be domestic support. A successful agreement will ensure harmonization and shift levels away from trade-distorting mechanism to green box alternatives. Even with lower tariffs, international competition in feed grains will not be fair if U.S. farmers are denied an agriculture safety net.

While the WTO negotiations and Doha Round are the top priorities of NCGA, we do support bilateral free trade agreements with significant and emerging free trade partners. Generally, the list of candidates provide benefits to feed grain producers, but we need to ensure the administration selects partners that represent significant future potential for economic activity and trade. By and large, this is the case. The CAFTA, Morocco and Dominican Republic FTAs provide tangible benefits to the feed grain sector, whereas the Australia FTA does not.

We understand the United States Trade Representative utilizes a variety of measures to select negotiating partners, but of paramount importance are the economic benefits resulting from a free trade agreement. The current list of perspective partners offers some, but not a significant, benefit to corn and feed grain producers. We encourage USTR to proceed cautiously to ensure agricultural benefits from future FTAs, while maintaining strong support from farmers and ranchers.

Trade issues related to biotechnology continue to be of great concern to corn producers. With 46 percent of this year's corn crop being planted to biotech varieties and the corn production industry's willingness to be early adopters of this important technology, the U.S. Government must do everything it can to ensure that other countries are not imposing unworkable and non-tariff trade barriers to inhibit their sale to U.S. trading partners. Corn growers are optimistic about the future and are working with our cooperators and other agricultural organizations and grower markets.

Mr. Chairman, we appreciate the strong support of the committee. We look forward to working with the committee in the future, and again, thank you for allowing me to be here this morning.

[The prepared statement of Mr. Vaughan appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Vaughan.

We are now pleased to have Mr. Ruth. Welcome.

**STATEMENT OF BART RUTH, PAST PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, RISING CITY, NE**

Mr. RUTH. Good morning, Mr. Chairman, and members of the committee. I am Bart Ruth, a soybean and corn farmer from Rising City, Nebraska. I am a past president of the American Soybean Association, which represents 25,000 producer members. We commend you, Mr. Chairman, for holding this hearing to review the broad agenda of issues involved in agricultural trade. Those issues have changed considerably over the past decade, as have our strategies for addressing them.

Soybean and soy product exports alone are currently valued at $8 billion to $10 billion, which makes our industry the largest positive contributor to the national trade balance. World demand for soy-related exports, particularly high-protein soybean meal and livestock products, is growing rapidly. U.S. farmers need to compete for these expanding markets. To do so, we need to bring down tariffs on soy-related products in importing countries and prevent their replacement with nontariff barriers. We must require both developing as well as developed country competitors to comply with the same disciplines on production and trade distorting farm support programs that we must meet, and we must eliminate the distorting effects of our own domestic farm policies in discouraging soybean plantings when market signals indicate otherwise.

Against this background, let me now comment on ASA's position on the Doha WTO trade negotiations. We have supported making significant reductions in trade distorting domestic support provided that countries with comparatively higher levels of support, particularly the European Union, make proportionately greater reductions and that developing country exporters are subjected to similar disciplines, and we have agreed to discipline our export credit program, provided all export subsidies in similar credit programs are treated in the same manner.

The market access proposal advanced by the U.S. and the EU last August which was incorporated in the Derbez text would blend the Swiss approach that we favor with across-the-board tariff cuts for an unspecified number of products and would also reduce tariffs on other products to zero. Until we know how many products countries would be able to protect by making this simple percentage reduction in bound tariff levels, we will not know how effective this blended approach will be in expanding market access.

We are concerned that if countries are able to protect all or most of their sensitive import commodities from meaningful tariff cuts, we will not see the expansion of markets for soybeans and soybean products needed to justify accepting substantial reductions in domestic support and changes to our export credit program.

Finally, while we understand and support proposals to exempt the least developed countries from moving their agricultural economies to outside market forces, concessional market access terms should not be offered to more advanced developing countries, particularly those that are significant agricultural exporters.

Of particular concern to ASA is the failure of the various negotiating texts to distinguish between least developed and advanced developing countries by allowing self-designated developing countries to exempt themselves from disciplines required of developed countries. Clearly, countries that are world class producers and exporters of soybeans and other commodities like Brazil should not be allowed to exempt themselves from meaningful market access.

As a producer, I can tell you that soybean farmers will not be able to support a new WTO agreement if our major competitors in developing countries remain exempt from disciplines on domestic programs that subsidize production and exports.

Let me now comment briefly on export competition issues in the WTO negotiations. ASA was pleased by the EU's recent decision to agree to a date certain for eliminating export subsidies. We are working closely with U.S. negotiators to ensure that the export subsidy component of our GSM credit guarantee program is reduced in a parallel manner with export subsidies.

We continue to be concerned by efforts to eliminate non-emergency foreign food assistance provided under PL–480, title I and other foreign aid programs. Assistance in the form of food is essential to help developing countries alleviate poverty, combat diseases such as HIV/AIDS, and develop economically. ASA continues to be concerned by indications that the European Union intends to ignore its requirements under the Blair House Agreement. ASA and other U.S. oilseed organizations believe the EU must be reminded of its Blair House obligations which have been bounded in the EU's WTO commitments.

Regarding free trade agreements, we support passage of the Central America Free Trade Agreement, the Dominican Republic and Morocco FTAs, as well as the Australia FTA, despite some lingering concerns to SPF issues. We hope negotiations with the Andean countries will result in the elimination of price band systems and reductions in tariffs to allow U.S. soybean farmers to fairly compete in these potentially large markets.

That concludes my comments, Mr. Chairman. I would be pleased to respond to questions that you or other members of the committee may have.

[The prepared statement of Mr. Ruth appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Ruth.

Finally on this panel, we have Mr. Dan Gertson. Mr. Gertson, welcome.

**STATEMENT OF DAN GERTSON, VICE CHAIRMAN, U.S. RICE PRODUCERS ASSOCIATION, LISSIE, TX**

Mr. GERTSON. Thank you. Good morning, Mr. Chairman and members of the committee. I am Dan Gertson, a third-generation rice farmer from Lissie, TX and vice chairman of the board of the U.S. Rice Producers Association. Thank you for the opportunity to testify on behalf of the U.S. Rice Producers Association and the U.S.A. Rice Federation. I am accompanied by a rice producer from Arkansas and a board member of the U.S.A. Rice Federation. If the committee will indulge me, I would like to introduce my grandson who just graduated from Texas A&M University.

The U.S. rice industry supports agricultural trade liberalization. Nearly one-half of U.S. rice production is exported, but imports still account for 12 percent of domestic rice consumption. In contrast to the open market, U.S. rice faces high tariffs, unfair trade practices, and discriminatory treatment in nearly every major export market.

Our members have also suffered from trade sanctions imposed by our own Government that have eliminated major markets in countries like Cuba and Iran. The embargo in Iraq has been lifted, but it will take many years to rebuild what was our largest market for U.S. rice. To be successful, this effort must be a partnership between the rice industry and the government.

U.S. rice exports in 2003 were 50 percent higher than 10 years ago. The composition of U.S. rice exports has evolved. Rough or unprocessed rice now accounts for 45 percent of U.S. rice exports, up from less than 20 percent in the mid 1990's.

Mexico has emerged as our single largest export market, as rough rice sales grew steadily with the NAFTA. New markets for U.S. brown and milled rice have been created in Japan, Korea, and Taiwan through our membership in the WTO.

The U.S. rice industry's key objectives in the WTO negotiations and other free trade talks include the eventual elimination of tariffs on all types and forms of U.S. rice, the elimination of U.S. export subsidies, and the maintenance of an adequate farm safety net for U.S. producers. The best way to provide equal opportunity for all U.S. rice exports is to eliminate tariffs, but real gains in market access must be made before our producers and processors can seriously consider any reduction in U.S. farm programs.

Our trade negotiators who worked on the central American Free Trade Agreement are to be commended for balancing many competing interests. Our large market for U.S. rice in Central America was preserved, while guaranteeing access, although small, but secure, for U.S. milled rice.

We support the enactment of a CAFTA agreement. It is critical that the Doha Round and WTO negotiations be ambitious. A fundamental reassessment of the special and differential treatment to developing countries must also occur. We salute this committee and the administration for supporting a strong defense of our farm and export financing programs in response to the reported WTO panel report on the challenges of the U.S. program.

The U.S. trade agenda must also include a real commitment of resources to ensure the enforcement of trade agreements.

We commend the administration for the firm stand it is taking against Mexico's attempt to restrict the export of commodities, including rice. Mexico's action severely restricts the ability of the United States to grow the mill rice market. The European Union's proposal to replace the MOP with tariff rate quotas, a move that would seriously impact our existing brown rice trade. Our trade negotiators must stand firm for an import system in EU that, at a minimum, maintains current access for brown rice.

We export about 335,000 tons of brown rice and mill rice to Japan each year, but the Japanese government prevents our rice from reaching the Japanese consumers as an identifiable product of the U.S.A. We support efforts to encourage Japan to further liberalize its rice import market. Cost-share programs like MAP and FMD have been critical to growing the market for rice in Mexico, Central America, the EU, and Japan.

As market access increases, we are asking the Congress to provide in-house funding to provide market developed countries to assist in building new markets for U.S. rice. We urge this committee to help us to ensure that the WTO agriculture negotiations deliver on the promise of real market access that has alluded U.S. agriculture, without sacrificing the safety net provided by U.S. programs.

Thank you again for the opportunity to testify. I would be pleased to address any questions.

The CHAIRMAN. Thank you, Mr. Gertson.

[The prepared statement of Mr. Gertson appears at the conclusion of the hearing.]

The CHAIRMAN. We want to hear from you on a number of different subjects, but I also want to look ahead. I know a number of agreements have been negotiated by the U.S. Trade Representative. He is also in the process of negotiating with some countries, and it is helpful to hear from you ahead of time so that they can have the benefit of your concerns or your respective opportunities.

What I would like to ask you about is the FTA negotiations with Thailand. Recently the Congress was notified regarding a trade initiative with that country. The U.S. exports about $600 million of agricultural products to Thailand and imports almost $900 million.

So I would like to ask each of you what would be your recommendation to Ambassador Zoellick on this? What do you think of this negotiation? And if you had to pick a country you would like to see us get negotiations going on, what would that be? Mr. Lee?

Mr. LEE. Well, sir, I think that in behalf of the National Chicken Council, I would respond to you in this manner. We are believers in free trade. We are supportive of WTO activities, and we are supportive of these bilateral trade agreements. It is very important to us that when negotiating these agreements, they are constructed in such a manner that we are on a level playing field, that there is consideration from the standpoint of tariffs that they be properly addressed, as well as, as I had indicated in my prepared remarks, we are very concerned about the issues that continue to arise with the existing agreements with regard to enforcement of them, particularly around sanitary and phytosanitary issues.

So we want to make certain that they address those and address a methodology, hopefully an international standard for being able to arbitrate any potential issues that might arise out of those questions.

Beyond that, we are not necessarily going to stand up against any particular country. Are there those that we might have a greater concern about it having a competitive effect on our industry? Yes, sir, we are. But as long as we make sure that everybody plays, let's say by legitimate rules, we are basically free trade believers.

The CHAIRMAN. So no particular countries you would like us to focus on?

Mr. LEE. Well, we would like access to Europe. That has been a real problem for an extended period of time. Every time we seem to be moving in that direction, they move the target.

The CHAIRMAN. I am with you on that.

Mr. Anderson.

Mr. ANDERSON. Thank you, Mr. Chairman. The cotton industry has a big concern about access for our fiber, on the fiber side. We export some cotton to Thailand. On the textile side we are concerned that the rules of origin exceptions find their way into that agreement, and we would be concerned about third party participation.

The CHAIRMAN. Thank you. Any countries you would like to see us negotiate with?

Mr. ANDERSON. We too are free traders, Mr. Chairman, as I said in my comments earlier, 90 percent of our product is exported back into this country. We just feel like that the level playing field, the discussion in our written comment should be safeguarded in any agreement that is negotiated.

The CHAIRMAN. Thank you.

Mr. Vaughan?

Mr. VAUGHAN. Thailand is a net exporter of corn in most years, so the real benefit to us as far as Thailand is negligible, but we would support negotiations with that nation, from the standpoint that occasionally they do have a shortfall because of bad weather or what have you and we could pick up some exports to that Nation. As far as a region of the world or a country, maybe deferred to a region, the Middle East as a whole, they have trouble because of lack of water, producing enough feed grains. They have a growing population, a young population, an expanding middle class, and because of that, there is a potential growth there for meats and for meat production. So we would see that area as a prime candidate for negotiations.

The CHAIRMAN. Thank you.

Mr. Ruth.

Mr. RUTH. Specifically in regard to Thailand, I am not familiar with the size of that market that we currently possess in Thailand. But Southeast Asia as a whole has been the driving force behind the Soviet industry as far as consumption. Over the past several years, Japan is consistently No. 2 or No. 3. So that is an area of the world that is extremely important to us. As the rest of the panel has stated, we have been strong advocates for free trade and market access in the case of soybeans, with half of our product being exported yearly, market access is extremely critical to us, and anything we can do as far as bilateral agreements with other nations is extremely important to the future of the soybean industry.

The CHAIRMAN. Thank you.

Mr. Gertson.

Mr. GERTSON. We support free trade with Thailand, the U.S. rice growers.

The CHAIRMAN. And do you have any particular places in the world that you view as good opportunities for your product?

Mr. GERTSON. Yes. We would like for the European market to open up and Mexico to open up. The European market has a $330 duty on our rice going into the EU and we are for enforcing agreements between Mexico and Japan and Korea and for FTAs; let us get a good WTO agreement and enforce the agreement we have.

The CHAIRMAN. Thank you very much. The gentleman from Texas.

Mr. STENHOLM. Thank you, Mr. Chairman.

Mr. Anderson, U.S. cotton and textile producers have provided vital support for numerous U.S. trade agreements. At the beginning of negotiations on CAFTA, you requested a NAFTA-like rule of origin to ensure that the benefits of the agreement accrued to the parties of the negotiation and not the third countries.

What effect will the administration's insistence on including trade reference levels and cumulation in CAFTA have on the level of support for that agreement and future trade agreements for the producers you represent?

Mr. ANDERSON. Thank you, Mr. Stenholm. The National Cotton Council has worked with all parties in an effort to promote negotiation of a CAFTA agreement that would benefit farmers, manufacturers, and all of our partners. Unfortunately, our analysis of the current CAFTA agreement allows too many exceptions to the rules of origin, and the TPLs that are included in that agreement we feel like would provide preferential treatment to those nonsignatory parties to the agreement. The exceptions to the rule will undermine the benefits of any future agreements if this weaker CAFTA rule of origin is implemented, rather than a NAFTA-type rule of origin.

Mr. STENHOLM. Thank you. Mr. Gertson, not too long ago, a study by the Center for North American Studies at Texas A&M estimated that the potential food and agricultural exports from Texas to Cuba could reach $57 million, generating another $132 million in related business and 1,500 new jobs in the next 3 to 5 years. Do you and your industry agree with that assessment?

Mr. GERTSON. Yes, I do agree. I do agree with $57 million in agriculture products to Cuba is reasonable. On a national basis, we expect rice to reach 600,000 tons per year in Cuba, with a variety of over $200 million annually. Based on history, we would expect the U.S. rice to capture at least half of this market and much of this rice would be from Texas.

Mr. STENHOLM. Mr. Anderson, in your written testimony, you mentioned your outreach to four West African countries, including some informational exchanges and your support for an exception in the U.S.-Morocco Free Trade Agreement that will benefit those countries. Would you tell us a little bit more about these efforts?

Mr. ANDERSON. Thank you, Mr. Stenholm. Following the Cancun meeting, the council made an effort to reach out to several West African countries to initiate a dialog on a number of issues. We had that first exchange in February and had what proved to be a very beneficial first meeting. We set up an opportunity for additional dialog. I am going to be participating with Secretary Veneman in late June in a technical conference, and we have invited the West African representatives to come and be part of a delegation to tour portions of the Cotton Belt in July.

On areas that we have a common interest, how we promote consumption of cotton products, in areas of technology and in marketing systems are a couple of the areas that we hope to look at. We hope to host this delegation at Texas A&M University and look at some of the 1890's projects while they are traveling around the Cotton Belt. So we are looking forward to that trip, looking forward to working the producers in those West African countries to develop areas that we have a mutual interest in.

Mr. STENHOLM. I commend you for that proactive outreach approach. I think it is exactly what we need to be doing more of in regard to countries that sometimes are tempted to join with other groups, other interests that may be counterproductive to their own interests. And the only way that we can truly explore that is by visiting with our counterparts, our competitors, but mainly the producers in those other countries. I think that is a very positive happening.

Mr. Lee, I would just associate myself with your remarks, talking about the fighting the constant sanitary problems that we have and the need in these negotiations to see if we can't come up with a little better way to avoid these kinds of market disruptions that we constantly get in other countries that deal not only in your industry of poultry, but also straight across the board, and thank you for bringing that up.

The CHAIRMAN. The gentleman from Minnesota, Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman. And thank you all for coming today. I probably should say on behalf of all of my colleagues, we have an awful lot of other things going on, and thank you to the chairman and the staff for assembling such a distinguished group to testify before the Congress today.

Trade and particularly agricultural trade are extremely important all over, and I always tell my constituents that trade is important, because we cannot eat all that we can grow, and we have to work with folks like you to open up markets around the world.

I want to pose a couple of points and perhaps get you to respond to them. One is that you mentioned, someone mentioned expanding markets in Europe. And I think that is important, but at the end of the day, the market in Europe is not growing very fast. It strikes me that the reason we see the prices we see today for corn and soybeans, and I apologize to the rice and cotton producers as we do not grow as much of that up in my part of the world, so we do not pay as much attention, but for most of the commodities, we are seeing record prices and part of the reason, it seems to me, is that we are seeing expanding markets, particularly in Asia.

It also strikes me that at the end of the day, that is where the real market opportunity is for the U.S. agricultural producers.

And part of that is happening because we have seen dramatic economic growth in those areas, and as people see the incomes rise, one of the first things that they do is improve their nutrition. And if we can get more of those people eating more meat and more protein, it strikes me that that is where we are going to see real opportunities, and I would like, perhaps, to have you respond to that

The second thing is that over the last number of years, we have seen literally beginning—and this has happened under administrations of both Republicans and Democrats, but we have seen a propensity of American leaders to want to use food as a political weapon, and one of the things that we have been discussing—I have been discussing with leaders of parliaments from other countries around the world is coming up with some kind of a world food treaty, whereby any of the participants or signators to that treaty would agree in advance that we would not use food as a diplomatic weapon, because it seems to me that the only people that really lose in that bargain are the poorest people of that country and our own farmers, and I wonder if you could respond, first of all, as to the importance of emerging markets in places like India and China and Asia in general, and as a result of the economic growth that they have seen, what the impact is today and what it will be in the future to American farmers.

And then second, about the possibility of us beginning to start serious negotiations with other countries about a world food treaty.

Mr. LEE. Congressman, thank you for that question. I think you have made a couple of very, very important points. With regard to the chicken industry, we have a considerable amount of activity in the Asian markets. That has clearly been one of our fastest growing, in fact, the fastest growing area for new product sales over the last very few years. China has the potential to be a very, very significant market for us.

We like many other industries in the United States continue to experience problems in sustaining shipments to China.

In fact, I can tell you with regard to the chicken industry that our sales have gone down about 65 percent, not even talking about the current absolute ban associated, and not scientifically sound ban associated with AI, but even prior to that, once they became a member of the WTO, our business went straight downhill, and we lost about 60 percent of our sustaining volume.

I won't bore you with all the different issues that have arisen during the last 3 or 4 years, but I can tell you very honestly that our market has deteriorated significantly, and now, again, we have zero trade, because of the ban. It is clear to us that China has another agenda other than what has been offered as concerns about sanitary and phytosanitary issues.

But the fact of the matter remains that Asia does represent a tremendous growth market for us. We are anxious to see our governments work aggressively together to make those markets available. China is one of better examples, but there are certainly other countries that we have had experience in selling and do believe that there is significant opportunity for.

Europe, I might add, the reason I brought up Europe, is the fact we do, on paper, at least have access to China. We don't have access to Europe. It represents a lot of people, and there could be some significant potential for us to gain share there. Thank you, sir.

Mr. ANDERSON. On the expanding market side as I said in my opening comments, the cotton industry on the raw fiber side market has shifted substantially in the last 5 or 6 years. We have already seen a significant amount of cotton sales into the Asian market, into China. China bought 2.5 million bales in 2003, and we anticipate additional sales there.

On the textile side, on the finished good side, we feel like that an effective CAFTA in our central American partners would be an opportunity for growth for our yarn spinners, and so we are looking aggressively to try to find a CAFTA agreement and work with the administration and USTR to develop a CAFTA agreement that we can support, primarily because of our textile industry.

On the food as a political weapon side, cotton doesn't really have a dog in that fight, but we would support any efforts, I am sure, not to use food or fiber as a political weapon in any future negotiations.

The CHAIRMAN. The gentleman from California, Mr. Dooley.

Mr. DOOLEY. Thank you, Mr. Chairman. And the majority of you represent our program crops, which are receiving some level of support in this country, but I would be interested, is there a recognition that what has been the greatest impediment for us to make progress in the Doha Round multilateral and perhaps, in fact, to achieve even greater trade liberalization and market access in our free trade agreements has been because of the recognition by a lot of the developing countries that our level of subsidies by the U.S. as well as by the EU creates an unlevel playing field, and until the United States and the EU is going to be willing to reduce our domestic subsidies and the EU reduce their domestic subsidies and export subsidies, we will not be able to make progress in the Doha Round which could provide greater market access for all of agriculture, including the 80 percent that doesn't get any subsidies whatsoever.

And I guess, Mr. Gertson, with the rice industry, do you folks agree with that or recognize that, or do you have a different interpretation?

Mr. GERTSON. Speaking of the WTO and our trade policies in the U.S., we cannot survive without our programs. At the same time, our costs are totally different than costs in emerging countries, like Brazil, for instance. I don't know if I answered your question or not.

Mr. DOOLEY. Mr. Ruth.

Mr. RUTH. Well, certainly in the case of soybeans, we are relative newcomers to program support. In fact, the last farm bill is really, when it first became a program crop as far as payments, but market access certainly is something that is important to our industry, and it is one of those situations, though, where you can't unilaterally disarm on the domestic support until you know you have the market access, and that is the real challenge in this whole process is making certain that you get the gains that are necessary for your industry.

I think as you talk to producers, they are always more interested in being compensated by the marketplace more so than recipient of a government subsidy, so I think it is important we keep a balance there and not give up the support and not get the gains on the other end, and it is conceptually much easier to put together than to heal put into practice.

Mr. DOOLEY. Mr. Vaughan, in your testimony, I had the chance to read, I saw where you felt that because we had exempted sugar from the Australian agreement as well as did not provide much trade liberalization for central American sugar in the CAFTA agreement, that that limited gains that we could have achieved for increased market access for corn. Would you subscribe to that same theory that we are going to have to be willing to work with the EU to reduce our domestic subsidies in order to have a successful Doha Round?

Mr. VAUGHAN. Well, what we have supported all along is the U.S. agenda to reduce trade-distorting domestic subsidies, as well as the other two pillars of a negotiation.

We believe that wholeheartedly we can reduce those trade-distorting subsidies and convert those into either green box or some other form that would be an adequate safety net to our producers, but at the same time allow us to be WTO-compliant.

Trade is a long-term investment. We very much, as Mr. Ruth said, we would like to see our reward come from the marketplace rather than from U.S. Government programs, but at the same time we have to realize that as we move toward increasing market share around the world, opening new markets, we have to have a safety net that protects us, because the law of economics still applies. We will overproduce at times, and we have to have a safety net.

Mr. DOOLEY. Mr. Anderson, I just want to compliment you and the Cotton Council in terms of how you responded to the WTO ruling on our cotton program, and that I think that you have taken a very constructive approach, and you could have had other reactions to it. And I just want to commend you for that, because I think your recognition that we are going to have to comply in some way, and hopefully it is a negotiated settlement that we can achieve through some trade agreement, I just want to commend you for doing that.

Mr. Lee, you also referenced your concern about summating the Australian FTA agreement, and because of the restrictions I guess for sanitary and phytosanitary reasons for access to that market.

Are there ongoing negotiations with Australia dealing with what you would refer to as the nontariff barriers to poultry?

Mr. LEE. Yes, sir. That is my understanding, sir, but they to have a history of having some sort of prohibitive positions with regard to those issues that make no sense, and they certainly need to be addressed if we are going to establish an FDA with them.

Mr. DOOLEY. You, though, in no way, are any worse off by the agreement that we have negotiated with Australia? It is not putting you in a worse position than you currently are in, though. Right?

Mr. LEE. That would be one way to look at it yes, sir.

Mr. DOOLEY. So you are not harmed necessarily.

Mr. LEE. We are not harmed, but in real terms, we would not be benefited. Obviously, we are in the business of trying to get benefited.

The CHAIRMAN. Thank you. The gentleman from Michigan, Mr. Smith.

Mr. SMITH. Mr. Chairman, anyway, thank you and thank you to the ranking member for holding this hearing.

Here is my take on it as a chap that has been a lifelong farmer and worked in USDA for 4 years and have been very active in agricultural policy.

Most countries are going to want to protect at least a reasonable amount of agricultural production in their country. Sometimes that means keeping other products out by hook or by crook. Sometimes it means not making farmers pay tax on their diesel fuel or other property tax considerations, but it seems to me that most all subsidies and benefits, either by the State or by the Federal Government, that keep that farmer farming and producing are, to some extent, trade-distorting.

And so as we make these arguments and negotiations with other countries, I think we have to realize and—realistic is probably a better word—in terms of the fact that we are going to protect in this country like every other country of the world, some security in our ability to continue producing food and fiber in this country as opposed to increasing our dependency on imported products, but every other country is going to do that also.

As we look at our subsidy programs, for our commodities, for rice, for cotton, for wheat, I said in my opening statement that American farmers have been the most efficient producers and can compete on a level playing field with most any other place in the world. I still want to make that statement, but I also think that it is reasonable for the farm groups and the commodity groups to also—with our maybe overconcentration on farm subsidies over the past several years, I think it is also necessary to take a sharper look at the overzealous regulations, from environmental regulations to now we are going to cleaner diesel tractors and equipment in our fields.

The commodity organizations need to look at some of the overzealous regulations that tend to push our competitiveness, compared to other countries, down. We need to look at the kind of taxes that we are charging farmers, whether it is property tax or sales tax or use tax or the Federal income tax that also tends to put our farmers at somewhat of a competitive disadvantage.

In the long run, we still are going to have to compete on a level playing field with farmers throughout the world, and so that has got to be part of our goal. And if any of the witnesses have any reaction to that, I would be glad to hear it.

Mr. LEE. I might have just one remark. With regard to the chicken industry, we are really not a subsidized industry, but I will say that 60 percent of our product cost is represented by the value of corn and soybean meal. So the assurance that we are going to have an abundant supply and competitively priced corn and soybean meal is a cornerstone to our ability to be able to profitably compete and aggressively compete in international markets. So we are very, very mindful of that. It is an important component of our cost structure. So we are very supportive of trying to do the right things to be able to make certain we can compete on worldwide basis.

Mr. SMITH. Mr. Chairman, just let me conclude—unless there is any of the other witnesses that would like to comment.

But I guess what I am suggesting is that most all subsidies have at least some influence on being trade-distorting subsidies that keep farmers on the farm producing, where without that subsidy, they might be less willing to produce. I just returned from China. The bad news from China they are take away some of our manufacturing jobs. They are driving up the price of steel and copper and some of the other elements they need to expand their industry, but when some of these countries give that revenue, the first thing they want to do is buy protein, and that is part of what is keeping our commodity prices up. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman, and let me go one other and say thank you for this hearing, because I think you put together an excellent panel and we are glad to have you.

Let me go back to an a couple of questions. Mr. Lee, let me go to you first, if I may, with a question, but before I do, let me echo some of the comments my colleagues have said, because I think as we take this challenge and responsibility as I see it in this committee, we in America produce a lot of food and fiber. No question about that. But it is done by so few people, that the decisions we make have to be very careful, because we don't want to give away the goose that laid the golden egg as some of our other products have blown offshore on a host of other reasons, and we certainly can't put ourselves in the position to compromise our food and fiber. We would be in a tough situation.

And I happen to agree, Mr. Lee, with your comments regarding Russia and that Nation's need to straighten up, I think, their situation as it relates to our poultry exports. And my concern also extends to some other countries, who once they get the agreements they want, they tend not to want to live up to part of their agreements, and some others here have mentioned China a few minutes ago.

I think if we are going to enter into agreements and then we are going to enforce them, we would encourage our folks to get involved, and once they are involved and they get what we want, we get what some said—as the old song goes, we get the shaft and our farmers wind up over the long haul either going bankrupt or going out of business or both.

You recommended that negotiations to allow Russia into the WTO and consequently gain PNTR status should be postponed until Russia demonstrates that it will abide by the understanding and agreements regarding poultry.

Given Russia's propensity for breaking agreements as some of our other partners have, shortly after they have been made, how long would you recommend that these negotiations be postponed? In other words, how long should Russia be on its best behavior to satisfy your thinking as it relates to your product and the other poultry producers before we seriously consider allowing that country into the WTO?

Mr. LEE. Well, I guess I have never really actually thought about it in the context of time. I think that is a valid question, but we certainly have experienced problems with them standing behind the agreements, and that has been very disappointing to our industry.

I guess to give you an honest answer, we would certainly like to see at least a year of—sort of a commitment to a deal as evidence that they would stand behind an agreement, something on that order.

I would like to make the comment that you have alluded to, with China, they are in the WTO and really things worsen significantly post that. And I am afraid that the Russians are probably not unaware of that, so we need to really consider the fact that we have got to get interagency support to really aggressively hold these countries to their agreements.

Mr. ETHERIDGE. Let me follow that up, because I think that is a critical piece in this. It is one thing to negotiate a deal and get people to sign off in passing. Would you comment on what you think we need to do to make them live up to the agreement? Because at the end of the day, all of us are losing when we do that, because we lose our capacity ultimately over time, and then we are worse off as a result of it.

Mr. LEE. I hate to say this, but I think the reality is that it is the very nature of the United States to play by the rules. So once we establish a relationship and it outlines what parties are supposed to do or not do, we are going to hold up our end of the stick, so to speak, and unfortunately some of these other countries don't seem to evidence that same type of commitment.

It makes it difficult for us to take what might be necessary retaliatory steps. They have to see some tangible penalty to not adhere into the agreement, and I think that is proving difficult for us to do, so we will try to appeal to them to do the right thing, but there doesn't appear to be a commensurate commitment to saying if you don't, you stand to lose *X*.

Mr. ETHERIDGE. Our time lines are too long and we try to pull them in.

Let me move to one other final point, because you mentioned the SPS issue earlier as it related to Australia and others, because that is a big issue as relates to having some stuff, and I see my time is up, but do you see us making any movements in the Australian market as pork is done to be able to work that out?

Mr. LEE. I must tell you I don't have the exact details at hand. I know it continues to be worked on, but there is a fair way to go before it really will be beneficial to our particular industry.

Mr. ETHERIDGE. I hope you will keep us in that loop on that.

Mr. LEE. Yes, we will, Congressman. Thank you.

Mr. ETHERIDGE. I yield back.

The CHAIRMAN. I thank the gentleman.

The gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman. I appreciate you holding this hearing today, and I appreciate the testimony of the witnesses.

A number of things sparked my attention as I listened to your testimony, and first I would want to make a short statement about the European Union and access to their markets, and I will direct my question to Mr. Lee.

And that is that even though I don't disagree with the gentleman from Minnesota that it is not a growing market in Europe, I think it is an essential market, and I see the European market as a market that when we are able to compete in an effective way and export our high-quality egg products into Europe, as we should be able to do, that becomes a competitive battle zone for us in a way that takes some of the pressure off the rest of the world.

The European Union has been playing offense for a long time, and I would rather have them be playing defense there with their protectionism than I would have them playing offense around the rest of the world with their domestic subsidies.

So with that in mind, then, Mr. Lee, you mentioned that they have moved the target on you, and I would ask you to expand on that thought a little bit for the committee.

Mr. LEE. It is been our history that there have even been periods of time that the Europeans would represent that all we needed to do was to meet a certain requirement with how you perhaps flow a product in a producing plant, whether you have showers and lockers for your team members or something of that nature that would be very particular to how you ran an operation, and then once you would set out to try to meet those requirements, then the next thing you know, you have got a whole host of other requirements. And so it is a moving target, and it makes it cost-prohibitive in many instances to do it, particularly when you have no certainty about where this is going to stop.

So it has been a problem for our industry, and I do agree with your summation of why Europe is an important market to gain access to. We badly need a broader array of destination markets. We need to be able to diversify our customer base and be less reliant on a few people, particularly when those don't always want to play by the rules.

Mr. KING. Mr. Lee, I would characterize it as playing pin the tail on the donkey, being blindfolded, spun around and then have them move the donkey.

Mr. LEE. Yes, sir.

Mr. KING. Thank you. And Mr. Vaughan, with regard to the corn sweetener issue in Mexico and this ongoing saga that we are continually with—and I think you acknowledged it late this year we would like to see some direction towards a resolution of that matter, and there is significant frustration on the part of the corn producers, I know, and yet I am just asking you this question. In a sense maybe it is hypothetical, but if you can take a position, I would like to know.

If we are faced with these kind of barriers and continually that target has been moved too, if we are faced with these kind of barriers continually and had we known this going into NAFTA, what might be different with the position of the corn growers we thought were going to be facing this kind of trade barrier to get our product into Mexico?

Mr. VAUGHAN. You mean as far as would the producers have supported NAFTA if they had known they were going to have this problem?

Mr. KING. Correct.

Mr. VAUGHAN. Well, it is difficult to say. Like I say, it is our greatest success and our greatest trade policy failure all rolled into one, because we have seen Mexico move from way down the list as far as a bulk corn customer to No. 2 spot as far as bulk corn sales. But at the same time, they have done this deal with HFCS where they basically file countervailing duties in 1997, restricted our exports to that area of HFCS, and then in January 1, 2002 they took away the countervailing duties. They finally lost enough duties that they conceded but then they came right back and took the beverage tack off.

So it is like you said, it is spin around and move the donkey, and we can't quite get there to solve the problem, but it is a black eye as far as the producer goes. These things like that happen. If we can't get resolution, it causes the producers out there to question, well, why are we doing trade agreements if we can't get enforcement. So, yes, I would have to say back in hindsight we probably were still supported NAFTA, but we would have worked hard on trying to ensure these sweetener regulations were more strict.

Mr. KING. Thank you, Mr. Vaughan, and we are looking at FSC/ETI in this Congress too, and that is about a $4 billion concession made by the United States, and I don't see it is any different than the issues—it looks to me like we are paying out both ways, losing both sides of this argument.

I will just make the point quickly, as I see my time conclude here, that I would eliminate all income tax on all of our producers and everybody else in this country and replace it with a national sales tax.

And by the way, with regard to domestic subsidies, not to make Mr. Anderson's day, I would be starting to remove those, too, and I would show less preference towards the nonfood items so that you know my position, Mr. Anderson.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

I believe the gentleman from Hawaii does not have any questions, so we will return to this side and go to the gentleman from Texas Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. In reference to that safety net, I think there is some good news for your constituents as we believe we are going to vote on a budget resolution today that does keep the 2002 farm bill intact, and the issue on payment limitations has been removed from that conference report, so I think that is some good news you can take back.

Mr. Anderson, recently I had Ambassador Johnson and then last week Mr. Spooner had come over and talked about this balance between the fiber and the textile as we move forward with our trade policy, because like you, I am concerned about the fact that we are exporting more cotton, which is good, and sometimes at the expense of our textile industry.

And one of the things that I said to him was it is important that we have your groups and other groups at the table to come up with some solutions.

What are some of the things that as we move forward with that, that we are doing right and what are some of the things of concern to you so that we do move forward with agreements that are a win-win?

Mr. ANDERSON. Let me just start by saying we have had a very good working relationship with Mr. Johnson and Mr. Spooner and have had very good discussions as we have tried to work through the development of some of these trade agreements. I alluded to it a little bit earlier in my opening remarks about CAFTA and some of the progress that we felt like we had made there and then some of the frustrations as the final agreement was being drafted. I think you are right on target in suggesting that USTR include industry as they develop those trade agreements.

Of course, in particular relationship to the CAFTA agreement, we felt like we gave away a little too much on TRQs, and that we would like to have seen a more realistic number. We weren't purporting to do away with them in their entirety, but we felt like 100 square-meter equivalent TRQ was a little excessive and was going to cost our industry upwards of 50,000 bales.

So I guess probably the give and take in that dialog with our negotiators probably needs to be a little more open and frank in understanding what it is going to do to an individual industry when we negotiate those kind of TRQs.

Mr. NEUGEBAUER. One of the issues that keeps coming up also—when it comes to the textile industry—is the fact that our textile industry is diminishing all attributed to our trade, and does some of that have to do with the fact that it is just being more difficult to do business in America today with the second highest corporate income tax rate in the world, very regulatory environment in our country and then of course the litigation and all of those things that we have developed in this country making it more difficult for companies to stay in our country an compete on a global basis? How much would you say would you attribute the textile diminishing to trade, and how much of it just to the competitive environment of operating in this country?

Mr. ANDERSON. That would probably be hard for me to estimate, but the majority of our textile problems of late over the last 4 to 5 years I would attribute to the measure of imports into this country from China and their failure to adhere to their WTO commitments.

I agree with your statement and what Mr. Smith said earlier about the overall number of developments that effect our industry in doing business, like regulatory and tax issues. It has made it tougher on all of us, even as producers, to continue to compete in this country.

So I think it is a hodgepodge, but I think the vast majority of our textile problems, at least over the last 4 or 5 years have been trade-related.

Mr. NEUGEBAUER. Thank you. Mr. Vaughan, you had mentioned that one of the big impediments for corn is some high tariffs in some other countries. What are some of the countries where you think that there is a large potential for corn that have particularly exceedingly high tariffs that are keeping corn out of those countries?

Mr. VAUGHAN. Well, specifically probably India would be one that comes to mind. They have high tariffs. Many of the Asian nations have high tariffs as well, and as has been pointed out earlier today, that is where a large part of the world's population is centered, around India and around China and in that area of the world, so there is a lot of market potential, but there is a lot of high tariffs and trade protectionism there.

Mr. NEUGEBAUER. I see that my time is expired. I also want to extend my congratulations to this great panel and also to welcome my fellow Texans to DC.

The CHAIRMAN. I thank the gentleman.

The gentleman from North Carolina, Mr. Hayes.

Mr. HAYES. Thank you, Mr. Chairman, and thank you for holding this hearing. Let me quickly add these hearings are vitally important, but they couldn't be possible without the participation and the preparation of our many witnesses and the folks that support them. So thank you all very much for your cooperation and your input.

Mr. Lee, my first question is to you, and it concerns lifting the Mexican ban on poultry. We have got to continue to fight for market access. It is imperative that we work these countries to make sure we are receiving fair treatment. Right now we are not. We have all alluded to that. We play by the rules of WTO and have average tariffs of only 12 percent. The world average is 62 percent. We have got to gain more access for our agricultural products.

What actions are being taken and will be taken on the producer's side to fight to increase access, particularly in Russia, for our poultry farmers? And anybody else that would like to comment would be welcome.

Mr. LEE. Mexico is an important market to the U.S. poultry industry, and we have had a lot of issues with regard to sustaining market access in Mexico over the last number of years, most recently with the AI situation, and we really lost complete access to the market, in our view are very arbitrary about how they approached that, was not really science-based.

Now, we have made a significant amount of progress here in the very short, short term, and I guess one might say, at least from a historical measure, we have complete access to the market under the existing agreement we have with them. You may be aware that we actually rolled the NAFTA agreement back with regard to the chicken industry and reinstated the TRQ program that was supposed to have gone to zero, if I am not mistaken, at the end of

2002. I may be off a year there, but we voluntarily, if you will, working in association with the USTR rolled that back and reset it to the previous 5-year high. And that sounds obviously counter to what you would normally want to approach, but we were having so many phytosanitary problems, nontariff barrier issues, that to try to sustain access to the market, we decided this was in our better interest and we choose to do it. And until very, very recently, I guess one might say that had worked in our behalf.

The industry has worked very, very closely with USDA. Has worked very, very closely with USTR. In fact, was in Mexico almost en masse last week meeting with the Mexican authorities and trying to continue to develop dialog with them, better understanding between our two countries and the industries and show support for a good working relationship with them.

In one sense, maybe that he is an example of some of the things we need to do in other markets, but it has been characterized with a lot of frustration, particularly I would say in the last 3 to 4 months or around their handling of the AI. It is particularly problematic for some of the States and our turkey-producing brethren when they just were very arbitrary about cutting some States off, even after having gone back and relooked at it for things that happened 2 and 3 years ago that made absolutely no sense whatsoever from a food safety or an animal health manner.

But in our view, it has worked very closely the USDA and the USTR and any of the agencies that could help us work with the Mexican government and the Mexican industry and try to sustain market access.

Mr. HAYES. Thank you, sir, and while I have got you, would you detail your concerns with the Australian free trade agreement for the record?

Mr. LEE. I probably should have better prepared for this very specific question, but it has to do with some—in part, at least, on some of the requirements on cooking product and temperature requirements, and it really comes down to the fact that if you adhere to that, you have got nothing to sell. But I will make certain that you are provided with more of complete information than what I am giving you, Congressman Hayes.

Mr. HAYES. Thank you, sir. And Mr. Anderson, as you are aware, I was extremely disappointed with the WTO dispute panel decision on the Brazilian cotton case and I am pleased to hear that Ambassador Zoellick's comments during our last hearing that he intended on vehemently fighting this decision, will appeal the fine in the future. I want you to be aware of my and our support and let us know if we can be of more help on this issue.

And finally, Mr. Chairman, I join the others in my—I won't say disgust, but my continuing frustration over the European Union artificial trade barriers, withholding and really from starving peoples around the world. Our good science and genetically manufactured products and crops. So again, I appreciate your effort to continue the fight and do need to call attention to everyone's participation with Mexico and other issues. Bill Hobson helped resolving getting our products back into turkey. Mr. Chairman, thank you very much. Mr. Chairman, thank you.

The CHAIRMAN. I thank the gentleman.

The gentleman from Montana, Mr. Rehberg.

Mr. REHBERG. Thank you, Mr. Chairman, for putting together such a fine panel. I will feel better about the completeness of this kind of a meeting when I finally get my industry of Kashmir goats represented at the table. Seeing as Montana is not particularly renowned for its cotton or rice, I will save my comments for the next panel. Thank you.

The CHAIRMAN. That was fast.

Mr. REHBERG. That is everything I know about cotton.

The CHAIRMAN. The gentleman from Nebraska, Mr. Osborne.

Mr. OSBORNE. Thank you, Mr. Chairman. I would like to offer a special welcome to Bart Ruth from Rising City, NE. Glad to have you here.

And one thing, I get tired of people coming to deals like this and making a speech, so I am going to make a very quick one and then maybe ask one question.

But one thing that I am most concerned with, of course, is corn, rice and soybean price. Right now we see those are high. Part of the reason they are high is because we have had a very long, persistent drought in the upper Midwest affecting Nebraska, places like that, which has cut the supply and driven up the price. And so we hope that the members of the committee will bear this in mind, because it looks like we are right in the grips of that thing for the fifth straight year now.

Also as the chairman has pointed out, the farm bill has been much less expensive. We thought it would be about $50 billion through this first 3 years, and instead it is going to be about $35 billion. So it appears the farm bill is working. I think the drought has been part of that.

And I guess particularly to Mr. Ruth and Mr. Vaughan, since I missed your earlier statements, I am sorry. I was in another markup. Can you comment briefly on how you feel the Australian or CAFTA would affect the corn and soybean markets? Do you have any thoughts on that right now?

Mr. RUTH. In the case of the Australian FTA, the benefits to the soybean industry are relatively minor, if there are any benefits at all, but I think we have been supportive of it in spite of some concerns about the SPS issues, just because we are supportive of the entire process going forward with the trade agreement.

I mean, obviously every trade agreement that you negotiate does not necessarily provide tangible benefits for your industry, but I think the concept as a whole deserves our support. Obviously, if there is things that harm your industry, you are going to be opposed to it, but if it is relatively neutral towards your industry, I think we need to be supportive of those efforts.

Mr. VAUGHAN. We have not taken a position on the Australian free trade agreement. There is not a lot of benefit to feed grain producers, corn producers here in the United States. They do not import a lot of corn into Australia. They are pretty self-sufficient in that area. Occasionally we might have the opportunity when they have drought or something like that, but the SPS issue that has not been resolved pretty much eliminates U.S. corn from moving into that market.

So we have not taken a position on the Australian. We do have some concerns the way it was negotiated. We feel like it probably provides a bad precedent, in that a lot of these were excluded. And corn is a sensitive commodity in many places of the world, and we did not want corn taken off of the table in agreements, and so we don't support taking anything here in the United States off as well. We feel like everyone should be at the table.

As far as the CAFTA agreement, of course we are very supportive of that. We see a strong potential to increase market in that area. As the incomes rise down there, especially. They have been a relatively strong market for us in the past. We have a sizable market share, and so we support CAFTA. It is also going to be good for our meat sector, so there again, that is a value-added opportunity here for the United States.

Mr. RUTH. As far as CAFTA, we have been very supportive. Colombia, for example, if we have free access to market would become our fifth largest trading partner in soybeans in consumption, so it is a very important market to us and we have easy access to Central America, so it makes a lot of sense for us to be down there.

Mr. OSBORNE. Thank you. I just hope our wheat people can feel the same about CAFTA as you guys do, but it does appear to be somewhat of a mixed bag, but I appreciate your thoughts and appreciate you being here today and, Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentleman.

I want to thank all of the members of this panel for your contribution. This has been very helpful, and we thank you.

With that we will move to our next panel.

I would like to welcome our second panel to the witness table. Mr. Terry Jones, president of the American Sugarbeet Growers Association from Powell, WY.

Mr. Squire Smith, president, Florida Citrus Mutual, Eagle Lake, FL; Mr. Lawrence T. Graham, steering committee coordinator, Coalition For Sugar Reform, Vienna, VA; Ms. Jan Lyons, president, National Cattlemen's Beef Association, Manhattan, KS; Jon Caspers, immediate past president, National Pork Producers Council, Swaledale, IA; Dennis McDonald, trade committee chairman, Rancher-Cattlemen Action Legal Fund, United Stock Growers of America, Melville, MT.

I will remind all the members of the panel that their full testimony will be made a part of the record and ask them to limit their remarks to 5 minutes, and we will start with Mr. Jones. Welcome.

## STATEMENT OF TERRY JONES, PRESIDENT, AMERICAN SUGARBEET GROWERS ASSOCIATION, POWELL, WY

Mr. JONES. Thank you, Mr. Chairman. My name is Terry Jones, and I am a fifth generation family farmer from Powell, Wyoming. I am the president of the American Sugarbeet Growers Association and speak today on behalf of the growers and processors of the U.S. beef cane sugar industry.

It is important to know that we are primarily a grower-owned industry. Our market is already oversupplied, and we are the fourth largest net importer of sugar in the world. More than 146,000 sugar jobs across the Nation generate more than $9.5 billion to our economy.

We provide a variety of products to our customers at fair price, and we do it all at no cost to the taxpayer. It is a record we are proud of, but bad trade agreements that harm our industry put that record in jeopardy.

Sugar in the world's most historic commodity market. The government in every country that produces sugar intervened in the market in some way. As a result, world market prices have averaged barely half the world outreach than the cost of production over the past two decades.

The sugar subsidy problem is a global problem, and it must be addressed globally in the WTO. And comprehensive multilateral negotiations with all countries, all programs.

Our industry applauds Ambassador Zoellick's efforts earlier this year to restart the WTO process. We must identify and eliminate all subsidies, both direct and indirect, and we must not allow large exporting developing countries, like Brazil, to get special treatment.

Piecemeal market access concessions in bilateral and regional free trade agreements will not solve the global subsidy problem. Such concessions could, however, put our industry out of business while foreign subsidies and other trade-distorting policies continue unabated.

The Bush administration has rightfully refused to negotiate domestic farm policy in the FTAs, but the U.S. sugar policy is unique among commodity program, in that it can only operate if imports and domestic production are controlled to balance the U.S. market.

Therefore, negotiating tariffs or increasing imports is, in fact, negotiating our domestic policy.

It is inconsistent with stated administration policy and could doom our industry. We are most concerned with negotiating FTAs with countries that export sugar. For this reason, we categorically oppose any agreement that requires additional access to our own market and threatens our domestic policy.

If our market needs more sugar than already required by the WTO and NAFTA, we should import it from our FTA partners but on an as-needed basis.

In the Australia FTA, the administration got it right. Australia is already the fourth largest supplier to our market, with minimum imports at more than $40 million. If our market needs more imports, Australia will automatically give us greater access as part of an expanded tariff rate quota.

This sweetener provision between the U.S. and Mexico and the NAFTA have been a disaster. After 10 years, the sweetener dispute between our two countries rages on, without a negotiated solution, there will be a cultural exchange of legal challenges and threats of retaliation. A team of representatives from the U.S. sugar and corn and Mexican sugar industries have been working intensely to resolve this complex problem. We hope to provide the administration with some agreed recommendations in the near future that will serve as a basis for resolving this dispute in an equitable way.

We strongly oppose the sugar provision in Central America and the Dominican Republic free trade agreement. The 109,000 tons of additional access will likely trigger out marketing allotments. If this occurs, 700,000 tons of domestic production currently blocked from sale would immediately become available to the market. Domestic prices would plunge, causing severe damage to producers and generating huge forfeitures to the Government.

We strongly object to the destruction of our industry. Just so that others can gain access for such a small economy. After all, the combined gross domestic product of the CAFTA and DR is less than that of the metropolitan area of New Haven, Connecticut.

Twenty one countries exporting 23 million a year, which is more than double the U.S. consumption, are lined up in FTAs with the U.S. If we include sugar in these FTAs, our market will be swamped with subsidized corn sugar, our industry will be destroyed, and we will not have addressed any foreign subsidies, which can only be done in the WTO.

We are asking Congress to insist that the administration concentrate its efforts on comprehensive trade liberalization in the WTO, not in piecemeal efforts in FTAs, and give efficient American sugar farmers a chance to survive. Thank you.

[The prepared statement of Mr. Jones appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Jones.

Mr. Smith, we are pleased to have your testimony now.

**STATEMENT OF SQUIRE SMITH, PRESIDENT, FLORIDA CITRUS MUTUAL, WINTER HAVEN, FL**

Mr. SQUIRE SMITH. Thank you, Chairman Goodlatte and members of the committee. I am Squire Smith, CEO of SGS, Incorporated. I am a citrus grower and grove caretaker in central Florida, the president of Florida Citrus Mutual.

I am pleased to be here today to present testimony on how the ongoing regional and multilateral, international trade negotiations affect the U.S. and Florida citrus industry. Florida Citrus Mutual is a voluntary cooperative association with a membership of more than 11,000 Florida growers for citrus for processing and fresh consumption. Its membership accounts for more than 90 percent of Florida's citrus grower and as much as 80 percent of all oranges grown in the United States for processing into juice and other citrus products.

Mr. Chairman, we are at a critical juncture in the life of the Florida citrus industry. When I appeared here last fall before the subcommittee on livestock and horticulture, the nearby futures price for FCOJ had fallen to 67.3 per pound of solids, the lowest price at that time in 3 years.

The situation has worsened dramatically. The futures price as of Monday was 57 cents per pound of solids, the lowest in 27 years. This is a more reliable indicator of the U.S. wholesale price of orange juice, which is the strongest determinate of the price growers are paid for oranges for processing.

Many of our members will finish this season at a financial loss. Those that survive will spend the next several years trying to recover.

As an unsubsidized agricultural industry facing essentially a single larger higher concentrated foreign competitor, our need is very straightforward. The tariff on orange juice must not be reduced or eliminated under the Doha Round, the FTAA or any other agreement to which Brazil is a party.

Opening new export markets and growing the U.S. market are certainly important goals which we have been working steadily towards since the middle 1980's, but they are goals which cannot be met in the near future under any condition, since most of the world juice is produced in only two countries, the U.S. and Brazil, and consumed in the U.S. and western Europe.

Another unique reality of the global orange juice market is that Brazil historically exports 90 to 95 percent of its production each year. Furthermore, five major orange juice producers in Brazil control 80 percent of the Brazilian processing, 49 percent of the Florida processing, 55 percent of the world processing and 60 percent of the world FCOJ trade. Controlling a significant portion of the world production in sales. With full access to the U.S. markets already, the devastation of the Florida citrus industry through tariff reduction or elimination would neither benefit the U.S., consumers nor foreign producers.

Also decisions about planting citrus groves in both Florida and Brazil have long-term consequences which are not easily reversed by economic and trade policy. If future returns in the U.S. are depressed further by anticipated tariff cuts, the support industries will also see negative impacts.

Likewise, any anticipation of increased production in Brazil will result in additional plantings that will yield excessive levels of fruit and depressed prices for many years to come.

These factors must be borne in mind when evaluating the current progress of trade negotiations. U.S. negotiators continue today with considerable efforts to reach compromise agricultural negotiating language that were expended in the Cancun ministerial. The efforts are directed towards achieving a framework understanding this summer using Cancun, as a starting point. However, we understand that efforts for including even the very modest accommodations for import-sensitive situations like citrus are under fire by our trading partners including Brazil. We urge the committee to send a clear message to our trade negotiators, unsubsidized, import-sensitive agricultural industries will not be sacrificed on the altar of subsidized commodity export enhancement.

The opportunity must remain in any time framework agreement to develop countries to provide for unique situations like citrus.

The FTAA negotiation citrus risked being the odd man out as the U.S. takes the position that subsidies cannot be negotiated in a reasonable context without the EU at the table.

While this is certainly a reasonable position, Brazil will surely press even more vigorously for tariff cuts on commodities that are not subsidized. This is an unacceptable position and would spell the end of the Florida citrus industry as we know it.

While subsidies are used to help level the playing field for U.S. agricultural industries whose top markets are abroad, tariffs are used to level the field for industries like orange juice whose top markets are in the United States. The administration's FTA proposal on agriculture is lopsided to the extent that it puts all U.S. agricultural tariffs on the table, while leaving all domestic subsidies off of the table. In doing so, the administration proposal effectively, unwittingly singles out the agricultural industry for demise based exclusively on the location of their markets without consideration of the effect on the U.S. economy. Not only is this an unsound approach to trade policy, it also is guaranteed not to meet any of the stated objectives of trade liberalization, which are foreign industrial growth, lower prices to the consumer and increasing living standard.

Furthermore, it completely undermines any domestic policy benefits which might be targeted to such an unsubsidized sector through elimination of a trade policy equivalent of a domestic policy support program.

In conclusion, the U.S. citrus industry is just as concerned about developing export markets as producers of any of the program crops which appear regularly before this committee, but we cannot unilaterally disarm and assume that we will see an explosion of due demand. That takes time. With only two major world suppliers, the elimination of one would leave world consumers without a choice and the Florida economy in shambles. The orange juice tariff on Brazilian imports must be maintained in all multilateral and regional negotiations, and I appreciate the opportunity to be here and would entertain any questions you might have. Thank you.

[The prepared statement of Mr. Smith appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Smith.

Mr. Graham.

**STATEMENT OF LAWRENCE T. GRAHAM, STEERING COMMITTEE COORDINATOR, COALITION FOR SUGAR REFORM, VIENNA, VA; ACCOMPANIED BY TOM EARLY, PROMAR INTERNATIONAL**

Mr. GRAHAM. Thank you, Mr. Chairman. My name is Larry Graham. I am president of the National Confectioners Association. This is an association that represents the U.S. candy, chocolate and gum industries.

I am also chairman of the Coalition for Sugar Reform. This coalition includes trade associations like mine representing companies that use sugar and confectionery dairy products, grocery manufacturing and baking. It also includes taxpayer advocacy groups, environmental organizations and the consumer groups, and we thank you for the opportunity to testify.

With me is Tom Earley of ProMar International, an agricultural economist organization.

The debate over sugar trade often seems to center around imports. However, it is also an export issue. U.S. food companies compete in a global market and ship their value-added products abroad. Since 1994, U.S. exports of all consumer-oriented products have risen from $17 billion to almost $24 billion, an increase of 37 percent.

Consumer-oriented products represent an increasingly large share of our exports. Processed foods, including snack foods, breakfast cereals, dairy products, confections manufactured by our coalition member companies and other U.S. firms, are an important part of this trade picture.

We know that this committee is interested in expanding agricultural exports, whether in bulk or in value-added form, and we applaud your leadership. We know that you understand the need for two-way trade.

To buy our products, our customer countries must have foreign exchange to pay for what they buy. For many countries, one of the products they want to sell to us is sugar. Of course, their ability to do is so is limited by U.S. sugar policy, and we think that U.S. sugar policy harms agricultural trade in three ways, two related to exports and one to imports. First the sugar import quotas limit the ability of our customer countries to generate foreign exchange that they would obtain if the U.S. sugar market were more open. Second, the politics of sugar quotas encourages other countries to withhold trade concessions, and we have seen that, that might benefit efficient U.S. farm sectors.

Third, current U.S. sugar import policies have the ironic effect of encouraging more imports of processed products. In the confectionery, my industry, about 10 years ago, 5 percent of our sugar products, meaning nonchocolate products, about 5 percent were made elsewhere, were not made in the United States. It is somewhere between 30 and 40 per certainly of all sugar confections are now made outside of the U.S., and that is continuing and that will continue to grow.

U.S. farmers and ranchers are increasingly aware that keeping sugar out of trade agreements is harming their interests. Among the groups that wrote President Bush in support of including sugar in the U.S-Australia Free Trade Agreement were the American Soybean Association, the California Farm Bureau Federation, the National Corn Growers Association, the National Pork Producers Council, U.S. Wheat Associates, the U.S. Grains Council, the U.S. Poultry and Egg Export Council, USA Rice, and the Wheat Export Trade Education Committee.

An official of the Illinois Farm Bureau said, “Proposals to exclude sugar have met with significant opposition from a broad array of U.S. agricultural groups who are tiring of the uncompetitive U.S. sugar industry seemingly hijacking agreements that would provide significant benefits to other agriculture sectors.”

Not my words, Mr. Chairman; that is from one of the largest farm groups in the Midwest.

We believe that the gradual liberalization of sugar trade through both multilateral and bilateral agreements will bring multiple benefits to the United States.

Some supporters of the Sugar Program have attacked the sugar provisions of CAFTA. That is ironic, since CAFTA’s negotiators went out of their way to make sugar provisions modest. In its first year, CAFTA will permit the import of an additional 109 metric tons of sugar. This is less than 1 percent of the total supply in the current 2003, 2004 marketing year.

If an import supply increase of less than 1 percent is going to threaten the survival of an entire industry, then that says something about the competitiveness of that industry. In fact, of course, the amounts of sugar in CAFTA do not even remotely threaten the U.S. sugar industry or the Sugar Program. We should carry out our agriculture trade policies with due regard for the needs for all commodities, including sugar, but we should not allow a single commodity to hold back the rest of U.S. agriculture.

We encourage this committee to support the inclusion of all commodities in all trade agreements so that all parts of our national food and farm industries can benefit.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Graham appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Graham.

Ms. Lyons, welcome.

**STATEMENT OF JAN LYONS, PRESIDENT, NATIONAL CATTLEMEN'S BEEF ASSOCIATION, MANHATTAN, KS**

Ms. LYONS. Thank you, Chairman Goodlatte, Mr. Stenholm and members of the committee. I am Jan Lyons, a beef producer from Kansas where, with three generations of my family, I manage our ranch in the Flint Hills tall grass prairie south of Manhattan, KS. Today I would like to focus on why our members believe that the WTO negotiations are so critical to the future growth of our industry and why trade is the key to all U.S. beef producers' future success.

We supported trade promotion authority in the President's trade agenda because it is the right thing to do. We believe that the greatest trade liberalizing benefits to our industry can be obtained via the multilateral WTO process, rather than a string of bilateral agreements. Our future is tied to our ability to sell our product to the 96 percent of the world's population that live outside the U.S.

We know there are folks out there who are disillusioned about trade out of the country, but, last year, the U.S. enjoyed a record $2.2 billion beef and beef product trade surplus, with an average per pound value of exports at $1.66 per pound versus imports of $1.21 a pound. Such success in the export market is nearly unprecedented in any agricultural commodity, especially considering that the U.S. beef industry also experienced record domestic prices in 2003. We have always been the world's largest beef importer, and we are usually the second largest exporter. Last year, we imported $2.6 billion value in beef and exported a record $3.86 billion in beef and beef variety meats.

Due to the unique position of our industry as importer and exporter, NCBA must consider balance, equity, fairness of proposed trade negotiations and initiatives to assure that any agreement provides a net increase in access for U.S. beef. I will tell you that, since December 23, we now have a much greater appreciation of the value of our export markets.

Earlier this month, the entire industry returned to a point of profitability since the first time since that first case of BSE in the United States. Yet it has been the tremendous resilience of U.S. consumer confidence and demand that has seen us through this crisis. Now we have to get our export markets reopened.

If former chairman and Senator Pat Roberts were here, he would remind me of a tune that goes "you don't know what you've got 'til it's gone," but we have to get it back, and we have to get it back based on sound science.

Japan has a 50 percent bound and a 38.5 percent applied tariff on beef imports; and South Korea, a 40 percent bound and 30 percent applied tariff on beef imports. Increased market access via tariff reduction is the core mechanism by which U.S. beef producers can better their position in the global marketplace.

The inability to reduce these tariffs in the WTO negotiations would constitute a failure of these negotiations in the eyes of U.S. beef producers, as we receive no domestic supports or export subsidies.

Beyond reform of the EU's Common Agricultural Policy, however, WTO members and particularly developing countries must get beyond this contradiction that trade liberalization is somehow good for developed countries' agricultural support mechanisms but is not appropriate policy for the developing world.

U.S. beef producers have greatly benefited from NAFTA's opening of the Mexican beef markets, yet we are still being hit with antidumping duties on the market. China's 12 percent tariff on beef via the WTO was a groundbreaking agreement that should serve as a starting point for future FTAs; and we also support CAFTA, the Dominican Republic FTA, the Moroccan FTA, and the Russian WTO accession agreement.

NCBA will oppose any FTAA that does not address concerns such as Brazil's currency devaluations and credit subsidies to its agricultural sector. Such unsustainable macroeconomic practices trigger inflation and government deficits which are ultimately being offset by loans from entities such as the International Monetary Fund. NCBA's primary objective in the Australian FTA negotiations was to prevent any potential negative impact on U.S. producers which would be caused by this FTA before we would have an opportunity to increase our ability to export beef via the WTO liberalization process.

The inclusion of a transitional quantity-based safeguard and the permanent price base safeguard at the end of the transition period are critical components of this agreement as we see it.

As we look toward the future, we are excited about the market potential of Thailand, Colombia, Panama, Peru, but any agreement must include a commitment to improve cooperation to eradicate foreign animal disease, particularly due to the widespread occurrence of foot and mouth disease in South America. Right now, though, our top priority is reopening those export markets that remain closed for our product. Those markets are worth about $1,500 a hundredweight to the price of a fed steer, or $172 a head.

After all of these years, however, we cannot sell our product into the EU market. That is a real concern to us. U.S. grain-fed beef has a unique place in the global food economy; and U.S. producers know that, as a result of our investments in technology and science-based animal health and inspection systems, we produce the highest, safest beef in the world. We insist on the complete harmonization of BSE regulations in North America to maintain credibility with our trading partners as we ask them to reestablish trade. And while it is an economic fact that lower tariffs benefit the importing country as well as exporting nations, we do not believe that the playing field is level, as NCBA will not support increased access to our U.S. beef market unless meaningful access and tariff reduction is achieved in other major importing countries.

Let me just sum up and say our members know that the future of ourselves and our families depends on the viability and growth of our industry. We also recognize that the greatest opportunity for such growth hinges on our ability to market our safe, wholesome, quality beef around the world. We applaud the team of negotiators for their efforts to date, but they certainly need to be fully funded. We look forward to working with this committee as we put in place agreements today that set the stage for U.S. beef producers and future success.

Thank you.

[The prepared statement of Ms. Lyons appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Ms. Lyons.

Mr. Caspers, welcome.

## STATEMENT OF JON CASPERS, IMMEDIATE PAST PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, SWALEDALE, IA

Mr. CASPERS. Thank you, Mr. Chairman and members of the committee. I am John Caspers, immediate past president of the National Pork Producers Council and a pork producer from Swaledale, IA. I operate a nursery-to-finish operation, marketing approximately 18,000 hogs per year.

While U.S. pork producers and others in U.S. agriculture have benefited significantly from past trade agreements, we must all remain vigilant in enforcing U.S. trade laws and protecting the gains made in past trade agreements. This is particularly the case when considering our NAFTA trading partners. There is strong evidence to suggest that Canada's pork producers are receiving illegal subsidies that are allowing them an unfair advantage over U.S. producers, thus inflicting financial harm on the U.S. pork producers who have lost money for 28 of the past 34 months.

The Canadian herd had not posted a year-over-year quarterly decline since 1997. All of the reduction in the North American swine breeding herd has been accomplished by U.S. producers.

In the period after the market collapse in the fall of 1998, the average Canadian pork producer had an income of $44,000, of which $43,000 came in the form of government payments. The Canadian producers' failure to respond to economic signals appears to be directly related to the receipt of billions of dollars in subsidies. Consequently, on March 5 of this year, the National Pork Producers Council, along with the State pork producer organizations and individual U.S. producers, filed trade cases against live hogs from Canada.

There is also cause for concern in Mexico as well. Mexico illegally initiated an antidumping investigation against U.S. pork in January of 2003 and has not yet terminated its case.

There are a number of important points with respect to the illegality of the pork antidumping case.

First, the Mexican association that requested the investigation, the CMP, does not represent the Mexican pork industry and, therefore, did not have any legal right to make the request.

Second, the CMP created the appearance that U.S. exporters are dumping pork in Mexico by comparing apples and oranges. The CMP compared prices for our sales to Mexico of fresh hams to prices for our sales to Japan of pork loins. Although any consumer knows that fresh hams have a lower price than tenderloins, the CMP nevertheless concluded that this comparison was proof that we are dumping pork in Mexico.

Third, the CMP claimed that it was threatened with harm by imports of pork from the United States but did not provide any proof about the financial condition of Mexican producers.

The WTO already has found in other cases that each of these errors, taken alone, is sufficient to negate the entire case.

The most important trade initiative now under way for U.S. pork producers is the negotiation of the new WTO agreement. Having said that, NPPC supports the negotiation of regional and bilateral trade agreements.

For example, U.S. pork producers will benefit greatly from the implementation of the free trade agreements with the five central American countries and the Dominican Republic. Although negotiations were difficult, in the end, U.S. pork producers obtain a good result in the negotiations with the 5 Central American countries and the DR that will result in significant market access when implemented.

Prior to congressional action, we expect each of these nations to undertake the work needed to pave the way for recognition of the U.S. meat inspection system and to resolve sanitary and licensing issues that currently restrict U.S. pork exports to that region.

As another example, Australia has had a de facto ban on U.S. pork for quite some time based on unjustifiable animal health concerns. NPPC is pleased that the government of Australia announced on May 10 of this year that results of its import risk analysis on pork would be implemented. The U.S. pork industry soon will be able to ship processed pork or unprocessed frozen pork for further processing in Australia.

The Australian import risk analysis was greatly flawed in not permitting unprocessed fresh or frozen U.S. pork to be sold at retail. However, given the estimate of Iowa State economist Dermot Hayes that the U.S. can ship $50 million worth of pork annually to Australia, even with these restrictions NPPC decided to accept partial market access today and fight for full market access tomorrow. A few administrative details need to be worked out over the course of the next 1 to 2 months but, by midsummer, U.S. pork should be flowing to Australia.

Also, there are significant and increasing market potential for U.S. pork exports in the Andean nations, particularly Colombia, as well as in Panama, Thailand, and southern Africa. However, very little of this potential can be realized until high and unpredictable tariffs, complicated by import licensing systems, unfair inspection fees, unjustified sanitary restrictions, and costly quota bid systems are acknowledged.

Mr. Chairman, I thank you for the opportunity to present this statement.

[The prepared statement of Mr. Caspers appears at the conclusion of the hearing.]

The CHAIRMAN. Mr. Caspers, thank you very much.

Our next witness is Mr. Dennis McDonald. Thank you for being here.

**STATEMENT OF DENNIS MCDONALD, TRADE COMMITTEE CHAIRMAN, RANCHER-CATTLEMEN ACTION LEGAL FUND, UNITED STOCKGROWERS OF AMERICA, MELVILLE, MT**

Mr. MCDONALD. Thank you. Chairman Goodlatte, Ranking Member Stenholm, and Dennis Rehberg, our lone Montana representative, my name is Dennis McDonald. I am from the small town of Melville, MT. My wife, Sharon, of 27 years and our four children operate a diversified cattle, horse, and small grain operation. We have an annual horse production sale; and, on the cattle end, we have a cow/calf operation and a feeder operation.

I am here representing R-CALF USA as their international markets chairman and have served for the past 6 years on the Trade Advisory Committee for Livestock.

I would like to start by commending Ambassador Zoellick and the USTR staff and Members of Congress on some recent major trade breakthroughs that are potentially beneficial to U.S. agriculture. I am mindful that Ambassador Zoellick testified here several weeks ago, and I support much of his testimony.

R-CALF strongly supports USTR's efforts to move forward and conclude the Doha Round of the WTO negotiations. In fact, we feel strongly that many of the issues which lead to trade-distorting practices must be addressed at the WTO level before we move forward with new bilateral trade agreements.

R-CALF has long advocated and continues to support efforts to open up U.S. beef export markets by reducing global tariffs to those levels existing in the U.S. We also support efforts to eliminate and prevent proliferation of nontariff barriers to beef trade such as the use of health regulations to unjustifiably block these exports. The ongoing impasse of the European Union, as has been noted here, is familiar and frustrating to us all. The U.S. must work to prevent the proliferation of these types of protectionist tools, and the WTO is the only place where effective action can be taken. Likewise, the subsidy issues must be addressed, as well as the issue of state trading enterprises should also be addressed at the WTO level. I have made reference to those statetrading enterprises in my written testimony.

When Ambassador Zoellick testified here, I respectfully suggest he omitted one very important issue that must be addressed within the WTO and with our trading partners. That is the recognition of certain agricultural products as perishable, seasonal, and cyclical products. Our Congress recognized the classification and directed USTR to provide special rules for such products in the Trade Promotion Act of 2002. Special rules for such products must be made a part of all bilateral FTAs, and the basis for such special rules must be addressed in the WTO negotiations.

Turning from the WTO matters for a moment and looking at the bilateral trade liberalization of agriculture markets, it is a delicate balance that the U.S. Congress must follow. If USTR and, ultimately, the Congress liberalize markets where the U.S. cattle industry is likely to fare poorly and it is unable to simultaneously open major consuming markets to our products, the U.S. cattle industry, where we might do reasonably well, then we are put in a position where we will lose market share globally, not because we are not competitive but because we expand market access in the U.S. far ahead of equitable access abroad. Free trade agreements that do not address these distortions will result in worsened long- and short-term outcomes for the U.S. cattle producers and, indeed, all of agriculture.

The proposed Australian Free Trade Agreement is one such example. To enter such an agreement with a broad-based agriculture producer with limited market potential for our agricultural product makes no sense. Further, the agreement does nothing to eliminate the trade-distorting practices of the Australian Wheat Board. Thus, in conjunction with the massive distortions generated by actions of other major trading partners, coupled with the lack of market access in other overseas markets, the U.S.-Australian Free Trade Agreement will exacerbate an existing acceptable market situation for U.S. cattle producers and, indeed, for agriculture generally.

In conclusion, may I just say that we support this committee's efforts to support our cotton producers. We are concerned that various WTO panels have undertaken to enlarge commitments which were never negotiated. So, again, we see the WTO process as the major thrust of our trade policy.

Thank you.

[The prepared statement of Mr. McDonald appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. McDonald.

I have a question that will liven things up. I recently received a letter from the Chocolate Manufacturers Association and others asking that two of their objectives be given top priority by the U.S. Trade Representative in future negotiations with Thailand, the Andean countries and the FTAA countries and the South Africa Customs Union. The two objectives are, first, include sugar in all agreements; and, second, the immediate elimination of tariffs by FTA partners on U.S. chocolate and sugar confectionery exports.

I would like to ask both Mr. Jones and Mr. Graham if they would address their views on these two suggestions and assess the impact on their respective industries. Mr. Jones.

Mr. JONES. Yes, I would like to address the talk about eliminating tariffs. Our system is set up——

The CHAIRMAN. They didn't say that. They said the elimination of tariffs on exports of their products from other countries.

Mr. JONES. And the first part of your question——

The CHAIRMAN. The two suggestions are, elimination of tariffs by other countries on their U.S confectionery products, chocolate and other things, going into those other countries; and including sugar in all trade negotiations.

Mr. JONES. Sugar has so many different subsidies in so many different countries, when you have 140 countries out there, each one of them has various sorts of subsidies, from export subsidies, non-transparent subsidies and what have you. We feel that the only way to address all of those subsidies is in the WTO negotiations, not in the FTA negotiations. I do not think that we address any of the issues on what goes on in the sugar industry in the United

States when we allow more access from these other countries coming in to give them access.

The CHAIRMAN. Thank you. Do you want to say anything about their barriers to our products from the U.S. continuing to——

Mr. JONES. I would like to not respond to that, because I am really not knowledgeable about it.

The CHAIRMAN. Thank you.

Mr. Graham.

Mr. GRAHAM. Thank you, Mr. Chairman.

On the second part of the question, certainly on the tariffs, there are many countries that have very high tariffs on our sugar products and our chocolate products going into those countries, whereas products coming into this country generally are at 4 or 5 percent tariff. There are countries that have 20, 30, 40 percent tariffs on our confectionery products going into various countries, so certainly we would like to see those reduced and equal to ours.

On access to sugar, since our member companies are paying double the price for refined sugar—as I mentioned in my testimony, we have an awful lot of our companies moving their factories to Canada, Mexico, and elsewhere solely to take advantage of world sugar; and we think, again, that we could be a far more competitive industry if we had access to world sugar.

The CHAIRMAN. Let me ask each member of the panel if they could describe the steps that their industry has taken over the past year to increase exports and in what area of the world have those initiatives been taken?

We will start with Mr. McDonald at the other end.

Mr. MCDONALD. Thank you.

R-CALF has taken the position, in supporting the trade agreement with Singapore, we think there is great opportunities in Asia to increase our beef trade. Likewise, we supported the trade agreements in Morocco, Thailand and negotiations with Bahrain, Jordan and all of the Middle East countries. We just emphasize again that the basic trading rules must be negotiated at the WTO level prior to entering into further bilateral trade agreements, especially with our South American friends.

The CHAIRMAN. Thank you.

Mr. Caspers.

Mr. CASPERS. Well, really, over the last year, we have been engaged fairly heavily in working with USTR's office in the negotiation of all of the regional bilateral agreements that are being worked on and that have been completed. Chile and Singapore, but more importantly for the pork industry, Chile was probably the first example I think of what we thought was a good agreement that was going to give us better access—our top priority, really, to reduce tariffs, to get better access around the world. We face high tariffs all around the world, much higher than really a lot of other agriculture products. So we think, in the absence of a WTO agreement, these regional bilateral agreements are extremely important.

Now, certainly, we think that the conclusion of the WTO agreement certainly holds the most promise. In the absence of that, we depend heavily on these.

Now, Chile is a good example. We have good access into there now. They have agreed to accept our U.S. meat inspection system.

We have worked out that in a companion negotiation, going along at the same time as the trade negotiation, and we expect that to be a pattern for all of the other negotiations going on.

We think we have a good result out of the CAFTA, the Central American Free Trade Agreements, along with the Dominican Republic. We are going to get immediate access for additional pork products, and we are going to have TRQ on a number of other products that will grow and expand over a period of time.

So we think that is going to be good, and we are going to have additional access into many of the other countries we have mentioned in our testimony.

The CHAIRMAN. Thank you.

Ms. Lyons.

Ms. LYONS. Thank you, Mr. Chairman.

Certainly one of the things that our organization has spent an inordinate amount of time on this year has been addressing BSE and the aftermath. Certainly the closing of the export, the borders was one of the big issues that we are dealing with. We see it as critical to get that open.

We have worked very hard on harmonizing the Canadian border for health requirements. We feel that science must be used in that effort as we go about reopening those borders. We worked with the international community and encouraged that the model that be taken, as you look to the fact that as we are opening this, what goes around, comes around, and what we are seeing is that what we do to others will be what is done to us in the area of trade. So we have worked very hard to make sure make sure that those requirements are—that the standard is based on science and that that be applied in the international community as we go to reassessing and reopening those borders.

The CHAIRMAN. Thank you.

Mr. Graham.

Mr. GRAHAM. Thank you, Mr. Chairman.

Although we represent about 400 candy and chocolate manufacturers and while we have some big players in the industry, the overall profile of our industry is small family companies. One thing that has been particularly beneficial to them is the Market Access Program in a variety of countries around the world.

I would say we have made some very significant progress in Asia and in many developing countries, because, as countries develop, they begin having the income for various snack and confectionery-type products. So we have done particularly well in Asia and in some countries in South America.

The CHAIRMAN. Thank you.

Mr. Smith.

Mr. SMITH. Yes, sir. We made attempts throughout the last few decades to improve our exports into countries such as China and Korea. We would like to see our NFC products recognized globally as a superior product that would have a place in the marketplace in those markets. However, because of the perishability of our product, because of the income levels in some developing countries, we struggle in those efforts. That is certainly not to say that we will not prevail at some point in time, but because of the challenges that those things create it is a very slow process to our industry.

The CHAIRMAN. Thank you.

Mr. Jones.

Mr. JONES. As I said before when we were talking about the various subsidies, we have no export subsidy and our subsidy does not really give us an opportunity to be into the world market. We are efficient in our own country and we are efficient with them, but not against their subsidies. So we really do not have an export market for sugar.

But, if I may, I would like to respond to Mr. Graham talking about the exports of chocolate and candies into those other countries.

The CHAIRMAN. Certainly.

Mr. JONES. We do have a reexport program where sugar is taken out of our market and they can use that sugar to move offshore, and then that sugar is eventually replaced back into the system.

The CHAIRMAN. Thank you very much.

Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

Ms. Lyons, Mr. McDonald, what do we need to be doing additionally to get our foreign markets reopened because of the BSE scare?

Ms. LYONS. Thank you, Mr. Stenholm.

One of the things that I would say very clearly is that we need to give it a high priority at all levels. We need to support the efforts of government-to-government negotiations that are taking place with our trade team. We need to make sure that we fully fund those efforts and that they be ongoing. Finally, I would say that we need to be very cognizant that we are establishing an international model that will be used for the future, as this particular incident will happen again in other countries. So we certainly must apply and appeal to the international community and the Organization of International Epizootics and Applied Science as we make those determinations.

Mr. MCDONALD. R-CALF's position is and has been that we need to work diligently to open that Japanese market; and, in doing so, it seems to me we need to pay attention to what our customer is requesting.

The primary issue presently is a percentage of cattle slaughtered in this country that will be tested for BSE. To date, it has not been acceptable to the Japanese. I have been very concerned that at least two private packing enterprises in the United States have wanted to test 100 percent of the cattle slaughtered at their facility and, therefore, gain access to the Japanese market. Through bureaucratic problems at USDA, the determination has been made not to allow private enterprise to undertake to comply with those requests.

I also agree that our decisions must be made on sound science. One of the difficulties we have had with the opening of the Canadian border, and as Judge Cebull concluded in his recent decision out of the Federal district court in billings, that good science was ignored in setting forth some of the rules that would allow the expansion of Canadian beef into the United States. So, yes, we need to strictly adhere to sound science in making these decisions.

Mr. STENHOLM. I agree with both of you on that aspect very strongly. I would implore you and your members to be careful what you ask for regarding the sound science and its application in the North American hemisphere as what we ask for in this hemisphere will, in fact, become the rule for international trade; and some of us are getting a little bit on the edge of doing things that are not what we say we should be doing.

But I also want to agree with both of your statements and make this in the form of a statement within a question, the importance of continuing to focus on multilateral rather than bilateral negotiations. Bilaterals tend to divide our industry; and when we become divided, we do not do well. Even in the testimony today we find that, because of the different nuances of different industries, we have a little different way that we would negotiate. But we always do better as a country when we stick together as agriculture and do not cut and run on one versus the other.

That leads into sugar, one of the real remaining controversial items, and cotton is the one that has been on everybody's mind. But today, just in my remaining minute here, again, I was in Mexico over the weekend, and the international press seems to have a difficult time understanding when I say all of our subsidies are on the table, as far as this Member is concerned. What part of all do you not understand, speaking to the press. But we will not unilaterally disarm our producers in any industry, and that is the problem we have.

When you look at sugar and you look at the European Union, depending on whose numbers you use, the Europeans are spending, according to some, $450 a ton on export subsidies. Now, Mr. Graham, you rightfully complain—and I do not challenge. You have a difficult time with the costs imposed upon you, et cetera, et cetera. But the solution is not to unilaterally destroy the industry in this country. The solution is to have negotiations that deal with these export subsidies, which we are that close to doing now.

My arithmetic shows that Europe spends $50 per ton exporting their sugar. We explain, you explain, rightfully, about $360 per ton as being too high. Well, what is wrong with that picture? Everybody knows what is wrong with that picture. Until we can find a way to stick together, and we are that close, and the Doha Round needs to be completed, I am very, very concerned about continued bilaterals that cause us to split, as we will hear today from various witnesses, those that support the Australian, those that oppose the Australian, those that support—we are not at our best in the international marketplace and in negotiations when we are split.

I would behoove each of you and your associations to spend a little more time in making sure that we stick together: pork and beef and sugar and cotton and rice and citrus. And in all of those areas we all say, and I believe, that we want a level playing field. Level is in the eye of the beholder. And our real enemy, if we have one—and I hate to call the European Union an enemy. They are our friends and allies. But, in this case, they are the ones that create the problems for a lot of us in this room today. We need to find a way to work together.

Again, Ms. Lyons, your statement was—I found myself in almost total agreement with what you were saying. The moment, though, you mentioned Pat Roberts, your credibility on some of the other things kind of went south on me.

Ms. LYONS. I hesitated to do that.

The CHAIRMAN. I thank the gentleman.

The gentleman from Montana, Mr. Rehberg.

Mr. REHBERG. Thank you, Mr. Chairman.

In fact, I did write that quote down: "you don't know what you've got 'til it's gone." I entirely agree with that comment; and perhaps my discussion will center on the fact that we have systematically destroyed our oil industry in America and, as a result, we are relying upon OPEC. We have systematically destroyed all of our timber industry because of environmental activism within the inner mountain west and, as a result, our value-added home industry is upset with us, and they feel like they are being gouged by Canada's high prices.

Philosophically, Mr. Graham, I guess I really do not understand how you think either moving to a different country or sticking with the people that provide the resource to you so that you can have a cheap product gets us any further to a better position in the world market.

So I guess the question that I have, first of all, for Mr. Jones, is, does Canada subsidize their sugar production?

Mr. JONES. Yes, all countries.

Mr. REHBERG. You are going to have to answer faster because I only have 5 minutes, so answer fast.

Mr. JONES. I am sorry. Yes, they do subsidize.

Mr. REHBERG. Does Mexico?

Mr. JONES. Mexico subsidizes their sugar production.

Mr. REHBERG. Mr. Graham, you are willing to move offshore, and I do not get that, or to the north or to the south. So the question becomes, are you prepared to help destroy the sugar production industry in the United States to move offshore or to the north or the south and then become dependent on their prices so that once we do, in fact, end that gouging through WTO, you are going to end up in a different financial position with your product?

Mr. GRAHAM. Well, we do not want to destroy the domestic growers and the domestic sugar industry. But, in the meantime, what is happening is manufacturing in my industry is moving overseas. It is moving away from here because of the tremendous competition demanded by the retailers. They cannot meet some of the prices that come from foreign-made candies made with world sugar prices.

Mr. REHBERG. Mr. Jones, what is the number that the Bush administration included in the CAFTA agreement as far as the percent influence on the sugar industry? 1.4 percent? Somewhere along in there?

Mr. JONES. As far as the trade ambassador, he said about 1 percent of cash crop.

Mr. REHBERG. Which he considered to be an insignificant number.

Mr. JONES. We consider that to be small. We consider it to be closer to 4.

Mr. REHBERG. Mr. Graham, in your comment, in your testimony you suggested not opposed to alternative means of supporting producer incomes, meaning helping out the sugar industry?

Mr. GRAHAM. Yes.

Mr. REHBERG. Would you give us some examples of what you consider to be supportive of producer incomes? What would you be willing to support?

Mr. GRAHAM. Well, I think that is sort of a complicated answer, but I think we cannot change the program overnight. I think that would hurt the sugar growers. I think that whatever has to happen has to be a phaseout, and I certainly agree with Congressman Stenholm that it has to be a level playing field around the world. So I think what is happening in the WTO, we would support the direction that they are headed there.

Mr. REHBERG. Well, I think the difficulty perhaps, Mr. Graham, then is that you are cutting and running before we solve the problem. Would it not be better if you stayed here and tried to solve the issue of WTO, and doesn't the chicken come before the egg or vice versa?

Mr. GRAHAM. Well, the businesses right now, if you look at a candy product, they use a tremendous amount of sugar. They have to pay twice the world price of sugar to compete with anybody else outside of the United States. Therefore, they are moving their manufacturing to where they can get the cheapest ingredients right now. They do not want to do that, they would rather stay here, but it is the nature of the Sugar Program right now.

Mr. REHBERG. Ms. Lyons, I noticed a difference in numbers or a conclusion between you and Mr. McDonald in the trade balance or imbalance. Your numbers suggest there is a net export balance; and, Mr. McDonald, you suggest there is a net import imbalance. Could I ask you real quickly to answer the question, which is it? And if you cannot or if you stick with your numbers, would you both provide me with additional numbers so I can try and compare apples to apples? Ms. Lyons.

Ms. LYONS. Yes. We are at a net surplus. We enjoyed a record $2.2 billion of beef and beef product trade surplus last year. That is significant. That is actual. That is actual dollars.

Mr. REHBERG. Mr. McDonald.

Mr. MCDONALD. Well, I set forth the numbers in my written testimony.

Mr. REHBERG. Yours is pounds, and hers is dollars, and you ended up with different conclusions.

Mr. MCDONALD. Yes, that is where I was going. I suppose it depends on the portion of the elephant the blind man is feeling. But when you look at it just in terms of quantity, for every pound of beef, veal and cattle we export, we import 2, and that has led to some crisis that we felt in the cattle industry over the last several years.

Mr. REHBERG. Mr. Chairman, could I ask that the two witnesses provide the committee with additional information so that we can try and compare the two to make a determination on our own?

The CHAIRMAN. The record of the committee will be kept open for witnesses to provide additional information.

Ms. LYONS. We would be very happy to provide that.

Mr. REHBERG. Great. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. I want to associate myself with Mr. Stenholm's remarks about doing these things in the WTO.

Mr. Graham, yesterday we went and purchased some hard candy down at the local drugstore that you talked about in your testimony. They were made in the U.S., Canada and Germany. They sold for $2 a bag; and, as near as I can tell, it had U.S. prices. Less than 5 percent of the total cost of those candies were sugar, between 6 and 9½ cents, using current U.S. prices. As I understand it, a roll of Lifesavers has 1.7 cents of sugar in a 44-cent Lifesaver package.

Now, as I understand it, the relocation that you are talking about in the case to Canada, they went to nonunion factories, and the Canadians were paying for their health care. In Mexico and Jamaica, we have substantially lower wages. It seems to some of us that if we gave you the sugar for free, I do not think it would change the price of candy here in the United States. In this market, so-called world market in sugar, today and the future price, near-term future price is 6.9 cents a pound. There is not anybody in the world that can produce sugar at that price.

I was in Guatemala 2 months ago. Their cost of production is 10 cents. They are probably the lowest-cost producer next to Brazil. But this is not a real market. This 6.59 cents is not a real market, and I think everybody needs to understand that.

In your testimony you argued that if we made these changes and you could sell more sugar to the U.S., this would give these countries additional foreign exchange that they could then use to buy other agriculture products. And I understand that your members, you do not want to drive down the sugar prices, and they want to increase their income. But given the fact that we have this market of 6.59 cents, if we drove this market down to that price, what you are going to do is you are going to put not only all of the sugar producers in the United States into a loss situation, you are going to put the sugar producers in every other country in the world into a loss situation, given what the Europeans are doing.

So I just do not understand the logic of that. I mean, I think what you are going to do is you are not only going to bankrupt the industry in this country, you are going to do it every place in the world, except for probably Europe.

So can you explain to me how you think this is going to give foreign exchange to——

Mr. GRAHAM. Well, I think there have been various studies that have indicated that if there was a free market for sugar, it would not destroy the U.S. market. It would bring the U.S. price and the world price closer together. I think our companies—if you look at some of the sugar, the sugar products in our companies, they are 90 percent sugar and corn syrup. It has a tremendous impact on the cost of making their product. It is the primary reason why they build factories in Canada and Mexico and elsewhere.

Mr. PETERSON. It is less than 5 percent.

Mr. GRAHAM. In some products, it is less than 5 percent; in some products, it is significantly more. It depends on the product.

Sugar is the main ingredient in sugar candy, and if you have to pay twice the world price for it and, meanwhile, the retailers here are trying to look for the best quality products at the lowest possible price, it is very difficult for our guys to compete. These are not big companies that are moving to other countries. These are family companies that are trying to make a good product at the best price possible.

Mr. PETERSON. I understand that, but you cannot tell me that it is only sugar that is causing this.

Mr. GRAHAM. Well, I think if you look——

Mr. PETERSON. You cannot sit there with a straight face and tell me that, I do not think.

Mr. GRAHAM. Well, first of all, a lot of the companies are moving to Canada; and I think there are not significant labor benefits there.

Mr. PETERSON. But the one I checked on is a nonunion shop.

Mr. GRAHAM. In some places, it is; and in some places, it is not.

On the chocolate side of our industry, the chocolate products, they are not moving. They do not use as much sugar. Their statistics are more close to what you cited. They are not using as much sugar; and, therefore, they are not moving their factories to Canada and Mexico.

So if you look at those two statistics, you see that a significant reason for the move is the price of sugar. It is not the only reason, but it is a significant reason.

Mr. PETERSON. I still do not understand how you think we are going to get to a different world market price, given that the Europeans are spending $500 a ton, or whatever the number is, $450 a ton. Given that situation, 75 percent of the cost of that is the cost of what they give their producers is being paid in export subsidies. So if we allow that to continue, there is no way this world market is ever going to be anything but 6.59 cents, and we cannot live with that. Nobody can live with that.

Mr. GRAHAM. Well, again, I think these negotiations have to be, as Congressman Stenholm said, these really have to be multilateral. I think if America moves on its own——

Mr. PETERSON. But we are doing CAFTA, we are doing Thailand, we are doing all of these—I have gone by my time.

Mr. GRAHAM. Well, I think they have to be both. They have to be bilateral and multilateral, because we think it creates the precedent to move in that direction for sugar policy.

The CHAIRMAN. Mr. Osborne.

Mr. OSBORNE. Thank you, Mr. Chairman.

I would like to thank all of you for being here today. I have several questions, and I will move pretty quick here.

Mr. Jones, I hear from a lot of my sugarbeet people being very much opposed to CAFTA. Is that pretty much in line with your organization's thinking, or is this an aberration, just a regional feeling?

Mr. JONES. Our opposition to CAFTA?

Mr. OSBORNE. I am asking about the national organization. In the part of the world where I come from, a lot of our beet growers are against it. I wondered what your opinion was.

Mr. JONES. Our association is definitely against the CAFTA agreement for several reasons. Number one is because of the additional access of 109,000 tons. Some people will say, well, what is the big deal with the 109,000 tons? The problem with that is, is it triggers off our allocation. As I said before, our market is based on both domestic control as well as imported control. Once it triggers off our domestic markets, there are 700,000 ton of block stock sitting up there that is going to come down. So what we end up dealing with is 800,000 tons instead of 100,000 tons, because that comes in under the WTO and NAFTA commitments.

Mr. OSBORNE. All right. Well, I appreciate that.

Mr. Caspers, I missed your earlier testimony. Are pork exports up or down?

Mr. CASPERS. Well, in 2003, we set another record, a little over 750,000 metric tons of pork export and for the first time exceeded a little over $1.5 billion in value in 2003. We are up substantially again in 2004 so far.

Mr. OSBORNE. Just glancing at your testimony, I gather that you are concerned about Canada, some of the subsidies of our pork producers there, as being in violation of NAFTA, is that right?

Mr. CASPERS. Absolutely. We have suspected for some time and done a lot of research over the last couple of years. I guess we have come to the conclusion that the reason that the Canadian producers seem not to respond to the same economic signals that our producers have by cutting back in the breeding herd, while our producers seem to be responding we think responsibly by cutting back in response to low prices and low profits, the Canadians seem to continue to expand. And we think a major reason for that is the fact that they receive subsidies for their production. So early in March of this year, we brought two cases against the Canadians; and we continue to work those through the system. We have gotten a couple favorable rulings, and we continue to work on those.

Mr. OSBORNE. OK. Thank you.

The last two questions are very quick, to both Ms. Lyons and Mr. McDonald.

I gather that, Ms. Lyons, just looking at your testimony quickly, that you are OK with CAFTA and the Australian agreement. Mr. McDonald, I did not really hear where you guys were on that.

Then, also, if each of you could comment on animal ID, how you feel that fits into the trade picture, whether you feel that is a good thing, a bad thing, whether it is necessary for trade. That is throwing a lot at you, but I would appreciate an answer, because I did not hear all of your testimony earlier, and I apologize.

Mr. MCDONALD. That is fine. I appreciate the opportunity to respond.

With regard to both CAFTA and the Australian Free Trade Agreement, we have the same situation. With very limited market available to our agriculture products, as opposed to large agricultural bases in all of those countries, it is difficult to see how that is beneficial, particularly to the cattle industry but also to agriculture in general.

Mr. OSBORNE. So you are in opposition to both then?

Mr. MCDONALD. Correct.

Mr. OSBORNE. OK. Could both of you comment then on animal ID? It may be a little bit out of the box here, but it appears like it is coming, and I just want to get your thoughts on that, whether that would be beneficial to trade or not. Ms. Lyons?

Ms. LYONS. Did you want me to talk about ID or the CAFTA?

Mr. OSBORNE. The ID. I think I understand where you are on CAFTA.

Ms. LYONS. Yes, as far as the animal ID, we certainly see that there is an urgent need for that from an animal health disease surveillance perspective. We see that that is coming, and we believe that our producers out there in the country are beginning to understand that need as well, of tracking of animal disease and animals. So we are supportive of that process. We intend to be involved in that process as far as making sure that producers' concerns about confidentiality and some of those other issues are addressed as we go forward, and we applaud the efforts that have been done in that area so far.

The CHAIRMAN. Thank you.

The gentleman from California, Mr. Dooley.

Mr. DOOLEY. Thank you, Mr. Chairman.

I think one of the problems we face in terms of Mr. Stenholm's comments where he thinks that all of agriculture should hold together is that we already have about 80 percent of agriculture that receives no subsidies in the United States, meaning domestically and internationally today without any subsidies. By using the standard that we ought to hold together is that we are precluding and impeding the ability to open up additional markets for that 80 percent of agriculture that currently is interested in competing internationally. That is what I find a little bit frustrating here.

This economy in the United States was built primarily on the concept of relative advantage. We have prospered domestically and internationally because we are better at doing a lot of things than many other people throughout the world. And we have heard from the beef industry today, we have heard from the pork industry, we heard from the corn industry, we heard from the poultry industry, and I might be leaving out a couple of others, but they are willing to embrace the CAFTA agreement that was negotiated primarily because they recognize that they have a relative advantage over the producers of those products in Central America. Thus, we ought to have the opportunity to access those markets.

But here we have a situation that sugar is adamantly opposed to increasing whatever it is, 1 percent of our domestic consumption, maybe it is a little more than that, because you do not want to compete with Guatemala who can produce sugar for 10 cents a pound. Mr. Jones, how do you kind of rationalize this challenge, where your industry almost has the capability of denying a market opportunity for a significant portion of U.S. agriculture that has the ability to compete internationally and has the ability to gain financial opportunities in Central America? How do you rationalize that, when you are unwilling to?

Mr. JONES. OK, sir. Thank you.

Let's get back to the basics here. We talk about we have all of these subsidies in all of these countries. They are not cutting back on anything.

Mr. DOOLEY. What kind of subsidy does Guatemala have?

Mr. JONES. With sugar? I am sorry.

Mr. DOOLEY. With Guatemala, what kind of subsidy do they have?

Mr. JONES. I am talking about with Guatemala. There have not been any restrictions on their sugar production.

If sugar is to come into our markets and completely destroy our market, we do not have the national security we should have, because sugar is a special ingredient in the food chain. We have gone and moved on into the era of—the agriculture community has gone belly up, because this is an important commodity in certain areas of the rural areas. Sixteen States, we are talking about almost $9.5 billion worth of economy. It is something that you cannot just put under.

As I was stressing earlier, the 100,000 ton might not seem too much, but when you are talking about the 700,000 ton that is sitting up here and can come crashing down, then you have a real problem with depressed prices, you have a market that is fragile, you have processing companies that cannot get in and get out of the business. We have to have a processing plant to stay in business. That is my basic argument.

Mr. DOOLEY. Well, I find it somewhat remarkable that one of the arguments that you are advancing is the fact that we have a Sugar Program that in the past has been so screwed up that we got 700,000 tons that the Government now owns, or has control of, I should say, that you are worried about them releasing if we have a slight increase in sugar coming in from Central America.

Mr. JONES. Sir, could I correct you on the 700,000 tons? That is held stock privately by various companies because they cannot market that sugar.

Mr. DOOLEY. But the Secretary is the only person that can authorize its release, correct?

Mr. JONES. No, that is not correct, sir. Can I explain? The 700,000 tons of blocked stock——

Mr. DOOLEY. If somebody said today they wanted to release this sugar that is in private hands, could they voluntarily do it?

Mr. JONES. No, they could not. They have to hold it at their own expense because we are under——

Mr. DOOLEY. And who can authorize the release of this sugar?

Mr. JONES. No, we cannot.

Mr. DOOLEY. Who has to authorize the release of the sugar?

Mr. JONES. The only way the sugar can be released is if the allocations were lifted, lifting our marketing allocations.

The way they would be lifted is if imports increase over 1.53 million ton.

Mr. DOOLEY. That is where I get back to my basic contention, is that here we have a problem that we have created because we have moved this industry further away from being market-oriented so that we are more in supply and demand in balance, and then we are worried about we can't even allow Guatemala, a poor country that can produce sugar more than we can, we can't allow them to have even a limited market access. So we are in a situation of our being producers, and a lot of other folks out there that want to gain this market, we are not allowing to make progress.

My concern is the sugar industry comes up and they say, well, we have got to negotiate this all through the WTO, and my challenge to you is—let's say in the WTO, theoretically, if we had a negotiated settlement there that resulted in an agreement that we would be basing our Sugar Program on the framework that Australia is using today, would you folks be willing to accept that?

Mr. JONES. No, we won't.

Mr. DOOLEY. And why not? Because we would have a level playing field.

Mr. JONES. Australia plays with a state trading enterprise which is nothing more than a monopolistic——

Mr. DOOLEY. We could adopt that state trading enterprise. What I am saying is, is that we would do that instead of what we have in place now. So everybody in the world that was producing sugar would say, well, let's do this and we will create a level playing field. Will your industry support that?

Mr. JONES. If we could create a level playing field, it would eliminate all of these subsidies across the board. We are efficient, and we could survive. The sugar in the world is half the price of the cost of production worldwide. We can produce sugar——

Mr. DOOLEY. He wants me to quit.

I just want to state one statistic that I find remarkable. Prior to 1980, the United States was producing 55 percent of their domestic consumption of sugar. The EU was a net producer prior to 1980. Today, the EU is the second largest exporter of sugar internationally, and the U.S. is now producing 89 percent of their domestic consumption in sugar. This was not because we have a relative advantage. It is because we have got some programs that are distorting the marketplace, and the industry has got to step up and be willing to change them.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Mississippi, Mr. Pickering.

Mr. PICKERING. Thank you, Mr. Chairman.

Along these lines and Mr. Casper's, I know you have concerns with the Australian free trade agreement that is coming. What, if anything, can be done before we move this to the House that could gain your support? Are there any mechanisms that you know that would address your concerns and who would we here on the Hill encourage in the U.S. Trade Representative or with our trade negotiators and within the administration towards those concerns?

My second question is for both of you—and third question would be—what is your view on WTO negotiations?

And, third, how do you see the China market and issues in China—what we could do to give greater access to that market for both of your centers?

Thank you, Mr. Chairman.

Ms. LYONS. Thank you for the question.

I would say, to remind you, that on July 17 our organization sent a letter to Ambassador Zoellick informing him that we did not support bilateral kind of agreements. We supported multilateral agreements and felt that it should be best addressed in that way. However, as those went forward, we felt that it was imperative that we participate in the process so that there cannot be any net negative effect on our producers as we look toward and continue to look toward those multilateral agreements.

We did participate in that process, and I would tell you our analysis from our economists have projected that certainly in 10 years out there would be no net negative effect on cow prices after 10 years.

So we feel that the agreement that has come forward is very positive for our industry, and it could have been a lot worse, but we made a conscious decision to participate in that process rather than to continue to hold the line, if you will, on the multilateral agreements.

You will not, however, see us lobbying, I believe, on that issue for that agreement, because our policy is set by our members; and our members very clearly have told us they want us to continue to encourage the multilateral process of addressing these issues through the WTO.

Mr. PICKERING. I just want to clarify. Is it more of a process versus multilateral versus bilateral versus a substantive agreement?

Ms. LYONS. Yes, it is. It is a historical belief, if you will, tradition. Our members are steeped in tradition, and certainly they believe firmly that the best way to address these inequities with different countries is through that multilateral process, so that would be basically why that would be. Certainly, as you understand, producers out in the country have different feelings about that, so that our membership has voted, has taken a position, and we represent that position as we go forward.

As to the China agreement, I would tell you that we see great opportunities in that agreement, because, obviously, with that low tariff, we see an opportunity to provide a high-quality, safe product to that country, and we look forward to that agreement.

Mr. CASPERS. Yes, sir. In response to your question about Australia, I guess we hold great hope that that agreement is going to be beneficial. We think potentially there is a significant large opportunity for U.S. pork in Australia. I guess we are pleased that we are going to—it appears that we are going to be getting some access, although somewhat limited at this time, but at least better than we have had in the past.

I guess we hope to be supportive of that agreement. We think there is some remaining issues regarding meat inspections and procedures, transparency and import licensing, things like that that need to be worked out, but we expect that we are going to be supportive of that agreement, and hopefully at some time in the not too distant future we will actually have shipments beginning to flow to Australia.

In regard to China, I think just improving the procedures for imports, for exporting the product out of this country into China, I think more transparency in some of their procedures, some of their meat inspection issues, I think those are probably the biggest, really, physical barriers that we have to exporting products.

I didn't quite understand your question about WTO. I guess we see the WTO agreement really as the best place to work out and really expand access around the world, which is our No. 1 priority. In the absence of that, such an agreement, though, or negotiations, I think we said bilateral, regional agreements are extremely important.

Mr. PICKERING. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Hawaii, Mr. Case.

Mr. CASE. Thank you, Mr. Chairman.

Hawaii's third most important agricultural crop and the most important agricultural crop on one of the four counties, the county of Hawaii, is macadamia nuts. I have a statement from the president of the Hawaii Macadamia Nut Association expressing views of the industry on agricultural trade negotiations in general and the Australian negotiation in particular, which I would ask be included in the record.

The CHAIRMAN. Without objection.

Mr. CASE. Thank you, Mr. Chairman.

Mr. CASE. Mr. Graham, you heard I represent Hawaii where sugar has been grown for 150 years, where it has been the No. 1 agricultural crop for all 150 of those years, where it is one of the largest employers in two out of the four counties of Hawaii, key to the economies of two out of those four counties, as well as the entire State. With all the high productivity that Hawaii brings, it is in fact the highest productivity in sugar in the world, I believe; and it also sustains the same labor and environmental costs as all other U.S. sugar producers do.

Directly to you, sir, can you assure me that a piecemeal, country-by-country approach to the negotiation of sugar throughout this world will not result in the outright demise of sugar in my State?

Mr. GRAHAM. I think, first of all, it is our industry's interest not to decimate or hurt the sugar growers. What our guys want is to be able to compete in the marketplace, and what is happening with the candy industry is the sugar growers are being protected, but the candy industry is not being protected.

Now there are studies that show that if this market was opened up that the impact on the U.S. sugar industry would be about a reduction of about 6 percent, would not decimate the industry. What is happening now is if a retailer says to one of my member companies, OK, this box of candy canes is $1.79, but a box of candy canes made in Canada or Mexico is $1.59, they are going to buy the $1.59 product. That is why our companies are being hurt, and that is why they are moving their factories overseas.

Mr. CASE. I understand that, but, unfortunately—if you want to come to our State and make up for the demise of the sugar industry by manufacturing candy chocolates or gums, please come and do that. But the question was, can you assure me that the result of these country-by-country bilateral negotiations, which basically take a bite out of sugar each time, are not going to lead to the demise of sugar in my district, in my State? I hate to say this, but yes or no.

Mr. GRAHAM. I don't think that it is going to lead to the demise of sugar in your State. These are modest, very small amounts of sugar that are being asked for in these bilateral agreements. I don't think it is going to hurt——

Mr. CASE. Well, it is a bilateral agreement at a time. We have got some big ones coming up. You support those big ones, don't you? You would like to see sugar negotiate in South Africa, Thailand, whatever?

Mr. GRAHAM. Sure. Worldwide, we would like to see a level playing field for us and for the sugar growers.

Mr. CASE. OK. I just want to get a very clear clarification. Does your industry, does your trade association favor putting everything on the table all at once in the WTO in the Doha Round? Is that your No. 1 choice? If you could get that, would that be what you wanted?

Mr. GRAHAM. We would favor that. I don't know if it would be our No. 1 choice, but we certainly would favor that. That is where the long-term solution is——

Mr. CASE. What have you done to advocate for that particular approach to international trade negotiations in agriculture?

Mr. GRAHAM. Well, we have supported our trade representative in that; and we have supported the WTO talks, including sugar in those talks, and to make this a multilateral, worldwide situation. Yes, we would certainly support that. Now there hasn't been a lot of—I am sorry. Go ahead.

Mr. CASE. Let's assume we got into that, which I think we all want. Would you support eliminating subsidies or sugar wherever they may exist in the world?

Mr. GRAHAM. Absolutely.

Mr. CASE. Would you support enforcing environmental requirements just as we do in this country?

Mr. GRAHAM. Absolutely.

Mr. CASE. When you talk about a level playing field, you benefit, don't you? Your industry benefits today. When you talk about moving all those factories overseas, you are benefiting from those subsidies, you are benefiting from those environmental labor weaknesses, everything, right?

Mr. GRAHAM. No, they are just benefiting from a free market price. That is what they are benefiting——

Mr. CASE. No. First of all, I don't believe that there is a free market in sugar, any more than we can say there is in this country. There are subsidies out there, whether they are direct or indirect. I think there are subsidies directly in Canada, right?

Mr. GRAHAM. There are subsidies in Canada.

Mr. CASE. Would you favor elimination of those subsidies?

Mr. GRAHAM. Sure. Absolutely.

Mr. CASE. So putting everything on the table, right?

Mr. GRAHAM. Yes.

Mr. CASE. Well, I was just getting wound up, and now I am out of time. Some other time, Mr. Graham.

Mr. GRAHAM. Thank you, Congressman. We have some good candy manufacturers that are also in Hawaii.

Mr. CASE. We would like you to expand that presence, because we have got thousands of employees in the sugar industry that would be looking for somewhere to work if the sugar industry went down.

The CHAIRMAN. I thank the gentleman.

The gentleman from North Dakota, Mr. Pomeroy.

Mr. POMEROY. I thank the chairman.

Pursuing a very interesting line of questioning by Mr. Case, it just seems to me, Mr. Graham, that what you are asking for basically is to pull the plug on the Sugar Program, allow your members, the confectioners of this country, to have access to global dump price and to heck with the consequences to the U.S. domestic industry. Although you have indicated you would like a resolution that was a level playing field for the growers, a level playing field for you, I don't know that that is possible in a global market where we are dealing with subsidizing practices by virtually every other producing country.

Do you have a win-win scenario you can paint for us, or are we left to understand this as it has been presented in other years, basically you win or the domestic sugar industry wins, but somebody is going to come up short?

Mr. GRAHAM. I think Mr. Jones made the point that they would certainly be willing to have a free market if the rest of the world, particularly the European Union, was. We favor that. But, right now, the situation is, is that sugar growers are protected from competition. Candy manufacturers are not, and that is unfair to us. It is hurting our industry. It is making our guys, who don't want to do this, move factories overseas in order to get world sugar price to make their products. Because it is the largest ingredient in many of our products, particularly in the sugar side. But we are not trying to——

Mr. POMEROY. What is the largest cost in the component production, raw material costs?

Mr. GRAHAM. Probably labor costs.

Mr. POMEROY. Labor costs. How does the United States compare in labor costs to these other countries?

Mr. GRAHAM. It depends on the country, but in Canada there isn't much labor cost being——

Mr. POMEROY. How about the Caribbean. How about the CAFTA countries?

Mr. GRAHAM. I don't know offhand. There is a lot of candy made there.

Mr. POMEROY. I know that our labor costs are considerably higher, and so essentially you have laid up for the committee here—if we don't get the cost of the sugar down, we are going to have to go where you have just told us the biggest component of the price of your product is labor; and we know that there is very powerful inducements to relocate offshore, chasing lower labor costs.

In fact, industry after industry that has nothing to do with sugar have relocated, they have outsourced, they have shipped jobs everywhere chasing that lower labor production. So I believe you have actually presented a simplistic and I am not sure wholly accurate view of the considerations before confectioners in terms of where they will locate their manufacturing.

Mr. GRAHAM. In the chocolate side of our industry—I was primarily talking about the sugar confection—there is chocolate candy, and then there is nonchocolate candy. In the chocolate side, where they don't use as much sugar, factories have not been moving overseas. They have not been moving to Canada and to Mexico. If the labor costs were there, they would be moving at the same pace as sugar——

Mr. POMEROY. Not necessarily, Mr. Graham. Their markets are in the United States. Their principal market is here.

Mr. GRAHAM. Same with the sugar manufacturers. The sugar candy manufacturers, that is their principal market.

Mr. POMEROY. Are there differences in shipping chocolate versus hard candy?

Mr. GRAHAM. There are some differences.

Mr. POMEROY. I don't want to get into it here. We don't have time.

But there is a whole lot of things at play here beyond the U.S. Sugar Program. I believe we can end U.S. domestic production, which would be the consequence, by the way, of what you are urging this morning, and we are still going to have other economic considerations, including labor costs and other issues relative to where these jobs are located.

Now in terms of just what is a good trade-off here, it is not a good deal in my view to trade off domestic sugar production in exchange for the uncertain incentive that it would provide to the confectioner industry to keep production here.

I have got another issue I want to direct at Ms. Lyons and Mr. McDonald before my time expires. As we try to get our markets back, it seems to me, Ms. Lyons, between what you have suggested and my friend Charlie Stenholm has suggested, our biggest impediment to getting into those other markets is proving that we are dealing on a sound science basis with the issue of Canadian imports. I take issue with that. I fundamentally disagree with that. I believe we have to show these other markets that the U.S. livestock industry, hoof to finished product, meets their consumer safeguard—their consumer safety specification.

Now by bringing live cattle back down from Canada again it seems to me that, as we try to get those markets back, we not only have to prove up the U.S. system, we have to prove up the Canada system. I am all for sound science, but it seems to me we have got a hard enough burden of proof that has not been successfully discharged just trying to prove the United States system without commingling U.S. and Canada again to try and get these markets back.

I am done with my question, but, Mr. Chairman, I would ask leave if Ms. Lyons and Mr. McDonald could respond.

Ms. LYONS. Yes. And I be happy to respond to that.

As you know, both Canada and the U.S. have worked very closely on these issues since back in May when Canada had their first case of BSE, and so I would tell you that those regulations and requirements are very similar. They are harmonized, and we have worked closely to make sure that it is based on sound science, that those regulations are.

So I would take issue to the fact that we have not done a good job of telling people about that. Because you look at consumer confidence and where it is in this country, and it is very high. That is because people know that they can trust the regulations that are in place, that the Government has done a really good job of not only putting those in place but adhering to those as well. So we are very pleased that consumer confidence in the safety of beef is still at 89 percent acceptance on last count.

Mr. POMEROY. I was talking about the skepticism of these markets we are trying to get back, not the U.S. market.

Mr. McDonald.

Mr. MCDONALD. I think your point is well taken, and I happen to believe it is as simple as listening to your customer. Our customers are telling us they want certain safeguards in place. We have private enterprise here in this country that wants to comply, and USDA regulations thus far have prohibited them from doing that. It is nonsensical.

Second, we are not totally harmonized with Canada on safeguards. We haven't adopted and put in place the same regulations vis-a-vis Canada and their BSE problem as we have with other markets worldwide, and that is exactly what Judge Cebull found when he ruled what USDA's offer to allow increased beef imports from Canada entailed.

Finally, the Japanese wanted a system of labeling—mandatory labeling that they could rely on so if they were buying U.S. beef, they knew it was U.S. beef, and we couldn't comply. So it is just another area where USDA needs to listen to our customer and let' see what we can do to accommodate their request.

The CHAIRMAN. I thank the gentleman.

We are about to get a vote here, but before I thank and dismiss this panel, I want to ask one more question of Mr. Smith.

Do you think that U.S. negotiators should agree that a country like Brazil—and I have been to Brazil and I have seen the agricultural output, their citrus, their sugar cane, their soybeans, coffee and so on and they lead the world in all those areas in exports—should be considered a developing country? What criteria should determine developing country status?

Mr. SQUIRE SMITH. I don't know that I can address the criteria, but Brazil, I think it was stated earlier here today, is the eighth largest economy. Certainly it is very progressive, very dynamic, very successful in agricultural arenas. Citrus in Brazil is controlled basically by four or five families there. Their heavy ownership in the Florida processing and certainly the largest growers in the world—and I don't consider them to be novices at what they are doing.

The CHAIRMAN. Not developing. They are pretty well there, aren't they?

Mr. SQUIRE SMITH. Yes, sir.

The CHAIRMAN. All right. Well, I can tell you one criteria that I think should be—and that is that the country shouldn't be able to self-declare themselves to be a developing country. I think it could be some kind of a discernible standard that I don't think Brazil meets.

Mr. SQUIRE SMITH. Well, of course, the most pragmatic and compelling part of our agreement is that because of the two producers, you hand a country like that that is certainly not an underdeveloped monopoly in the world market for citrus and that doesn't achieve any of the objectives for the trade agreements that are going forth at any level.

The CHAIRMAN. Thank you.

I thank all the members of this panel. This has been very interesting, and it is good to hear some competing views on some very difficult issues. So we thank you all.

We do have one more panel, and we are going to go ahead and get started, although I think the vote is going to interfere with that.

I would like to welcome our final panel: Mr. David J. Frederickson, president, National Farmers Union, St. Paul, MN; Mr. Charles Beckendorf, chairman of the board, National Milk Producers Federation, Tomball, TX; Mr. C. Manly Molpus, president and CEO of the Grocery Manufacturers of America, Washington, DC; and Ms. Ellen Levinson, executive director, Coalition for Food Aid, also Washington, DC.

We want to welcome all of you.

We will begin with Mr. Frederickson. I will remind you once again that your complete statement will be made a part of the record, and we would ask that you limit your comments to 5 minutes. Mr. Frederickson.

**STATEMENT OF DAVID J. FREDERICKSON, PRESIDENT, NATIONAL FARMERS UNION, ST. PAUL, MN**

Mr. FREDERICKSON. Thank you very much, Mr. Chairman and Mr. Pomeroy. Good to see you, both of you.

I am Dave Frederickson, president of the National Farmers Union. It is a pleasure to appear before you today to discuss agricultural trade negotiations.

I don't believe there is any question but that farmers are skeptical about the impacts of globalization, market concentration and trade agreements on their individual operations. Time and time again we have been told that prosperity based on free trade is, frankly, just around the corner. As producers, we never seem to be able to make it to that corner.

Free trade proponents lead one to believe that without trade agreements U.S. agricultural commodities would not move in world commerce. However, from 1985 to 1994, U.S. agricultural exports grew by nearly 41 percent. From 1994 to the year 2003, after ratification of the WTO and the NAFTA agreement, our exports increased by only 34.4 percent, while imports rose a little over 86 percent.

Trade advocates are quick to point out the percentage of farm sales that are derived from exports. For example, in her written statement to this committee last week, Secretary Veneman reported, and I quote, "We estimate about 27 percent of farm sales will come from exports this fiscal year."

This misrepresents the value of agricultural trade to the incomes of farmers first. The 27 percent represents about $59 billion or so in projected agricultural exports for 2004. It does not account for the approximately $43 billion of competitive agricultural imports.

Second, export values are reported on a pre-alongside ship basis which reflects the price for products including processing, transportation to place, finished goods alongside the carrier at the export point. We estimate American producers likely receive less than 60 percent of the reported export value as a portion of their gross income.

In the year 2003, net farmgate exports accounted for about $13 billion, just over 6 percent of total crop and livestock sales by producers, not 27 percent.

The U.S. is pursuing a multilateral trade agenda through the WTO and a number of free trade agreements. Many sectors of production agriculture are justifiably concerned that these agreements will simply add to the level of price-depressing imports in our domestic market.

For example, Cargill, a large multinational company headquartered in my own State of Minnesota, has announced plans to take advantage of the CAFTA and the Caribbean Basin Initiative by investing in facilities in Central America to process ethanol in order to avoid the 54 cent per gallon tariff on exports to the United States.

While most of the proposed FTAs are with countries that provide relatively small market opportunities for U.S. farmers, we are encouraging even more competition in our domestic and third-country markets. Is this simply the unintended consequences of FTAs or a plan to undermine our domestic agricultural production economy?

In principle, the National Farmers Union supports many of the U.S. objectives in the WTO negotiations, including efforts to achieve greater harmonization of tariffs, better discipline in the use of nontariff barriers and the elimination of export subsidies. We also support differentiation among developing nations based on the level of development of their agricultural sector, and we back the position of the administration to appeal the likely decision in the challenge of our cotton program.

We are concerned, however, that the negotiations have failed to identify mechanisms to achieve what we believe should be three goals of agricultural trade negotiations: first, recognition that agriculture is unique in its economic, social and political importance; second, improving the economic returns to farmers worldwide so that the need for trade-distorting practices of all types are reduced, if not eliminated; and, third, providing the policy flexibility and encouraging cooperation to fully address food safety and security, particularly for the world's 800 million people who suffer from inadequate diets.

Furthermore, the Doha Round lacks scope, because major agricultural trade issues are not being considered. These include exchange rate policies, provisions to harmonize and enforce environmental and labor standards and consideration of the effects of agricultural integration and concentration.

Attached to the submitted testimony are interviews, recommendations presented to an international farmer meeting held during the Cancun Ministerial.

In summary, our proposal suggests an alternative to the destructive race to the bottom in commodity prices fostered by current trade rules and practices that are costing developed countries billions of dollars each year and jeopardizing the ability of developing nations to provide an adequate standard of living for their citizens.

As a general farm organization, it is difficult for the NFU to support these agreements, when the goal of improving the economic returns to producers is not a priority in any of the negotiations and important unfair competition issues are ignored.

Mr. Chairman, thank you so much for the opportunity to participate in this hearing, and I would be happy to stand for any questions.

[The prepared statement of Mr. Frederickson appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Frederickson.

Mr. Beckendorf, welcome. We are pleased to have you with us again.

**STATEMENT OF CHARLES BECKENDORF, CHAIRMAN OF THE BOARD, NATIONAL MILK PRODUCERS FEDERATION, TOMBALL, TX**

Mr. BECKENDORF. Mr. Chairman and member of the committee, thank you for having me here today. My name is Charles Beckendorf. I am a fourth generation dairy producer from Tomball, TX. I currently serve as chairman of the National Milk Producers Federation. NMPF works closely with the members of USDEC, the U.S. Dairy Export Council, on issues of trade policy that promote U.S. dairy export.

In contrast to much of U.S. agriculture, the dairy sector is not particularly dependent on trade. However, small changes in supply and demand for milk and other dairy products have a radical effect on U.S. dairy markets and their prices. This is the reason why the most important message I want to convey to you today is that the U.S. dairy industry cannot continue down the road of unilateral disarmament. Balanced trade, not unilateral disarmament, is the foundation of our principles; and we believe it should be yours as well

Among the current trade policy initiatives, the Doha Round of WTO negotiations is by far the most critical in terms of importance for our industry. NMPF and USDEC want to see the swift elimination of export subsidies. We are willing to consider reductions in trade-distorting domestic support, but cuts must bring about greater equity along all developed as well as large developing countries we have heard about today.

Finally, it is imperative to see reductions in tariffs by a harmonizing formula that would require bigger cuts for the higher tariffs. We are optimistic that the negotiating framework will be breached in July. However, we must be extremely judicious in developing this framework. If its methodologies do not make great strides toward eliminating the current disparities in dairy markets throughout the world, the U.S. dairy industry will have to reevaluate its support of the Doha Round.

Let me draw your attention to the statistics on page 3 of my written testimony. This compelling data shows just how open our markets are compared to those of other major developed countries as well as those in large developing countries.

Mr. Chairman and members of the committee, at the end of the negotiations, we cannot be in a situation where Canadian and European markets remain isolated from international market forces while we in the United States continue to serve as a dumping ground for the world's suppliers.

Turning to an issue that has not gotten much attention lately, although we are encouraged by Commissioner Lamy's letter on May 9, 2004, which, by the way, lacks a direct reference to geographical indicators, we know that GI has continued to be a priority for the EU.

Chairman Goodlatte, we thank you for the active role you have played in defending the generic names against the EU's attempts to advance claw-back provisions. Under no terms should the U.S.

Government agree to a trade-off between GIs and progress in agricultural negotiations.

Moving from the multilateral format to the regional, 1 year ago National Milk testified that we strongly supported the FTAA in its ability to finally bring the Canadian dairy industry to the global system and to open a number of markets for U.S. dairy markets. Unfortunately, we are seriously concerned that the FTAA process has been tainted by Brazil's insistence on including certain economic sectors. If these new provisions lead to the exclusion of dairy markets in Brazil and Canada, the FTAA becomes undesirable for the dairy industry.

Another trade initiative concern we have is with the Australian Trade Agreement. NMPF has opposed this agreement in the past and continues of oppose it today due to the unnecessary access given to Australia by the U.S. Government.

Nevertheless, Members of the Congress and those in the USTR's office, particularly Ambassador Zoellick, need to be commended for listening to our concerns and protecting our overquoted tariffs.

We encourage the administration and members of this committee to support provisions in the implementing bill that would result in an offset of any income lost by dairy producers. In particular, the administration should use all WTO-permitted allocations available under the Dairy Export Incentive Program.

On a more positive front, thanks to the successful inclusion of dairy in this CAFTA agreement, U.S. dairy producers and processors across the country can look forward to benefiting from increased trade opportunities within the region. We urge the administration and Congress to place a higher priority on passing CAFTA than on any other trade agreement.

With respect to ongoing FTA negotiations, the U.S. dairy industry supports all the trade initiatives currently under way. On negotiating these bilateral and regional agreements, a fundamental concept must be establishing rules of origin to avoid transshipments and third-party benefits.

With regard to our ability to grow these new markets, amazingly, since 1995, only 16 percent of all available butterfat DEIP awards have ever been used, regardless of the low U.S. market prices that dairy farmers were receiving. Despite numerous pleas from this committee and other Members of Congress, USDA never made available all the butterfat DEIP awards last year when prices were at their lowest level in 25 years and had been there for almost 2 years.

Let me finish by thanking many of the committee members for being sponsors on H.R. 1160 and Senate bill 560, which seeks to close import loopholes and provide a fair and more level playing field in the dairy trade. Indeed, the ITC report the MPC released yesterday clearly demonstrates the importance of this legislation in order to correct current inequities.

I appreciate the opportunity to testify before you today on behalf of the members of the National Milk Producers Federation and their dairy farmer members.

[The prepared statement of Mr. Beckendorf appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Beckendorf.

We have a long series of votes, five votes. So rather than keep you sitting here, you might care to go down to the cafeteria or get some lunch or something. We will stand in recess until 2:15, or when we get back from the last vote, which could be a little later than that, but we are hoping it will be around that time.

So the committee will stand in recess.

[Recess.]

The CHAIRMAN. When last we left off, we were looking forward to Mr. Molpus' testimony. So we will start with you, and welcome.

## STATEMENT OF C. MANLY MOLPUS, PRESIDENT AND CEO, GROCERY MANUFACTURERS OF AMERICA

Mr. MOLPUS. Thank you very much, Mr. Chairman. We are delighted you came back.

The CHAIRMAN. And brought the whole committee with me, right?

Mr. MOLPUS. We are always delighted to see them.

I do want to compliment you on having these hearings on the broad scope of agriculture and the food industry that you are hearing from and the variety of perspectives, because trade and the economy are terribly much, obviously linked together, and I think it is very good to have this kind of dialog, and I commend you for your leadership in that.

I want to talk today for a few minutes about why GMA strongly supports the multilateral and bilateral free trade negotiations which we believe will yield significant benefits for the food industry in terms of new opportunities for exports and increased access for imports of key raw materials.

Very briefly, I would like to talk about why GMA is committed to these negotiations in terms of the potential gains for our member companies that are impacted on the process food sector. Exports of processed foods provide significant benefits to the larger agricultural community, since the food sector is fast becoming the engine of growth for agricultural exports. For some time now, the value of exports of consumer-oriented agricultural products has exceeded that of bulk commodities. Processed foods act as an export gateway for these commodities by offering exports in a value-added form.

In fact, exports of processed food products provide greater economic returns to rural communities. For example, ERS estimates that the exports of $1 billion of processed food products supports 16,700 jobs; whereas. The same dollar value of exports of commodities supports 12,700 jobs, a 4,000 job gain.

Export markets also clearly matter to GMA companies. If you think about it, our companies were among the first to go abroad, searching for access to foreign consumers. At the time, companies had to move their operations abroad to find markets since both transportation costs and tariffs were prohibitively high and access to raw materials was limited.

Today, we live in a very different world, with access to first-class global distribution and abundant raw materials. Our access to global markets is still limited, however, by prohibitively high tariffs that impede trade in the process sector. It is amazing to us that our food sector still faces tariffs that average in excess of 62 percent globally, while industrial tariffs have been lowered just under 10 percent. In today's global market, these high tariffs have become one of the main obstacles to a more sufficient supply chain.

Tariffs are only half the story, though. Processed food exports are also hampered by a variety of non-tariff barriers to trade. Examples include overly restrictive labeling requirements like mandatory labeling rules, inconsistent food standards and regulations, and overly burdensome import certification requirements. We certainly compliment the U.S. Government's efforts to harmonize these diverse food regulations globally, but we believe there is need for a renewed focus on these non-tariff barriers and free trade agreements so that we can achieve more efficient free trade and food and consumer products.

For these reasons, the food industry has placed a priority on the successful outcome of the WTO negotiations. We were deeply disappointed by the failure in Cancun and are hopeful that the next few months will yield an ambitious framework for liberalization in the agriculture sector.

As in any negotiation, however, getting the framework right is more important than simply getting a framework. And for GMA, success means arriving at a market access formula that will deliver ambitious results in lowering the tariffs that impede access to global consumers. We believe it is important that the formula not only harmonize tariffs to the already low U.S. level, but also that it is comprehensive so that all tariffs will be substantially reduced. Any formula that appears to shelter sensitive sectors in developed countries will not promote reciprocal liberalization by the remaining WTO members.

GMA believes that bilateral and regional negotiations can serve as a complement to the ongoing WTO negotiations, provided that they are comprehensive and maintain high standards in all negotiating areas.

For example, our companies have benefited greatly in the 10 years since the NAFTA was signed. Our exports have more than doubled, and the North American market for food manufacturing is increasingly integrated. We expect the same kind of benefits from the CAFTA agreement. Recent studies estimate that our companies will save nearly $9 million in tariff reductions in year 1 of the agreement.

In addition, our exports are projected from $359 million to $662 million annually, an 84 percent increase, as a result of CAFTA. So we hope the recently proposed Andean and Panama FTAs will result in similar style agreements so that we might one day have a seamless market in the Western Hemisphere.

We remain concerned that our future export gains could be jeopardized by calls for exclusions of certain products from negotiations. One of the primary reasons that the CAFTA holds such potential for U.S. food and agriculture sectors was that the U.S. was willing to open up its sensitive sectors in order to achieve reciprocal liberalization in the CAFTA countries.

Finally, let me say a brief word about Geographical Indications which has been the subject of much discussion in this committee. Although the EU has recently been conspicuously silent on the issue, we have no reason to believe that they have abandoned their ambitious goals on GIs. We remain opposed to any new negotiations on Geographical Indications, since threats to our trademarks could undo the potential market access gains that the WTO negotiations could provide. We thank this committee for your continued support and interest in this issue.

Thank you for the opportunity to be here today, and we certainly will welcome the chance to take any questions. Thank you.

[The prepared statement of Mr. Molpus appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Molpus.

As you can see, I brought my props with me, and we will talk a little more about Geographic Indications shortly.

First, we will be delighted to hear from Ms. Levinson.

### STATEMENT OF ELLEN S. LEVINSON, GOVERNMENT RELATIONS DIRECTOR, CADWALADER, WICKERSHAM & TAFT

Ms. LEVINSON. Thank you very much for this opportunity to testify.

My name is Ellen Levinson and I am government relations director of the firm Cadwalader, Wickersham & Taft. I am also executive director of the Coalition for Food Aid. I will focus today on food assistance and particularly the Doha Round negotiations.

The Coalition for Food Aid is comprised of 16 U.S. charitable organizations and cooperatives such, as Catholic Relief Service, CARE, World Vision. And they conduct international food aid and other assistance programs around the world. I have submitted for the record a letter that the Coalition sent last year to Mr. Stuart Harbinson when he was chair of the Agriculture Committee for the Doha Round. And it discusses some particular issues of concern that they had with the first draft of the modalities on agriculture.

The U.S. Food Aid program began soon after World War II. This year marks the 50th anniversary of the Food for Peace Program. With bipartisan and broad support of the public since 1954, the Food for Peace program has provided 72 million metric tons of U.S. agricultural commodities worldwide to combat hunger and to promote growth and security in the developing world. Former recipients include Hong Kong, Korea, Taiwan, Philippines, Thailand, Malaysia, Singapore, Mexico, Greece, Poland, a wide range of countries that have graduated and are now trading partners.

While the United States can be proud of its record on food aid, there are challenges ahead. Sadly, today, over 800 million people in the world do not get enough to eat. Chronic needs are growing due to the prevalence of HIV/AIDs and setbacks caused by natural disasters, war, civil strife, and economic downturns. So if food aid programs are reduced, millions of people will suffer.

Food aid is subject to the Doha Round trade negotiations, because it involves the export of commodities. Even though it is substantially a— food aid is basically an economic development program and a humanitarian assistance program, it is looked at because it does involve the export of agriculture commodities. Food aid is not considered an export subsidy and is permitted without limitation if it meets the requirements under article 10.4 of the Uruguay Round Trade Agreement.

Under article 10.4, food aid is considered legitimate if it does not create a disincentive to agricultural growth in the recipient country, if it does not interfere with commercial trade with that country, if it is not tied to commercial exports to the recipient country. In addition, it has to meet the terms and conditions of the Food Aid Convention, which is a multilateral international agreement among donor countries where they make commitments to provide minimum amounts of food aid each year. Under the Food Aid Convention, non-emergency food aid is allowed, as well as emergency food aid. Agreements may be made between a donor country and a foreign government, a donor country and an intergovernmental agency, such as the United Nations World Food Program, or between the donor country and a charitable organization, such as CARE, Catholic Relief Services.

So I believe and my members believe that article 10.4 strikes a fair balance between protection of commercial trade and assuring adequate amounts of food aid are available in the world.

But right now, they are under discussions at the Doha Round discussions on agricultural changes to article 10.4 that will endanger particularly non-emergency food aid. The current draft that is being considered calls for additional disciplines on food aid to assure non-interference with commercial trade. It is unclear what additional disciplines mean, but if you look over the record of the discussions for the past year in Doha and recent comments by the various members, it is clear that at least it would get rid of what we know as the Title I Program, P.L. 480 title I, which are concessional loans from the U.S. Government to a foreign government for the purchase of commodities. It would also eliminate any other government-to-government agreement. So in other words, the United States could not donate directly to a foreign government.

It may also encompass other types of non-emergency programs, such as those through private voluntary organizations. We believe this is very dangerous and have a great deal of concern. In recent meetings that I had in Geneva, it became apparent that a lot of the negotiators from other countries do not understand the nature of U.S. food programs and have assumptions that we are interfering with international trade, while we are not.

So I would like to just quickly say that our goal and what we hope is the goal of the United States going forward in the negotiations is to protect continued food aid, both for emergency and non-emergency programs. Bilateral agreements, government-to-government, or through nongovernmental organizations also should be protected. And if there are concerns about interference with commercial trade, that should be handled through the U.N. organization FAO which has a subcommittee that handles those issues right now and is the appropriate body to discuss those matters and try to contain any problems. Thank you very much.

[The prepared statement of Ms. Levinson appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

I share your concern about Public Law 480. In fact, Tony Hall, our ambassador to the U.N. Food and Agriculture Organization, raised the same concerns, and I think we need to speak up more about that.

Can you tell us what some of these misconceptions are that the Europeans and others seem to have about our food aid programs?

Ms. LEVINSON. Well, in discussions with the European Union agricultural trade negotiators, I understand, first, they do not believe that it is possible to provide commodities overseas for food aid without interfering with trade. They just do not believe you can do it. They believe it always has some kind of a commercial benefit. So part of it is perception.

Another reason is that, in the European Union, they made a decision years ago that they will no longer provide what they call in-kind food aid. Instead, they provide cash, mainly through the World Food Program or to a recipient country. And that country can buy the food. They believe that is the appropriate way to provide food aid.

They also think that food aid interferes with domestic production in the recipient country.

But underlying all of it is a great distrust, quite honestly, between the European Union and the United States. The European Union just does not trust the motives of the United States and also feels that they do not want to get rid of their export subsidies, so they have to offer up something as a counterbalance to it. So food aid is used as a counterbalance for export subsidy negotiations.

The CHAIRMAN. As I understand it, they do not provide near the amount of food aid relative to their wealth, their GDP, that the United States does. We provide well over half of the total amount of food aid provided in the world, and we are only a quarter of the world's economy.

Ms. LEVINSON. That is right. We are—without the United States' food aid, really, there would be very small amounts of food aid available around the world.

The CHAIRMAN. If they give cash to people, how do they hold them accountable, that that food is actually getting into the stomachs of people who need it as opposed to the cash being used for other purposes?

Ms. LEVINSON. Well, the cash is given to countries that are dependent on food imports, because they are poor countries, and they have to import food. They do not produce enough food, so they can buy food for the market, oftentimes, or they can also use it in order to buy for distribution.

It was interesting when I talked to some of the developing countries that are recipients or have been recipients, they are very suspicious of giving cash instead of directly giving the food, because they think that that would be open to corruption.

The CHAIRMAN. Right. Very good.

Mr. Molpus, I promised that we would talk about Geographical Indications, and we will.

I have seen reports that the EU says that they expect to see consideration of Geographical Indications in response to their proposal regarding elimination of export subsidies. So they have more than just food aid on their list of things they want in exchange, and this, to me, is a very protectionist measure. It is simply replacing one form of protectionism with another.

It bothers me further that we have established some principles under our intellectual property laws and negotiated those internationally. We honor those. We protect a number of European Union Geographical Indications. I am not aware of a single one from the United States that they recognize in Europe, like Vidalia onions or Idaho potatoes or Virginia hams or citrus products, Florida citrus and so on.

I had this up here earlier, but the point I always like to make is that this familiar green can that everybody has in their refrigerator is the value that they want to—and we call it clawing back—they want to claw back. It is not something that they created. It is not something that Parma, Italy, did to make the virtually worldwide acceptance of this name which has become generic in its use. It is companies like Kraft and a great many other food processors who have made products like Parmesan cheese a household word.

Under those principles that we have established, and that the Europeans have agreed to, there are tests that are applied, not just to food products, but things like escalators and Q-Tips. And you name it, there are lots of things, some of which are entitled to be protected if a company takes the necessary step to protect it or if a region does the same thing. And others are recognized to have fallen into generic use.

So I wonder if you are as concerned as I am. In your testimony, you mentioned that they had not brought it up in a while. I heard that they just again brought it up in the most recent round of discussions that took place in Europe. That was shared with me by the Australian trade minister who shares our concern about what is going on in Europe on this issue.

Mr. MOLPUS. Well, we have not felt that the Europeans at all have given up on the idea of Geographic Indicators. They have been a little silent lately. If they have had something to say more recently, then that really just confirms our view that they are very determined on this issue.

I think it is very important that our Government—and you have indicated an excellent understanding of the issue—that we very forcefully resist this. It does not have any place in negotiations. It is pure protectionism.

As you well point out there, we could have a whole table full of products here. Our companies have spent literally hundreds of millions of dollars over the years building up these brands and building up consumer awareness of these products. We have to—I think our Government—and they have been—but we have to be very forceful in saying that this is just a non-starter. It is just not going to happen, period.

The CHAIRMAN. I think we need to continue to reinforce that with the Trade Representative or else we are all going to wind up putting Parmasello cheese on a variety of food products.

As you have all heard me say before, I think that is a bunch of baloney, but then again, that is another name that they want back. We just need to keep the profile raised, that this kind of interference with free trade is not an acceptable alternative to the protectionist measures that they are seeking to trade away. They simply want to get a replacement number of protectionist measures.

Mr. MOLPUS. Absolutely. Thank you.

The CHAIRMAN. At this time, I am pleased to recognize the gentleman from California.

Mr. DOOLEY. I apologize, Mr. Chairman, for not being here.

Mr. Frederickson, I have not had a chance to read your testimony, but what is the position of the NFU on the CAFTA agreement?

Mr. FREDERICKSON. Mr. Chairman, Congressman Dooley, we oppose the CAFTA agreement.

Mr. DOOLEY. And why is that? I mean, the American Farm Bureau, I think, made a statement that they came out in support of it, I believe. What distinguishes you from the Farm Bureau's position, I guess, as it relates to CAFTA? I mean, they said, on balance, it works well for U.S. agriculture.

Mr. FREDERICKSON. Our position has been and continues to be that, until everything is put on the table—in terms of any of the agreements, whether it be the WTO or other agreements—until everything is put on the table, we just have a very difficult time supporting moving forward.

So everything, and by everything, we have historically meant currency fluctuation issues and all of the issues that go into determining profitability, particularly for producers.

Mr. DOOLEY. I was reading, in part of your testimony, I did read where you cited you had significantly increased growth in exports and a significantly larger trade surplus in agricultural goods in the early 1990's. Have you ever, has your organization ever done a correlation on how much of that was attributed to the low value of the dollar during that period of time?

Mr. FREDERICKSON. I am not sure if we have, but I will certainly get back to you if we have.

Mr. DOOLEY. The only reason that I bring this up, to some extent, is that currency valuations can work both ways, and we have to be careful about, I think, and cautious about going down that path, because while we have had a relatively strong dollar in recent times, if we are not careful and we try to create a policy that involves some type of domestic supply or pricing response to that it could come back to haunt us at some point, is one of our concerns that I think we have to maintain there.

The other thing I am a little bit worried about is when we have a lot of the agricultural groups that come in—and they are generally groups that are more aligned with the program crops than the specialty crops—that say we have to wait until we can do these in a comprehensive fashion. What do you say to the specialty crop industry that is out there today—that is all the tree fruits and the vegetables and the nuts and the meat product, the poultry and the beef, the pork—they do not have any subsidies today that have a lot to benefit by moving forward with the trade agreements which, in those sectors, I think everyone has come out in support of the CAFTA agreement?

Is it a little bit unfair to say to them that those of us who are receiving taxpayer subsidies today or have some type of market quotas in place, that we do not want to see any progress under any trade agreement that might benefit a significant portion of agriculture, in fact, a majority of agriculture, until those of us who are getting subsidies are addressed in a worldwide international agreement? Are we not holding them back?

Mr. FREDERICKSON. Well, again, we are a general farm organization, and we fully understand and support the idea that specialty crops will be at the table as we negotiate a new farm bill further on down the road.

One of the ways that we have addressed trying to increase the opportunity to sell product in other markets is looking at the issue of willing buyer/willing seller as it relates to Creek Stone Farms, for instance, today. And I think that you would advocate that same position. You have a willing buyer, you have a willing seller, let us allow them to move forward.

So I do not know, Congressman, if that answers your question. Is it a little disingenuous for us to stand up for program crops? I think we stand up for all farmers across the board.

Mr. DOOLEY. Mr. Molpus, I understand your organization has reservations with the Australian agreement, and that is primarily predicated because of the exemption for sugar?

Mr. MOLPUS. That is right, Congressman.

As you know, we have supported, I think, practically all of these agreements. One of our fundamental principles has been the no-exclusion policy. We think that the no-exclusion policy is the way to go into these agreements. And if you start taking things off the table before the agreement negotiations even start, you are just headed down a road toward reciprocal action from the other countries.

So we were keenly disappointed in this agreement, that it did not allow this exclusion to take place. I think it is one of these issues where I suspect you and the chairman have confronted where there are things you would really like to vote for, you would like to be for it, but it violates some core principle that is just hard for you to get over.

So we are not offering our support, but we are not actively opposing it.

Mr. DOOLEY. Mr. Beckendorf, on the issues related to milk protein concentrates, is there any concern within the industry, the U.S. industry, that if we are not careful here, that we are going to create a policy that is going to encourage substitution to other proteins, maybe soy-based proteins?

I contend, and I have a hard time finding anyone in the dairy industry that can really tell me with a straight face, that if it was not for the Government Purchase Program as it relates to butter and powder, that if we did not have that in place, is that we would have a milk protein concentrate industry in the U.S. today.

So there are some proposals out there saying that we ought to expand this program out there so that we provide some level of subsidy into the MPCs. We ought to restrict their ability to be imported into the United States. Are we running the risk, much as what happened with the sugar industry, where we created a situation that was financially conducive to the development of a corn fructose sweetener industry which displaced a lot of our traditional sugarbeet and cane? Is there not a threat out there that we are actually creating another significant market opportunity for other proteins to be developed, because there is going to be a market opportunity?

Mr. BECKENDORF. Congressman, I do not think so. You probably saw this flyer come across your desk over the last day or two, but we at National Milk put this out several days ago, even before the ITC report came out. And we hit all three of the points that they came out and said.

You will understand as well as anyone the complexity of pricing milk. Only the skim milk powder or the nonfat powder does not set the price of milk. We have always said that we did not think the MPC imports were directly affecting the dairy farmer's price that he got on the farm, that the farm gave.

But by displacing the product, our powder products, yes, we are having a problem. And we are affecting those prices.

When we put in these tariff rate quotas, MPC or milk protein concentrates were not being used as much as they are today. That has really grown as a process or as an ingredient, both in sports foods, in baking products. And one of the things maybe we slipped up on when we did the tariff rate quotas, we should have seen far enough down the road to see what was happening.

Probably our biggest problem today is the blends that are coming in, calling themselves milk protein concentrates and displacing our skim milk powders and nonfat dry milk.

Mr. DOOLEY. Just one final question, Mr. Chairman.

When you use the term "slipped up" was it really a question of slipped up, or was it more of a function that when you knew you had the market there, the Government Purchase Price with the powder and the butter, that there was not as much of a financial incentive to respond to clearly a growing consumer demand out there? I mean, we had a consumer demand in the U.S. to the point that you even had Land O' Lakes and other co-ops in this country that were purchasing imported MPCs which, clearly, they had the raw product to develop themselves. And they did not choose to develop that product and meet an obvious growing consumer demand in the United States.

Why was that the case? I mean, are you saying that the Government programs that we have in place for milk had no impact on a failure of the domestic U.S. dairy industry to invest in the production of milk protein concentrates?

Mr. BECKENDORF. No, sir. When we put these tariff rate quotas in, since that time, the consumption of those milk protein concentrates has ballooned and grown greatly.

And we do not have—well, today, we have one plant that has started producing milk protein concentrates in this country. We believe in the industry that we need to build an industry to produce those. There is a need for them. There is a demand for them, and we need to produce them locally.

The best thing we can say about that is that, when we produce those, we produce the high-grade milk protein concentrate and not a blend or a lower protein product. So that is what the cheese-makers and the sports-shake-makers want, is a high-grade milk protein concentrate to go into those drinks and product.

The CHAIRMAN. I thank the gentleman for his questions.

Mr. Beckendorf, just to follow up on Mr. Dooley's question, do you have any recommended changes in our dairy policy that would encourage the production of things that are in demand, like milk protein concentrates, that we did not foresee back up the road a ways and to discourage the over production of some of the things that we seem to have in abundance that we are not using, like powdered milk?

Mr. BECKENDORF. We do have an idea that we would like to put together a dairy proteins package or program that would subsidize the production of milk protein concentrates for a period of time. The subsidy would go away after a period of years.

The CHAIRMAN. Do you have a way to pay for that? Is there a way to pay for that?

Mr. BECKENDORF. We think——

The CHAIRMAN. To try to get away from paying for programs to produce things we are not using?

Mr. BECKENDORF. Well, we have a disagreement with CBO that we think will offset those costs or those subsidies by not buying powder from the Government or with the Government dollar.

Mr. DOOLEY. Just a follow-up on that one plant that is in production now, which I understand is actually a joint venture I believe, is it not, with Fonterra, has anyone done the financial analysis of that to demonstrate that it actually needs a subsidy, a taxpayer subsidy, in order to be competitive in the marketplace?

Because I had some conversations with the folks from Fonterra, and obviously, they have an interest in maybe maintaining on the import side. But they are saying they do not think they need to have a subsidy on that plant that they have in place in the United States.

Mr. BECKENDORF. Well, Congressman, there are two things there. One of them is, they have the only plant in the country right now. And they do not want the competition. We have other co-ops in National Milk that want to be able to put those plants together and produce that product.

The other thing about that particular plant in Portalis is that it is a balancing plant, it is a balancing facility for the southwest agency. So we take milk from New Mexico, all the way from Arizona to east Texas and from western Kansas south. So that milkshed feeds that plant. That helps us keep from hauling milk out and selling it at distressed prices.

The production that we have seen in New Mexico, western Kansas, that is fueling that plant has not enabled Fonterra to make as much milk protein concentrate there as they want to, because it takes a little bit longer to do that process. And with all of the milk trucks sitting at the door, they have had a hard time making that product.

The CHAIRMAN. Well, thank you. I want to thank each and every one of you for your contribution this afternoon. This has been a very enlightening day, and we will press ahead with our efforts to get the WTO on track, because I think that is our best prospect, however difficult it is to negotiate with so many countries, it is our best prospect for making some progress in this area. Because it is only if we get access, greater access to other important markets, like Europe, Japan, China and so on, that we can move toward a greater free market economy.

Mr. Beckendorf?

Mr. BECKENDORF. I want to thank you for holding this hearing, in particular the comments that you and Mr. Stenholm made about where we are going with this trade package. Thank you.

The CHAIRMAN. Thank you. Thank you all.

I want to thank all of the witnesses for appearing before the committee today. The committee believes that the United States' trade negotiations will continue to defend the rights of American farmers and ranchers and will seek the best deal possible.

The committee will continue to watch this issue very carefully as we proceed through the summer, especially as the World Trade Organization negotiations move forward.

Without objection, and I do not believe I am going to get any, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from witnesses to any question posed by a member of the committee.

This hearing of the House Committee on Agriculture is adjourned.

[Whereupon, at 3:12 p.m., the committee was adjourned.]

[Material submitted for inclusion in the record follows:]

## STATEMENT OF GREG LEE

Good morning and thank you, Chairman Goodlatte, Congressman Stenholm, and committee members for the opportunity to present the National Chicken Council's views and recommendations regarding certain very important and timely international agricultural trade issues, especially those relating to poultry. U.S. chicken companies are confronted by many trade issues that restrict and even halt U.S. exports. This hearing can serve as an important opportunity to more fully and successfully address these many issues. Please be assured U.S. poultry companies appreciate the chairman's invitation to be part of this very vital discussion. It is our hope that our efforts can contribute to and be part of a satisfactory resolution of these trade issues.

I am Greg Lee, chief administrative officer and international president of Tyson Foods and chairman of the National Chicken Council. A vigorous and robust export market is essential to the success of my company and the many other member companies of the National Chicken Council. The National Chicken Council (NCC) represents companies that produce and process about 95 percent of the young meat chickens (broilers) in the United States. NCC works very actively with Congress and the administration to help promote an expanding export market for U.S. poultry. This committee's leadership on international trade issues is recognized and most appreciated.

### IMPORTANCE OF EXPORTS

Having a vigorous, robust and expanding export market for chicken is critically important to the 45 vertically-integrated companies that comprised the federally-inspected chicken industry. Whether one of these companies exports directly or relies entirely on the domestic market, the prices received and the economic well-being is heavily dependent on the health of the export market. This year (2004) more than 33.7 billion pounds (ready-to-cook weight basis) of chicken will be marketed, a record amount. About one-half or almost 17 billion pounds of these marketings will be the front half of the broiler, basically breast meat, and one-half or another 17 billion pounds will be the back half of the bird, basically, leg quarters. American consumers through their purchasing decisions continue to increasingly express an overwhelming preference for breast meat, which is usually sold as boneless, skinless breast meat or products directly made from boneless/skinless meat. Due to the imbalance of consumer demand for the front half and the back half of the chicken, it is critical that export markets be found for the one-half of the chicken less preferred by the American consumer. Fortunately, except for North America and, perhaps, certain parts of the Western Europe, consumers around the world have a decided preference for leg meat relative to breast meat. While this situation offers great competitive opportunities for U.S. chicken exporters, it also, at the same time, is a source of arguments by other countries that U.S. chicken exports are receiving subsidies that allow leg quarters to be priced so competitively. Although it is true that the price of U.S. chicken leg quarters is quite attractive to oversea buyers, the charge of government subsidies is baseless and totally without merit. The U.S. Government does not provide any export subsidies for U.S. poultry.

Last year (2003) exports accounted for over 15 percent of total U.S. broiler marketings. In terms of share of total marketings and quantity exported, the highest level was in 2001 when 5.6 billion pounds of chicken were exported. This quantity represents 18 percent of total marketings. This year (2004) exports will slip for the first time in 20 years. In 2004, the quantity exported is likely to be 4.6 billion accounting for less than 14 percent of total marketings. In a normal market situation the export market must take the leg quarters from one in three chickens for the overall market to be in good balance and provide the necessary underlying support for a healthy overall market. When adequate foreign market access for U.S. chicken leg quarters is not possible, the supplies of leg quarters usually back-up on the domestic U.S. market and not only negatively impact overall chicken prices but also the imbalance in supply causes problems that spill-over and depresses producer prices for competing products, such as hogs and cattle.

As I noted, in normal times the negative impact of significantly reduced exports coupled with near-record high feed costs that may reach record levels before the next crops of corn and soybeans are harvested would most certainly cause a very difficult financial situation for the U.S. chicken industry. Fortunately, and I am not sure of all the reasons, the current market situation is not normal. However, the laws of economics have not been repealed and at some point in the future, market conditions will return to a more normal situation. At that time, the loss of exports will compound the financial problems of U.S. chicken companies. Thus, I hope that Congress and the administration can now take appropriate and needed actions to lessen or even prevent a continued erosion of U.S. chicken exports.

## WTO Doha Round Negotiations

It is good to see that negotiations involving agriculture in the World Trade Organization's Doha Round have begun again. Much progress is needed on many issues, but it was reassuring to see the European Union agreeing to at least make the first steps toward eliminating export subsidies. While having foreign competitors eliminate export subsidies and removing unfair domestic supports for their poultry producers will help level the competitive playing field, these actions are not the most important from a U.S. poultry perspective. More important to U.S. poultry exporters is greater market access. Actually, the market access provisions needed are not the ones primarily being negotiated in the current round of multilateral talks. Having no import quota restrictions nor high import duties are important, basic requirements. However, as tariff and quota protections have been reduced, the non-tariff protective measures have increased measurably. More and more countries are using poultry health issues, such as avian influenza and veterinary requirements, such as bogus testing for pathogens, to restrict or ban U.S. poultry from their markets. This issue of non-tariff trade barriers is where U.S. poultry exporters need the most help by Congress and the administration.

## Bilateral Free Trade Agreements

When the administration determined it was going to be difficult to move forward in a timely manner on agricultural issues in the Doha Round, we agreed with the position that U.S. negotiations should step-up their efforts on bilateral free trade agreements. For the most part, the bilateral free trade agreements that have been concluded do offer the possibility of increasing U.S. trade in poultry. The U.S.-Australian FTA is a notable exception, however. While import tariffs and import quotas may be reduced or even eliminated in the bilateral FTAs, the method of addressing and resolving sanitary and veterinary provisions in the recent bilateral agreements will require close monitoring and attention. At the same time, it is fair to note and give credit to U.S. negotiations and the other countries in the recent bilateral agreements regarding the sanitary and veterinary issues. For the most part, these issues have been fairly well addressed. The U.S.-Australian Free Trade Agreement, however, in this regard for U.S. poultry stands out as a clear exception to this conclusion.

## RUSSIA

Russia is the United States largest export market for chicken by a significant measure. This market in 2003 accounted for 30 percent of total U.S. chicken exports, and in 2002 the share was 32 percent and 2001 Russia's share was 42 percent. On May 1, 2003 Russia imposed an import quota for poultry. For 2004 Russia declared the total quota would be 1.05 million metric tons with 73.5 percent or 771,900 metric tons assigned to the United States. Although we were not pleased to see a ceiling placed on the quantity of chicken we could export to Russia we hoped that this restriction on imports would lessen Russia's activities that disrupt U.S. poultry exports. We were wrong. Before the Russian veterinary team came to the United States last year to inspect U.S. poultry plants and related facilities, the Russian Minister of Agriculture publicly predicted that only 70 percent of the U.S. plants would pass Russian inspections. Not surprisingly, when the inspections were complete, about 70 percent were approved. Their findings for delisting plants in our opinion were very arbitrary and without merit. Since then Russia's Ministry of Agriculture has claimed to have tested U.S. poultry and has found product from 11 different U.S. plants to be positive for certain pathogens. Russia has delisted these plants without an opportunity for USDA or the U.S. poultry companies to respond to the findings. U.S. Secretary of Agriculture Veneman has made repeated requests to her counterpart in Russia to have a Russian veterinary team return to the United States to reinspect delisted plants. Much delay has occurred in trying to get a response to the Secretary's requests. It is my understanding that a telephone discussion of these issues between Secretary Veneman and the Russian Minister of Agriculture has been scheduled for today. I am hopeful this discussion will lead toward a resolution of the plant inspection issue. Because the list of approved plants is relatively short, and becoming shorter with the periodic delistings by Russia, the import quota for Russia is not being filled. Failure to fill the quota jeopardizes the United States keeping its 73.5 percent share of the total quota. We find ourselves in a very difficult situation and Russia Ministry of Agriculture seems unwilling to help resolve the problem.

## CHINA-HONG KONG

When the low-pathogenic avian influenza outbreak first occurred in Delaware earlier this year, more than 60 countries banned U.S. poultry, usually from the entire United States. Some countries did just restrict poultry from Delaware and later the other states that experienced avian influenza (AI). Unfortunately, most countries over-reacted to the AI situation.

China-Hong Kong represent the second largest export market for U.S. chicken. Earlier this month Hong Kong finally lifted its import ban on U.S. poultry, except from the states of Delaware, Maryland, and Texas. The removal of the ban is appreciated but since 85 percent or more of the chickens exported to Hong Kong is transshipped to China, the relief has not been complete. USDA officials and scientists are continuing to discuss with the Chinese government the reopening of the market to U.S. poultry. However, it is obvious that China has an international trade agenda beyond the issue of whether or not U.S. poultry poses a risk to their poultry flocks. We are appreciative of the work USDA is doing to reopen the Chinese market and are hopeful that the efforts will soon prove fruitful. Once China again permits U.S. poultry, we believe Japan, Korea, and a number of other countries will begin to unwind their import bans on U.S. poultry.

The main point of discussing this situation is to better explain that despite trade agreements, whether bilateral or multilateral through the WTO, countries will continue to use veterinary and sanitary issues to restrict and halt trade. Countries need to recognize agreed-upon standards for poultry diseases, such as avian influenza, and then properly follow the international standards and procedures. The Organization for International Epizootics (OIE) is the focus of trying to make progress on these issues. We are hoping OIE can become a more important organization for managing these issues. However, there appears to be a very long timetable for achieving the necessary progress.

## RECOMMENDATIONS

The National Chicken Council recognizes that agriculture trade negotiations are difficult, complex, and apparently never-ending. We also recognize we do not have all the answers to successfully resolve the many tough problems. Nonetheless, we respectively suggest that the following recommendations be considered by this committee. These are:

- Work diligently toward a successful conclusion to the current round of WTO negotiations, especially better market access issues;Continue to pursue the successful conclusions of bilateral free trade agreements that include beneficial provisions for poultry trade;
- Continue to work aggressively to have full and complete compliance by signatories to trade agreements already concluded and encourage the U.S. Trade Representatives Office to respond appropriately and timely when these provisions are blatantly violated;
- Have trading partners agree to pre-determined procedures for an expedited resolution of sanitary and veterinary issues, whether poultry diseases or findings of food safety issues;
- Postpone negotiations for Russia's accession to the WTO until Russia fully demonstrates it will abide by the agreements and understandings involving poultry;
- Encourage USDA to organize a more permanent, dedicated, full-time task force of Department technical and scientific experts to be available to be dispatched to trouble spot countries that are using non-science based sanitary and veterinary measures that result in disruptions or halt U.S. poultry and red meat exports;
- Provide more adequate funding and resources for USDA's Foreign Agricultural Service's Market Access Program and Foreign Market Development program; and
- Provide the U.S. Trade Representatives Office with a more adequate budget so that more sufficient resource can be dedicated to resolving existing agricultural trade issues and lessening the possibilities of new issues occurring.

In conclusion, I again thank the committee for the opportunity to present the National Chicken Council's views and recommendations regarding agriculture trade negotiations and issues impacting our business. It is my hope and the hope of my fellow poultry producers that U.S. chicken exports can reverse this short downward turn and increase in the years ahead. By doing so farmers who provide chickens and farmers who provide feedgrains and oilseeds to feed the chickens will have greater opportunities to benefit from the economic activity generated by the dynamic U.S. chicken industry. The National Chicken Council looks forward to working with the committee as this goal continues to be pursued.

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## STATEMENT OF WOODY ANDERSON

Mr. Chairman, thank you for having this hearing today. My name is Woody Anderson. I am a cotton producer from Colorado City, Texas, and currently serve as the chairman of the National Cotton Council of America.

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, oilseed crushers, merchants, cooperatives, warehousemen, and textile manufacturers. While a majority of the industry is concentrated in 17 cotton producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and home furnishings are located in virtually every state.

The industry and its suppliers, together with the cotton product manufacturers, account for one job of every thirteen in the U.S. Annual cotton production is valued at more than $5 billion at the farm gate. In addition to the fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. While cotton's farm gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the retail business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of $120 billion annually. Cotton stands above all other crops in its creation of jobs and its contribution to the U.S. economy.

Any review of the impact of international trade policy on cotton should be undertaken with the understanding that cotton is a raw, industrial product. The economics of cotton production are inextricably linked to textile policy and production, both in the United States and around the world.

The importance of trade to the U.S. cotton industry has never been greater. At some stage of processing, ninety percent of the U.S. cotton crop moves into export channels. In recent years, exports of raw fiber account for more than 60 percent of total U.S. disappearance. Furthermore, approximately 80 percent of yarn and fabric produced by our textile industry leaves the U.S. for further processing. It is also the case that many of these exported products are manufactured into consumer goods abroad and return to the U.S. retail market for final consumption. In fact, imported textile products constitute 19 million bales of our 21 million-bale retail market. The success of the U.S. cotton industry is directly impacted by trade policy developments, as well as overall supply and demand conditions in world fiber markets.

This dependence on the export market has been a recent and rapid change for the cotton industry, precipitated by dramatic decreases in U.S. textile production. Cotton producers must now rely on the much more volatile export market as U.S. textile mills only consume about one-third of U.S. cotton production.

TRADE POLICY DISCUSSION; U.S.-BRAZIL WTO DISPUTE SETTLEMENT

It has been a frustrating few weeks for the National Cotton Council and the U.S. cotton industry. We have heard and read the news reports that the Panel hearing the U.S.-Brazil cotton dispute initially ruled against the United States, but we have been unable to read the confidential report. It is, therefore, impossible for me to comment with great precision concerning this apparent ruling.

If the reports I have read are accurate, the Panel ruled against the United States on most of Brazil's substantive points, namely, that the U.S. violated the Peace Clause; that the Step 2 program constituted a prohibited subsidy; that the export credit guarantee program constituted a prohibited subsidy; that the direct payments we consider to be "green box" do not qualify as green box; and that the domestic cotton program caused "serious prejudice" to the interests of Brazil.

There are different reports as to whether the Panel found a threat of serious injury in the future, so we are completely unsure how to evaluate that component of the decision.

I don't need to tell this committee how significant this decision may be. We are disappointed, somewhat surprised, and certainly not enjoying the avalanche of editorial writers across the United States using this decision to paint a target on U.S. cotton producers. A bevy of newspaper editorial boards felt obligated to suggest the WTO Panel got it right and the U.S. should just go ahead and offer up the U.S. cotton program to the World Trade Organization, like an old-fashioned sacrificial lamb.

We, of course, strongly disagree. The appeal process will take several more months and even then parties are given a reasonable amount of time in which to conform programs to the WTO ruling. There should be no immediate changes to the U.S. cotton program. It is far too early to begin to speculate what changes will ultimately be considered.

Our industry has been heartened by the statements of support offered by many members of this committee, the Congress and the administration. We agree with Ambassador Zoellick that we are in the first stages of a marathon—a race that involves both this dispute settlement action and the ongoing Doha negotiations. We should not and cannot unilaterally disarm under these circumstances.

One article, however, did peak my interest. A Washington Post story on the Panel Report tried to frame the negative decision in the context of the overall agreement. It pointed out that while the decision may appear contrary to U.S. agricultural interests, other parts of the WTO agreement are beneficial to the United States in general and U.S. agriculture in particular.

The cotton industry in the United States has just been dealt a major blow by a decision we believe is incorrect. However, we fundamentally understand the value of the WTO and the agreements that brought it to life. We will fight this decision and its ramifications, but we will also work to ensure that the U.S. cotton program complies with WTO disciplines. A rational, rules-based international trading system is superior to the alternative. We will do our part, working with this committee and the administration, to maintain an effective U.S. cotton program that complies with WTO rules.

What concerns us the most is that the U.S. cotton program in 1992 and 1994 was fully coupled to production and had a higher loan rate and target price than any cotton crop subject to the 2002 farm bill. We moved toward decoupling, we slightly reduced loan rates and we reduced the target price, yet today's program somehow was ruled to support cotton at a higher level than we did in 1992. We are perplexed by that result.

We are further concerned with reports that production flexibility payments and direct payments are not considered to be "green box" under the Agricultural Agreement. We do not know the Panel's rationale here, but the U.S. submissions indicate that Brazil essentially argued that no payment program is minimally trade distorting and therefore no payment program is truly green box. This seems clearly contrary to our intent in the Uruguay Round Agreement.

We are troubled that this Panel apparently found a way around clear language in the Uruguay Round Agricultural Agreement exempting agricultural credit guarantee programs from its provisions.

And we are disappointed that a part of the cotton program that was enacted as a part of the loan program back in 1990 and had always been notified to the WTO as an amber box program was determined by this panel to be a prohibited subsidy and improperly classified.

Most significantly, we are disturbed that parts of this ruling force us to conclude that either the United States does not know what it is agreeing to in the WTO or the WTO agreement is being interpreted contrary to the intent of the contracting members.

In 1993 Sam Hollis, a former President of the National Cotton Council and a cotton warehouseman from Memphis, was in Geneva at the conclusion of the Uruguay Round. Sam was a member of the Agricultural Policy Advisory Committee. As the last parts of the agreement were being concluded Sam asked U.S. negotiators directly whether Step 2 was to be classified as an export subsidy or as an amber box program. He was told clearly and directly that Step 2 was not an export subsidy but was an amber box program.

In the statement of administrative action accompanying the WTO legislation, Congress was told that the "Export Credit Guarantee Program, one of U.S. agriculture's most effective tools, is among the programs exempt from reduction commitments under the Agreement on Agriculture."

I can't help but speculate what Congress' reaction to the Uruguay Round agreements would have been if it had known that———

export credit guarantees were in fact covered by reduction commitments under the Agreement on Agriculture;

green box programs are not exempt from actions under the subsidies code; or

that cotton's Step 2 program would not be classified as an amber box subsidy.

I am not asserting that any one of our negotiators or the officials establishing policies for those negotiators tried to mislead Congress or U.S. agriculture. There is also nothing partisan in this observation. The Uruguay Round was a bi-partisan negotiation.

I am suggesting, however, that the apparent decision in the Brazil case should raise a caution flag for this Congress, for our current negotiators and for the private sector. It will be very difficult for the U.S. cotton industry to accept at face value interpretations of proposed trade agreements that are not supported by an abundance of clear evidence that will be recognized by the WTO.

It has been the case until now that we have given our negotiators the benefit of the doubt until the final language is completed. Unfortunately, when the final language is completed, we are usually told there can be no changes. If Doha does move forward and we are presented with a new negotiating text, we should make every effort to parse the language and avoid unsupported interpretations. The job of drafting an agreement that should pass muster in the U.S. Congress just got a lot more difficult.

Mr. Chairman, I would be remiss if I did not commend the efforts of the U.S. defense team in this case. They have been led by very capable attorneys from the Office of the U.S. Trade Representative and the Department of Agriculture General Counsel's Office. Joe Glauber in the Office of the Chief Economist at USDA and many other professionals at the Department of Agriculture, in FAS and in ERS, have worked on the U.S. arguments. Their efforts belie the usual portrayal of bureaucrats. These people have cared about this case and their work, and they have gone the extra mile.

CHINA; IMPLEMENTATION OF WTO

The Council has raised serious concerns with the way in which the People's Republic of China has implemented its market access commitments under its WTO accession agreement. As a result of our concerns, the U.S. Trade Representative's Office has conducted numerous discussions with China officials in an attempt to get China to modify its implementation of the tariff rate quota (TRQ) for cotton. Our primary objection has been China's allocation of a significant portion of the cotton TRQ to the "processing trade." By allocating quota to the processing trade, China is requiring that apparel made from that cotton be re-exported. Essentially, the processing trade category is not true market access as required by the terms of the U.S.-China WTO accession agreement.

In 2003, China announced revisions to its regulations governing imports of cotton under the TRQ. While those revisions were an improvement and an attempt to simplify procedures, it appears that the processing trade category still exists and that it can still become an impediment to U.S. cotton exports.

However, other events in U.S.—China cotton fiber trade must be noted. China has grown to be the largest importer of U.S. cotton in the world, purchasing over 2.5

million bales in 2003. China announced an additional 2.3 million bales of import quota for 2003 and an extension of the 2003 quota year to June 2004, and has recently announced an additional quota amount for 2004 that reportedly raises the 2004 quota to 8.7 million bales total. The U.S. will undoubtedly provide a large portion of the cotton purchased in China over the next year.

This level of trade with China is beneficial to the U.S. cotton industry and relieves some of the immediacy regarding changes in China's tariff rate quota implementation. China is increasing its cotton tariff rate quotas due to the Chinese textile industry's demands for greater access to the world cotton supply.

Despite this beneficial trade, the United States and the U.S. cotton industry must remain vigilant and continue to push for reform in the TRQ system as required by the WTO agreements. Should internal pressures to purchase foreign cotton subside within China, the private/processing trade distinction that is a part of China's TRQ implementation will once again become a significant barrier to U.S. exports and will exacerbate an ever widening U.S. trade deficit.

China—Quality issues

The Council continues to monitor the manner in which China is instituting a new set of quality standards applicable to cotton fiber sold in China. This new standard would test all cotton for its short fiber content and its nep count to "prevent fake and bad quality cotton from flowing into the market and to fight deceptive practices in the trade." The U.S. cotton industry has concerns about this new test and believes that there are no cost-effective, reliable tests for short fiber content and nep count.

China has recently announced its plans to totally revamp its cotton handling, inspection and grading systems. There are plans for a specialized government classing agency, the use of HVI classing, maintenance of a central database, permanent bale identification, standard bale sizes, specialized warehouses, a replacement of outdated gin presses, etc. The program is ambitious and calls for it to be phased in over a number of years. It is significant that this program is focused on internal cotton classification and handling and does not appear, at this time, to be targeted to imports.

China—textile safeguards

In late December 2003, the administration formally requested consultations with China under the special textile safeguard provisions contained in the U.S.—China WTO accession agreement. The request for consultations automatically triggers the quota provisions on three categories of textile products that had been the subject of a safeguard petition filed by the textile industry. The three categories are knit fabric, dressing gowns and brassieres.

The China specific safeguard allows the United States and other WTO Member countries that believe imports of Chinese origin textile and apparel products are, due to market disruption, threatening to impede the orderly development of trade in these products to request consultations with China with a view to easing or avoiding such market disruption. Upon receipt of the request, imports from China may be restricted to a level no greater than 7.5 percent (6 percent for wool product categories) above the amount entered during the first 12 months of the most recent 14 months preceding the request for consultations. The import quotas may last up to one year. China-specific safeguard petitions are filed with the Committee on the Implementation of Textile Agreements (CITA).

The NCC believes the imposition of these import quotas will have virtually no impact on the raw cotton supply/demand situation in China for the 200304 marketing year. The average increase in imports from China in knit fabric and nightgowns was more than 800 percent in 2002.

## AFRICA

The U.S. cotton program was the target of a well-orchestrated campaign asserting that the U.S. cotton industry is hurting African nations that depend on cotton as a means to earn export income. Using seriously flawed analysis, several extreme international organizations convinced a few African countries to take on this cause. The President of Burkina Faso took the unprecedented step of addressing a negotiating group of the WTO to urge it to require the United States to end its cotton program during the summer of 2003.

The attack reached a crescendo when the chairman of the WTO singled cotton out in the agenda he prepared for the Cancun Ministerial meeting. The cotton sectoral initiative demanded by the four African countries was an immense burden for the process. The publicity generated was excessive. The time that had to be spent by the WTO and by the U.S. delegation in fighting that initiative was excessive.

It was hard to understand why and how cotton was singled out in Cancun. Through its agricultural proposals, the U.S. cotton program had been on the negotiating table from the outset. Instead of joining with the United States to move Doha forward in Cancun, most developing countries used the Africa proposal and other issues to stop progress. The WTO Chairman's unfortunate decision to bring his office into the issue raised hopes among the four African countries. Ultimately, it became clear that these countries were seeking some sort of compensation from the United States or from the WTO and both parties were completely unwilling to do anything that smacked of compensation.

U.S. negotiators took a firm stand against the initiative arguing that any discussion about distortions in world trade in cotton fiber had to be broadened into a sector-wide approach, including man-made fibers and all textiles and had to include discussions on market access for textiles.

As the United States began its attempts this year to re-ignite the Doha Round, the African proposal, while still being discussed, seems to have moved back into the general agricultural negotiations, which is where it belongs.

In the meantime, the National Cotton Council has worked independently and with the administration to open a dialogue with Benin, Burkina Faso, Mali, and Chad. We have organized informational exchanges with some of these countries. Officials have met with cotton industry executives to better understand the central forces driving investment in cotton and cotton textile production. Efforts are underway to ensure these countries have the opportunity to benefit from biotech-enhanced cottonseed if they so desire. The Council also worked with the administration to provide a small exemption for African cotton in the rules of origin contained in the Morocco free trade agreement.

These are small steps, but are reflective of our belief that there is more than enough room in the world cotton market for African production and there are meaningful steps these countries can take to reform their systems, increase markets and enhance the returns available to their growers.

The U.S. cotton industry has reacted to the African proposals by looking at the true reasons underlying their complaints, namely, international prices so low that these countries were losing money. We knew that low prices were prevalent for virtually every internationally traded commodity, agricultural and non-agricultural, from 1998 to 2002. This low price phenomena was not associated with any one country"s foreign or domestic policies.

We hope we have made progress, and we continue to talk to these countries. I will be traveling to Burkina Faso in June. We intend to host an African delegation to cotton country in July.

We do not intend to offer false hope. We are not seeking to buy off African concerns with fictitious "reforms" of the U.S. cotton program that do not result in true change. We will continue to work with our negotiators in the Doha Round in attempting to achieve additional disciplines on agricultural subsidies in a multilateral context.

## FREE TRADE AGREEMENTS

The U.S. continues to pursue an ambitious schedule of free trade negotiations. Several are awaiting Congressional consideration at the present time. Reciprocal market access, effective rules-of-origin, no tariff preference levels, strong Customs enforcement provisions and effective rules to protect intellectual property remain the cotton industry's priorities in any free trade agreement.

With respect to cotton fiber imports into the United States, these agreements tend to provide for the immediate elimination of import duties on in-quota cotton fiber, with duties applicable to imports outside the WTO-negotiated tariff rate quota to be phased out over an extended length of time. From a cotton fiber perspective, these agreements are generally reciprocal and are generally acceptable.

However, the U.S. cotton industry must evaluate each free trade proposal from an agricultural and an industrial raw material perspective. Textile and apparel provisions may have as much or more of an impact on the U.S. cotton industry than do the agricultural provisions.

The North American Free Trade Agreement (NAFTA) remains a true success story for the U.S. cotton industry. It has helped our textile industry compete with low-priced Asian textiles. It is not the answer for long-term U.S. competitiveness in cotton products, but it has been a boost to the U.S. cotton industry from its inception.

The Council has worked for other free trade agreements that would provide benefits to the U.S. textile industry. The key is a rule-of-origin for textile and apparel products that is no less restrictive than those in the North American Free Trade

Agreement. A rule-of-origin based on NAFTA-type rules ensures that workers and companies in the United States and the partner country are the beneficiaries of the agreement, not entities in third countries. Anything less opens the U.S. cotton and textile industries to unfair, unbridled competition from countries that will transship textile products in order to take advantage of quota-free, duty-free access to the U.S. NAFTA rules-of-origin provide generally for a yarn-forward rule for cotton textiles and a fiber-forward rule for cotton yarn.

Although the Council has consistently argued against the inclusions of so-called tariff preference levels (TPL's) and other exceptions that undermine the basic rule-of-origin in free trade agreement, most of the agreements have contained some level of TPLs. Some of the more recent awards of exemptions from the applicable rules of origin are excessive.

The Australia agreement contains no TPLs. The Central American Free Trade Agreement (CAFTA) and the Moroccan agreement do contain TPLs.

So far, the United States has agreed to allow third country fabric to qualify as originating goods in an amount equal to 18 percent of total U.S. apparel production. This is 18 percent of an industry that seems to decline every year. This 18 percent free ride is not being granted to fabric made in the countries that negotiated the free trade agreement. It is a free ride being granted to other countries—like China, India and Pakistan—and discourages the development of spinning and weaving capabilities in the participating countries.

When the administration began negotiating the CAFTA, it stated that there would be no TPLs in this agreement. No free rides for third country fabric. The National Cotton Council and organizations representing the U.S. textile industry supported that stance and worked to achieve a Central American Agreement based on the U.S. position. In the end, that is not the agreement that is going to be signed and presented to Congress for its approval. In place of no exemptions, the agreement includes significant TPLs and "cumulation" for Mexico, undermining the applicable rule of origin.

The National Cotton Council continues to believe that good free trade agreements, particularly in this hemisphere, can help the U.S. textile industry and the U.S. cotton industry. However, the tendency of the United States to agree to provide free trade agreement benefits for textiles from countries that are not part of the deal continues to undermine any potential benefit for the U.S. cotton industry.

A significant economic study performed in conjunction with the National Cotton Council recently concluded that the greatest bearing on the economic future of the U.S. textile industry and, therefore, on the amount of cotton sold to U.S. textile mills, will be (a) the source of textile products imported into the U.S. market, and (b) the source of yarns and fabrics from which the products are made. The only realistic, significant opportunity for improving the economic outlook for the U.S. textile industry is to achieve provisions in trade agreements that foster the use of U.S. yarns and fabrics in textile products that are cut and sewn in this hemisphere. Tariff preference levels achieve the opposite result. They hurt the U.S. textile industry and the U.S. cotton producer.

## World Trade Organization

As the United States works to advance the Doha Round of multilateral trade negotiations, the National Cotton Council wishes to reiterate its priorities and comment on several aspects of the draft ministerial text that was developed in Cancun.

## Improved Market Access

From the outset of the Doha Round, the National Cotton Council has supported a negotiation that would provide timely, effective and reciprocal access to foreign markets for U.S. raw cotton, U.S. manufactured textiles, and U.S. cottonseed and products. We have sought real increases in market access. We are concerned that achievement of these goals is hampered by 1) statements by the United States that it is willing to obtain less than reciprocal market access in non-agricultural products; and 2) an unwillingness of countries with high bound tariff rates to begin reductions from their applied tariff levels.

For many countries, the tariff reductions being discussed would result in no new market access for United States exports. For many countries, the discrepancy between bound tariffs and applied rates under the WTO makes tariff reduction commitments in agriculture virtually meaningless. Real increases in market access for cotton fiber and cotton products should be predicated on tariff reductions from applied rates.

### Tariff Rate Quota Implementation Must Be Improved

The Office of the U.S. Trade Representative is well aware of the manner in which tariff rate quotas have been implemented in several countries. Often this implementation does not conform with WTO obligations and does not result in the agreed upon levels of market access. While TRQ implementation was a part of initial U.S. Doha proposals, it has faded into the background in recent discussions. The Council urges the U.S. government to ensure that TRQ implementation remains on the Doha agenda and that more clear rules governing the implementation of TRQs be included in any agreement.

### Developing vs. Developed

The developed versus developing country dichotomy advanced by some in Cancun was a clear attempt to move the Doha Round negotiations away from reciprocity. While we are sensitive to the needs of many less developed countries, we are not willing to broadly grant liberal, one-way concessions to countries that are as competitive as the United States in world agricultural trade.

Under the current structure of the WTO Brazil claims the same economic position as Mali; China claims the same economic position as Nigeria; and India claims to be in the same stage of economic development as Burkina Faso. We fully support the efforts of Ambassador Zoellick to plug this loophole in the WTO. Truly less developed countries should receive concessions within the WTO agreements. But countries that are competitive in world agricultural trade must stop having it both ways.

### Trade Distorting Domestic Support

The United States exhibited a willingness to make substantial reductions in trade distorting domestic support in Cancun and has demanded these reforms since the inception of the Doha Round. The unambiguous position of the United States was largely ignored in Cancun, however, as the U.S. approach requires the rest of the world to make corresponding changes in their trade policy.

Recent draft texts covering the agricultural negotiations have introduced new approaches to disciplines on domestic support that have not yet been fully discussed among United States commodity producers. The draft ministerial text introduced commodity specific limits on amber box support into the negotiation. The U.S. cotton industry needs to achieve a better understanding as to how the United States anticipates such a new discipline would be implemented. We have concerns that product specific amber box limits could detrimentally impact commodity program flexibility from year to year. Such a restriction may cause a difficult adjustment for U.S. agriculture as commodity markets are inherently not stable from year to year.

In addition, recent draft texts also call for a review of green box programs suggesting that these non-trade distorting subsidies may be significantly restricted in a new WTO agreement. As with the prospect of a commodity-specific AMS ceiling, the cotton industry is concerned that unwise changes to the green box classification could also negatively impact U.S. commodity programs and restrict the ability of the United States to carry out effective domestic agricultural policy.

Certainly, the final decision in the Brazil—U.S. cotton case could have a significant impact on the U.S. negotiating position.

### Singling Out Cotton for Special Treatment

The U.S. cotton industry believes that a beneficial WTO agricultural agreement will contain substantial market access improvements, an agreement to phase out export subsidies, and significant reductions in, and greater harmonization of, domestic supports by all countries.— The U.S. cotton industry is fully prepared to negotiate significant reductions in trade distorting domestic supports as a part of an overall, beneficial agreement. While every product and policy must be on the table for negotiation in the Doha Round, we object to efforts to single out cotton for special treatment. These efforts are unwarranted and undermine a negotiation supposedly dedicated to overall reform.—

The United States has correctly observed that trade distortions in cotton are broader than just the production of cotton fiber, encompassing policies regarding manmade fiber and all textiles and apparel. Any meaningful effort at worldwide reform of policies affecting trade in cotton fiber must necessarily include all of these intertwined products. Other countries, however, seem unwilling to truly seek reform in the overall trade in fiber, textiles and apparel, preferring instead to unfairly target U.S. cotton. The strategy of singling out one U.S. commodity for special treatment must be met with a consistent message, namely, that targeting U.S. cotton will not help advance a Doha Round agreement. It will make it more difficult to obtain.

The U.S. cotton industry has not asked for special treatment in this negotiation. It is fully prepared to participate in a meaningful negotiation that contains beneficial concessions by all parties. Feigned complaints that U.S. cotton will escape discipline should the world reach a new agricultural agreement in this round of negotiations should be regarded as what they are—diversionary tactics designed to lead the Doha Round away from a broad-based, reciprocal agreement.

## Export Subsidies

The cotton industry supports the U.S. push to eliminate export subsidies in agricultural trade.— Export subsidies are no doubt the single most trade distorting mechanism in agricultural trade, causing adverse effects for all non-subsidizing exporting countries, and especially for least developed country exporters. We see no reason for the elimination of export subsidies to be limited to those commodities that are most important to developing countries as we believe different developing countries will have different economic interests. It would be better to eliminate these very distorting subsidies outright.

At the same time, improvements need to be made in WTO rules with respect to downstream subsidization of agricultural products, the use of export taxes to reduce prices of processed products, content requirements for exports and exemptions from taxes for exported products. The refund of special value-added-taxes (VAT) on processed products that are exported is used in many textile exporting countries to subsidize textile and apparel exports. This activity should be classified as an export subsidy, and prohibited.

## Textiles

The Trade Act of 2002 set out the principal negotiating objectives of the United States with respect to trade in textiles and apparel articles. It stated that the U.S. is to obtain competitive opportunities for United States exports of textiles and apparel in foreign markets substantially equivalent to the competitive opportunities afforded foreign exports in United States markets and to achieve fairer and more open conditions of trade in textiles and apparel.

The health of U.S. cotton producers has been inextricably tied to the health of the U.S. textile industry since the early 1900's. The U.S. textile industry is not healthy today. Increasing competition from imports has cut the size of the U.S. textile sector almost in half over the past five years. The apparel sector has shriveled beyond recognition.

The Uruguay Round Agreements provided for worldwide textile quotas to be completely phased out by January 1, 2005. Five years after that agreement was negotiated, China was made a member of the WTO and will be able to take full advantage of the quota phase-out.

It is critical that U.S. negotiators take the textile negotiating objectives seriously in the Doha Round. They must return with an agreement that provides competitive opportunities for U.S. exports of textiles and apparel substantially equivalent to the competitive opportunities afforded textile imports into the United States. In order to achieve this objective———

- foreign tariffs should be made comparable to US tariffs. There should be no further reduction in U.S. textile tariffs until textile tariffs are equalized worldwide;
- non-tariff barriers, which are being increasingly erected to block imports, should be eliminated;
- tariff rate quota implementation should be improved; and
- developing countries that are competitive in international markets with respect to certain commodities or products should be made to conform to trade disciplines that are equivalent to those adhered to by developed countries.

China has stated that because it is a recently acceded member to the WTO it should be given longer time frames in which to implement any future market liberalization under the Doha Round. We disagree. China insisted on being included in textile quota phase-out within the same time frame as countries that were members of the WTO in 1994, essentially upsetting the economic foundation of the Uruguay Round textile agreement. China may face significant transitional issues, but it chose to reap the benefits of WTO membership without delay. It should also shoulder its responsibilities in the same time frame.

Other NCC Objectives in the Doha Round

The following is a summary list of other objectives the National Cotton Council supports in the Doha Round negotiations:

Stop the erection of non-tariff trade barriers against agricultural biotechnology products.

Improve the ability of the WTO to address managed and/or manipulated exchange rates.

Improve disciplines applicable to the state trading of agricultural commodities.

Maintain strong U.S. rules to protect against unfair trade practices.

Do not weaken U.S. countervailing and anti-dumping laws.

Maintain the ability of the United States to enter into beneficial regional trading arrangements.

The Council supports the new farm bill and believes the policies contained in that bill are consistent with U.S. WTO obligations. Obviously, we disagree with the dispute settlement Panel in this regard.

## EXPORT CREDIT GUARANTEE PROGRAM

The export credit guarantee program has been an important component of U.S. agricultural policy for well over 20 years. For the past two years the Council has worked with a group of interested trade associations to provide input to USTR and USDA in regard to export credits and export subsidies.

The degree to which the US should accept disciplines on GSM programs depends upon the extent to which the export subsidy programs of the EU and other countries are eliminated, the degree to which monopoly practices of State Trading Enterprises (STEs) are eliminated, and the degree to which real market access is achieved.

Negotiations must start from the commitment in Article 10.2 of the Uruguay Round Agreement on Agriculture to establish disciplines to govern the use of credits which clearly distinguishes between the treatment of credits and export subsidies. Disciplines must cover the full range of credit programs, e.g. export credit insurance, and practices (including those of State Trading Enterprises) for many of which there is a substantial lack of information and transparency that must be addressed. Any negotiated disciplines should be transparent, clearly understood, implemented equitably and with relative ease, and monitored effectively and should prohibit credit programs and similar financial practices that do not comply with WTO rules.

One final point must be made. It is essential that the Doha Round Negotiations continue to be a single undertaking in which the full WTO negotiation is completed prior to implementation of any specific provisions, including disciplines on agricultural export credits.

## MARKETING ACCESS PROGRAM

The Market Access Program and the Foreign Market Development Program continue to be critical components of an effective cotton trade policy. The combined investment of private and public funds, coupled with industry marketing expertise, results in innovative, forward-looking programs that leverage money into high impact campaigns and promotional efforts.

Unfortunately, funding under the FMD program, in particular, has not kept pace in the last two years and needs to be strengthened. We also would encourage the committee to continue its support for a MAP program funded at its 1992 level of $200 million.

We must continue to support and fully fund crucial U.S. export programs including the Market Access Program and the Foreign Market Development Program if we are to fairly compete effectively in today's global marketplace.

## TEXTILE TRADE POLICY

The National Cotton Council continues to work with Congress and the administration to find ways to enhance U.S. textile competitiveness, whether through appropriate changes in costly regulations or through well-designed regional trading arrangements. Despite these efforts, the ability of China to sell textile and apparel products at extremely low prices may shortly swamp the U.S. industry and damage textile industries in other producing countries.

We believe it is important that the textile producing countries of the world evaluate the worldwide impact likely to occur in January 2005 and determine what steps need to be taken in order to ensure the orderly development of world markets in textile and apparel. We have asked the administration to participate in an international meeting to consider the impact on textile producing countries should the fourth stage of product integration for textiles and apparel occur as scheduled on January 1, 2005. Textile and apparel groups from more than 33 countries around the world, including the United States, have called for this discussion.

### Biotechnology

Briefly Mr. Chairman, the Council has been disappointed in restrictions on the products of agricultural biotechnology that have been imposed by several countries around the world. We are convinced that biotechnology is a key component to a more efficient and environmentally conscious agricultural sector. We are actively supporting the efforts of the United States and other agricultural trade associations to ensure that countries do not continue to erect or maintain unfair restrictions on the importation of the products of agricultural biotechnology.

### Economic Overview—Cotton and International Trade, Outlook for U.S. Raw Cotton Exports

Since the late 1990's, the U.S. cotton industry has experienced a tremendous shift between domestic mill use and exports. In the 1997–98 marketing year, domestic mill use of 11.3 million bales constituted 60 percent of total disappearance. Now, just six years later, mill use for the current 2003–04 marketing year is expected to be no higher than 6.3 million bales. Over that same period, exports have increased from 7.5 million bales in 1997–98 to an estimated 13.8 million bales for the current year. If realized, exports would be at an all-time high, surpassing the previous record by almost 2 million bales. Since 2001, exports have constituted more than 60 percent of total U.S. disappearance.

There are a number of factors behind the dramatic shift in off take of the U.S. cotton crop. Changes in trade policy, China's accession to the WTO, and the strength of the U.S. dollar are just a sample of forces that have accelerated the relocation of cotton spinning from developed to developing countries. To understand the implications for U.S. raw fiber exports, it is important to first evaluate the dynamics in major cotton countries around the world.

### China

As the world's largest producer and consumer of raw cotton, it is difficult to overstate China's influence on the world cotton market. Due to their sheer size and the uncertainty surrounding their actions, China tops the list of factors determining world prices and ultimately the price our growers receive.

For 2003–04, USDA estimates that China will spin 31.5 million bales of raw cotton, which is roughly one out of three bales of world consumption. Since 1997–98, China's consumption has grown by 12.4 million bales while all other countries have experienced a net decline of 1.6 million bales. The tremendous growth in their textile industry is fueled by a number of factors. Foreign investment and continued access to credit, even in the cases of non-performing loans, have allowed facility expansion and purchases of new equipment. China also has the advantage of a large supply of low-cost labor. The growth in their cotton mill consumption and textile production has largely occurred due to the expanded access to international markets due to their entry into the WTO in late 2001. China's retail consumption of cotton textile products has been slightly declining in recent years due to intense competition from manmade fibers.

China's growth in mill consumption has not been met with a corresponding increase in cotton production. In 1997 and 1998, China produced approximately 21 million bales and consumed 19 million. By the end of the 1998–99 marketing year, stocks of raw cotton reached an astounding 23 million bales. Since that time, production has fallen short of consumption in each of the last five years, stocks have fallen, and imports have increased. For the current marketing year, poor yields put China's production at 22.4 million bales despite a significant increase in acreage. With production falling 9 million bales below consumption, stocks have declined further and imports are expected to total 8.5 million bales. With 5 million bales of U.S. cotton purchased in this crop year, China has emerged as our largest export customer.

In response to stronger prices, China is expected to increase 2004 cotton acreage in the range of 5–10 percent. Assuming normal yields, production will recover to between 26 and 28 million bales. While this represents a significant increase over last year's level, it will still be well below the expected consumption of 32 to 34 million bales. Assuming no major changes in stock levels, then imports for the 2004–05 marketing year would be in the 5 to 6 million bale range. While lower than the current year, imports are still high by historical standards. Longer term, China is expected to generally be a net importer of raw cotton, although actual levels will be quite variable depending on the size of their own crop.

### India

India devotes more land to growing cotton than any other country in the world, but due to low yields, is only the third largest producer behind China and the United States. For 2003, growers in India produced 12.6 million bales, an increase of 2.0 million bales from the previous crop year. In recent years, their production has consistently fallen short of consumption, leaving them as a net importer on the world market. With their domestic mill use stable between 13.0 and 13.5 million bales, imports range between 1.0 and 2.0 million bales with exports between 40 and 100 thousand bales. The U.S. share of their imports has been quite volatile, ranging from a low of 2 percent in 1998 to a high of 52 percent in 2001.

For 2004–05, both production and consumption are expected to increase with little change in the overall trade position relative to the current marketing year. India's position in the world cotton market during the coming years will be dependent on their ability to improve yields through the adoption of biotechnology and more effective water management.

### Pakistan

Cotton is the backbone of Pakistan's economy, and the government continues to rely heavily on cotton production as a major source of employment and foreign exchange. With an 8 million bale crop, Pakistan produces the world's fourth largest cotton crop. The government continues to play a large role in Pakistan's cotton industry through various support measures.

Pakistan is also one of the few countries with a growing textile industry. The spinning and weaving industries continue to invest in new equipment as well as to renovate existing equipment. Industry sources generally report that the textile industry is seeking to improve quality as well as to diversify production to include more value-added products, rather than to rely mainly on lower-value yarn exports. As a result, domestic mill use has grown from 7.0 million bales to 9.6 million bales over the past 6 years. The result has been a scenario where imported cotton is needed to supplement domestic production. For 2003–04, USDA estimates that imports will reach 1.9 million bales. Pakistan is currently the largest customer of U.S. pima cotton, and all U.S. cotton constitutes about 40 percent of their purchases.

The higher prices should induce additional acreage in 2004, and with average yields, Pakistan's cotton crop will approach 9 million bales. However, this will be below expected consumption, which could reach 10 million bales. Strong export demand for textile products is underpinning the increased mill use. Despite the increase consumption, Pakistan's is likely to be a smaller net importer in 2004, with total imports of approximately 1 million bales.

### Brazil

Brazil is emerging as a significant cotton producer as acreage expands into the Mato Grosso region. Production for 2003–04 is estimated at 5.4 million bales, a level twice that of just 5 years earlier. Cotton consumption by Brazil's textile industry remains relatively stable, between 3.6 and 4.2 million bales. In the late 1990's, Brazil imported 1.5 to 2.0 million bales of cotton. The expansion of their domestic production has lowered their imports to less than 500 thousand bales, and subsequently allowed exports to increase. For the current marketing year, USDA estimates that Brazilian exports will reach 1.4 million bales.

Based on current cotton prices relative to soybeans, acreage expansion for the coming year should be fairly modest. If so, then favorable growing conditions will lead to a crop between 5.5 and 6.0 million bales and allow Brazil to maintain its net-exporter position.

In the coming years, available land and favorable growing conditions will allow cotton production to continue to expand. It is also expected that their production will expand at a rate faster than their consumption, allowing much of the additional production to enter export channels.

### Uzbekistan

Cotton has traditionally been the primary cash crop in Uzbekistan and an important source of employment and foreign exchange. At the same time, the environmental effects of years of cotton production have caused an environmental and health crisis in the country. Production in 2003 fell to 4.2 million bales, down from 4.6 million the previous year. Although the government's target is 5.5 million bales, actual production continually falls below that level.

Recently, the government initiated a major program to reform the cotton sector, aimed mainly at improving fiber quality. Also, the state determines the area, sets production targets and prices, supplies inputs and procures and markets the bulk of the crop. With continued support of the government, production in 2004 should climb to approximately 4.5 million bales.

There are also efforts underway to enhance the domestic textile industry, and thus spin more of the crop domestically. For the 2004–05 marketing year, only modest growth is expected in their domestic use, and the bulk of production will enter the export market. Longer term, the stated goal is for the domestic textile industry to consume 50 percent of their cotton production. If realized, this would lead to a decline in raw cotton exports.

### TURKEY

Turkey consistently produces approximately 4 million bales of cotton. However, within the country, there have been regional shifts as environmental problems reduced area in traditional growing regions and new irrigation infrastructure has allowed expansion in new areas. Stronger prices in 2004 are expected to contribute to additional acres, and production could approach 4.3 million bales. Longer term, production growth will be limited due to competition from high-valued crops.

Turkey's domestic mill use has experienced steady growth in recent years and is estimated at 6.2 million bales for 2003–04. As a result, imports range between 1.8 and 2.8 million bales. Since 2001, Turkey has been a steady buyer of U.S. cotton, with 50–60 percent of purchases being U.S. growths.

### AUSTRALIA

Australia produces high-quality cotton that completes directly with growths from California's San Joaquin Valley. Prior to a severe drought in 2002, Australia's production averaged 3.4 million bales with 95 percent moving into the export market. The past two crops have been at 1.7 and 1.4 million bales, respectively, due to a sustained drought.

Recent rains have improved the coming year's production outlook but concerns remain. While production is not expected to reach historical levels, a level of 2.0–2.5 million bales is attainable. This will allow exports to recover but still stay below historical levels.

### WORLD TOTALS & U.S. EXPORTS

Over the past two years, world production has fallen short of consumption by more than 15 million bales, resulting in a significant decline in stock levels. The tighter balance sheet, coupled with China's increased imports, has led to stronger prices since mid–2003. The stronger prices are expected to increase world cotton acreage by 3–7 percent in 2004, with the degree of increase limited by stronger prices for competing crops. Normal yields would lead to a world crop between 100 and 102 million bales, which would be an all-time high.

Global consumption is not expected to show similar growth and will likely total between 98 and 99 million bales. Continued competition from manmade fibers remains a constraining factor on global demand. Longer term, the greatest challenge facing the world cotton industry is the competition from manmade fibers. With only 5 percent of world population, the United States, with 20 percent of global consumption, represents the largest retail market for cotton textile products. For much of the remaining 95 percent of the population, per-capita consumption of cotton textiles has been flat or declining while purchases of manmade fiber products are on the rise.

With the recovery of global production, ending stocks will rebound by the end of the 2004–05 marketing year.

One of the determinants of U.S. cotton exports is the deficit in the foreign cotton situation, i.e. the amount by which foreign consumption exceeds foreign production. In 2002 and 2003, the deficit was 20.3 and 17.0 million bales, respectively, resulting in significant import demand for U.S. cotton. Obviously, a portion of any shortfall can also be satisfied by reducing stocks, which occurred in both years. Assuming no major weather problems, the gap between consumption and production will fall for the 2004–05 marketing year, and U.S. exports are also likely to decline from this year's high of 13.8 million bales. Our expectation is for exports between 11 and 12 million bales, which would constitute 65 percent of this year's expected U.S. crop.

### OUTLOOK FOR U.S. TEXTILE TRADE

Increasing textile imports over the past several years have devastated the U.S. textile and apparel industries. Despite a retail market that has grown by more than 3 million bales since 1997, U.S. mill use has fallen by 5 million bales over that same period. In 2003, imports of cotton goods topped 19 million-bale equivalents, and further growth is expected in 2004.

Evaluating the textile trade situation and its impact on the U.S cotton industry is complicated by the two-way trade that occurs with certain countries. The U.S. exports between 4.5 and 5.0 million-bale equivalents of textile products, primarily in the form of yarn, fabric, or piece goods. The majority of these exports go to NAFTA and CBI countries for further processing before coming back to the U.S. in the form of finished goods.

### U.S. COTTON PRODUCT IMPORTS

With 14.1 million bale equivalents in 2003, apparel is the largest category of imported cotton goods when compared to yarn, thread and fabric, and home furnishings. Imports of cotton home furnishings increased by 20 percent in 2003 to 2.1 million bale equivalents. Cotton yarn, thread and fabric imports decreased in 2003 to 2.7 million bales, down 9 percent from the previous year.

Once again, countries in the NAFTA and CBI represented significant sources of imported cotton goods in 2003. Imports from Mexico in 2003 totaled 2.5 million bales, down approximately 4 percent from the previous year. This marks the third straight year in which imports from Mexico have declined. Imports of cotton goods from Canada also decreased slightly to 564 thousand bales in 2003, down almost 2 percent from the previous year. Imported cotton goods from CBI for the year are estimated at 3.4 million bale equivalents. This is up more than 10 percent from the previous year. Combined, the NAFTA and CBI countries accounted for 34 percent of total U.S. cotton product imports in 2003, down from 36 percent in 2002. Other top sources of imported cotton goods in 2003 were Pakistan, China, India, Hong Kong, Bangladesh, Vietnam, and Turkey.

For the second consecutive year, the source of imported cotton goods into the U.S. market showing the greatest rate of growth was China. For calendar 2003, cotton product imports from China contain the equivalent of 1.9 million bales of cotton fiber. This is up from 858 thousand bale equivalents in 2001, the final year prior to their WTO accession. It appears likely that China will overtake Mexico in 2004 as the largest supplier of imported product.

For 2004, imports of cotton textile products from all sources are expected to surpass 20 million bale equivalents. Once again, imports are expected to increase at a faster rate than total retail consumption, putting further pressure on the domestic textile industry. However, the greater concerns of the textile industry are reserved for January 1, 2005, when all import quotas are scheduled to be removed.

### U.S. COTTON PRODUCT EXPORTS

Calendar 2003 marked the second consecutive year of modest growth for exports of U.S. cotton textile and apparel products. Exports grew by 6 percent in 2003 to 4.8 million bale equivalents. The majority of the increase in exports is due to an increase in cotton yarn, thread, and fabric. Exports of home furnishings increased slightly over the previous year, while exports of apparel declined for the second consecutive year.

The top customers of exported U.S. cotton textiles and apparel in 2003 were once again the NAFTA and CBI countries, with 93 percent of exports moving into these countries. Exports to the NAFTA countries last year totaled an estimated 1.9 million bales, down 6 percent from the previous year. Exports to the area accounted for 40 percent of all U.S. cotton product exports. Exports to the CBI countries totaled 2.6 million bale equivalents or 53 percent of all U.S. cotton exports in 2003. This is up 18 percent from 2002 exports of 2.2 million bales, and almost 46 percent higher than 2000 cotton product exports to CBI.

In 2004, exports of cotton textile products should show modest gains, but still fall below the peak of 5.1 million bales in 2000. Exports to Mexico, our largest customer for textile products, have declined in recent years, but are expected to stabilize in 2004. Growth markets will continue to be countries such as Honduras, El Salvador, and Colombia. Looking forward, cotton product exports into Western Hemisphere countries are critical to the future of the U.S. textile industry.

The apparent decision by the Panel hearing the Brazil—U.S. cotton dispute serves as a reminder that international trade agreements have real and significant impacts on U.S. industries and on policies carried out by Congress. But we cannot turn back economic forces. The U.S. cotton industry depends on the international market today more than ever before. We know that a rational, rules-based international trading system is superior to the alternative. We will do our part, working with this committee and the administration, to construct effective trade agreements and to maintain an effective U.S. cotton program that complies with WTO rules.

## STATEMENT OF BART RUTH

Good morning, Mr. Chairman, and members of the committee. I am Bart Ruth, a soybean and corn farmer from Rising City, Nebraska. I am a Past President of the American Soybean Association, which represents 25,000 producer members on national issues of importance to all U.S. soybean farmers. ASA appreciates the opportunity to appear before you today.

We commend you, Mr. Chairman, for holding this hearing to review the broad agenda of issues involved in agricultural trade. These issues have changed considerably over the past decade, as have our strategies for addressing them. I would like to first present a brief overview of the current situation, and then comment on soybean priorities in the WTO and Free Trade Agreement negotiations and several other important trade issues.

### OVERVIEW AND BACKGROUND

Since the 1970's, the U.S. has exported one-half of each year's soybean crop, either as whole soybeans, as soybean meal and oil, or in the form of livestock products. Soybean and soy product exports alone are currently valued at between $8 to $10 billion, making our industry the largest positive contributor to the national trade balance.

World demand for soy-related exports, particularly high protein soybean meal and livestock products, is growing rapidly. Expansion of developing economies has been accompanied by rising demand for and ability to afford a more nutritious diet. With 96 percent of the world's population living outside our borders and most of its growth in countries with low per capita consumption of soy products, our foreign market will only continue to expand.

U.S. farmers need to compete for these expanding markets. To do so, we need to bring down tariffs on soy-related products in importing countries, and prevent their replacement with non-tariff barriers. We must require both developing as well as developed country competitors to comply with the same disciplines on production and trade-distorting farm support programs that we must meet. And we must eliminate the distorting effects of our own domestic farm policies in discouraging soybean plantings when market signals indicate otherwise.

Each of these goals will be addressed during negotiations the agriculture community faces over the next three to four years. Current talks to reach agreement on a framework for agriculture as part of the Doha Development Agenda will reach a critical point at the mini-Ministerial in late June. Even if a framework is reached, actual commitments will need to be negotiated, and the time frame for completion will be uncertain. The Doha talks will also impact debate on the next farm bill, which will begin in 2006. And clouding the outcome of both of these negotiations will be the status of the recent WTO panel decision on the U.S. cotton program, the likelihood of an appeal, and the possible filing of similar cases.

### STATUS OF THE DOHA WTO NEGOTIATIONS

Against this background, let me now comment on ASA's position on the Doha WTO trade negotiations. We were an early and strong supporter of proposals by both the last and the current administration to require countries to improve market access by bringing higher tariffs down faster than lower tariffs using the so-called Swiss formula approach. We have supported making significant reductions in trade-distorting domestic support, provided that countries with comparatively higher levels of support—particularly the European Union make proportionately greater reductions, and that developing country exporters are subjected to similar disciplines. And we have agreed to discipline our export credit program, provided all export subsidies and similar credit programs are treated in the same manner.

As efforts accelerate to reach a framework agreement on modalities by July, it is unclear whether these goals will be achieved. The market access proposal advanced by the U.S. and the EU last August, which was incorporated in the Derbez text, would blend the Swiss approach we favor with across-the-board tariff cuts for an unspecified number of products, and would also reduce tariffs on other products to zero. Until we know how many products countries would be able to protect by making simple percentage reductions in bound tariff levels, we won't know how effective this blended approach will be in expanding market access.

We are concerned that, if countries are able to protect all or most of their sensitive import commodities from meaningful tariff cuts, we won't see the expansion of markets for soybeans, soybean meal, and livestock products needed to justify accepting substantial reductions in domestic support and changes in our export credit program that will dramatically decrease its effectiveness. A formula must be found that will ensure a significant increase in market access for U.S. soy and livestock products, as well as other key U.S. agricultural commodities. If a blended approach is maintained, we believe increased market access will need to be assured through expanding tariff rate quotas (TRQs) that are tied to some percentage of domestic consumption.

Moreover, various texts put forward by the WTO agriculture negotiating committee would continue to allow developing countries to exempt import-sensitive Special Products from any tariff reduction, and to invoke Special Safeguards to restrict imports, regardless of whether there is evidence of injury to domestic producers. These proposals remain undefined, and could negate efforts to improve market access in developing countries with more advanced economies. Simply put, developing countries represent the largest growth markets of the future for U.S. agriculture and largely exempting these countries from market-opening efforts would result in a Doha Round that provides limited market access gains.

Finally, while we understand and support proposals to exempt the least developed countries identified by the OECD from opening their agricultural economies to outside market forces, concessional market access terms should not be offered to more advanced developing countries, particularly those that are significant agricultural exporters. In addition, the recent proposal by the EU to provide a "free Round" to all ACP and African countries, would allow countries like South Africa, Egypt, Morocco and Kenya to avoid market-opening measures. We oppose such a broad definition for market access exemptions.

On domestic support, the extent to which reductions in trade-distorting Amber Box programs will be required also remains undefined, and there is no evidence the EU has agreed to make a proportionately greater reduction in these programs than the U.S. We are concerned by the provision in the Derbez text that would disaggregate Amber Box support in favor of commodity-specific support. While we understand the interest of some countries to ensure that support for certain commodities is capped or reduced, we want to be sure that soybeans are not disadvantaged in the selection of a common base period for all commodities.

It is also unclear whether other countries will accept the U.S.-EU proposal to redefine the Blue Box to include our counter-cyclical income support program, or to exempt "de minimis" non-product specific support from discipline. In this regard, the EU's recent proposal to eliminate the "de minimis" provision is not acceptable to ASA.

Of particular concern to ASA is the failure of the various negotiating texts to distinguish between least developed and advanced developing countries by allowing self-designated developing countries to exempt themselves from disciplines required of developed countries. Clearly, the least developed countries, as defined by the OECD, have Equally clearly, countries that are world-class producers and exporters of soybeans and other commodities—like Brazil—should not be allowed to exempt themselves from meaningful market access commitments or have the unlimited ability to implement trade-distorting domestic support and export policies. These advanced developing countries that are world-class exporters should be required to implement similar or identical commitments to those undertaken by developed countries.

ASA has been working to identify programs provided by the Brazilian Federal and state governments that subsidize increased production and exports of soybeans and soy-related products. At the request of interested Members of Congress, the Foreign Agricultural Service has found a number of credit programs with heavily subsidized interest rates that are financing farm operations and purchases of land, equipment, and fertilizer. FAS has also identified a tax levied on idle land which encourages landowners to bring more acreage into crop production. We are continuing our efforts to define and quantify the impact of these and other subsidies on Brazil's agricultural production and exports.

ASA and other farm organizations have asked U.S. negotiators to include provisions for differentiating between developing countries that are major, world-class agricultural exporters and those that are not. We strongly believe that Brazil and similar countries must be subject to the same disciplines that we must face and, if appropriate, make the same reductions in production and trade-distorting programs that we must make. They must not be given unbridled ability to implement highly trade-distorting domestic support and export policies, as has been proposed under both the Harbinson and Derbez texts. As a producer, I can tell you that soybean farmers will not be able to support a new WTO agreement if our major competitors in developing countries remain exempt from disciplines on domestic programs that subsidize production and exports.

Let me now comment briefly on export competition issues in the WTO negotiations. ASA was pleased by the EU's recent decision to agree to a date certain for eliminating export subsidies. We are working closely with U.S. negotiators to ensure that the export subsidy component of our GSM credit guarantee program is reduced in a parallel manner with export subsidies. We do not believe that reform in our CCC credit programs should go beyond eliminating the interest rate subsidy.

We continue to be concerned by efforts to eliminate non-emergency foreign food assistance provided under P.L. 480 Title 1 and other food aid programs. Assistance in the form of food is essential to help developing countries alleviate poverty, combat diseases such HIV/AIDS, and develop economically. U.S. food aid programs are already complex enough, and channeling each food aid project decision through a third party (such as the U.N.) or decreasing the ability of the private voluntary organizations (PVOs) to provide non-emergency food aid will only hurt those we attempt to help. We recommend that any disciplines on food aid be considered separately from reforms in export-related programs, and urge that experts in this area, including from the WFP and the PVO community, be included in future negotiations.

## The Blair House Agreement

Finally, Mr. Chairman, ASA continues to be concerned by indications that the European Union intends to ignore its requirements under the Blair House Agreement, reached as part of the Uruguay Round Agreement. Under Blair House, the EU agreed to restrict subsidized oilseed area, and to limit production of oilseeds for industrial purposes on so-called set-aside land. After several reforms of the Common Agricultural Policy, the EU now maintains that its oilseed supports are either not crop-specific or that support has been decoupled and, as a result, the Blair House acreage restrictions no longer apply. At the same time, they have initiated a carbon credit program to subsidize production of energy crops, including rapeseed for biodiesel. ASA and other U.S. oilseed organizations believe the EU must be reminded of its Blair House obligations, which have been bound in the EU's WTO commitments. The United States must be prepared to aggressively challenge the EU if it breaches its obligations.

## FTAs and Regional Trade Agreements

Regarding Free Trade Agreements, we support passage of the Central America Free Trade Agreement (CAFTA), Dominican Republic, and Morocco FTAs. We are also supportive of the Australia FTA provided that the pork phytosanitary issues are resolved. We are anxious to see the conclusion of the Southern African Customs Union (SACU) FTA, in which we hope our soy protein feeding program will be used as a model for supplementary feeding of people receiving anti-retroviral drugs to combat HIV/AIDS, as well as supplementing local diets to fight malnutrition and low productivity.

We welcome the start of the Andean FTA negotiations. Andean countries have preferential pricing and tariff systems which allow our competitors from South America to export soybeans, soybean meal, and other soy products at duties much lower than apply to U.S. exports, even though we are closer geographically and can provide higher quality products. We hope negotiations with the Andean countries will result in elimination of price band systems and reductions in tariffs to allow U.S. soybean farmers compete fairly in these potentially large markets. Colombia, for example, could become a larger export market than the Dominican Republic, which is the fifth largest customer for U.S. soybean meal.

## EU Biotech Regulation

Finally, Mr. Chairman, I would like to comment about our ongoing effort—together with the rest of the U.S. agricultural community—to confront the growing challenge to our farm exports by non-science-based claims regarding food and environmental safety. This challenge is focused on decisions by the European Union that restrict the availability and competitiveness of food products derived from U.S. biotech commodities by imposing stigmatizing labeling and onerous traceability requirements. Unless the U.S. and other biotech producing and exporting countries challenge the EU's T&L regulation, we will continue to lose foreign markets, not only in Europe but in other countries that choose to or are pressured to follow the EU's example.

Following formal adoption of the T&L regulation by the EU, ASA and 21 other major national trade associations sent a letter to Ambassador Zoellick and Secretary Veneman expressing these concerns and requesting initiation of a dispute settlement proceeding under the WTO. We have been working to develop private sector support for the legal work required to mount a WTO case. We ask the committee to join our effort to confront these policies, which set a very negative precedent for stigmatizing and restricting without a scientific basis the trade in products that have passed rigorous safety reviews.

That concludes my comments, Mr. Chairman. I would be pleased to respond to questions you or other members of the committee may have.

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## STATEMENT OF DAN GERTSON

Mr. Chairman and members of the committee:My name is Dan Gertson. I am a third generation rice farmer from Lissie, Texas. Many members of my family are also involved in farming, including four sons and two sons-in-law. I am currently serving as vice chairman of the board of the U.S. Rice Producers Association.

It is a pleasure to appear before the committee today to present the views of rice producers, millers, and exporters on agricultural trade negotiations, a topic of vital importance to our industry. I wish to commend the committee for holding this hearing and thank you for the opportunity to testify. I am also pleased to be here representing the views of the U.S. Rice Producers Association and the USA Rice Federation. It is particularly an honor for me because this is the first time that I have ever testified before Congress.

The U.S. rice industry is a strong supporter of agricultural trade liberalization. Frankly, we have no choice. The United States has one of the most open rice markets in the world. Nearly one-half of U.S. rice production is exported, and the United States is the world's third largest rice exporter. Imports account for 12 percent of domestic U.S. rice consumption, which reflects, in large part, our extremely low import duties. In contrast to the open U.S. market, some form of U.S. rice—whether rough, brown, or milled—faces high tariffs, unfair trade practices or discriminatory treatment in nearly every major export market.

Our members have also suffered greatly from unilateral trade sanctions imposed by our own government that eliminated once vibrant markets in countries like Cuba and Iran. We now find ourselves playing a form of catch-up in appearing before the committee today. The rice industry is urging a full-blown effort by the U.S. government to open foreign markets while we labor to rebuild markets that were denied us through unilateral U.S. trade sanctions.

Past trade agreements, coupled with substantial market development expenditures by industry and the U.S. government, have opened new markets, especially in Latin America and Asia. But inadequate attention to enforcement has canceled some of these gains and raised serious questions about the benefits of trade agreements. Rice producers are justified in being skeptical about the promise of improved market access in the face of real cuts in farm programs being proposed by the administration in the current WTO negotiations.

### TRADE BENEFITS U.S. RICE SECTOR

For more than a decade, the rice industry has benefited from trade agreements that reduced tariffs and other trade barriers, and allowed many customers to choose what types and forms of rice to be imported. Several years of declining prices also supported increased foreign demand.

U.S. rice exports in 2003 of 4.5 million tons were 50 percent higher than sales 10 years earlier. The composition of U.S. rice exports has also evolved over the past 10 years. Rough, or unprocessed, rice now accounts for 45 percent of U.S. rice exports, up from less than 20 percent in the mid 1990's.

Mexico emerged as the single largest U.S. export market by quantity as rough rice sales grew steadily with the North American Free Trade Agreement. New markets in Japan, Korea and Taiwan for U.S. brown and milled rice were created as a benefit of U.S. membership in the World Trade Organization.

### FOCUS MUST BE ON MARKET ACCESS AND ENFORCEMENT

Despite the impressive growth in total exports, much work remains to be done to remove preferential and discriminatory practices of foreign governments that stymie

U.S. rice exports by preventing the clear transmission of economic signals between foreign buyer and U.S. seller. Aggressive negotiating on market access in ongoing trade negotiations and rigorous enforcement by the administration of existing trade agreements are essential.

The U.S. rice industry's key objectives in the current WTO negotiations and the ongoing bilateral and regional free trade talks are straightforward:

- The eventual elimination of tariffs on all types and forms of U.S. rice;
- The elimination of export subsidies; and
- Maintenance of an adequate farm safety net for U.S. producers.

Rice is produced in all of the major U.S. rice export markets. As a result, U.S. rice exports face a complex matrix of trade barriers, tailor-made by each importing country. While the overall effect restrains aggregate U.S. export opportunities, there are immediate impacts on certain segments of U.S. exports depending on the market. The best way to provide equal opportunity for all U.S. rice exports is to move toward tariff elimination.

The Central American Free Trade Agreement was a good first step in this direction. The existing large market for U.S. rough rice was preserved, thereby protecting the investment of substantial promotional dollars and years of effort on behalf of the U.S industry. U.S. negotiators were also able to secure for the first time guaranteed access, albeit small, for U.S. milled rice. The relatively long phase-in period to free trade in rice under the CAFTA—18 to 20 years—is twice the phase-in period under the NAFTA. CAFTA puts us on a path to letting Central American customers choose the type of U.S. rice they want free of government distortions.

Our trade negotiators at the Office of the U.S. Trade Representative and the Department of Agriculture are to be commended for balancing difficult issues and reaching a comprehensive agreement. A similar balancing act will be necessary in negotiating other trade agreements. The U.S. rice industry supports congressional approval of the CAFTA.

Going forward, it is critical that the Doha Round of WTO negotiations be ambitious. It's our understanding that the negotiations are being handled in a broad-based fashion and we support this approach. Import regimes that lockout milled and rough rice from the EU, or that deny consumers access to U.S. rice in Japan and Korea, for example, must be corrected.

A fundamental reassessment of special and differential treatment to developing countries must also occur. Developing countries have special needs that can and should be accommodated in the negotiations. However, the current self-certification rules allow many countries with strong industrial and export sectors to claim the trade benefits of a developing country. This is simply not fair.

The trade agenda of the rice industry is ambitious, and we realize that others will ask for disciplines in exchange on "trade-distorting" U.S. farm programs. We accept this challenge, but it is not a trade-off to be made lightly. Administration negotiators will have to show real, measurable progress in bringing home significant market access gains before our producers and processors can seriously consider any reduction in U.S. programs.

In this regard, we salute your unambiguous position, Mr. Chairman, as well as and that of Congressman Stenholm, the committee, and the administration, to appeal the expected adverse WTO panel report on the Brazilian challenge to U.S. programs. A strong U.S. defense of the consistency of U.S. farm and export financing programs with our country's WTO commitments is critical to maintaining support in the countryside for trade negotiations.

## Enforcement Must be a Priority

Negotiating good trade agreements frequently solves one set of problems but reveals another. Rice importing countries often devise creative schemes that thwart trade agreements and keep U.S. rice out. Any U.S. trade agenda must include front-and-center a commitment of resources to ensure the enforcement of trade agreements.

In this regard, we commend the administration for the firm stand it has taken against Mexico's attempts to roll back the NAFTA across a range of commodities, including rice. Mexico's use of anti-dumping restrictions against imports of U.S. milled rice is simply veiled protection for Mexican producers and millers. Even though Mexico is our largest rice export market, where rough rice accounts for over 90 percent of shipments, the administration was right to challenge Mexico in the WTO's dispute settlement process regarding its treatment of U.S. milled rice. Mexico's anti-dumping action severely restricts the ability of the United States to grow the milled rice market.

Market access for U.S. rice is also under threat in the European Union (EU). As part of the Uruguay Round Agreement, the EU granted the United States a trade concession that allows U.S. brown rice to be competitive in the EU, the so-called Margin of Preference (MOP). The EU has now proposed to replace the MOP with tariff rate quotas that would cause serious commercial disruption to our existing brown rice trade, while doing nothing to improve access for U.S. rough or milled rice. EU offers of compensation for removing the MOP concession have been inadequate. Our trade negotiators must stand firm for an import regime in the EU that, at a minimum, maintains current access for brown rice.

Perhaps the "poster child" for the unfulfilled promise of trade agreements could be Japan. The good news is that the United States has enjoyed steady annual exports of about 335,000 tons of brown and milled rice to Japan. The bad news is that the Japanese government, the near-exclusive purchaser of U.S. rice, promptly places the imported U.S. rice in warehouses. Less than one percent of the U.S. rice exported to Japan reaches consumers as an identifiable product of the U.S.A. Japan is one of the world's leading economies and major exporters. We support the ongoing efforts of our negotiators to encourage Japan to further liberalize its rice import market.

Meaningful market access is also essential to the efficient and effective use of market development funds provided by the U.S. government and U.S. producers and millers. Activities under the Foreign Market Development program, the Market Access Program, and related programs have been essential to growing the market for U.S. rice in Mexico, Central America, the EU and Japan, for example. Market access and promotion go hand in hand, and limited market access restricts the implementation and effectiveness of market development programs. By the same token, if market access increases as a result of international agreements, we urge the Congress to provide enhanced funding for market development programs that will assist producers, millers and exporters to build and maintain markets for U.S. rice in these new markets.

In conclusion, threats abound to the livelihood of rice producers and millers. Budget pressures in Washington; trade restrictions overseas; potential legal trade wars in the WTO; and uncertain support for production agriculture all point to the necessity of open foreign markets as an important component of an economically viable rice industry. U.S. rice producers, millers, and exporters can compete if our export customers are free to make their own decisions about U.S. rice.

We urge the committee to use its influence and expertise to help ensure that the WTO agricultural negotiations deliver on the promise of real and broad-based market access that has eluded U.S. agriculture—without sacrificing the safety net provided by U.S. farm programs.

Thank you again for the opportunity to testify here today. I would be pleased to address any questions that you may have.

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## STATEMENT OF LARRY GRAHAM

Mr. Chairman, my name is Larry Graham. I am the president of the National Confectioners Association, and also serve as chair of the Coalition for Sugar Reform. Our coalition includes trade associations like mine, representing the companies that use sugar in confectionery, dairy products, grocery manufacturing and baking. It also includes taxpayer advocacy groups, environmental organizations and consumer groups. Thank you for the opportunity to testify. With me is Tom Earley of Promar International, a prominent agricultural economist specializing in sweeteners, who is available if the committee has technical questions.

### THE FOOD INDUSTRY: EXPORTS HAVE RISEN

Debate over sugar trade often seems to center around imports. However, it is also an export issue. U.S. food companies compete in a global market and ship their value-added products abroad. Apart from years when commodity price spikes temporarily increase the value of bulk exports, the pronounced trend in U.S. farm and food product trade has been toward a greater share for consumer-oriented products. That means more value is added in the United States, supplying jobs for our citizens and increasing demand for what our farmers and ranchers produce.

As examples of these trade trends, consider that since 1994:

• U.S. exports of all consumer-oriented products have risen from $17 billion to almost $24 billion, a sales increase of 37 percent.

• Within that category, U.S. snack food exports grew by 33 percent, reaching almost $1.6 billion.
• Breakfast cereal exports increased 66 percent, ending the period at $484 million.
• Dairy product exports grew to $1.0 billion, gaining 36 percent.

These and other processed foods—manufactured by our coalition's member companies and other U.S. firms—are an important part of the trade picture. We know that this committee is interested in expanding agricultural exports, whether in bulk or value-added form, and we applaud your leadership.

### TRADE: A TWO-WAY STREET

We know that you also understand the need for two-way trade. To buy our products, our customer countries must have foreign exchange to pay for what they buy. One of the ways they generate that foreign exchange is by selling products to us.

For many of these countries—including the developing countries that represent the most exciting growth prospects for U.S. agricultural exports—one of the products they want to sell is sugar. Of course, their ability to do so is limited by U.S. sugar policy, which places strict limits on imports. Some 40 countries now hold quotas to ship defined quantities of sugar—and no more—to the United States every year.

Our coalition is opposed to the present sugar program (though we are not opposed to alternative means of supporting producer incomes). We fully recognize, however, that today's hearing is not about the sugar program but about trade. Therefore, we will confine our discussion to the impacts we believe present sugar policies have on our Nation's agricultural trade performance.

### SUGAR POLICY: DETRIMENTAL EFFECTS

We believe U.S. sugar policy harms agricultural trade in three ways—two related to exports, one to imports.

First, sugar import quotas limit the ability of our customer countries to generate the foreign exchange they would obtain if the U.S. sugar market were more open. Foreign exchange that is never earned cannot be used to buy U.S. products.

Second, the politics of sugar quotas encourage other countries to withhold trade concessions that might otherwise benefit efficient U.S. farm sectors. For example, in the Central America Free Trade Agreement, sugar imports will expand but will always be limited by an annual quota, with shipments above that level subject to the same prohibitive MFN tariff that is applied to exports from all other countries (except Mexico). Although our food industry trade associations strongly support CAFTA, we are concerned that because of politics, CAFTA represents less than full free trade in sugar. But of course, in trade negotiations every action can produce a reaction—and it is no coincidence that the Central American countries will maintain perpetual quotas on U.S. white corn exports, instead of fully liberalizing this trade. When Costa Rica subsequently acceded to CAFTA, it too had products such as onions that it wanted to keep quota-bound forever, and did.

Third, current U.S. sugar import policies have the ironic effect of encouraging more imports of processed products. In the confectionery industry, the wide gap between U.S. and world sugar prices has created an incentive to move manufacturing capacity offshore, use world-priced sugar to make candy, and ship the product to the United States. It is perfectly legal to import the finished product, but U.S. trade law makes it impossible to import world-priced sugar as the raw material for that product. Now, advocates of the sugar program usually claim that labor costs are what drive these decisions. That claim overlooks the fact that almost all the well-publicized relocations of candy manufacturing capacity have occurred among plants that manufacture hard candies, where the sugar content of the product is highest but labor costs are not much if any different from other types of food manufacturing that have not moved offshore. The sugar lobby's claim also ignores several relocations to Canada—where labor costs are not so different from here, but where you can easily buy world-priced sugar.

### GROWING CONCERN IN THE FARM AND FOOD SECTOR

It is not just food companies and their trade associations who support the inclusion of sugar in trade agreements. U.S. farmers and ranchers are increasingly aware that keeping sugar out of these agreements is harming their interests. Among the groups that wrote President Bush in support of including sugar in the U.S.-Australia Free Trade Agreement were the American Soybean Association, the California Farm Bureau Federation, the National Corn Growers Association, the

National Pork Producers Council, U.S. Wheat Associates, the U.S. Grains Council, the USA Poultry & Egg Export Council, USA Rice and the Wheat Export Trade Education Committee.

An official of the Illinois Farm Bureau—probably that State's most influential agricultural group—had a more pointed comment. She said: "Proposals to exclude sugar have met with significant opposition from a broad array of U.S. agricultural groups who are tiring of the uncompetitive U.S. sugar industry seemingly hijacking agreements that would provide significant benefits to other agricultural sectors." These are not my words, but comments from one of the largest farm groups in the Midwest.

### Benefits from Liberalization

We believe that gradual liberalization of sugar trade through both multilateral and bilateral agreements will bring multiple benefits to the United States. These benefits will include the following:

- Enhanced competition in the increasingly consolidated U.S. sugar market, where fewer and fewer vertically integrated sellers control more and more of the available sugar supplies.
- Better export opportunities for those segments of U.S. agriculture that are capable of competing in export markets. For example, it is clear from the negotiating history of CAFTA that the inclusion of sugar prevented the Central American nations from completely excluding several agricultural commodities of export interest to the United States, and permitted more rapid and complete trade liberalization in Central American agriculture.
- Potentially positive employment effects, to the extent that any marginal decrease in the artificial gap between U.S. and world prices may serve to reduce incentives to relocate confectionery production offshore in order to take advantage of world-price sugar.
- The generation of foreign exchange which our trading partners can use to buy U.S. agricultural and industrial products.
- Benefits to consumers, consistent with previous analytical work by the International Trade Commission, which found substantial welfare losses to the U.S. economy from the sugar program, and net benefits to the economy from reforming the program.

We favor multilateral liberalization through the Doha Development Round of global trade talks. However, we believe the U.S. farm and food sector also has much to gain from bilateral or regional agreements. We support the inclusion of sugar in these agreements as well.

It is ironic that supporters of the sugar program have launched such furious attacks on trade agreements like CAFTA, when the CAFTA negotiators went out of their way to make its sugar provisions modest and gradual. In its first year, CAFTA will permit the import of an additional 109,000 metric tons of sugar. This amount represents:

- Less than 1 percent of total supply in the current 2003–04 marketing year;
- About 7 percent of total imports and 5 percent of ending stocks for 2003–04; and
- Only about 4 days' sugar utilization in the United States.

If a supply increase of less than 1 percent threatened the very survival of an entire industry, that would say something disturbing about the competitiveness of that industry. In fact the amounts of sugar in CAFTA do not even remotely threaten the U.S. sugar industry or the sugar program.

We should carry out our agricultural trade policies with due regard for the needs of all commodities, including sugar. But we should not allow a single commodity to hold back the rest of U.S. agriculture. We encourage this committee to support the inclusion of all commodities in all trade agreements, so that all parts of our Nation's farm and food industries can benefit from expanded trade opportunities.

Mr. Chairman, thank you for the opportunity to testify today.

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## Statement of Dennis McDonald

Chairman Goodlatte, Ranking Member Stenholm, members of the committee, I am Dennis McDonald, Trade Committee Chairman of Ranchers-Cattlemen Action Legal Fund—United Stockgrowers of America (R-CALF USA). R-CALF USA works tirelessly on behalf of the American cattle and livestock producer. Our focus has been on protecting and promoting the interests of independent livestock producers, and it is from that perspective that I come before you today. I followed with great interest the comments of both Secretary Veneman and Ambassador Zoellick when they testified before this committee several weeks ago concerning international trade, and I appreciate the opportunity to once again come before you and express our views on developments in international trade and their impact on American agriculture.

During his testimony last month, Ambassador Zoellick made it clear that the United States' No. 1 trade priority was to restart and successfully conclude the Doha Round of WTO negotiations—R-CALF USA could not agree more. R-CALF USA has long advocated, and continues to support, efforts to open up U.S. beef export markets by reducing global tariffs to those levels existing in the U.S. for cattle and beef. USDA and USTR report that the average allowed tariff on beef around the world is 85 percent, while the U.S. in-quota tariff rate is 0 percent and out-of-quota tariff rate is 26.4 percent. This wide disparity in tariff treatment must be addressed because it severely limits market access for U.S. beef abroad.

We also support efforts to eliminate and prevent the proliferation of non-tariff barriers to beef trade, such as the use of health regulations to unjustifiably block U.S. beef exports. For a decade U.S. beef exports have been virtually shut out of the European Union based on unjustifiable health regulations. Recent reports from American embassies around the world indicate that the use of these non-tariff trade barriers has spread to an ever-increasing number of countries. As an example, USDA counselors in Thailand report that officials there have begun to place more stringent standards on imported products than domestic products. The United States must prevent the proliferation of these types of protectionist tools and the WTO is the only place where effective action can be taken.

R-CALF USA also strongly supports efforts to eliminate global, direct and indirect, subsidies given to beef producers in other parts of the world. For a decade the European Union's beef export subsidies have lead to depressed prices for beef around the world and hurt our ability to penetrate markets abroad. R-CALF USA strongly agrees with USTR's goal to eliminate all export subsidies by a date certain.

Next the harmonization and elimination of domestic support programs in the cattle and beef sector must be aggressively addressed by USTR. Cattle producers in Europe, even under the new CAP "reforms", receive domestic support payments worth billions of dollars every year. Cattlemen in Brazil benefit from hundreds of millions of dollars in low interest loans designed to increase cattle production and productivity in that country. As members of this committee, each of you is no doubt aware that the only government assistance the American cattle industry receives is disaster assistance. Domestic support programs around the world distort the true costs of production and create an uneven playing field for U.S. cattlemen when we compete for markets abroad. The distortions created by domestic support programs in cattle and beef must, at the very least, be minimized if not eliminated outright.

R-CALF USA also shares USTR's goal of addressing the trade-distorting effects of State Trading Enterprises, like the Canadian or Australian Wheat Boards. R-CALF USA believes that by artificially controlling prices for feed grains these State Trading Enterprises provide an indirect subsidy for Canadian and Australian livestock producers. Indeed, in October 2002, in response to concerns expressed by livestock producers about the high costs of feed grains due to low supplies caused by drought, the AWB stated that "the AWB National Pool is currently tailoring its current wheat export program in order to preserve vital grain stocks in drought-affected regions of Australia." While the AWB has "no legislated market power" to set grain prices in the domestic market, the action I have just described could lead to lower feed prices in the Australian market, thus benefiting cattle producers there. USTR must act aggressively to reform or eliminate these institutions.

Finally, Ambassador Zoellick left off one important priority when he appeared before you last month, namely the importance of ensuring that special rules associated with perishable, seasonal and cyclical agricultural products are incorporated into the WTO Agriculture Agreement. Neither the GATT nor the WTO has ever examined whether international trading rules, designed for industrial goods, should be applied on equal terms to perishable, seasonal and cyclical agricultural products. Perishable, seasonal and cyclical products, such as cattle, cannot be stored like industrial goods or non-perishable agricultural products such as grain or cotton. When perishable, seasonal and cyclical products are ready for sale they must be sold; international trading rules designed for industrial goods do not currently take this into account. As Congress pointed out in the Trade Act of 2002, they should.

The WTO is the only forum in which all of these issues can be effectively addressed. Unfortunately, as Ambassador Zoellick himself noted the Doha Round of trade negotiations have broken down and talks are only slowly restarting. R-CALF

USA believes that before the United States enters into bilateral or regional FTAs with major agricultural producing countries with small internal markets, the major global distortions caused by tariffs, non-tariff barriers and subsidies must be eliminated. Furthermore, any FTA must address and eliminate internal distortions within the proposed trading partner that impede trade in cattle and beef.

The liberalization of agricultural markets on a bilateral basis is a delicate balance. If USTR liberalizes markets where the U.S. cattle industry is likely going to fare poorly and it is unable to simultaneously open the major consuming markets where the U.S. cattle industry will do reasonably well, then USTR will put the U.S. cattle industry in the position that we will lose market shares globally and domestically, not because we are not competitive, but because we expand market access in the U.S. far ahead of equitable access abroad. FTAs that do not address these distortions will result in worsened long and short-term outcomes for U.S. cattle producers. Rather than unilaterally removing existing restrictions, the United States should be exploring ways in which to best address the problems of perishable and cyclical agricultural producers. If we cannot achieve agreement on special measures to address perishable and cyclical agricultural products, then USTR should seek parity of tariffs among our trading partners and ourselves on beef, eliminate all subsidy and non-tariff barrier distortions to trade in beef between ourselves and our trading partners, and, in the interim, we should maintain current existing TRQs and Special Safeguards on beef imports.

Despite significant efforts by the administration, such a situation does not exists with the U.S.-Australia FTA as it does not address internal distortions within Australia that artificially lower production costs for beef in that country. As I noted above, the AWB provides Australian producers artificial production advantages. In conjunction with the massive distortions generated by actions of other major trading partners and the lack of market access in other overseas markets, the U.S.-Australia FTA will exacerbate an existing unacceptable market situation for U.S. cattle producers and thus R-CALF USA can not support the U.S-Australia FTA.

Likewise, R-CALF USA is also concerned about the proposed FTAA that is currently scheduled for completion in 2005, and which may well provide increased market access for beef from cattle herds in South America numbering well in excess of 200 million head. Markets in major beef producing countries such as Brazil, Argentina and Uruguay offer little possibility of reciprocal beef trade. In addition, the recently completed CAFTA and the proposed Andean FTA allow significant cattle producing countries with relatively small internal markets increased access to the United States during a period of extreme vulnerability. Such agreements should follow, not precede, global talks to eliminate subsidies, remove tariff and non tariff barriers to beef trade that distort open markets.

Before I conclude, I would also like to mention that R-CALF USA shares USDA's goal of opening up the Japanese market to U.S. beef exports as quickly as possible. While we may disagree about the best way to accomplish that goal, rest assured that both USDA and R-CALF USA believe that reopening U.S. exports markets will help ensure that American cattlemen receive the highest possible value for the superb cattle that we produce in this country. In that regard R-CALF USA fully supports the ultimate goal of the administration in Japan, and we welcomed Secretary Veneman's announcement of a new series of intense negotiations between the United States and our Japanese trading partners and we hope to be as involved as possible in that process.

I'd like to also say a few words about the impending WTO panel decision on cotton. R-CALF USA has long been concerned about overactive WTO panels creatively interpreting WTO treaties to create obligations that were never agreed to through negotiation. We have seen such "creativity" with regard to obligations under the Antidumping and Subsidies Codes. We oppose such efforts to create new obligations and thus we stand united with and support this committee's efforts, and the efforts of the administration, to defend and preserve the rights of our rural neighbors who grow row crops. The day when the American agricultural community could be divided against itself has passed.

In conclusion, the United States currently faces a large and growing trade deficit in terms of our total imports of beef/veal and cattle versus our total exports of beef/veal and cattle. Before the discovery of BSE in 2003, total beef/veal and cattle exports, as converted to pounds has fallen from 2.9 billion pounds in 2000 to 2.6 billion pounds in 2002 while beef/veal and cattle imports have risen from 4.65 billion pounds in 2000 to 5.1 billion pounds in 2002. We believe that this deficit illustrates the need to develop comprehensive solutions to the problems faced by the cattle industry that can only be accomplished at the WTO, and in the Doha Round. In absence of such comprehensive solutions we believe the United States should not agree to a series of FTAs with major agricultural producing countries with small internal markets that will result in the erosion of the American cattle industry with no appreciable benefits. We urge the Congress to see that as a general matter liberalization does not occur in a lopsided fashion going forward where the U.S. agrees to deals that will hurt the cattle industry but are unable to open large consuming markets abroad. To that end we supported the U.S.—Chile, U.S.—Singapore FTAs last year as opportunities to expand U.S. exports into consuming countries, and we support for the same reasons the U.S.—Thailand and U.S.—Morocco FTA this year. Further, if we must enter into an FTA with a major beef producing country, then it must address and eliminate any internal distortions within the proposed trading partner that impede trade in cattle and beef while also recognizing the special needs of perishable producers.

Statement of
Terry Jones
President, American Sugarbeet Growers Association
On behalf of the
U.S. Sugar Industry

United States House of Representatives
Committee on Agriculture
May 19, 2004

I am Terry Jones, a fifth-generation farmer from Powell, Wyoming. I am the President of the American Sugarbeet Growers Association, and speaking today on behalf of the growers and processors of the U.S. sugarbeet and sugar cane industries.

To truly understand our industry's views on free trade initiatives, there must be a clear understanding of the U.S. industry and market.

First, our industry is globally competitive. Two-thirds of the more than 100 countries that produce sugar produce it at a higher cost than the U.S. This is all the more impressive because most sugar-producing countries are developing-country cane producers, with much lower labor and environmental protection costs than the United States. Additionally, the dollar has soared by about two-thirds in the previous 20 years against the currencies of these countries.

Second, the domestic sugar industry has gone through a tremendous period of consolidation and restructuring. Nearly a third of all U.S. sugarbeet and sugarcane mills have closed since 1996, primarily because of low prices. Most of the U.S. sugar processing industry is now grower-owned. Thousands of family farmers like myself, with the help of our rural banks, have taken on substantial debt so we can own our factories. This is essential for our long-term viability and to sustain more than 146,000 jobs and an industry that generates more than $9.6 billion dollars per year. We must have a sound domestic policy and a fair and balanced trade policy to ensure that our returns from the marketplace are adequate to service, reduce and eliminate our debt load.

Owning our processing factories ensures our direct control over our entire business so that this important industry can be passed on to future generations. Historically, our farmers face low prices in other commodities, and losing a sugar industry and shifting millions of acres to those other commodities (dry beans, potatoes, etc.) further increases supplies and depresses prices, which hurts everyone.

Third, this Committee wisely designed a sugar policy in the 2002 farm bill to operate at no cost to the taxpayer and preserve scarce federal expenditures for the support of other important commodities. This is particularly important as our nation faces staggering budget deficits. U.S.

sugar policy is based on controlling imports and domestic supplies, and maintaining current tariff rate quotas is the foundation of our policy.

Congress has given the Administration effective tools to run our program at no cost, and it is important that those tools be used in a timely fashion. Facing substantial surplus inventories currently overhanging the market, a united domestic industry implored the Administration, in a March 2nd letter, to immediately announce a smaller "overall allotment quantity" (OAQ) for FY2005. Our recommendation was soundly based on the USDA's Economic Research Service OAQ estimate of 7.69 million tons to balance the market. This would have allowed our industry to make timely adjustments in planting decisions for the 2004 crop. Unfortunately, USDA did not make an announcement, and our crop is now in the ground, increasing the likelihood of forfeitures this year and endangering the congressional "no cost" mandate. We strongly recommend to this Committee that you monitor this problem and support efforts by our industry to address it early next year.

Fourth, the U.S. nutritive sweetener market is saturated, with no signs of significant growth. In the past three years, consumption has declined (see Table 1), causing our industry to carry significant inventories.

Fifth, as a result of our WTO and NAFTA import obligations, the U.S. is the world's fourth-largest net sugar importer. Sugar from 41 countries enters virtually duty free.

We are an efficient, grower-owned industry, competing in a saturated and open market, while providing a variety of products to our customers at fair prices, and we do it all at no cost to the taxpayer. It is a record we are proud of, but trade agreements that harm our industry put that record in jeopardy.

**The Global Problem**

Sugar is the world's most distorted commodity market. Governments of the more than 120 sugar-producing countries intervene in their sugar market in some way. As a result, world market prices for sugar have averaged barely half the world average cost of production over the past two decades.

**WTO**

Sugar subsidies are a global problem, and examples abound (see Table 2). Brazil, the world's biggest producer and exporter, built its sugar industry on two decades of fuel alcohol subsidies, which became sugar subsidies, whether the Brazilian cane was used for alcohol or sugar. The government carefully controls sugar markets in India and China, the second- and third-largest producing countries. These practices, and many others, must be addressed globally in the WTO–in comprehensive, multilateral negotiations with all countries, all programs. We have long endorsed the goal of multilateral trade liberalization through the WTO. Our industry applauds Ambassador Zoellick's extraordinary efforts earlier this year to restart the WTO process.

While there are numerous issues that have to be watched very closely, there are three areas that must be addressed if we are to create a viable basis for liberalization and reform of the world sugar market.

1. Export subsidies and dumping. The identification and elimination of export subsidies–both transparent non-transparent–and dumping must be the first and most important priority. While we hope that negotiations will eliminate transparent export subsidies, dumping products at prices below the exporters' domestic market price must also stop. Dumping surplus production simply shifts the potential injury from the exporters' domestic market to certain injury of producers in foreign markets. Virtually every country that sells to the world sugar market is guilty of dumping. The policies that cause this rampant dumping need to be effectively addressed. We are deeply concerned that the WTO negotiations may not achieve this. We have presented detailed information to the Administration on such policies, and hope to work closely with them to ensure that foreign subsidies do not escape WTO disciplines.

2. Special and differential treatment for developing countries. Since seventy-five percent of world sugar production and exports is produced in and exported by developing countries, our industry strongly objects to allowing the vast majority of world sugar producers to play by a different set of rules. The top 20 developing countries, along with the EU and Australia, account for more than 91-percent of the world's exports. Those top 20 countries should not receive special treatment. If countries are going to play in the global sugar market, they have to play by equal rules. It is unconscionable to allow a country like Brazil, the biggest subsidized sugar producer and exporter in the world, to get special treatment.

3. Market access. Import tariffs under the tariff-rate quota import limits are the only remaining defense against unfair foreign predatory trade practices. WTO reductions in import tariffs, or increasing import volumes without effectively addressing foreign dumping, export subsidies, and domestic supports and many other trade-distorting practices, would destroy the U.S. sugar industry.

**Regional and Bilateral FTAs**

Piecemeal market access concessions in bilateral and regional free trade agreements will *not* help to solve the global sugar subsidy problem. Such concessions could, however, put the U.S. sugar industry out of business while foreign subsidies and other trade-distorting policies continue unabated.

The Bush Administration has rightfully refused to negotiate domestic farm policy in the FTAs. But the U.S. sugar policy is unique among commodity programs, in that it can only operate if imports and domestic production are controlled to balance the U.S. market. Therefore, negotiating tariffs or increasing imports is, in fact, negotiating our domestic policy. Such concessions are inconsistent with stated Administration policy and could doom our industry.

In the completed FTAs with net sugar importers–Singapore and Chile–and the pending FTA with Morocco, the Administration took precautions to ensure that sugar was not substituted or transshipped through these countries to circumvent their obligations or serve as "blending platforms" for third-country products. The same precautions must be taken in any future FTAs with net-importing countries.

We are most concerned with FTA negotiations with sugar-exporting countries. For this reason, we categorically oppose any agreement that requires additional access that would threaten our domestic policy. If our market needs more sugar than the amounts already required by the WTO and the NAFTA, we should import it from our FTA partners on an "as needed" basis.

In the Australia FTA, the Administration got it right. Sugar was excluded and over-quota tariffs were kept in place, with no required additional access. Australia is already the fourth-largest supplier to our market, with minimum imports valued at more than $40 million. If we need more imports, Australia will automatically get greater access as part of an expanded tariff rate quota. Australia also maintains the Queensland Sugar Corp., a monopolistic marketing entity that remains intact and must be addressed in the WTO negotiations. The Administration has completed what it calls a "state-of-the-art" FTA agreement, while reserving this most sensitive issue for the WTO negotiations.

Globally, there is ample precedent for excluding sugar market-access disciplines from FTAs. Sugar has been excluded from: 1) The U.S.-Canada FTA; 2) The Mercosur FTA, among Brazil, Argentina, Paraguay and Uruguay; 3) Mexico's FTAs with other Latin American countries; and 4) The European Union's FTAs with Mexico and with South Africa.

Our industry and market cannot rescue an Australian sugar industry that is suffering from the exponential expansion of Brazilian exports over the last decade. Brazilian exports are the single greatest factor driving the depression and ruination of the world sugar market. Let's lay the blame where it properly belongs–on Brazil–and resolve these problems in the WTO, where they belong.

**Serious Problem Areas**

1. NAFTA. After ten years, the sweetener dispute rages between the U.S. and Mexico. Without a negotiated solution, there will be a continual exchange of political and legal challenges and threats of retaliation. A team of representatives from the U.S. sugar and corn and Mexican sugar industries has been working intensely to resolve this complex problem. We hope to provide the Administration with some agreed recommendations in the near future that will serve as a basis for resolving this dispute in an equitable way.

2. CAFTA+DR. We strongly oppose the sugar provisions in the Central American and the Dominican Republic free trade agreements. While the over-quota tariffs are left in place, 109,000 tons of additional access is forced into our market. The Administration is attempting to dismiss this import concession as insignificant and inconsequential, but it is neither.

additional access blatantly ignores the chain of devastating events it creates. It also either ignores or wrongly assumes that our sweetener trade problem with Mexico will remain unchanged, which is unacceptable to the sugar and corn sweetener industries.

The CAFTA+DR would be devastating to our industry. We assume that our current import obligations from the WTO and Mexico will be filled in the future. The total import obligation under those two agreements--1.532 million tons--is also the trigger for removing marketing allotments, and we expect CAFTA+DR imports to trigger them off.

If this occurs, 700,000 tons of domestic production currently blocked from sale would immediately become available to the market. Domestic prices would plunge, causing severe damage to producers and generating huge forfeitures to the government. Only four years ago, when our market was oversupplied by about half that amount (350,000 tons of sugar), market prices collapsed to twenty-five year lows, sending more than a million tons of sugar into government hands. It took three years and various emergency inventory liquidation actions by USDA to eventually clear government stocks. Both industry and government must make all efforts to avoid that situation again.

We refuse to allow the destruction of our industry just so that others can gain access to such a small economy. The combined gross domestic product of the CAFTA+DR is less than that of the metropolitan area of New Haven, Connecticut.

The sugar industry strongly objects to those who minimize or trivialize our industry. We don't view 146,000 agricultural, manufacturing and support industry jobs as insignificant. In rural America, we don't have other employment options. Sugarbeets or sugar cane are one of the most important crops in states where they are grown, usually providing hundreds of millions, and in some cases, billions, of dollars in economic impact to our struggling rural economies. It is also an important value-added alternative to competing crops already in surplus.

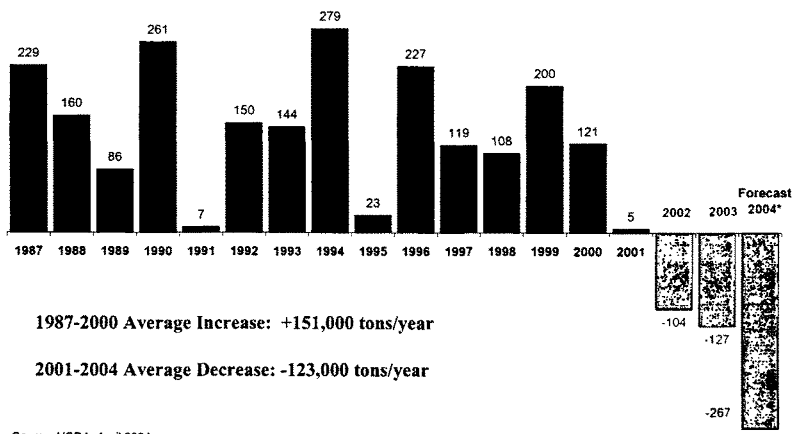
Aside from Australia, twenty-one countries that export 23 million tons of sugar per year--more than double the U.S. sugar consumption--are lined up for FTAs with the U.S (see Table 3). If we include sugar in these FTAs, our market would be swamped with subsidized foreign sugar, our industry would be destroyed, and we would not have addressed any foreign subsidies. Foreign subsidies can only be addressed in the WTO.

We are asking Congress to insist that the Administration concentrate its efforts on comprehensive trade liberalization for sugar in the WTO--not piecemeal in FTAs--and give efficient American sugar farmers a chance to survive.

Table 1

## U.S. Sugar Sales for Domestic Food Use: Change from Previous Year, Fiscal 1987-2004

*- Thousand short tons -*




Source: USDA, April 2004
* Based on overall allotment quantity

Table 2

**Summary of Support for Sugar Industry in Selected Countries, 2002**

| | Australia | Brazil[3] | China[4,5] | Colombia | Cuba | EU[6,7] | Guatemala | India[8] | Japan | Mexico | RSA | Thailand | Turkey |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **TRANSPARENT SUPPORT** | | | | | | | | | | | | | |
| **Domestic Market Controls** | | | | | | | | | | | | | |
| Production Quotas | | | | | | ✓ | | | | | | | ✓ |
| Guaranteed Support Prices | | | ✓ | | | ✓ | | ✓ | ✓ | | | ✓ | ✓ |
| Supply Controls | | | | | | | | ✓ | | | | | |
| Market Sharing/Sales Quotas | | | | ✓ | | | ✓ | | | ✓ | ✓ | ✓ | |
| **Import Controls** | | | | | | | | | | | | | |
| Import Quota | | | ✓ | | | | | | | | ✓ | | |
| Import Tariff | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Import Licenses | | | ✓ | | | | | | | | | ✓ | ✓ |
| Quality Restrictions | | | | | | | ✓ | | ✓ | | | | |
| **Export Support** | | | | | | | | | | | | | |
| Export Subsidies | | | | ✓ | | ✓ | | ✓ | | | | | ✓ |
| Single Desk Selling | ✓ | | | ✓ | ✓ | | | | | | ✓ | | |
| **NON-TRANSPARENT SUPPORT** | | | | | | | | | | | | | |
| **Direct Financial Aid** | | | | | | | | | | | | | |
| State Ownership | | | | | ✓ | | | | | ✓ | | | ✓ |
| Income Support | ✓ | ✓ | | | | ✓ | | | ✓ | | | ✓ | |
| Debt Financing[1] | ✓ | ✓ | | | | | | | | ✓ | ✓ | ✓ | |
| Input Subsidies[2] | | | | | | | | ✓ | | ✓ | ✓ | ✓ | ✓ |
| **Indirect Long Term Support** | | | | | | | | | | | | | |
| R&D Subsidies | | | | | | | | ✓ | | | ✓ | | ✓ |
| Efficiency Programs | ✓ | | | | | | | | | | | | |
| Ethanol Programs/Subsidies | | ✓ | | ✓ | | ✓ | | | | | | ✓ | |
| Consumer Demand Support | | | | | ✓ | | | | | ✓ | | | ✓ |
| **Average Production, 2000-02** (ml mt, raw value) | 4.9 | 19.3 | 7.9 | 2.3 | 3.8 | 18.0 | 1.8 | 19.9 | 0.8 | 5.1 | 2.7 | 5.8 | 2.3 |
| **Rank Among World Producers** | 8 | 2 | 4 | 13 | 9 | 3 | 16 | 1 | 24 | 7 | 11 | 6 | 12 |
| **Average Exports, 2000-02** (ml mt, raw value)[9] | 4.5 | 9.5 | 0.4 | 0.9 | 3.0 | 5.7 | 1.2 | 0.1 | - | 0.7 | 1.1 | 3.0 | 0.4 |
| **Rank Among World Exporters** | 3 | 1 | 15 | 8 | 4 | 2 | 6 | 42 | - | 9 | 7 | 5 | 13 |
| **Domestic Wholesale Refined Sugar Price** (cents/lb)[10] | 13.5 | 8.1 | 16.9 | 21.1 | 0.1 | 30.4 | 18.0 | 12.7 | 65.4 | 25.6 | 20.9 | 11.8 | 27.9 |
| **Import Tariff Level** (refined, ad valorem or equivalent)[11] | 0% | 18% | 75% | 20% | 10% | 164% | 20% | 68% | 71% | 172% | 46% | 96% | 138% |

Notes:
1. Includes low interest loans, interest rate subsidies, debt relief and debt rescheduling.
2. Includes crop pre-financing, irrigation provision, land maintenance and inventory financing.
3. Brazil provides direct subsidies to producers in the North/North East region only.
4. Chinese cane and beet prices are controlled at the provincial level.
5. State trading companies account for 70% of domestic sales in China.
6. The EU provides an income support subsidy to refiners of cane sugar.
7. The EU Commission provides directives on ethanol use, though these are not binding.
8. India provides a transport subsidy for exporters.
9. Japan is an importer of sugar only. It is the world's fourth largest importer of sugar, importing 1.6 million tonnes per annum on average between 2000 and 2002.
10. The Cuba wholesale price represents the heavily subsidised ration entitlement.
11. Ad valorem equivalents are based on average world price for 1999/00 to 2001/02. At times of low world prices, the EU also applies a safeguard duty in addition to the specific tariff.

Table 3
**Potential U.S. Free Trade Agreement (FTA) Countries/Regions:**
**Sugar Production and Exports, 2001/02 - 2003/04 Average, and**
**Share of U.S. Raw Sugar Import Quota, 2003/04**

| Country | Production | Exports | U.S. TRQ Allocation |
|---|---|---|---|
| | *-Metric Tons-* | | |
| **North America** | | | |
| Mexico | 5,287,000 | 175,000 | 7,258 |
| Canada | 80,000 | 63,000 | --- |
| Caribbean[1] | | | |
| Barbados | 40,000 | 37,000 | 7,371 |
| Dominican Republic | 482,000 | 185,000 | 185,335 |
| Haiti | 10,000 | 0 | 7,258 |
| Jamaica | 175,000 | 138,000 | 11,583 |
| St. Kitts & Nevis | 18,000 | 18,000 | 7,258 |
| Trinidad & Tobago | 91,000 | 59,000 | 7,371 |
| Central America | | | |
| Costa Rica | 385,000 | 155,000 | 15,796 |
| El Salvador | 476,000 | 255,000 | 27,379 |
| Guatemala | 1,922,000 | 1,327,000 | 50,546 |
| Honduras | 332,000 | 78,000 | 10,530 |
| Nicaragua | 361,000 | 179,000 | 22,114 |
| **CAFTA Total** | **3,476,000** | **1,994,000** | **126,365** |
| Belize | 110,000 | 96,000 | 11,583 |
| Panama | 165,000 | 55,000 | 30,538 |
| North America Total[2] | 9,934,000 | 2,820,000 | 401,920 |
| South America | | | |
| Bolivia | 393,000 | 116,000 | 8,424 |
| Colombia | 2,570,000 | 1,205,000 | 25,273 |
| Ecuador | 500,000 | 64,000 | 11,583 |
| Peru | 960,000 | 41,000 | 43,175 |
| **Andean Total** | **4,423,000** | **1,426,000** | **88,455** |
| Argentina | 1,633,000 | 206,000 | 45,281 |
| Brazil | 22,997,000 | 13,283,000 | 152,691 |
| Guyana | 326,000 | 315,000 | 12,636 |
| Paraguay | 110,000 | 21,000 | 7,258 |
| Uruguay | 140,000 | 21,000 | 7,258 |
| South America Total | 29,629,000 | 15,272,000 | 313,579 |
| **FTAA Total[2]** | **39,563,000** | **18,092,000** | **715,499** |
| ***% of U.S. TRQ*** | | | ***64.0%*** |
| South Africa | 2,667,000 | 1,367,000 | 24,221 |
| Swaziland | 542,000 | 216,000 | 16,850 |
| **SACU Total** | **3,209,000** | **1,583,000** | **41,071** |
| **Thailand** | **6,230,000** | **5,019,000** | **14,743** |
| **FTA Total[3]** | **49,002,000** | **24,694,000** | **858,715** |
| ***% of U.S. TRQ*** | | | ***76.9%*** |

1/ Excludes Cuba. 2/ North and South America, excluding United States and Cuba; includes CAFTA countries and Dominican Republic. 3/ FTA total less CAFTA and D.R.: 22,515,000 mt
Data Source: USDA/FAS, November 2003.

Mr. Chairman and members of the Committee, I am Squire Smith, CEO of SGS Inc. I am a citrus grower and grove care taker in Central Florida. I am also President of Florida Citrus Mutual. I am pleased to present testimony today on the status of international trade negotiations, and how both the ongoing regional and multilateral negotiations affect the US and Florida citrus industry. FCM is a voluntary cooperative association whose active membership consists of more than 11,000 Florida growers of citrus for processing and fresh consumption. FCM's membership accounts for more than 90 percent of Florida's citrus growers and as much as 80 percent of all oranges grown in the United States for processing into juice and other citrus products.

Mr. Chairman, we are at a critical juncture in the life of the Florida citrus industry. When I appeared last Fall before the Subcommittee on Livestock and Horticulture, the nearby futures price of frozen concentrated orange juice had fallen to 67.3¢ per pound of solids, the lowest price recorded in 3 years. The situation since that time has worsened dramatically. The futures price as of Monday was 57 cents per pound, the lowest in 27 years. This is the most reliable indicator of the U.S. wholesale price of orange juice, and the wholesale price is, in turn, the strongest determinant of the price of oranges for processing. Many of our members will finish this season at a financial loss, and those that survive in the business will spend the next several years working to recover. As an unsubsidized agricultural industry facing essentially a single, larger, highly concentrated foreign competitor – Brazil – our need is very straightforward: the tariff on orange juice must not be reduced under the Doha Round, the FTAA, or any agreement to which Brazil is a party.

Opening new export markets and growing the US market are certainly important goals, toward which we have been working steadily since the mid-1980's. But they are goals which cannot be met in the near future under any condition, since most of the world's juice is produced in two countries, the US and Brazil, and consumed in the US and Western Europe. ***While the industry and consumers wait for the improvements of***

***markets, growth of per capita GDP outside the more developed countries, and the development and growth of nascent industries in Central America and elsewhere, supported by recent US Free Trade Agreements, the tariff on Brazilian juice cannot be reduced.***

Another unique reality of the global orange juice market is that the largest producer, Brazil, historically exports 90-95% of its production every year, and there has been very little change in this pattern over the past 20 years. Furthermore there are 5 major orange juice producers in Brazil that control 80% of Brazilian processing, 49% of Florida processing, 55% of world processing, 60% of world FCOJ trade, controlling a significant portion of world production and sales. With full access to the US market already, the elimination of the Florida industry through tariff elimination will benefit neither US consumers nor foreign producers.

Finally, decisions about planting citrus groves in both Florida and Brazil have long-term consequences which are not easily reversed by economic and trade policy. If expected future returns in the US are depressed further by anticipated tariff cuts, the support industries will also see negative impacts; likewise, any anticipation of increased production in Brazil will result in additional plantings that will yield excessive levels of fruit and depressed prices for many years.

These factors must be borne in mind when evaluating the current progress of trade negotiations.

***The Doha Round***

US negotiators expended considerable effort to reach compromise agriculture negotiating language at the Cancun Ministerial. Those efforts continue today, directed toward achieving a framework understanding this summer, using the Cancun Derbez text as a starting point. However, we understand that even the very modest accommodations for import-sensitive situations like citrus, that would be included in that text, are under fire by our trading partners, including Brazil. We urge the Committee to send a clear message to our trade negotiators: unsubsidized, import-sensitive agricultural industries will not be sacrificed on the altar of subsidized commodity export enhancement. The opportunity must remain in any final framework agreement for developed countries to provide for unique situations like citrus.

***The Free Trade Area of the Americas***

The FTAA negotiations have slowed down with impasses over the structure and coverage of the Agreement. Again, citrus risks being the odd man out as the US takes the position that subsidies cannot be negotiated in a regional context, without the EU at the table. While this is certainly a reasonable position, Brazil will surely press even more vigorously for tariff cuts on commodities that are not subsidized. This is an unacceptable position, and would spell the end of the citrus industry in Florida. While subsidies are used to help level the playing field for US agricultural industries whose top markets are abroad, tariffs are used to level the field for industries, like orange juice, whose top markets are in the United States.

The Administration's FTAA proposal on agriculture is lopsided to the extent that it puts all U.S. agricultural tariffs on the table, ***while leaving all domestic subsidies off the table.*** In so doing, the Administration's proposal effectively, if unwittingly, singles out agricultural industries for demise based exclusively on the location of their markets, without consideration of the effect on the U.S. economy. Not only is this an unsound approach to trade policy, it is also guaranteed not to meet any of the stated objectives of trade liberalization: foreign industrial growth, lower prices to consumers, and increasing living standards. Furthermore, it completely undermines any domestic policy benefits which might be targeted to such a non-subsidized sector, through elimination of the trade policy equivalent of a domestic policy support program.

***The Impact of Tariff Reduction on Florida***

As we have noted in numerous statements to USTR and the USITC, the negative economic affects of any duty-free imports of Brazilian orange juice on the Florida industry that grows oranges for processing are a very serious matter. Brazil is the largest orange juice producer in the world, while the United States is the largest orange juice consumer. Brazilian orange juice is under-priced for many reasons, including numerous national currency devaluations (which lower the costs of Brazilian production inputs, i.e., labor); inadequate and unenforced labor, health and environmental laws; dumping practices; oligopoly market behavior; and past receipt of countervailable subsidies. Duty-free or reduced-duty Brazilian orange juice would further depress the wholesale prices of U.S. orange juice and the on-tree prices of Florida oranges.

Currently, the **wholesale price** of U.S. orange juice (as measured by the nearby futures price of FCOJ) is at its **lowest level since 1977!** [1] **On-tree prices** of Florida oranges for processing, which are already approaching their **lowest level in several decades,** are expected to be well **below their break-even point though the end of the season.**[2] Economist Mark Brown of the Florida Department of Citrus has estimated the medium on-tree price of early/midseason oranges for processing at $1.81/box in CY2003/04.[3] During CY2002/03 the lowest cost cultural program for Hamlin (early season) oranges in Southwest Florida was $2.49/box in total on-tree (prior to harvest)

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[1] New York Board of Trade nearby futures price of FCOJ (at http://www.fred.ifas.ufl.edu/citrus/data/OJFutures.pdf).
[2] *Citrus Summary*, FASS, USDA (at http://www.nass.usda.gov/fl/rtoc0ci.htm).
[3] *Florida Citrus Outlook, 2003-04 Season,* Mark Brown, Economic and Market Research Department, Florida Department of Citrus, Oct. 29, 2003, Table 19.

grower costs.[4] These sobering orange price forecasts are derived from near record crop forecasts for both Florida and Brazil during CY 2003/04.

The CY 2003/04 Florida orange crop is expected to be 23 percent larger than the CY 2002/03 crop;[5] while the CY 2003/04 Brazilian orange crop is expected to be **38 percent larger** than the CY 2002/03 crop.[6] These bumper crops, which are a function of natural conditions and yield of the trees, rather than any annual planting or cultivation decisions by the growers, will likely push world orange and orange juice supplies to new records, and Brazilian producers will have to export even more to the U.S., given the very small growth of their own insignificant domestic market. In combination with reduced U.S. orange juice consumption, these production volumes and low Brazilian prices will create conditions that many Florida growers will not survive.

As noted above, **the U.S. citrus industry does not receive any production subsidies**. The tariff on Brazilian orange juice is the only offset our industry receives, and its role is to provide only the most efficient U.S. orange growers and processors the opportunity to compete in U.S. and world markets that would otherwise be permanently dominated by the powerful Brazilian citrus oligopoly. The U.S. tariff on Brazilian orange juice also preserves healthy competition in the U.S. market for indigenous orange juice produced in the Andean countries, Costa Rica, Belize, Mexico, Honduras, the Dominican Republic, and many other developing countries with fledgling citrus industries, which benefit from trade preferences.

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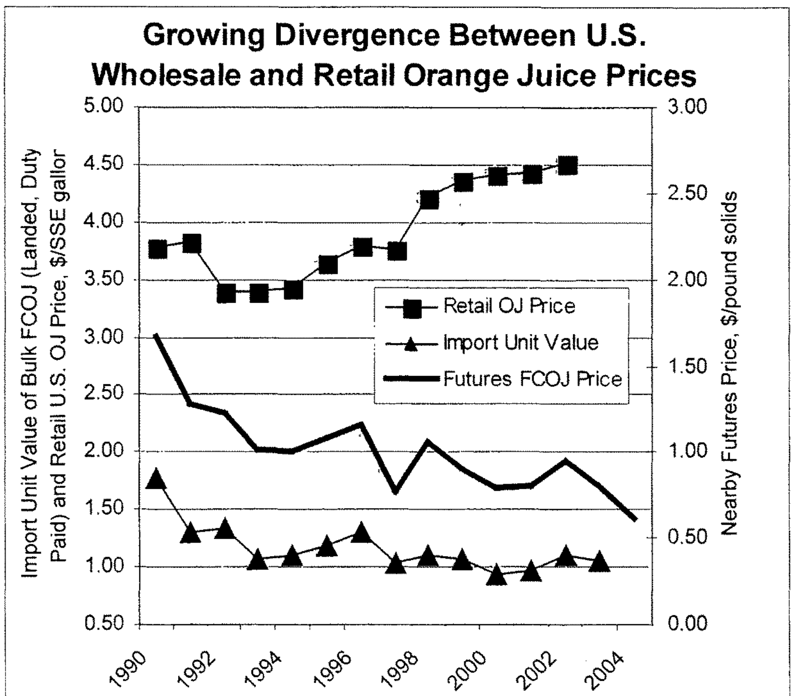
[4] *Budgeting Costs and Returns for Southwest Florida Citrus Production, 2002-03*, Ronald Muraro, Friz Roka and Robert Rouse, University of Florida, IFAS, Sept. 2003, Table 6.

[5] Estimate of 203 million boxes for the CY 2002/03 Florida orange crop, and 250 million boxes for the CY 2003/04 crop from "Citrus Production, January Forecast," FASS, USDA, Jan. 12, 2004.

[6] ABECitrus estimate of 260 million boxes for the CY 2002/03 Sao Paulo orange crop, and forecast of 360 million boxes for the CY 2003/04 crop made by the US Agricultural Attache in Brazil in "Brazil Citrus Annual 2003," *GAIN Report*, FAS, USDA, Dec. 17, 2003.

Preservation of competition among multiple suppliers provides a more moderating price influence than would be seen in a U.S. market controlled by the Brazilian citrus oligopoly. Recent experience in the U.S. market has shown that there is virtually no consumer price benefit resulting from declining wholesale orange juice prices; as bulk import and domestic FCOJ prices decline, ***consumer prices continue to rise*** (see chart below).




Source: Retail price data from ACNielsen (retail price data are for October-September marketing years; 1990/01 data are charted as 1990 and so on); U.S. import unit values are from official trade data of the U.S. Department of Commerce (2003 figure is based on

January-November 2003); and nearby futures prices from the NYBOT (2004 figure is based on January 2004 average and closing price on February 11, 2004).

Under those conditions, unlike production subsidies or support programs, U.S. tariffs on Brazilian juice are not paid for by U.S. taxpayers, either directly or indirectly. They are, instead, paid for by the very Brazilian processors and importers that are selling the under-priced and unfairly-traded bulk juice.

The large amount of domestic support bestowed on other U.S. agricultural industries allows them to compete abroad with the support of taxpayer dollars, and makes foreign tariff elimination an important strategic objective for them. In order to enhance their access to foreign markets, they often support the reciprocal elimination of both U.S. and foreign tariffs for all agricultural commodities. This is the opposite of the situation our industry faces. The U.S. industry would like to enhance our export markets, just as the U.S. program crop industries seek greater foreign market access. However, the simple fact is that the cost of producing orange juice is such that only developed country markets can be expected to support significant new market demand, regardless of where that juice is produced. Without continued strong consumption in the North American and European developed country markets, US citrus growers cannot expect to see rapid increases in demand in any currently less developed countries, until those countries experience increased GDP, personal income levels and higher consumption

The Florida citrus industry does not object to the improvement of U.S. ties throughout the world via stronger trading relationships and, in fact, we have supported many such programs over the years, such as the Caribbean Basin Initiative. However, our industry and global market are highly unique and import sensitive – not because we lack competitiveness, but because of the structure, dynamics and history of the Brazilian-dominated global orange juice industry. Florida orange growers are the most efficient in the world in terms of production yield per acre. Yet, for reasons well beyond Florida growers' control, our economic survival is contingent on the existence of the U.S. orange juice tariff on Brazilian juice. ANY reduction in the current tariff on orange juice under the FTAA, the WTO or any other agreement to which Brazil is a party would prove catastrophic for our industry, and very damaging to the State of Florida.

It is well established that any reduction in the U.S. orange juice tariff applying to Brazil would devastate the U.S. industry that grows oranges for processing. Furthermore, any tariff reduction would critically damage the entire Florida citrus industry, the economic impact of which has recently been estimated at $9.13 billion in industry output, $4.18 billion in value-added activity, and 89,700 jobs.[7] Perhaps even most damaging to the U.S. economy is the fact that, since this Florida industry is Brazil's only competitor of global significance, its demise would not bring cheaper orange juice to the U.S. breakfast table, but would eventually unleash the Brazilian oligopoly to raise U.S. orange juice prices. For all of these reasons, FCM strongly opposes any reduction in U.S. orange juice tariffs under the FTAA or any trade agreement to which Brazil is a party.

U.S. orange juice markets, particularly those throughout the EU, have also been increasingly plagued with Brazilian orange juice prices that frequently appear to be below their cost of production. The long-term annual average trend in the price of Brazilian orange juice exports has been downward during the past decade and a half. Such constant downward price pressure in foreign markets makes the exporting of U.S. orange juice nearly impossible. The modest growth in U.S. orange juice exports that occurred during the late-1990s, was more a function of the export incentives provided by the

[7] Alan Hodges, et al, "Economic Impact of Florida's Citrus Industry, 1999-2000," *Economic Information Report*, EIR 01-2, University of Florida, Institute of Food and Agricultural Sciences, Food and Resource Economics Department, July 2001, p. 3.

import duty drawback program, than of the ability of U.S. producers to earn a fair price in export markets.

U.S. processors of Florida orange juice are eager to expand juice exports overseas, and they fully support the elimination of foreign orange juice tariffs. However, they are not naïve enough to believe that foreign tariff liberalization will bring them instant success abroad. Commercially processed orange juice is not a bulk basic commodity like wheat or milk powder, which are universally consumed throughout the world. Commercially processed orange juice is consumed primarily in high-income, developed countries. Not only that, but even if lucrative orange juice markets existed outside of the EU, Japan, Canada and a handful of wealthy cities, and even if orange juice tariffs were liberalized in these markets, the unsubsidized U.S. orange juice industry would stand little chance of competing with Brazil's extremely low price levels.

Brazil's orange juice export sales to all markets are denominated in U.S. dollars. When the Real is devalued, the cost of labor and other domestic production inputs, which are denominated in Reals, become cheaper relative to the price paid for the orange juice. The cost of grove labor as a percentage of the export price of Brazilian orange juice shrinks each time the Brazilian Real loses value against the U.S. dollar, thus, increasing the profit margin obtained by the Brazilian processor. The increase in profits then sends false market signals throughout the Brazilian citrus industry causing it to overplant and overproduce. The overproduction gives way to lowered international orange juice prices, which reduce the value of Florida's processing oranges and diminish growers' profits. However, further devaluation prevents the Brazilian industry from feeling the squeeze of lower international prices, and the cycle continues. In this way, the highly developed

Brazilian orange juice oligopoly is able to benefit from residing in a country with an underdeveloped and inflationary economy.

Grove closures in Florida would leave unemployed over 42,000 citrus grove workers in Florida alone, and jeopardize the existence of all U.S. juice extractors and processors that depend on domestic citrus. It would also have grave consequences for the following upstream suppliers of the U.S. juice orange industry:

- nurseries that supply replacement trees to citrus groves,
- suppliers of fertilizer, fungicide, herbicide and insecticide to citrus groves,
- suppliers of irrigation and spraying systems, mechanical harvesters and farm implements,
- financial institutions, especially merchant banks that have citrus exposure,
- insurance companies that serve the citrus industry, and
- freight companies that haul citrus to processing plants.

Since the land on which processing oranges are grown consists of very sandy soil, ideal for growing citrus but not many other agricultural products, and the volume of all other fruit juices extracted in the United States combined pales in comparison to orange juice, the above upstream industries could not exist if orange juice production were no longer viable. In addition, because the production of about 75 percent of all processing oranges is concentrated in Central and South Florida, entire counties in these regions would be ravaged and their base real estate values would tumble as thousands of groves would be abandoned, with no practical alternative land utilization.

## CONCLUSION

The US citrus industry is just as concerned about developing export markets as producers of any of the program crops which appear regularly before the committee. But we cannot unilaterally disarm -- superior productivity notwithstanding -- and assume we will see an explosion of new demand. That takes time, and with only two major world suppliers right now, the elimination of one will leave world consumers without a choice, and the Florida economy in a shambles. The orange juice tariff on Brazilian imports must be maintained in all multilateral and regional negotiations.

I appreciate the opportunity to address this Committee and will be pleased to answer any questions.

Chairman Goodlatte and members of the Committee: the National Cattlemen's Beef Association (NCBA) appreciates the opportunity to present our views on the status of agricultural trade negotiations. I am Jan Lyons, a beef producer from Kansas where I manage along with three generations of my family our ranch in the Flint Hills tallgrass prairie south of Manhattan, Kansas. I am privileged to serve as President of the NCBA this year and represent over 26,000 individual members and over 250,000 members through our state and breed affiliates. Today I would like to focus on why our industry believes that the WTO negotiations are so critical to the future growth of our industry and why trade is the key to all U.S. beef producers' future success.

Trade liberalization has been a key to economic growth for centuries. This is why NCBA strongly supports trade initiatives that reduce barriers to access for U.S. beef. NCBA and many other U.S. agricultural organizations worked tirelessly for Trade Promotion Authority (TPA) and support the Administration's pro-trade agenda. We support this agenda because it is the right thing to do for U.S. agriculture and for the country and our members firmly believe it provides the greatest future opportunity for U.S. beef producers' profitability.

NCBA's members believe that the greatest trade liberalizing benefits to our industry can be obtained via the multilateral World Trade Organization (WTO) negotiating process rather than a string of bilateral agreements. NCBA's litmus test regarding the success or failure of these negotiations is a significant reduction in Japan's 50 percent bound and 38.5 percent applied tariff on beef imports, and South Korea's 40 percent bound and 30 percent applied tariff on beef imports. The inability to reduce these tariffs constitutes a failure in these negotiations in the eyes of U.S. beef producers.

Since we do not believe bilateral Free Trade Agreement (FTA) negotiations with Japan or South Korea will be launched in the near future, it is our fundamental belief that the WTO is the only mechanism capable of generating the political force necessary to move the agricultural trade liberalization process forward. Without forceful U.S. leadership in this multilateral context, U.S. beef producers will undoubtedly suffer under the market distorting forces of mercantilism and protectionism.

**Trade Benefits Beef Producers**

Historically, the U.S. has been the world's largest beef importer and second largest beef exporter. In 2003, the U.S. imported $2.62 billion of beef and variety meats and exported a record $3.86 billion in beef and beef variety meats. Due to the unique position of our industry as importer and exporter, NCBA must consider balance, equity, and fairness of proposed trade initiatives to assure that any agreement provides net increase in access for U.S. beef.

The U.S. beef market is a perfect example of what Adam Smith envisioned when he explained the failures of mercantilism and the virtues of an open trading system back in 1776. He explained that imports allow a country to concentrate on its strengths and the export of products where it has a comparative advantage and that all countries benefit when participating in an open trading environment. An abundant corn supply provides the U.S. beef industry with a comparative advantage in the exportation of high quality grain-fed beef to the 96 percent of our potential customers living outside the U.S.

In 2003, the average per pound value of U.S. beef exports was $1.66 while the average per pound value of our imports was $1.21. Overall, the U.S. enjoyed a record $2.2 billion beef and beef product trade surplus last year. Such success in the export market is nearly unprecedented in any agriculture commodity when one considers that the U.S. beef industry also experienced record domestic prices in 2003. This highly unusual feat was accomplished because of a reduction in the value of the U.S. dollar, which meant that the price of U.S. beef in Tokyo last year didn't appreciate when valued in Japanese Yen.

**Current Status of the U.S. Beef Industry**

As a result of a single case of Bovine Spongiform Encephalopathy (BSE) on December 23, 2003, U.S. beef producers now have a greater appreciation of the value of our export markets. Earlier this month, the entire industry returned to a point of profitability for the first time since December 23rd, yet it has been the tremendous resilience of U.S. consumer confidence and demand that has seen us through this crisis in our industry.

Despite the fact that about $5/cwt of the $15/cwt value of our export markets has been returned via a harmonization of regulations related to BSE in North America, feeder cattle prices during January-April of this year set records and were 19 percent better than during the same period in 2003. This was achieved via a 9.5 percent reduction in beef production which essentially offset the 10 percent of U.S. production that historically has been exported. This lower level of production is associated with the long-term cattle cycle combined with persistent drought in the western half of the U.S. that has made it extremely difficult for U.S. beef producers to react to economic signals and begin herd expansion.

As a result, fed cattle prices since the first of the year (through April) have averaged a record $82.36/cwt or $4/cwt (5 percent) better than a year ago. During this same time period, per capita net beef supplies on a retail weighted basis (21.03 pounds) were identical to 2003 and first quarter beef demand (a function of price and quantity) was up an astonishing 6.2 percent.

**The Doha Round (WTO)**

Increased market access via tariff reduction is the core mechanism by which U.S. beef producers can better their position in the global marketplace. Unfortunately, we are not yet far enough along in the negotiating process to really evaluate where we stand. Ultimately, for our industry, it depends upon the numbers (percentages of tariff reductions) in the bracketed text of the agreement. U.S. beef producers receive no domestic supports nor export subsidies.

At face value, the fact that Organization for Economic Cooperation and Development (OECD) figures show the producer support estimate (PSE's), which are a measurement of the level of government support to an agricultural commodity sector, for beef farmers globally has actually RISEN from 61 percent in 1996 to 79 percent in 2001 demonstrates that global reform in these two areas is both critically needed and at the same time an uphill battle. Of course, the EU is far and away the main culprit behind these OECD figures and still accounts for 7.5 percent of world beef trade as a result of such trade distorting policies. That quantity is the best measure of what other global beef exporters stand to gain if export subsidies on EU beef are eliminated and domestic beef supports are reduced. While a considerable quantity of this trade would undoubtedly be captured by competitors such as Brazil, the resultant realignment of global beef trading patterns would be of significant benefit to U.S. beef producers.

Beyond reform in the EU's Common Agricultural Policy, however, WTO members, and particularly developing countries must get beyond this ironic contradiction that trade liberalization is somehow good for developed countries' agricultural support mechanisms but is somehow not appropriate policy for the developing world.

**The North American FTA (NAFTA)**

For U.S. beef producers, NAFTA has been a tremendous success story. Mexico's 103 million citizens have experienced a 33 percent increase in per capita income over the last five years. This increase in disposable income has led directly to increased beef consumption in Mexico. While the country's domestic beef production has struggled to expand and meet this demand in recent years due to drought, U.S. beef and variety meat exports to Mexico have grown. From an inconsistent market of about 100,000 mt and $200 million prior to NAFTA, Mexico became our most significant market in terms of tonnage at 350,000 mt worth $854 million in 2002.

This is a mutually beneficial trading relationship as the U.S. also imports around one million head of Mexican feeder cattle each year that have an approximate average value of around $400 million. In fact, today's integrated North American cattle market now looks very much like what was envisioned a decade ago by NAFTA proponents with consumer-driven economic drivers dictating the future direction of this industry.

Although the tariff on all North American beef trade has been zero since January 1, 1994, Mexico alleged in mid-1997 that beef, beef variety meats, and cattle entering Mexico were being dumped. On April 28, 2000, Mexico's Secretariat of Commerce and Industrial Development (SECOFI) issued its final decision on the antidumping case against exporters of U.S. beef and beef variety meats by imposing a complex set of specific duties on most beef carcasses and cuts. Although we have won a NAFTA panel, these beef duties, which serve to lock some U.S. export interests out of the Mexican market even though they may not have even existed at the time these trade restrictions were put in place, recently passed the four year anniversary mark.

The 83-page NAFTA panel decision sends this case back to the Economic Ministry of the Mexican government and orders it to comply with the panel's findings and inform the panel of its compliance within three months of March 16, 2004.

NCBA's understanding of the panel's decision indicates that:

1. The "injury" decision to impose tariffs on U.S. beef exports to Mexico was found to be flawed by the panel.
2. Mexico's decision to charge a residual duty was deemed illegal by the panel.
3. Mexico's decision to require "age certificates" was also declared illegal.

Under NAFTA's dispute settlement process, the panel's findings mean that Mexico's Ministry of Economy must now reconsider its initial decision. Mexico can come back with a new tariff regime after consideration of the panel's findings, but if the panel rebuffs this new regime, the case would be terminated and the tariffs would be declared illegal. Also, some of the panel's findings may require that the U.S. seek resolution through the WTO dispute settlement process in order to completely resolve this situation. This case illustrates the need to both lower foreign tariffs and ensure that they are not replaced with other barriers. We ask Congress to continue to watch this situation closely and to encourage a swift resolution.

**The Free Trade Area of the Americas (FTAA)**

NCBA will only support bilateral or regional initiatives that are conducted on a parallel track with multilateral WTO negotiations and result in a net increase in U.S. beef exports. We note that both the Doha development agenda and the FTAA are slated to be concluded by 2005, meaning that at this time both negotiations are proceeding on a parallel track.

An FTAA that does not address actions such as Brazil's currency devaluations and credit subsidies to its agricultural sectors is one that NCBA would oppose. In our view, it is disingenuous for a country to aggressively practice "competitive devaluation" that directly benefits its agricultural sector while pursuing a WTO case against another country's agricultural policies. This issue is of tremendous concern to our industry, especially when such unsustainable macroeconomic practices trigger inflation and government deficits which are ultimately being offset by loans from entities such as the International Monetary Fund (IMF).

During January-April 2004, Brazilian beef exports have increased 55 percent to $666.9 million on a 20 percent increase in shipments. The reason cited was a weaker Real against the U.S. Dollar that has helped Brazilian beef become more competitive despite a 176 percent EU tariff on Brazilian beef.

In addition, any trade agreement needs to include a commitment to improve cooperation to eradicate foreign animal diseases. This is of particular importance due to the widespread occurrence of Foot and Mouth Disease in South America.

**U.S.-Chile FTA**

The U.S.-Chile FTA was a ground-breaking agreement that should serve as a starting point for future FTAs. There are three issues specific to beef that were included in the agreement in addition to the over-arching issue of herd health. They are:

Access Issues: The agreement allows for a four-year gradual duty-free access for U.S. beef into the Chilean market. The following products are included: fresh/chilled and frozen bovine carcasses, bone-in and boneless. The quantities shall enter Chile on a first come first serve basis. Likewise, imports of Chilean beef can enter the U.S. according to this same quota system, having unlimited access after four years. The quantities will also enter the U.S. on a first come first serve basis.

| Year | Quantity (Metric Tons) |
|---|---|
| 1 | 1,000 |
| 2 | 1,100 |
| 3 | 1,210 |
| 4 | unlimited |

SPS/Inspection Equivalency: NCBA strongly supports system-wide approval of inspection systems. Any bilateral, regional, or multilateral trade agreements must codify system-wide acceptance of the U.S. meat inspection system. On June 3, 2003, The Government of Chile announced that it recognized the equivalency of the U.S. meat inspection system effective immediately. This means that products from any federally inspected plant are eligible to export meat to Chile. The agreement was signed on June 6, 2003.

Grading Requirements: Prior to the FTA, Chile required that all beef sold through commercial channels carry a Chilean grade. U.S. and Chilean grades were harmonized so that U.S. graded beef can be marketed as equivalent to Chilean grades. This issue was resolved in the agreement with a comparison of Chilean Beef Norms and USDA Beef Quality Grades in Article 3.17.

**U.S.-Australia FTA**

Throughout the Australia FTA negotiating process, the assumption was made that there will be a new WTO Agreement within the next 10 years that will increase market access in beef trade globally and that such an agreement would mean greater access for U.S. beef around the world via a multilateral reduction in tariffs on beef. It is also anticipated that any new WTO agreement would include an expansion in the size of tariff-rate quotas (TRQ) around the world including the U.S. beef TRQ. (The WTO draft Harbinson text says that all TRQs would be expanded to 10 percent of consumption, which would make the U.S. beef import TRQ roughly 1,000,000 tons versus the current 378,214 tons—subject to negotiation.)

NCBA's primary objective in these negotiations was to prevent any potential negative impact on U.S. beef producers caused by this FTA before we would have an opportunity to increase our ability to export beef via the WTO trade liberalization process. The expectation being that once this reduction in beef tariffs globally was in place, Australia would not have enough production to meet this global demand and still annually fill its U.S. quota of which it has accomplished on only one occasion.

Current five-year industry estimates all concur in projecting a 1-2 percent annual growth in the demand for the food service ground beef product that is a blend of U.S. trimmings with Australian and New Zealand beef. If these estimates hold over the next decade, the size of Australia's TRQ should grow commensurate with the marketplace's demand for this product resulting in no net negative price effect on live U.S. utility cow prices during the next 10 years as a result of this FTA.

Overall, this agreement is unique in that significant market access (above expected growth in demand) is back-loaded until year 15 of the agreement. The inclusion of a transitional quantity-based safeguard, and the permanent price-based safeguard at the end of the transition period, are critical components of this agreement.

The world beef market should benefit, rather than suffer, from this permanent, post-transitional price-based safeguard or "safety-net" mechanism that essentially provides a type of braking (not blocking) mechanism in the event of a U.S. or Australian beef market meltdown. While such an event seemed unlikely before December 23, 2003, we now know that such a provision is actually sensible trade policy given the quantity of trade involved.

**U.S.-Central American FTA / Dominican Republic FTA**

One of the strongest aspects of the CAFTA agreement is the recognition of the fact that the vast majority of our exports are a premium grain-fed product that will not compete price-wise with Central American grass fed beef. The CAFTA agreement's immediate duty-free access for U.S. prime and choice beef (defined as "high quality") is significant from NCBA's perspective. We believe that the current and future demand for this product in Central American hotels and restaurants is by no means insignificant. Also significant is the elimination of all tariffs on U.S. beef by a date certain, which in this case is 15 years.

Likewise, NCBA is pleased with the market access provisions that were negotiated for U.S. beef in the U.S.-Dominican Republic FTA. The addition of the Dominican Republic to CAFTA increases export opportunities for U.S. beef producers. The Dominican Republic is an important market as there is a growing tourism industry which has the ability to buy high quality U.S. beef. High quality U.S. beef (Prime and Choice) and beef trimmings are subject to a tariff rate quota (TRQ). With the TRQ, the U.S. gains some immediate duty-free access that grows over time with all tariffs eventually phasing out to zero. All other product tariffs go to zero during the 15-year transition period of the agreement. NCBA looks forward to the Administration moving these two agreements forward at the same time.

We applaud our negotiators for their efforts and NCBA supports the CAFTA and Dominican Republic agreements. As has been the case for many years, we will continue to work with Central American beef producers to protect our herds against foreign animal diseases.

**U.S.-Morocco FTA**

U.S. beef producers are very supportive of the beef, sanitary/veterinary and tariff-rate quota (TRQ) provisions within the U.S.-Morocco FTA. This agreement will allow, for the first time, market access for "high-quality" (Prime & Choice) U.S. product and variety meats to enter the growing Moroccan tourism industry.

By targeting this high-end hotel and restaurant portion of the market, U.S. beef producers will be supporting the efforts of the Moroccan Government to enhance and expand the Moroccan tourism industry. Therefore, the beef provisions within the FTA will benefit both Morocco as well as the United States. U.S. exporters, through the U.S. Meat Export Federation, will begin to assist Moroccan importers and this targeted sector to understand the quality and food safety attributes of U.S. beef.

The U.S. beef industry is especially pleased by the ability of either party to review the operations of the import licensing regime. This provides a mechanism to avoid any non-tariff trade barriers that licensing structures have caused in other markets. This same principal holds with regard to the FTA language on TRQ administration and the establishment of the Sanitary/Phytosanitary Joint Committee.

**Russia's WTO Accession Agreement**

NCBA is very pleased with Russia's WTO accession package that provides unrestricted access for U.S. variety meats and "high quality" (Prime & Choice) beef. This agreement is also significant in that the TRQ for all other fresh/chilled and frozen beef established in this agreement provides an additional level of access equal to four percent of Russia beef imports.

Russia is the largest importer of U.S. beef liver and it is critical that we re-open this market for U.S. beef exports as soon as possible. Russia is one of the fastest growing markets for beef variety meats in the world and the TRQ on fresh/chilled and frozen beef is certainly large enough to provide for substantial growth in U.S. market share through the transition or implementation period that ends in 2009. Russia imported approximately $50 million in beef and variety meats from the U.S. in 2002. NCBA estimates that if the U.S. filled its TRQ for fresh/frozen beef at the end of the implementation period and beef variety meat exports to Russia grew by 25 percent over the next six years, U.S. beef/variety meat trade with Russia would double to $100 million by 2009.

**China**

While currently banned due to the BSE situation, U.S. beef exports to China experienced significant growth from 2001 to 2002 and this was in no small part due to China's WTO Accession agreement that put the tariff on beef at 12 percent. China was one of the few countries were the value of U.S. beef exports did not grow in 2003 and this was mainly because China pegs its currency to the U.S. dollar meaning that as U.S. beef prices increased, our product simply priced itself out of the marketplace. We expect that every effort is being made to reopen this market as soon as possible based upon sound science.

**Future Agreements**

**U.S.-Thailand FTA**

Thailand's current 80 percent tariff on all beef imports is a huge impediment toward beef consumption for this country of 64 million people. NCBA is excited about the opportunities this market presents, assuming that our negotiators are successful in obtaining an agreement that is similar in structure to the CAFTA.

**U.S.-Andean FTA**

The U.S. - Andean FTA also presents interesting possibilities for U.S. beef producers. We view this as a logical next step following the Chile, CAFTA, and Dominican Republic agreements. We look forward to gaining additional access, especially in Colombia and Peru, where trade currently exists. All the Andean countries are developing markets for U.S. beef exports with much potential for growth. Opportunities exist for high-quality U.S. beef to supply the hotel and restaurant industry, as well as beef variety meats, especially in Colombia and Peru. Two issues which must be established in this agreement are system-wide plant inspections and a commitment to continue to protect against foreign animal diseases.

**U.S.-Panama FTA**

Panama is the second largest beef producing nation in Central America. However, the demand created by their growing tourism industry has not been satisfied by current domestic production. There is an opportunity for high-quality U.S. beef to supply the upscale hotels and restaurants as well as opportunities for beef variety meats in supermarkets. Again, system-wide plant inspections must be addressed during the negotiations. Panama's efforts have played a key role in eradicating Foot and Mouth Disease and other foreign animal diseases from North and Central America. We look forward to their continuing to work with their government and livestock producers to protect our herds' health.

**SUMMARY**

U.S. grain-fed beef has a unique place in the global food economy and U.S. beef producers know, as a result of our investments in technology and science-based animal health and inspection systems, that we produce the highest-quality, safest beef in the world. The goal of U.S. agricultural trade policy should be to make our product as competitive as possible in the world market.

NCBA's top priority is reopening the remainder of our export markets, which, as we stated earlier, are worth about $15/cwt in the price of a fed steer. We have recovered about $5/cwt but we still have $10/cwt to go. We must also insist on the complete harmonization of BSE regulations in North America to maintain credibility with our trading partners as we ask them to reestablish trade.

While it is an economic fact that lower tariffs benefit the importing country as well as exporting nations, we do not believe that the playing field is level. As such, NCBA will not support increased access to the U.S. beef market until meaningful access and tariff reduction is achieved in other major beef importing countries. Because several South American countries are major beef exporters and many major beef importers are in Asia and Europe, this balanced objective can only be achieved through comprehensive multi-lateral WTO negotiations.

Ours is a progressive and unsubsidized industry and we staunchly believe that we can compete very aggressively in the world marketplace with our product. We will continue to do so as high quality beef production is one of this nation's most competitive products. U.S. beef producers know that our future and that of our families depends on the viability and growth of our industry. The greatest opportunity for such growth hinges on our ability to market our safe, wholesome high quality beef around the world.

NCBA applauds our excellent team of trade negotiators for their efforts to date and we look forward to working with this committee as we put in place agreements today that set the stage for U.S. beef producers' future success.

## 2003 Beef and Beef Variety Meat Exports

*March/April 2004*

**Summary**

US beef and beef variety meat exports during January-December 2003 increased 3.45 percent in volume and 20.54 percent in value compared to exports during the same time in 2002.

**Background**

| U.S. Beef Exports to Primary Markets: January - December 2002 vs. 2003 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Volume (Thousand Metric Tons) | | | | | Value (Million Dollars) | | |
| **Beef** | | | | | | | |
| | 2002 | 2003 | % Change | | 2002 | 2003 | % Change |
| Japan | 251.89 | 298.52 | 18.51 | | 843.02 | 1,169.42 | 38.72 |
| Mexico | 206.77 | 193.04 | -6.64 | | 595.69 | 606.43 | 1.80 |
| S. Korea | 212.77 | 213.45 | 0.32 | | 609.74 | 750.50 | 23.09 |
| Canada | 83.83 | 80.89 | -3.50 | | 286.28 | 320.70 | 12.02 |
| Egypt | 6.04 | 7.63 | 26.34 | | 11.51 | 10.54 | -8.45 |
| Russian Fed. | 5.69 | 3 54 | -37.82 | | 14.54 | 8.74 | -39.90 |
| HK/China | 25.14 | 18 47 | -26.54 | | 72.10 | 77.95 | 8.11 |
| Taiwan | 14.04 | 16 33 | 16.35 | | 49.77 | 70.57 | 41.79 |
| EU | 1.61 | 1 40 | -13.07 | | 9.12 | 9.66 | 5.96 |
| | | | | | | | |
| All U.S. | 828.67 | 859.76 | 3.75 | | 2,585.37 | 3,150.23 | 21.85 |
| | | | | | | | |
| **Variety Meats** | | | | | | | |
| | 2002 | 2003 | % Change | | 2002 | 2003 | % Change |
| Japan | 80.32 | 77.48 | -3.53 | | 185.02 | 224.66 | 21.42 |
| Mexico | 143.23 | 142.79 | -0.31 | | 258.98 | 270.61 | 4.49 |
| S. Korea | 25.23 | 33.51 | 32.83 | | 38.60 | 65.26 | 69.07 |
| Canada | 13.85 | 10.88 | -21.44 | | 12.05 | 10.10 | -16.19 |
| Russian Fed. | 65.67 | 60.25 | -8.26 | | 44.93 | 44.59 | -0.77 |
| Egypt | 21.16 | 23.29 | 10.09 | | 14.48 | 19.38 | 33.84 |
| HK/China | 14.65 | 21.86 | 49.26 | | 30.26 | 41 46 | 37.03 |
| Taiwan | 4.58 | 2.89 | -36.97 | | 6.42 | 5 93 | -7.61 |
| EU | 4.63 | 8.53 | 84.24 | | 2.12 | 3 24 | 53.04 |
| | | | | | | | |
| All U.S. | 405.11 | 416.70 | 2.86 | | 618.52 | 711.88 | 15.09 |
| | | | | | | | |
| **Beef + Variety Meats** | | | | | | | |
| | 2002 | 2003 | % Change | | 2002 | 2003 | % Change |
| Japan | 332 20 | 375.99 | 13.18 | | 1,028.05 | 1,394.08 | 35.61 |
| Mexico | 349 99 | 335.83 | -4.05 | | 854 67 | 877.04 | 2.62 |
| S. Korea | 238 00 | 246.96 | 3.76 | | 648 34 | 815.76 | 25.82 |
| Canada | 97 67 | 91.77 | -6.04 | | 298 33 | 330.80 | 10.88 |
| Egypt | 27 19 | 30.92 | 13.70 | | 25 99 | 29.92 | 15.11 |
| Russia Fed. | 71.36 | 63.79 | -10.61 | | 59.47 | 53.33 | -10.33 |
| HK/China | 39.79 | 40.33 | 1.36 | | 102.36 | 119.41 | 16.66 |
| Taiwan | 18.62 | 19.22 | 3.23 | | 56.19 | 76.50 | 36.15 |
| EU | 6.23 | 9.92 | 59.16 | | 11.24 | 12.90 | 14.83 |
| | | | | | | | |
| All U.S. | 1233.78 | 1,276.46 | 3.46 | | 3,203.89 | 3,862.11 | 20.54 |
| | | | | | | | |
| Note: % Change is change from 2002 in percent, i.e., beef volume exported to Japan in 2002 increased 18.51 percent; beef volume exported to Mexico decreased 6.64 percent, etc. | | | | | | | |
| SOURCE: USDA/FAS | | | | | | | |
| **Note: To convert to million pounds multiply thousand metric tons by 2.2** | | | | | | | |

U.S. beef exports during 2003 totaled 1.276 million metric tons valued at almost $3.9 billion. Traditional primary export markets Japan, Mexico, the Republic of South Korea, and Canada accounted for nearly 83 percent of export tonnage and 88 percent of the export value. Japan regained its position as the top export market for beef and beef variety meats on both a volume and value basis in 2003. The value of beef and beef variety meat exports to Mexico increased in 2003 but faced a slight decline on a volume basis. South Korea is an excellent market for U.S. beef variety meats. In 2003, the U.S. exported 33 percent more beef variety meats on a volume basis and 69% more on a value basis to South Korea than in 2002. Exports to Canada were less in 2003 than 2002 only on a volume basis, mostly because of the decline in the value of the U.S. dollar and a waning demand for the U.S. product in Canada following the discovery of their case of BSE on May 20, 2003.

**Key Points**

- Beef exports are a key component of total beef demand.
- The NCBA Policy Division is aggressively working to re-open lost export markets due to the discovery of BSE in the U.S. on December 23, 2003, through the Doha Round of negotiations at the WTO, and through various other ongoing trade negotiations.

# 2003 Beef and Beef Variety Meat Imports, Tariff Rate Quotas

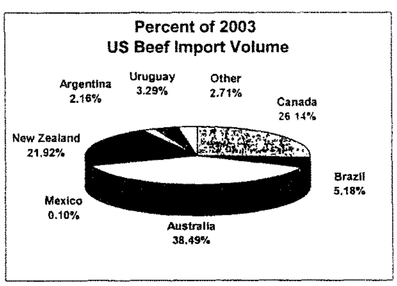
*March/April 2004*

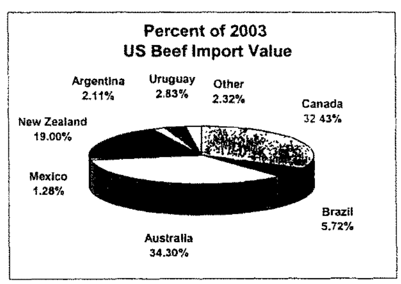

**Summary**

US imports of beef and beef variety meats decreased 8.55 percent in tonnage and 4.52 percent in value during January-December 2003 compared to imports in 2002. Major suppliers continue to be Australia, Canada, and New Zealand with those three countries accounting for approximately 86 percent of the beef tonnage and value imported by the US. Australia by-passed Canada in 2001 as the largest supplier of US beef imports, filling its World Trade Organization (WTO) most favored nation (MFN) tariff rate quota (TRQ) for the first time during the week of December 5, 2001. In 2003, Australia continues to be the largest source of U.S. imports at 34.3 percent of the volume and 38.3 percent of the value of total imports.


## Background

| Beef Imports from Primary Suppliers: January - December 2002 vs. 2003 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Volume (Thousand Metric Tons) | | | | | Value (Million Dollars) | | |
| | 2002 | 2003 | % Change | | 2002 | 2003 | % Change |
| Canada | 389.17 | 255.77 | -34.28 | | 1,114.61 | 850.83 | -23.67 |
| Australia | 379.04 | 376.55 | -0.66 | | 883.95 | 899.91 | 1.81 |
| New Zealand | 201.14 | 214.49 | 6.64 | | 472.01 | 498.58 | 5.63 |
| Brazil | 49.71 | 50.72 | 2.03 | | 128.68 | 149.98 | 16.55 |
| Argentina | 20.70 | 21.10 | 1.93 | | 55.70 | 55.45 | -0.45 |
| Uruguay | 3.44 | 32.16 | 834.77 | | 8.57 | 74.31 | 766.97 |
| Mexico | 6.03 | 6.71 | 11.31 | | 24.00 | 33.61 | 40.08 |
| Other | 23.08 | 26.51 | 14.86 | | 55.20 | 60.87 | 10.26 |
| Total US Beef Imports | | | | | | | |
| | 1072.31 | 984.00 | -8.24 | | 2,742.73 | 2,623.53 | -4.35 |
| Variety Meats | 33.45 | 27.22 | -18.61 | | 85.21 | 76.47 | -10.26 |
| Total US Imports: Beef + Variety Meats | | | | | | | |
| | 1105.76 | 1011.23 | -8.55 | | 2,827.93 | 2,700.00 | -4.52 |



**Canada:** On May 20, 2003 the Canadian Food Inspection Agency reported a case of BSE in a beef cow in northern Alberta, Canada. USDA-APHIS "prohibit[ed]...the importation of ruminants that have been in Canada and the importation of meat, meat products, and certain other products and byproducts of ruminants that have been in Canada," according to an interim rule that was published in the *Federal Register* on May 29, 2003 and was retroactively effective May 20, 2003. USDA announced the reopening of the border to boxed boneless beef from animals less than 30 months of age to be exported to the U.S. under permit in August 2003. The first shipments of Canadian beef crossed the US-Canada border on September 11, 2003.

USDA-APHIS published a proposed rule regarding the process to import live cattle from Canada in the *Federal Register* on November 4, 2003. Comments were due to USDA-APHIS on January 5, 2004. With the discovery of one cow in Washington state on December 23, 2003 with BSE, USDA-APHIS closed the comment period as scheduled on January 5$^{th}$. USDA-APHIS reopened the comment period on the proposed rule to amend the regulations regarding the importation of animals and animal products from countries that have had isolated cases of BSE on March 8, 2004. Comments are due by April 7, 2004. NCBA's Policy Division is planning to submit comments.

**Imports Subject to TRQs:**

US beef imports of fresh and frozen product subject to tariff rate quotas (not including cooked, canned and processed beef that is reported in total beef imports) as well as imports of fresh and frozen beef from Canada and Mexico are reported weekly by the Department of Commerce. US beef imports from Australia, New Zealand, Argentina, Uruguay, and "all others" are subject to tariff rate quotas as negotiated in the WTO Uruguay Round and shown in the table below. Under this WTO MFN TRQ, suppliers must pay a 4.4 cents/kg – almost nothing – in quota tariff. Once the WTO MFN TRQ is reached suppliers may continue to ship, but must pay a U.S. tariff of 26.4 percent.

During January 1 through December 31, 2003 US beef imports from primary suppliers subject to the WTO MFN TRQ decreased 8.32 percent compared to 2002.

| **Beef Imports Subject to TRQ from Primary Suppliers:** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **January 1 - December 31, 2002 vs. 2003** | | | | | | | |
| | | | | | | | |
| **Volume (Thousand Metric Tons)** | | | | | | | |
| | **2002** | **2003** | **% Change** | | **Tariff Rate Quota** | **% Fill '02** | **% Fill '03** |
| Canada | 383.52 | 252.24 | -34.23 | | 0.00 | NA | NA |
| Australia | 370.37 | 373.06 | 0.73 | | 378.214 | 97.93 | 98 64 |
| New Zealand | 186.32 | 210.64 | 13.05 | | 213 402 | 87.31 | 98 71 |
| Argentina | 0.00 | 0.00 | 0.00 | | 20.00 | 0.00 | 0.00 |
| Uruguay | 0.00 | 18.99 | | | 20.00 | 0.00 | 94.97 |
| Mexico | 3.56 | 4.36 | 22.41 | | 0.00 | NA | NA |
| "Others" | 22.12 | 26.21 | 18.52 | | 64.805 | 34.13 | 40 45 |
| **US Beef Imports from TRQ Suppliers** | | | | | | | |
| | 965.89 | 885 51 | -8.32 | | | | |

Historically, exporting countries have rarely filled their beef WTO MFN TRQs, so over quota tariffs have had no effect. Prior to 1998, none of the countries that export beef to the U.S. had filled their TRQs. Both Argentina and Uruguay filled their WTO MFN TRQs in 1999, but neither country has filled since that time. New Zealand filled its WTO MFN TRQ in 2000 but did not repeat in 2001. Australia filled their WTO MFN TRQ for the first time in 2001. Neither Australia nor New Zealand filled their respective WTO MFN TRQs in 2002, although Australia did come close filling at 97.93 percent.

The 26.4 percent over quota tariff has been effective in stopping additional imports in years when countries have filled their WTO MFN TRQ. Even with currencies of most exporting countries depreciating against the U.S. dollar in recent years, the tariff has resulted in product being placed in bonded storage until the next year's WTO MFN TRQ became effective. Rarely if ever has product continued to be imported subject to the 26.4 percent duty once a country has filled the WTO MFN TRQ.

**Australia:** The US imports mostly lean beef for manufacturing from Australia which is blended with US trimmings to create quick service hamburgers. Australia filled its WTO MFN TRQ for fresh/chilled and frozen beef for the first time on December 5, 2001, but has not filled it since. US beef imports from Australia increased .73 percent during January 1 through December 31, 2003 compared to the same time in 2002. When Australia filled its WTO MEF TRQ in late 2001, product was placed in bonded storage during December and released after January 1 causing front-loading of imports from Australia in 2002. Importers were also likely looking to Australia to replace product that was imported from Uruguay during 2000 and Australia shipped more product to the U.S. as markets in Japan, Korea and other Asian countries declined in 2002.

In early October 2002, the Australian Government announced the implementation of a tariff rate quota management system that controls the amount of product that each exporter can send to the United States to manage the remaining allocated WTO MFN TRQ. Australia filled 97.93 percent of its WTO MFN TRQ in 2002, and filled 98.64 percent now in 2003. Australia has experienced a multiple year drought, and record high US retail beef prices made the US a prime market for Australian beef industry to target in 2003.

The U.S. – Australia FTA negotiations concluded negotiations in Washington, DC on February 8, 2004. The draft text of the agreement is available at www.ustr.gov. The agreement does allow for increased Australian access to the US market under a separate TRQ for manufacturing beef (US-Aus FTA TRQ). Please seethe article "US-Australia FTA..." in the March/April 2004 publication if Issue Updates for more details about the agreement and what it means for the US beef and cattle industry.

**New Zealand:** The US imports mostly lean beef from New Zealand as well. New Zealand filled its quota in 2000, but did not quite fill during 2001. During 2000, New Zealand filled the WTO MFN TRQ and placed product in bonded storage that counted against US beef imports during 2001. Even with this product coming out of storage, US beef imports from New Zealand subject to the WTO MFN TRQ declined 3.1 percent during all of 2001 and New Zealand did not fill the WTO MFN TRQ in 2001. New Zealand did not fill its TRQ in 2002, but during January 1 through December 31, 2003 US beef imports from New Zealand increased 13.05 percent from 2002, filling 98.71 percent of the WTO MFN TRQ.

**Argentina:** During 1999, Argentina filled its WTO MFN TRQ. Argentina voluntarily suspended exports of fresh and frozen beef to the US, Canada and Mexico March 13, 2000 after a Foot and Mouth Disease (FMD) outbreak was discovered. The Office of International Epizootics (OIE) –the world organization for animal health – recognized a zone of Argentina, South of Patagonia, as free from FMD without vaccination for a short period of time during 2003. An application to recognize a zone of Argentina as FMD-free with vaccination was reviewed by the

OIE's Foot and Mouth Disease and Other Epizootics Commission on May 22, 2003. The Commission decided that the zone could recover its status as of July 7, 2003 if Argentina is able to provide the necessary supporting documentation that there has been no change in epidemiological status of the country between May 22 and July 7, 2003. Argentina did so, and on July 7, 2003, the OIE reaffirmed their previous decision and restored the zone of Argentina situated north of the $42^{nd}$ parallel as FMD-free with vaccination. However, FMD was discovered in the Salta province of Argentina in late August/early September 2003. On September 4, 2003 the OIE suspended the status of "FMD free zone with vaccination" of the zone of Argentina situated north of the 42° parallel. At this time, Argentina is not eligible to ship fresh/chilled or frozen beef to the US. There were no US beef imports of fresh or frozen beef from Argentina during January 1 through December 31, 2003.

Tariff rate quotas of 20,000 metric tons generally limit the exports of fresh and frozen beef to the US from Argentina and Uruguay, even when both countries are FMD-free. Due to the fact that Argentina has not achieved FMD-free status, beef imported from Argentina must be cooked, canned or preserved. Cooked and processed beef may be shipped without quota restrictions, and is reflected in the chart titled "Beef Imports from Primary Suppliers."

**Uruguay:** During 1999, Uruguay filled its WTO MFN TRQ. Uruguay also voluntarily suspended exports of fresh and frozen beef after cases of FMD were reported near the border with Argentina in March 2001. Since Uruguay did not experience an outbreak of FMD during the subsequent year, they requested USDA-APHIS reconsider the export of fresh (chilled or frozen) beef to the U.S. from Uruguay.

Wythe Willey, then NCBA President, met with then Uruguayan Minister of Livestock, Agriculture, and Fisheries, Gonzalo Gonzales on September 9, 2002 and was invited by the Rural Association of Uruguay to visit the country to learn more about their livestock industry and country. The NCBA Policy Division worked with USDA to arrange a fact-finding trip for U.S. cattle producers to evaluate processes that Uruguay has in place to prevent another outbreak of FMD. NCBA Policy Division staff traveled to Uruguay March 26-30, 2003, to evaluate Uruguay's current program. This information was the basis for formal comments to USDA on the status of Uruguay's FMD eradication program submitted on April 24, 2003.

USDA-APHIS published a request for comment in the Federal Register on Feb. 10, 2003 and comments were to be submitted by April 11, 2003. After conducting a risk assessment, site visit and comment period, USDA-APHIS amended the U.S. regulation to allow for the importation of fresh (chilled or frozen) beef from Uruguay as of May 29, 2003. The Final Rule can be found in the May 29, 2003 edition of the *Federal Register*, Docket No. 02-109-3. The OIE FMD and Other Epizootics Commission also declared Uruguay as FMD free with vaccination on May 22, 2003. Trade under the WTO MFN TRQ has resumed – between the end of May 2003 and the end of the year, Uruguay shipped 18.99 thousand metric tons, filling 94.97 percent of their 20 thousand metric ton WTO MFN TRQ.

**Brazil:** Due to the fact that Brazil has not achieved FMD-free status, beef imported from that country must be cooked, canned or preserved. Cooked and processed beef may be shipped without quota restrictions, and is reflected in the chart titled "Beef Imports from Primary Suppliers." Brazil's initiative to attain FMD-free status suffered a setback with an FMD outbreak in November 2000. A NAFTA evaluation team completed an evaluation of the BSE status in Brazil during February 2001 and determined that there is not a BSE risk in Brazil. Brazil has applied to be regionalized FMD-free status in several Southern states. When Brazil is eligible to ship fresh/chilled and frozen product to the US, they ship under the "Others" category.

### Key Points

- The NCBA Policy Division and the US beef industry will not support trade agreements that provide only one-way increased access to US markets as some opponents of additional trade agreements have suggested.
- The NCBA Policy Division will continue to provide information that accurately reflects NCBA policy and will counter erroneous information designed to heighten producer fears about trade and trade agreements.
- The NCBA Policy Division will continue to monitor and report cattle and beef trade to the industry and assure that trade flows are legal under existing trade agreements and laws.
- The NCBA Policy Division will work to assure that all requirements are met and that verification methods are in place before access to the US beef market is granted.

**US – Australia FTA Summary for Beef**
***March/April 2004***

U.S. and Australian negotiators reached and agreement on the terms of a free trade agreement (FTA) between the two nations in early February 2004. The Bush Administration has notified Congress and the timeline for signing the agreement and Congressional approval are now on track to be completed before the August recess.

The U.S. cattle industry opposed any increase in the Australian tariff rate quota for beef, and/or a reduction of tariffs, during the U.S.-Australia FTA negotiations without substantial gains in market access for U.S. beef and beef products in the other major importing beef nations of the world, such as Japan, South Korea, and the European Union. Because Australia is a major beef exporter and many major beef importers are in Asia and Europe, the cattle industry's position was that its objective could only be achieved through comprehensive multi-lateral WTO negotiations -- not regional or bilateral negotiations.

Background

- Currently, Australia is allowed a 378,214 metric ton (mt) tariff rate quota (TRQ) for access into the U.S. market each year, as negotiated during the Uruguay Round Agreement of the Word Trade Organization. The in-quota duty is virtually zero, at 4.4 cents/kg or $44/mt. Should Australia ship over this amount, they must pay a 26.4% duty on that product. Australia filled their TRQ for the first time in 2001. Historically, exporting countries have rarely filled their beef TRQs, so tariffs above the TRQ have had no effect. Prior to 1998, none of the countries that export beef to the U.S. had filled their TRQs.
- Australia filled its quota for the first time ever during the week of December 5, 2001. Product was placed in bonded storage during December 2001 and released after January 1, 2002 causing front-loading of imports from Australia during 2002. In early October 2002, the Australian Government announced the implementation of a tariff rate quota management system, which controls the amount of product that each exporter can send to the United States to manage the remaining allocated TRQ. However, cattle slaughter has markedly declined in Australia due to drought-reduced supplies.
- Australia did not fill its TRQ in 2002. Therefore, NCBA does not believe that increasing Australia's access to the US beef market is warranted.
- Due to what is being described as the worst drought in its history, Australia will not fill its TRQ in 2003.
- Australia's position, pre-negotiation, called for a 20 percent increase in its access to the US market and the Cattle Council of Australia reaffirmed this stance: "removal of trade barriers to Australian beef must be at the heart of the current FTA negotiations with the US – there can be no FTA with the US without this."
- Below are two charts: "Annual Total U.S. Beef Imports from Australia" shows the amount of all beef imports from Australia on a volume and value basis over the last 8 years. "Beef Imports Subject to TRQ from Australia" the volume of fresh and frozen beef Australia shipped under the TRQ and the percent fill for the last three years.

| Annual Total U.S. Beef Imports from Australia | | | |
|---|---|---|---|
| | | | |
| | Volume | | Value |
| | (Thousand Metric Tons) | | (Million Dollars) |
| | | | |
| **2003** | 376.55 | | 899.91 |
| **2002** | 379.04 | | 883.95 |
| **2001** | 384.18 | | 850.34 |
| **2000** | 342.08 | | 670.16 |
| **1999** | 288.74 | | 505.97 |
| **1998** | 285.18 | | 467.63 |
| **1997** | 213.25 | | 354.19 |
| **1996** | 181.73 | | 213.25 |

| Beef Imports Subject to TRO from Australia | | | | |
|---|---|---|---|---|
| Australia WTO TRQ: 378,214mt | | | | |
| | | | | |
| **Volume (Thousand Metric Tons)** | | | | |
| **2001** | **2002** | **2003** | | |
| 378.21 | 370.37 | 373.06 | | |
| | | | | |
| **% Fill 01** | **% Fill 02** | **% Fill 03** | | |
| 100.00 | 97.93 | 98.64 | | |
| | | | | |

**THE AGREEMENT**

The U.S. – Australia FTA grants Australia market access in beef that is in addition to, and separate from, the WTO or "Most Favored Nation" (MFN) TRQ. Below is a table that describes the beef market access and safeguard aspects of the FTA agreement:

| WTO TRQ level (MFN) | FTA Year | FTA In-Quota Tariff | FTA Quota | Out of Quota Tariff | If Quantity Safe-Guard >110% | Then 75% of MFN tariff = | Price based safe-guard |
|---|---|---|---|---|---|---|---|
| 378,214 (mt) | 1 | 0 | 0 (mt) | 26.4 | | | |
| 378,214 | 2 | 0 | 15,000 | 26.4 | | | |
| 378,214 | 3 | 0 | 20,000 | 26.4 | | | |
| 378,214 | 4 | 0 | 20,000 | 26.4 | | | |
| 378,214 | 5 | 0 | 25,000 | 26.4 | | | |
| 378,214 | 6 | 0 | 25,000 | 26.4 | | | |
| 378,214 | 7 | 0 | 30,000 | 26.4 | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 378,214 | 8 | 0 | 30,000 | 26.4 | | | |
| 378,214 | 9 | 0 | 35,000 | 24.6 | 38,500 (mt) | 26.0% | |
| 378,214 | 10 | 0 | 35,000 | 22.9 | 38,500 | 25.5 | |
| 378,214 | 11 | 0 | 40,000 | 21.1 | 44,000 | 25.1 | |
| 378,214 | 12 | 0 | 40,000 | 19.4 | 44,000 | 24.7 | |
| 378,214 | 13 | 0 | 45,000 | 17.6 | 49,500 | 24.2 | |
| 378,214 | 14 | 0 | 45,000 | 14.1 | 49,500 | 22.0 | |
| 378,214 | 15 | 0 | 50,000 | 10.6 | 55,000 | 22.5 | |
| 378,214 | 16 | 0 | 55,000 | 7.0 | 60,500 | 21.6 | |
| 378,214 | 17 | 0 | 60,000 | 3.5 | 66,000 | 20.7 | |
| 378,214 | 18 | 0 | 70,000 | 0 | 77,000 | 19.8 | |
| 378,214 | 19 | 0 | unlimited (0.6% of 70K growth forward) | N/A | N/A | N/A | If <6.5% of 24-month avg light select then 17.2% |

Note: 1 metric ton = 2204.6 lbs.

Under the terms of this agreement:

- If U.S. exports do not exceed 2003 levels during the first two years of the agreement, the increase in market access for year 2 as illustrated in the table above would not go into effect.
- The current 4.4 cent/kg ($44/mt) in-quota tariff would go to zero immediately.
- The out of quota tariff will not change until year 9 of the agreement. It will be reduced by one-third from years 9-13 and by the remaining two-thirds between years 14-18.
- Australia will be permitted to fill the increase in the quota level granted via the FTA above the MFN (378,214 mt) level with only "manufacturing" beef (as opposed to whole muscle cuts). However, Australia will be permitted to export simultaneously under either the MFN or FTA quota. (The MFN quota doesn't have to be filled first.)
- Beginning in year 9 (the first year of the out of quota tariff reduction), a quantity-based safeguard of 75% of the difference between the MFN (26.4%) and out of the FTA quota tariff will apply when imports exceed 110% of the quota. This quantity-based safeguard will end at the end of the transition period (the end of year 18).
- Beginning in year 19, a permanent, price-based safeguard of 65% of the MFN (26.4%) tariff, or a tariff of 17.2% will apply during a quarter if the price of these imports dips more than 6.5% below the 24-month moving average of the wholesale light select carcass price for two months of the previous quarter. The rules are slightly different during the fourth quarter. The safeguard may be maintained during the remainder of the fourth quarter of the calendar year, if the monthly average index price falls below the trigger price in any month of the fourth quarter or in the month immediately preceding the fourth quarter.
- The permanent price-based safeguard will only apply, however, once Australian exports exceed a set level. For example in year 19 (MFN + 70,000 mt + 0.6% of 70,000 mt <or> 378,214 mt + 70,000 + 420 mt = 448,634 mt) a 17.2% tariff would apply on all Australia exports to the U.S. that exceed 448,634 mt.

- US exports to Australia will be completely duty free and without the former 30-day aging rule on day one of the agreement. US beef and beef variety meat exports to Australia in 2003 were 183.5 metric tons.
- Australian live cattle exports to the U.S. will be determined based on Australian compliance with USDA-APHIS regulations, as is the case today. Any future or potential shipments would no longer be subject to MFN tariff rates of one cent per kg (the tariff on a 400 lb. calf would be $1.82) but rather an ad velorum duty.
- US exports to Australia will be completely duty free and without any SPS restriction on day one of the agreement, however, the Australian and New Zealand markets are relatively small and offer little market growth for our exports compared to the Asian and European markets. US beef and beef variety meat exports to Australia in 2003 were 183.5 metric tons.
- As part of the agreement, Australia has committed to working with the U.S. to amend the international standards on BSE.

POLICY CONSIDERATIONS:

- In a July 17, 2003 letter to U.S. Trade Representative Robert Zoellick, NCBA's Policy Division reiterated our position that the U.S. cattle industry vehemently opposes any increase in the Australian tariff rate quota for beef, and/or a reduction of tariffs, during the US-Australia FTA negotiations without substantial gains in market access for U.S. beef and beef products in the other major importing beef nations of the world, such as Japan, South Korea, and the European Union. Because Australia is a major beef exporter and many major beef importers are in Asia and Europe, this objective can only be achieved through comprehensive multi-lateral WTO negotiations -- not regional or bilateral negotiations.
- The letter also pointed to another issue that continues to be of concern for U.S. cattlemen: the Jones Act. Under this Act, Hawaiian cattlemen cannot directly ship live feeder cattle to the continental United States at a competitive rate on ships under U.S. flag, and instead must transship them through Canada. As part of the US-Australia FTA negotiations the Australians will obtain direct access for feeder cattle into the United States. Such access would continue to put those Hawaiian cattlemen at an unacceptable disadvantage.

SUMMARY

Once it became clear that these negotiations were going forward, NCBA had little choice other than to roll up our sleeves and work with the team of U.S. trade negotiators to get the best agreement possible knowing full-well that we would be negotiating from a totally defensive position.

Throughout the Australia FTA negotiating process, the assumption was made that there will be a new WTO Agreement within the next 10 years that will increase market access in beef trade globally and that such an agreement would mean greater access for U.S. beef around the world via a multilateral reduction in tariffs on beef. It is also anticipated that any new WTO agreement would include an expansion in the size of tariff-rate quotas (TRQ) around the world including the U.S. beef TRQ. (The current (WTO) Harbinson text says that all TRQs would be expanded to 10 percent of consumption which would make the U.S. beef import TRQ roughly 1,000,000 tons versus the current 378,214 tons—subject to negotiation.)

The U.S. cattle industry's primary objective in these negotiations was to prevent any potential negative impact on the U.S. beef industry caused by this FTA before the U.S. beef industry would have an opportunity to increase its ability to export beef via the WTO trade liberalization process. The expectation being that once this reduction in beef tariffs globally was in place, Australia would not have enough production to meet this global demand and still annually fill its US quota of which it has accomplished on only one occasion.

As the primary end-use for its 86-88 percent lean, Australian beef is a ground product for hamburger, only a minute amount of Australian beef exported to the United States is currently attempting to be marketed as a whole muscle cut. Current five-year industry estimates all concur in projecting a 1-2 percent annual growth in the demand for this (food service ground beef) product. ***If these estimates hold over the next decade, the size of Australia's TRQ should grow commensurate with the marketplace's demand for this product resulting in no net negative price effect on live U.S. utility cow prices during the next 10 years as a result of this FTA.***

If for some reason the demand for these lean beef imports stagnates, the FTA could give Australia a slight advantage over New Zealand via the elimination of the in-quota tariff. If not, a regression utility cow price model suggests that the agreement's 15,000 ton increase in Australia's beef TRQ to the United States would equate to a $0.0018/lb decrease in the live price of the U.S. utility cow market on an annual basis with the 40,000 tons in year 11 equating to $0.0049lb and the 70,000 ton in year 18 $0.0085/lb. Again, these price effects assume zero growth in the demand for food-service hamburger in the years ahead.

Overall, this agreement is unique in that significant market access (above expected growth in demand) is back-loaded until essentially year 15 of the agreement. The inclusion of a transitional quantity-based safeguard, and the permanent price-based safeguard at the end of the transition period, are critical components of this agreement.

The world beef market should benefit, rather than suffer, from this permanent, post-transitional price-based safeguard or "safety-net" mechanism that essentially provides a type of braking (not blocking) mechanism in the event of a U.S. or Australian beef market meltdown. While such an event seemed unlikely before December 23, 2003, we now know that such a provision is actually sensible trade policy given the quantity of trade involved.

NATIONAL FARMERS UNION

# Statement of Mr. David J. Frederickson President National Farmers Union

## Before the House Agriculture Committee

## Concerning Agricultural Trade Negotiations

## May 19, 2004

Chairman Goodlatte, Ranking Member Stenholm and members of the House Agriculture Committee, it is a pleasure to appear before you today on behalf of the farmer and rancher members of the National Farmers Union to discuss the issue of agricultural trade negotiations. While the granting of Trade Promotion Authority transferred significant power to the administration, we believe it is extremely important that this committee exercise a high level of oversight throughout the process and seek objective information concerning the impact of the negotiations and proposed agreements on agricultural producers.

Before I discuss our concerns over the various trade negotiations in which the U.S. is currently engaged, I would like to offer a few general observations concerning agricultural trade.

**Observations –**

I don't believe there is any question but that farmers and ranchers are more concerned about the impact of globalization, market concentration and the results of trade agreements on their operations and on U.S. production agriculture than at any time in recent memory. The reason for increased skepticism, and in more and more cases downright cynicism, is that the results of agricultural trade negotiations and the agreements that follow have consistently failed to match the promises and rhetoric of free trade proponents.

Time and time again, farmers have been told that because of the increased demand created by growing populations and expanding incomes beyond our borders prosperity based on free trade is just around the corner. As producers we never seem to get to that elusive corner. The farmer expectations created by the advocates of the North American Free Trade Agreement (NAFTA), the Uruguay and Doha Rounds and China's ascension to the World Trade Organization (WTO) have not been fulfilled. The prospect that the current WTO Round or myriad of bi-lateral and regional trade agreements will create a different result is just as unlikely.

At times, the proponents of these agreements seem to suggest that without these commitments, no agricultural goods, or at least no U.S. agricultural commodities, would move in world commerce. However in during the five years, 1990-94, before farmers began to realize the costs and the benefits of NAFTA and the WTO, our agricultural exports, which were comprised of a significantly higher proportion of bulk commodities than occurs today, resulted in an average trade surplus over the imports of competitive products of about $23.0 billion. For the five-year period 1999-2003, several years after the agreements were ratified, that surplus declined by nearly 15 percent to $19.6 billion.

From 1985 to 1994, when agriculture was not a focal point of trade negotiations, our farm exports grew by nearly 41 percent, while all agricultural imports rose by about 35 percent. From 1994 to 2003, after agricultural trade became subject to trade rules under the WTO and NAFTA, agricultural exports increased 34.4 percent and imports 86.1 percent, the vast majority of which were comprised of competitive products.

As we tout our increased sales to Canada and Mexico during this 10th anniversary of NAFTA, we must also acknowledge that we are selling proportionately less to the rest of the world than we used to, while at the same time importing increased quantities of products from overseas that we already produce. This is not due to increased tariff or non-tariff barriers in the non-NAFTA countries or a decline in demand, but because we have been displaced in third country and our own domestic markets by our trade competitors.

Agricultural trade advocates, including administration officials from both parties, are always quick to point out the percentage of farm sales that are derived from exports and the amount of cropland utilized to produce these products. Even during the period when our export sales were declining or failing to meet expectations, they continued to suggest that agricultural exports amounted to about 25 percent of the farm gate value of U.S. crops and livestock. For example, in her written statement to this committee last week, Secretary Veneman reported, "We estimate about 27 percent of farm sales will come from exports this fiscal year."

This is an impressive number and would appear to paint a bright picture for the contribution of exports to production agriculture. It also misrepresents the importance of agricultural trade to the economic well-being of farmers. First, the $59 billion or so in agricultural exports for 2004, that purportedly represents the approximate 27 percent of farm sales, is a gross export number. It does not account for the approximately $43 billion of competitive agricultural products we will import this year that displace domestic products in our own market. Second, export values are reported by U.S. Customs on a "free alongside ship" or f.a.s. basis. The quoted value of our exports reflects the transaction price for the product including transportation and other charges to place the merchandise alongside the carrier at the export point. Our trade data, both for exports and imports is more comparable to a wholesale price than to the prices received by U.S. farmers. In all likelihood, American producers receive only about 60 percent of the reported export value as a portion of their total gross income. In 2003, the value of gross exports at the producer level was about $35.7 billion, or approximately 16.8 percent of the value of farm gate commodity sales. Once competitive imports are deducted, net exports account for about $13 billion, just over 6 percent of crop and livestock sales by producers (table 1). Interestingly, in 1994, before agriculture was subject to trade agreements, the producer value of exports was about 40 percent higher than in 2003.

In the case of wheat, the average price received by wheat producers in calendar year 2003 was $126.55 per metric ton. The f.a.s. value for wheat was $155.55 per metric ton, nearly 23 percent above what the producer received for the bulk commodity. As the commodity moved through various levels of processing, while the producer value would have remained constant, other sectors captured an increasing share of the export value. For beef, the export value in 2003 is estimated to be over double the price received by producers. (table 2)

In terms of volume, trade proponents, including U.S. Trade Representative Zoellick, suggest that the production of about one out of three acres is destined for the export market, which also misrepresents the importance of exports to U.S. farmers. Once again they fail to reduce the volume by the level of competitive imports and then they suggest it represents a percentage of the total crop acreage excluding the over 600 million acres in the U.S. utilized for pasture and grazing of livestock which are an important export sector. The Economic Research Service of USDA estimates that the export share of the volume of U.S. farm production was 21.9 percent in 2002. Furthermore, their data indicates the share has declined each year since 1998 and since 1990, only exceeded 25 percent in one year – 1995 (table 3).

Exports are important to farmers and ranchers, however, the misrepresentation of trade data should be curtailed to present a more fair and objective view of trade as it relates to agricultural producers.

**Free Trade Agreements –**

Since the granting of "fast track" Trade Promotion Authority, the U.S. has pursued not only a multilateral trade agenda through the WTO, but also an aggressive approach to bi-lateral and/or regional free trade agreements (FTAs) with a number of nations that are in various stages of progress from the initiation of talks to awaiting congressional action on ratification to the initial stages of implementation.

While some sectors of production agriculture expect to gain market share or expanded sales, other sectors are justifiably concerned that these agreements will simply add to the level of price depressing surpluses in our domestic market. Many of the proposed FTAs are with countries that provide relatively small market opportunities for U.S. farmers even if we gain preferential market access commitments. At the same time these nations may represent substantial competition in our domestic or other foreign markets for specific commodity sectors including, but not limited to sugar, dairy, fruits, vegetables and even beef.

Although we have provided a level of front-loaded protection for individual sectors in specific agreements, we appear to be on a path to opening our most sensitive commodity sectors to substantially increased levels of competition over time if the provisions of all the completed and proposed FTAs were to be aggregated. In effect, the FTA negotiations "pick off" commodities one-by-one while attempting to maintain the necessary threshold of support for each FTA to gain its ratification.

Tariff reductions and equalization in addition to responsible limits on non-tariff border measures are important considerations. However, even successful efforts to address these issues do not mitigate our concerns that the competitive advantage of these countries is in large part based on factors other than tariffs, quotas and sanitary/phytosanitary issues. Issues that are either not addressed in the agreements at all, or are inadequately dealt with in terms of harmonization and effective enforcement mechanisms. These include exchange rates, environmental regulation and labor standards. both as they relate to production agriculture and agricultural processing and distribution.

In addition, we are very concerned that at least one multi-national trading company is preparing to utilize preferential trade arrangements already afforded some developing countries, such as the Caribbean Basin Initiative, to transship products from third country markets through those countries in order to evade existing tariff rate quotas on agricultural products. While such practices may be designed to meet the technical requirements of the preferences, it appears to us they clearly violate the intent of these agreements and will serve to erode support for special treatment for developing countries in the future.

Finally, FTA advocates, most of whom have never met a trade agreement they didn't fully support regardless of its provisions, have attempted to promote certain FTAs based on an analysis of expected costs and benefits to producers. The analysis extends the misleading data issue identified earlier and also must assume a sort of trade agreement vacuum concerning the likelihood of future trade deals between FTA countries and other nations. Let me illustrate this point with a couple of examples.

First, it is hard to imagine that the expanded sugar quota provided in the Central American Free Trade Agreement (CAFTA), which in all likelihood will be fully utilized, will not be extended to other nations in a future Free Trade Area of the Americas or other FTA negotiations, particularly since Ambassador Zoellick has indicated sugar will not be omitted from any future trade agreements. The losses to our sugar industry are predictable, real and will ultimately be costly to both sugar producers as well as other agricultural sectors while the projected benefits of the agreement are hypothetical and elusive.

Who really believes that increased imports of foreign sugar sold at world "dump market" prices will substantially improve the standard of living in Central America for those who labor in the industry, or will result in lower consumer prices in the U.S. for candy, sodas or other sugar containing products? Remember a sugar free soda costs the consumer the same as one containing sugar. Who believes increased imports will have a positive impact on our domestic sugar production industry or other production sectors that will absorb any displaced U.S. sugar acreage in the form of increased production of alternative commodities?

Second, there are no CAFTA rules that prohibit the participating countries from extending the preferential tariff reductions that are the primary basis for projected U.S. trade benefits, to other countries in South America, Europe or elsewhere erasing the modest trade gains we believe have been achieved.

Finally, within the context of the WTO, it would seem that FTAs such as CAFTA, which provide preferential treatment to its participants, directly contradict the whole concept of Most Favored Nation status and national treatment.

As a general farm organization which represents producers of all commodities, it is difficult for the NFU to support these agreements when the risk of expanded unfair competition to our members is so high relative to any potential benefits. Our problem is compounded because the goal of improving the economic returns to producers has never been mentioned as a priority in any of these negotiations. Why would an organization that is directed by its producer members support trade agreements that pose substantial economic risk to farmers while they cannot demonstrate clear, definable and predictable financial benefits to our membership?

**WTO Negotiations –**

The U.S. is also currently engaged in negotiations to establish new disciplines on agricultural policies and actions through the World Trade Organization. The so-called three pillars of the U.S. trade agenda include improved market access, elimination of export subsidies and tighter controls over domestic agricultural support programs. In addition, some form of special and differential treatment for developing countries in the application of new disciplines is to be expected.

In principle, the NFU supports many of the objectives contained in the U.S. proposal including efforts to move toward greater harmonization of tariffs, greater clarity in the use of non-tariff barriers to trade and the elimination of export subsidies.

We also support efforts to differentiate among developing nations based on the level of development of their agricultural sector. Countries such as Brazil and China should not be the recipients of special trade accommodations for their agricultural sectors.

In addition, we back the position of the administration concerning an appeal to what is likely to be the WTO dispute panel's decision in the Brazilian challenge to our domestic cotton program. However, we believe this issue must also be viewed as a "wake-up call" for all producers, policy makers and negotiators over the operation, scale and purpose of domestic safety net programs. Any action taken through the negotiations on domestic support programs must provide the maximum flexibility for sovereign nations to develop domestic measures they deem appropriate to the extent they do not significantly distort trade. It should be remembered that the majority of U.S. domestic support payments to farmers are reactionary to price and determined well after planting decisions have been made. The U.S. should also insist upon greater clarity in grouping support mechanisms relative to their potential to distort trade, including those support initiatives, such as "blue box" programs which mitigate such distortions.

We are concerned however, that the negotiations have failed to identify the mechanisms to achieve what we believe are the three most important goals of all agricultural trade agreements: first, recognition that agriculture is unique in its economic, social and political importance to each of the sovereign nations that make up the WTO; second, improving the economic returns to farmers worldwide so the need for trade distorting practices of all types are reduced or eliminated; and third, providing policy flexibility and encouraging cooperation among nations to fully address food safety and security, particularly for the world's 800 million people who suffer from inadequate levels of nutrition. To achieve each of these goals, it is imperative that negotiators recognize that the trade rules which may appropriately apply to other sectors may be counter productive to achieving fair and beneficial trade in agricultural goods.

Although many have characterized the Doha Round as being comprehensive in that it covers literally all trade sectors, we would suggest that it seriously lacks scope in the case of agriculture because of major issues which directly impact and may distort trade that are not being negotiated. These include country actions on currency and exchange rate policy, provisions to enhance, harmonize and enforce environmental regulations and labor standards, meaningful consideration of the effects of agricultural integration and concentration on producers and consumers relative to market transparency, competition and subsidies provided to agribusiness to encourage the creation of greater production overcapacity. In addition, we should find ways to accommodate and encourage agriculture's role in achieving other important national social objectives.

The failure thus far to achieve a consensus framework agreement on agriculture when coupled with the likely outcome of the Brazilian dispute panel decision suggests to us that an alternative approach to agriculture is necessary to reduce the trade tensions in the agriculture sector through cooperation to achieve the goals previously identified and address the important issues that have thus far been ignored. We also believe it is critical that all parties acknowledge that no country is likely, or should be expected, to unilaterally undermine its domestic agriculture or place its food security in the control of others regardless of the provisions contained in a trade agreement.

**Alternative Approach -**

Attached is a copy of a PowerPoint presentation (appendix 1) the National Farmers Union developed with Dr. Daryll Ray at the University of Tennessee for an international meeting of farmers held concurrent with the Cancun Ministerial last September. It outlines many of the concerns which affect producers in both the developed and developing world. The document also discusses many of the issues we believe have been ignored in the negotiations and suggests an outcome for the negotiations that could achieve the aforementioned goals for agricultural trade that the vast majority of the world's farmers share.

In summary, our proposal suggests an alternative to the destructive "race to the bottom" in commodity prices that is costing developed countries billions of dollars each year and jeopardizing the ability of developing nations to provide an adequate standard of living for their citizens.

Through a greater level of cooperation, we believe it is possible to achieve a constructive long term balance in supply, demand and producer prices within reasonable parameters that reduce the need for nations to engage in the level of unfair trade practices that exist today.

We believe it is possible to dramatically expand the demand for agricultural products in both the traditional food and fiber markets as well as for industrial products such as renewable fuels. This will reduce the problems associated with increased production capacity that predictably results in commercial surpluses, depressed producers prices and direct or indirect dumping.

We also propose that developed nations, both exporters and importers, agree to establish and maintain limited, strategic reserves of basic fungible commodities in order to meet the humanitarian, food security and growing alternative market needs of the world community in case of production shortfalls.

Finally, should excess capacity continue to undermine the economic stability and sustainability of production agriculture, we propose that the major exporting nations commit to equitably shared responsibilities in the management of production and stocks to maintain the desired supply and demand balance.

Mr. Chairman, thank you for the opportunity to participate in this important hearing. I will be pleased to respond to any questions you or your colleagues may have.

table 1

**Estimated Farmgate Value of Agricultural Exports**

| | CY 1994 | CY 2003 |
|---|---|---|
| U.S. agricultural exports (FATUS, million $) | 46163.5 | 59552.4 |
| Free Alongside Ship (f.a.s.) margin over farm gate value (estimated) | 40% | 40% |
| Estimated farm gate value of U.S. agricultural exports (million $) | 27698.1 | 35731.44 |
| U.S. agricultural imports (FATUS, million $) | 27023.7 | 47342.5 |
| Non-competitive imports (FATUS, million $) | 6758.3 | 9346.5 |
| Competitive agricultural imports (million $) | 20265.3 | 37996.1 |
| Customs import value margin over farm gate value (estimated) | 40% | 40% |
| Estimated foreign farm gate value of competitive imports | 12159.18 | 22797.66 |
| Farm gate agricultural trade balance (competitive products) | 15538.92 | 12933.78 |
| Total Crop & Livestock Sales (Agricultural Outlook Tables, million $) | 181273.9 | 212700.0 |
| Farm gate agricultural trade balance as percent of total sales | 8.6% | 6.1% |

table 2

**Examples**

| | CY 2003 | | |
|---|---|---|---|
| | $ per metric ton | Margin per metric ton | Margin per cent |
| **Wheat -** | | | |
| Average price received by farmers (Agricultural Prices, per metric ton) | 126.55 | | |
| F.A.S. export value of wheat (BICO report, per metric ton) | 155.55 | 29.00 | 22.9% |
| Wheat equivalent F.A.S. export value of wheat flour (BICO, per MT) | 283.54 | 156.99 | 124.1% |
| Wheat equivalent F.A.S. export value of cereal (BICO, per MT) | 1169.89 | 1043.34 | 824.4% |
| **Beef & Veal -** | | | |
| Average price received by farmers (cows, steers, heifers) (Agricultural Prices, per MT) | 1762.96 | | |
| F.A.S. export value of beef and veal (fresh, frozen, prepared, preserved) (BICO, per MT) | 3664.09 | 1901.13 | 107.8% |

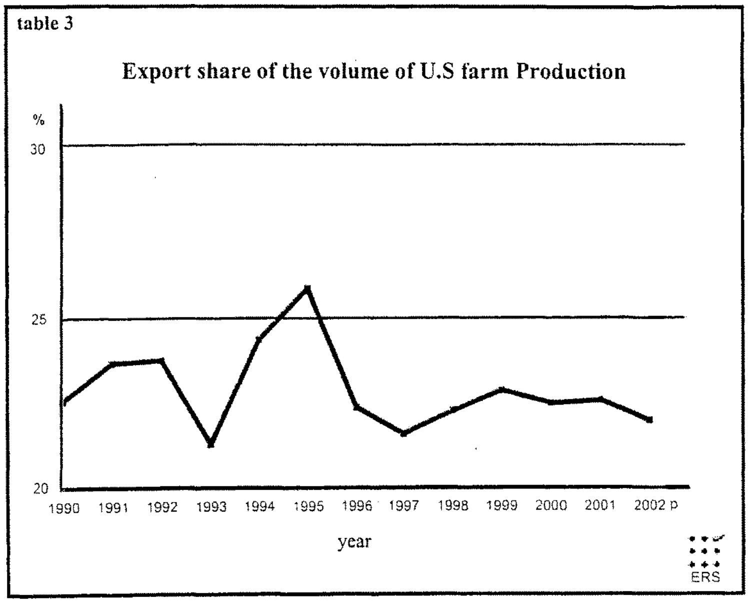


table 3
Export share of the volume of U.S farm Production
%
30
25
20
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002 p
year
ERS

Appendix 1

## International Cooperation to Restore Agricultural Profitability

Daryll E. Ray
University of Tennessee
Agricultural Policy Analysis Center

Facilitated by: National Farmers Union, USA
Presented before representatives of farmers from around the world in conjunction with the meeting of the World Trade Organization
September 9, 2003 Cancun, Mexico

## Why Are We Here?

- Farmers, worldwide, are plagued with unsustainably low prices
- Public Intervention costs are about $360 Billion per year
- 800 million people lack access to adequate nutrition

## One Set of Problems: Recent Policies and Their Expectations

We were promised that the policy trio of:

- De-regulation
- Trade Liberalization
- Privatization

Would provide:

- Reduced malnutrition
- Increased the rate of social gains
- Increased farm prices and incomes

## But it Hasn't Worked Out

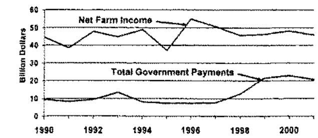
The current international consensus for food/agricultural policy:

- Fails to provide adequate and stable market returns for farmers worldwide
- Favors concentration and benefits multinational agribusinesses
- Does not allow for distinctive national policies
- Increased public cost
- Still: Fails to help feed the hungry

## Interaction of Today's World Agricultural Policies

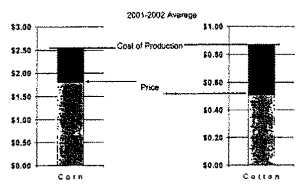
- Commodity prices plummeted Worldwide
- Accusations of dumping
- Many countries unable to neutralize impacts of low prices

## US Net Farm Income and Government Payments



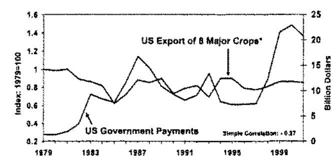

- US Government payments are at historic highs at $20+ billion per year
- Worldwide government subsidies total a staggering $360 billion per year

## US Prices and Cost of Production




- Prices cover only 60 to 75% for cotton and corn, respectively
- Even less for other crops
- Corresponding graphs for other countries would look even worse

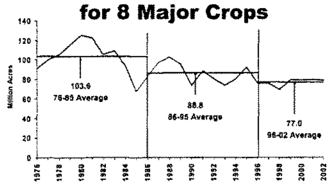
## US Exports and Government Payments




US government payments have not resulted in additional movement of US crops into world markets

*Adjusted for grain exported in meat

## US Net Export Acreage for 8 Major Crops




27 million fewer acres are currently used for eight major crop exports than in the 1976-1985 period

## Hunger Eradication Goals Unmet

- **1974 World Food Conference**
  - Eradication of hunger within a decade
  - Instead 800 million hungry after two decades
- **1996 World Food Summit**
  - Halve number of hungry within two decades
  - Instead—to date—no improvement in reducing the rate of malnutrition
  - In fact, if China is excluded, malnutrition has increased since 1996

## The Problem is...

- Not that the world lacks the productive capacity to feed the hungry
- Not that ample productive capacity requires low prices

## Policy at a Crossroads

With the decreased rate of improvement in social measures and the collapse in farm prices:

- The current policy trio of de-regulation, trade liberalization and privatization is ineffective, contentious and uncooperative
- Alternative: Desperately need to identify elements of a stable, sustainable and cooperative world policy for food and agriculture

## Food/Ag Policy Should Address:

- Reasonable returns for the producers
- Food and Nutrition Security
- Multifunction of Agriculture

## Such Ideas are Included in Several Concepts/Terms

- Food security
- Food/Ag policy self-determination
- Food sovereignty

But whatever you call it, each country...

- defines its own agricultural and food policies and
- recognizes its interdependence with other countries and both protects itself from dumping and does not cause dumping

## Food IS Different

- Food is a biological requirement; a matter of life and death
- Most everything else—but water and shelter—is optional
- The trade and market rules that work well for non-essential commodities give unacceptable results for food/agriculture
- The uniqueness of food and agriculture requires a unique set of domestic and trade policies

## Absolute Necessity Gave Rise to "Policy of Plenty"

- Public policy of ensuring an ever-increasing food supply by cropland expansion and by investing in:
  - Research
  - Education
  - Extension/Technology transfer
- The development and maintenance of an excess capacity to provide food is a desirable, if not necessary, public policy goal

## But "Plenty" Must be Managed

- Agricultural output generally increases faster than effective demand
- Low farm prices result
- Other industries self-correct when prices are low
  - Consumers buy more
  - Producers produce less—supply management occurs
- Not in agriculture
  - Cropland area changes too slowly in response to lower prices
  - Consumers do not go to 5 meals a day as food prices decline

## Managing Plenty and The Role of Farm Policy

In the past farm policies included

- Floor price
- Supply management tools
- Price stabilization

Recent international policy trends

- Eliminated all three
- Set prices free to fall well below cost of production
- Provided revenue supplements to compensate when prices are low

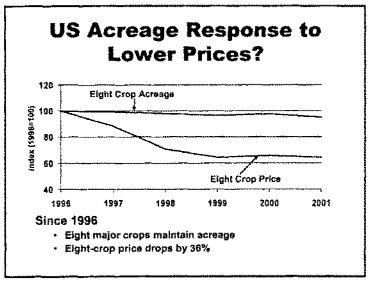
## Predictable Consequences of Overcapacity

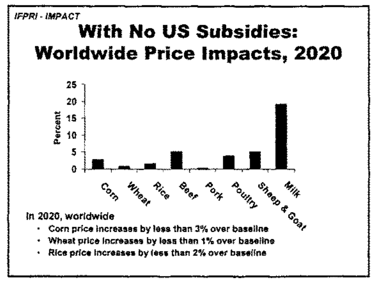
- Millions of acres previously "set-aside" are brought back into production
- Prices fall in world markets
- Government payments increasingly support land values but have little impact on production/prices

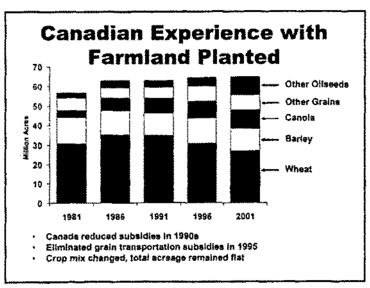
## Current Trade Agenda Is Not the Answer

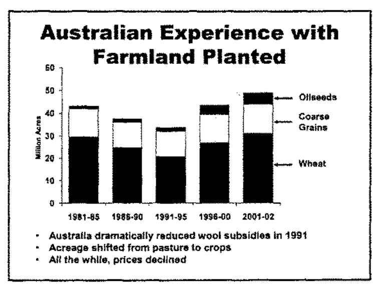
Farm prices and incomes are not self-correcting when prices drop because:

- Supply does not respond enough to low prices (has not; does not; will not)
- Demand does not respond enough to low prices (has not; does not; will not)

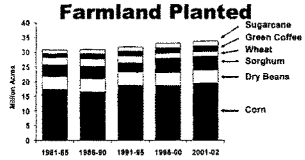

US Acreage Response to Lower Prices?
Eight Crop Acreage
Eight Crop Price
Index (1996=100)
120
100
80
60
40
1996
1997
1998
1999
2000
2001
Since 1996
• Eight major crops maintain acreage
• Eight-crop price drops by 36%


IFPRI - IMPACT
With No US Subsidies: Worldwide Price Impacts, 2020
Percent
25
20
15
10
5
0
Corn
Wheat
Rice
Beef
Pork
Poultry
Sheep & Goat
Milk
In 2020, worldwide
• Corn price increases by less than 3% over baseline
• Wheat price increases by less than 1% over baseline
• Rice price increases by less than 2% over baseline


Canadian Experience with Farmland Planted
Million Acres
70
60
50
40
30
20
10
0
1981
1986
1991
1996
2001
Other Oilseeds
Other Grains
Canola
Barley
Wheat
• Canada reduced subsidies in 1990s
• Eliminated grain transportation subsidies in 1995
• Crop mix changed, total acreage remained flat


Australian Experience with Farmland Planted
Million Acres
60
50
40
30
20
10
0
1981-85
1986-90
1991-95
1996-00
2001-02
Oilseeds
Coarse Grains
Wheat
• Australia dramatically reduced wool subsidies in 1991
• Acreage shifted from pasture to crops
• All the while, prices declined

## Mexican Experience with Farmland Planted




- Mexico eliminated or reduced supports in the 1990s
- Phased out import quotas under NAFTA
- Increased acreage of above selected major crops
- Total crop acreage also increases – 256 million acres in 1991, 265 million acres in 2001

## What Food and Agricultural Polices are Needed?

Policies that:

- Improve economic sustainability for producers
- Recognize the need for cooperative solutions
- Preserve the autonomy of each country to determine its food and agricultural policies
- Address Food Security and global hunger issues

## Action Elements to Restore Farm Profitability

- Demand Expansion
  - Attention to society priorities
- Reserves
  - Humanitarian relief
  - Food security/Buffer stocks
- Global capacity issues—Balancing supply and demand

## Why a Global Commitment to Balance Supply and Demand?

- Significant additional productive capacity is being brought online in several countries around the world
- Technological advances now increase yields worldwide
- Politically impossible for a nation to do unilaterally

## Establish International Humanitarian Relief Reserve

- Reserve should be available to meet food **EMERGENCIES**
- Release should be based on need **NOT** price or desire to clear storage
- Distinct from stock management programs to stabilize price
- Distribution should be in manner that does not penalize local producers

## Why Do We Need a New Food/Farm Policy?

- Farmers must join together to stop the race to the bottom in commodity prices
- Structure of agricultural marketplace pits farmers against one another
- Government cost of policies
- 800 million people lack adequate nutrition

### Advantages of a Food/Farm Policy based on Food Security and Sovereignty

- Balance supply and demand to ensure profitable producer returns
- Establish conditions less conducive to market concentration
- Reflect national priorities including social objectives and sovereignty—Reduce intervention costs
- Reduce/eliminate global hunger
- Guarantee food security for all
- Eliminate dumping and trade distortions
- Enable cooperative management of excess capacity

May 19, 2004

**TESTIMONY OF CHARLES BECKENDORF**
**CHAIRMAN**
**NATIONAL MILK PRODUCERS FEDERATION**
**BEFORE THE**
**AGRICULTURE COMMITTEE**
**OF THE HOUSE OF REPRESENTATIVES**

Mr. Chairman and members of the committee, I am Charles Beckendorf, a dairy producer from Tomball, Texas and Chairman of the National Milk Producers Federation (NMPF). The National Milk Producers Federation works closely with the members and staff of the U.S. Dairy Export Council (USDEC) on issues of trade policy that promote U.S. dairy exports. I am pleased to appear before you today to testify on the status of agricultural trade negotiations, including the World Trade Organization and bilateral and regional agreements.

America's dairy industry is the second largest agricultural commodity sector in the United States, measured by farm cash receipts. There are 70,000 dairy producers in the U.S. farming in every state, from Vermont to California, Oregon to Florida plus Alaska and Hawaii. Dairy is one of the top three agricultural sectors in fully half of the states, and almost two-thirds of the members of the House hail from one of these "dairy" states. Internationally, the U.S. is the world's largest single-country producer of cow's milk.

Impressive as those numbers are, they represent only the milk <u>production</u> side of the industry. Dairy processors, the companies that turn milk into yogurt, cheese, ice cream and milk powder, also add overall strength and employment to the impact of the industry as a whole on the country's economy. In addition, we know that our ability to increase production, which in turn impacts employment in both the producing and processing sectors, is almost unconstrained.

In contrast to much of U.S. agriculture, the dairy sector is not particularly dependent on trade. Only about 5% of U.S. dairy production is exported, and imports account for about 4.5% of total U.S. consumption of dairy products. Nevertheless, with production expanding in the long run, trade is also growing, and the U.S. dairy industry is becoming increasingly interested in international markets. Another reason why the U.S. dairy industry is paying closer attention to international trade is the rising levels of dairy imports received by the United States. This situation has generated increasing volatility in the U.S. dairy market and the resulting price gyrations have affected not only producers and processors, but also consumers.

For these reasons, the National Milk Producers Federation is following closely all of the developments related to international trade agreements, and we welcome every opportunity to provide input to Congress and to our trade negotiators. If there is one message that members of the House Agricultural Committee should take away from this testimony, it should be that the U.S. dairy industry cannot continue down the road of unilateral disarmament. Markets need to be opened overseas before we open our domestic market any further and other countries must commit to reducing their heavy subsidies and lower their much higher tariffs before we disarm our own support system.

## The Doha Round of WTO Trade Negotiations

Among current trade policy initiatives, the Doha Round of WTO negotiations is by far the most critical in importance for our industry. Because the world dairy market is so severely distorted by export subsidies and import barriers, the only viable way to reform trade in a fair way is through multilateral negotiations in the WTO. Subsidized exports from the EU accounted for nearly 25% of global dairy trade in the marketing year 2002/2003. Domestic markets of major dairy consumers such as the EU, Canada, Brazil, Korea and Japan, among others, are protected by tariffs so high that they prevent imports outside of small tariff rate quota quantities. By contrast, the U.S. uses very few export subsidies (see Annex 1) and our tariffs are relatively low compared to these other large dairy consuming markets – in fact, low enough to permit imports in excess of tariff rate quota quantities in many years (see Annex 2).

NMPF and USDEC were strong supporters of the 2002 U.S. proposal on agriculture for the Doha Round because it would have resulted in the kind of comprehensive, equitable agreement that would make trade reform a reality. That proposal called for the swift elimination of export subsidies and substantial reductions in trade distorting domestic support. These goals were to have been achieved through greater equity among all developed countries, as well as large "developing" countries, along with substantial reductions in tariffs via a harmonizing formula that would require bigger cuts for higher tariffs. This approach would also have substantially reduced distortions in the international market and provided new market opportunities for U.S. dairy product exporters. In addition, it would have opened up the markets of major dairy consuming countries simultaneously and allowed the U.S. to avoid the problems that would result from unilateral liberalization.

Unfortunately, the rest of the world did not recognize the wisdom of the U.S. proposal, and our negotiators were forced to consider compromises. In August of 2003, in an effort to promote a successful outcome at the Cancun Ministerial Conference, the U.S. and the EU produced a compromise paper on agriculture. That paper opened up the possibility that export subsidies would persist for some products and introduced the "blended formula" approach for tariff reductions.

While we at National Milk applauded the effort by our negotiators to find a way forward, we were not enthusiastic about the approach outlined in the paper, particularly in regard to export subsidies. We note with pleasure the change in position that EU Commissioners Pascal Lamy and Franz Fischler recently announced, indicating that the EU can agree to eventually eliminate export subsidies, depending on the other terms of the Doha package. Given the EU's isolation in the WTO on this issue, we believe that it now should be possible to reach an agreement that leads to a reasonable rapid elimination of all export subsidies.

On the other hand, we have become increasingly concerned that the "blended formula" approach would yield a highly asymmetrical result with respect to dairy products. Under that approach, countries would be free to designate a certain number of "sensitive products" to which they could apply the type of straight percentage reductions that were used in the Uruguay Round, while other products would be subject to the harmonizing Swiss formula. As an example, under such an approach, the EU, Canada and Japan could and would probably designate dairy products as "sensitive." The resulting tariff reductions to which they would be subject would in all likelihood be so negligible that no new market access would actually be achieved. By contrast, these small tariff cuts would open the U.S. market still further, since our tariffs are already relatively low making the U.S. the only major dairy market absorbing new globally supplied product through imports above the quota. The effect on U.S. prices would immediately impact producer income to a significant extent.

Although the U.S. negotiators' proposal for requiring only a minimum number of tariff lines to be subject to Uruguay Round style reductions may serve to produce a higher level of harmonization in dairy, this view is not shared by other members of the WTO. The EU has communicated to other WTO members that their approach would allow access to the Uruguay Round-type reductions for a large percentage of tariff lines (particularly dairy). If no other approach is feasible, the blended formula could possibly address our needs, provided that the agreement include, as an alternative means of reform, a provision requiring countries that retain peak tariffs for certain products to significantly expand tariff quotas in excess of what others, such as the U.S., are required to do. We are encouraging our negotiators to consider additional ideas and promote proposals that fully take into account the interests of the U.S. dairy industry, particularly those of dairy producers.

It is our view that focusing on small reductions for all sensitive products will only serve to perpetuate the current market access inequities. As a result of these existing disparities, the U.S. has become a dumping ground for world dairy subsidies and surpluses, a trend that is certain to continue if ambitious reforms of other large dairy markets are not pursued. For instance, the U.S. imports large quantities of non-quota products, as well as a significant amount of products above and beyond their quota limits. **During the 2001 to 2003 time period, out of an average of 865 million lbs. of total milk solids imported per year, 66 percent, or two-thirds of that amount was imported in the form of products not subject to quotas. During those years, the U.S. also imported an average of 70 million lbs. per year of over-quota products, an additional amount equating to almost one-third of the in-quota product imports. In-quota imports of products subject to tariff-rate quotas represented only about one quarter of total milk solids imported into the United States during the 2001-2003 period.** Unfortunately, the commitments in the last Uruguay Round permitted many WTO members to isolate their markets entirely, preventing all imports beyond the negotiated minimum access, while countries like the United States provided significantly more net access.

As you can see, the issue of market access has become the most sensitive aspect of the negotiations (due to U.S. dairy vulnerability) for U.S. dairy producers. We are prepared for multilateral reform, but not to liberalize our market unilaterally. This is the reason why a harmonizing tariff reduction formula, or a similar approach with an equivalent effect, must be an essential part of any agreement. We recognize that negotiations are difficult, but it is time that we worry less about other countries sensitivities and start focusing more on our own agricultural objectives.

**We oppose any additional in-quota access unless other countries provide equal access in the form of in-quota, out of quota and non-quota products.** Also, if agreed, additional in-quota access should be given first to developing countries and to those countries that did not enjoy special country allocations (e.g., the United States) during the Uruguay Round. Any access that benefits European or other OECD countries should be compensated for with a specific country allocation for U.S. dairy products into those markets.

**The continuation of safeguards is essential to remedying price depressing import surges of dairy products.** Although we understand the danger of improperly stifling access to foreign markets, a transparent, quick and efficient safeguard, with specific disciplines that address import surges, is extremely important. The special safeguard provisions adopted in previous negotiations have not proven to be very effective and need modification to improve transparency and simplicity. The U.S. government needs to be able to implement these safeguards without delay.

Finally, it is necessary to ensure that the **United States does not provide more access (in-quota or over-quota) than any other protected world market, particularly in ways that put our industry at a competitive disadvantage.** Because of the disparities created by the Uruguay Round peak tariffs, it is essential that the market access modalities include a system to evaluate the actual over-quota access that each protected market offers. In other words, calculations of minimum market access should consider both in-quota access, and over-quota access, when calculating any further concessions. Dairy producers will re-evaluate their support of the Doha Round if the method chosen for reducing tariffs forces the United States to open its markets while other WTO members are permitted to maintain high levels of tariff protection.

*Export Subsidies*

The U.S. dairy industry has stated numerous times that is willing to give up the Dairy Export Incentive Program as long as the Europeans and others eliminate their export subsidies entirely. In fact, we believe the pervasively negative effect of export subsidies is so extensive that the U.S. industry's competitiveness in world markets will improve given rapid elimination of export subsidies. The majority of WTO members, including the United States, have already identified the complete elimination of export subsidies as an important goal. We urge our negotiators to ensure that the EU's recent pledge to eliminate export subsidies is accounted for in the final agreement.

With regard to other forms of export competition, State Trading Enterprises (STEs) do not necessarily constitute interference to trade. An example of a properly structured entity is the Commodity Credit Corporation (CCC) in the United States. However, monopolistic STEs, receiving preferential treatment with respect to exports and imports, have consistently distorted trade. The Doha Round must not allow State Trading Enterprises, or companies sanctioned by the government to have exclusive rights to all domestic milk, as well as exclusive rights to export markets, to continue to function. The elimination of various forms of export competition should address the enormous distortions created by the monopolistic nature of certain STE organizations.

*Domestic Support*

**It is imperative that our government preserve the ability to directly support U.S. dairy producers.** We favor the current general principle of the Derbez text with some potential minor changes. We can support reducing the current levels of allowed subsidies under the Amber box as long as it is done in a manner that brings some equity into the current scenario. The Blue Box provisions should be always available to U.S. producers if they are available to other countries. **We strongly oppose the complete elimination of the Amber and Green boxes.** Moreover, the United States should only accept reductions in domestic support as part of a package that includes elimination of export subsidies and reciprocal market access through some form of harmonization. Unless negotiations reduce serious disparities in the levels of government support and offer significant market access in all countries, developed and developing, the United States must continue internal programs that counter heavy subsidization by Europe and other OECD members.

The Farm Bill of 2002 authorized the price support program for another seven years. Under the WTO's nomenclature for agricultural domestic support, the price support program is considered classified in the "Amber box" category of the most trade distorting systems. We believe that the current WTO rules of notification regarding the Amber box that emanated from the Uruguay Round have significant flaws.

The most obvious oversight is the double counting of producer support. For instance, the U.S. price support program had little impact on U.S. dairy prices until 1999. Nevertheless, the United States notified to the WTO an average of $4.5 billion annually for dairy price support, when in reality government outlays were near zero. Also, because of differences in reporting methods, the EU notifies significantly lower quantities than the United States, despite the fact that our programs are less intrusive and less trade distorting.

*Non-Trade Concerns*

In addition to the three pillars of U.S. dairy trade concerns (export subsidies, market access and domestic support), issues of non-trade concerns (geographical indications, the precautionary principle, labeling and food safety), as well as the topic of special and differential treatment for developing countries, have the potential for severely damaging the future of dairy trade reform.

We are encouraged by Commissioner Lamy's letter on May 9, 2004, which lacks a direct reference to "geographical indications" (GIs). However, GIs continue to be a priority for the EU and their pressure remains hidden at this time under the implementation rules. Moreover, domestically, the EU continues to propose changes on this topic and to challenge EU member countries that refuse to comply with its internal mandate. This is an action that has divided the European continent between those who want to capture and monopolize generic names versus those who believe that generic names, as well as trademarks, are protected both by laws and by years of marketing and development. We must remain vigilant to ensure that the EU doesn't seek a trade off between the elimination of export subsidies and further access in agriculture in exchange for an unprecedented expansion of GIs protection in the international realm. **Under no terms should the U.S. government agree to a trade-off between GIs and progress in the agricultural negotiations.**

These so-called "non-trade concerns" also include topics such as animal welfare, consumer attitudes and fears (known as the "precautionary principle"), and the notion that the special characteristics of agriculture should permit the continued use of trade restricting measures or trade distorting subsidies. These "non-trade" issues mainly interest the EU, Japan and a few other countries in order to further deny fair market access to our goods.

We agree that the specific role of agriculture as a provider of public goods should be recognized, yet we strongly disagree with any attempt to use those concerns to prevent trade. While the U.S. dairy industry does not oppose the idea that agriculture is a unique economic activity that merits different treatment, we firmly believe that the real issue is the manner in which the various objectives attributed to agriculture are accomplished. Legitimate social, cultural and environmental goals are best accomplished through specifically targeted programs that do not prevent trade. It is important that the United States prevent the inclusion of issues such as labeling and animal welfare, in addition to others, in a final agreement, if the provisions would result in further trade distortions.

*Special & Differential Treatment (Developing Countries)*

Special and differential treatment for developing countries given in the form of restricting trade is an impediment to further trade and economic reform. The U.S. dairy industry opposes proposals to provide a "free round" to any countries. This prospect is in direct opposition to the goals of expanding exports and improving the economic well being of all developing countries.

The U.S. dairy industry rejects the concept of "strategic products" for developing countries. It also disapproves of permitting developing countries to maintain high levels of protection. Although we may contemplate the possibility of lesser commitments from the least developed countries, especially in Africa and the Caribbean, under no circumstances should developing countries with larger economies be allowed to be exempted from the trade reform process under the auspices of being a "developing country".

**In conclusion, the U.S. dairy industry has built its trade priorities around the proposition that the playing field must be leveled in all three pillars.** Inequities must be eliminated. Our dairy sector can compete internationally, but only if distortions disappear in a fair manner and the U.S. does not undertake reforms unilaterally. The United States Congress needs to carefully examine the pros and cons of an agreement that does not accomplish those goals.

**Bilateral and Regional Trade Agreements**

**As I indicted earlier, National Milk believes that the WTO is the best place to negotiate the liberalization of agricultural trade. We do not believe that bilateral or regional agreements are the best vehicle. Because of their scope, such agreements cannot address world market distortions.** Moreover, bilateral agreements with net dairy exporting countries open the U.S. market to increased competition without providing new market access opportunities.

Another concern with respect to bilateral and regional agreements is that these agreements are creating a network of preferences that could make multilateral liberalization much more difficult. We are already beginning to notice this phenomenon in the Doha Round negotiations, where African and Caribbean recipients of EU preferences have argued against the use of the Swiss formula because they fear it would undermine the value of the preferences they receive in the EU market. The EU has openly encouraged those countries to make that argument and is now trying to use the same tactic to neutralize the MERCOSUR countries. EU negotiators recently told MERCOSUR negotiators that they could make a much better offer on agricultural products in their bilateral negotiation if MERCOSUR would commit to supporting the EU in seeking a minimal outcome on market access in the Doha Round.

It should be noted that we do see some export opportunities in some of the bilateral agreements the U.S. has negotiated and is currently negotiating. We are working with our negotiators to maximize those opportunities and minimize the risks. Because of this growth potential, we have supported those carefully selected agreements that offered the prospect of market access gains for our industry. **Despite our support for these**

**FTAs, however, we remain convinced that the multilateral format is clearly the preferable avenue for trade negotiations.**

*Free Trade Area of the Americas (FTAA)*

A year ago the U.S. dairy industry testified that a Free Trade Area of the Americas (FTAA) was long overdue, because we had lost ground to our trade competitors who aggressively pursued and continue to pursue such activities. However, the current vision for an FTAA falls short of our hopes for an integrated American Hemisphere.

Although the potential for export growth as a result of an FTAA is large, we are now gaining some of those opportunities in Latin America through bilateral agreements currently being pursued by this Administration. Every country in that region except Argentina, Uruguay, Brazil, Paraguay, Venezuela and the some of the poorest countries in the Caribbean will have negotiated an FTA with the United States by early 2005. Virtually all of these countries with whom the U.S. anticipates having an FTA are net importers of dairy products.

A year ago, we also testified that we strongly supported the FTAA for its ability to finally bring the Canadian dairy industry into the North America market global system. Unfortunately, we are seriously concerned that the FTAA process has been tainted by Brazil's insistence to exclude economic sectors which could likely result in Canada and others excluding their dairy sectors.

**We have repeatedly stated that if Canada succeeds in excluding its dairy sector, the U.S. dairy industry would find little reason to support an FTAA.** Under these conditions, our industry can no longer support an FTAA that doesn't provide a true level playing field and open markets across the Hemisphere, especially in Brazil and Canada. Again, if these new provisions to make the FTAA less than comprehensive result in exclusions by Brazil and Canada, and if such developments are coupled with the fact that almost all other markets will be part of an umbrella of FTAs in the hemisphere, the FTAA is made much less desirable, even objectable.

*Australia FTA*

The National Milk Producers Federation has opposed this agreement in the past and continues to be opposed today due to the unnecessary access given to Australia by the U.S. government. Nevertheless, members of Congress and the United States Trade Representatives must be commended for listening to our concerns and protecting our over-quota tariffs.

Indeed, a number of the members of Congress and many of you on this Committee fought diligently to defend the interests of the U.S. dairy industry. One of our greatest apprehensions was the elimination of our over-quota tariffs, which would have led to our fully opening our market to a major competitor while a substantially unreformed global trading system remained in place.

The ratio of exports to imports from Australia is skewed significantly in Australia's favor with the U.S. exporting only $10.8 million of dairy products to Australia in 2003 while Australia exported $89.6 million worth of dairy products to the U.S. that year. Under the FTA, Australia will be able to export approximately 55 million pounds of additional dairy products, with the disparity in the trade ratio favoring significant growth for imports from Australia under the FTA and essentially no new export opportunities in Australia for U.S. products.

We encourage the Administration and the members of this committee to include provisions in the implementing bill that would result in the offset of any income loss by dairy producers. For instance, if Congress passes the Australian FTA, a way to significantly help to offset the losses to dairy farmer income that the FTA would impose, would be for the Administration to use the full WTO permitted allocation available under the Dairy Export Incentive Program.

*CAFTA and Other Bilateral Agreements*

Thanks to the successful inclusion of dairy in the Central American Free Trade Agreement, U.S. dairy producers and processors across the country can look to benefit from increased trade opportunities within the region. Working closely with USTR, the U.S. dairy industry helped fend off our partner countries' desire to exclude dairy from the agreement. That effort will pay off as the U.S. gains more than 2600 metric tons of immediate new market access for cheese into the six CAFTA countries, as well as immediate access for approximately 4800 tons of powder, 800 tons of butter, 750 tons of ice cream, and 850 tons of other dairy products. Despite its sensitivity in our CAFTA partner countries, the time period required to phase out tariffs on dairy products will be only two years longer than that for the majority of products. We urge the Administration to place a higher priority on passing CAFTA to more quickly usher in its benefits than on passing the Australia FTA, which offers no benefit to our industry and little to American agriculture as a whole.

With the above-mentioned exception of the U.S.-Australia Free Trade Agreement, the U.S. dairy industry supports many of the trade initiatives currently underway. We believe that such trade initiatives, particularly those within the Western Hemisphere, are clearly beneficial for the U.S. due to the potential economic benefit that would arise from greater trade links within the Western Hemisphere.

As we have stated publicly in the past, the U.S. dairy industry applauds Congress for passing the U.S.-Chile and U.S.-Singapore FTAs. The U.S. dairy industry welcomes the completion of the Central American agreement plus the Dominican Republic (CAFTA), and encourages Congress to approve these mutually beneficial agreements.

U.S. negotiators achieved a major victory when Central America agreed to tariff elimination, as part of the Free Trade Agreement, and accepted immediate access for a number of U.S. dairy products.

As for agreements that remain under negotiation, we believe that the Andean FTA (Peru, Colombia and Ecuador) makes economic sense for the United States, as it would increase prosperity for these neighboring countries, in addition to providing opportunities for the U.S. dairy industry. These benefits to the U.S. dairy industry are clear, as these countries are net importers of dairy products. The three nations imported over 40% more dairy products than they exported in 2001. This total reflects wide differences between the various countries: Colombia's trade ratio is more balanced, while Ecuador's imports amounted to over 5 times the value of its exports in 2001 and Peru imported a striking eleven and a half times the value of dairy products that it exported that year. We believe that even if the FTA brings a rise in domestic dairy production, we will help consumption to increase at a faster rate, resulting in a clear benefit for both the Andean countries and the U.S. dairy industry.

Similarly in the case of the U.S.-Panama FTA, the U.S. dairy industry stands to gain beneficial new export opportunities from an agreement with Panama. Dairy imports into Panama in 2001 amounted to 10.6 million kilograms. The best opportunities appear to lie in the market for cheese, with only 13% of imports coming from the U.S. in 2001, as well as that for skim milk powder and for butter, for which the U.S. supplied less than 10% of imported products in 2001. New Zealand and Oceania currently supply the majority of Panama's dairy import needs, but with favorable trade terms through an FTA, the U.S. could better compete against Oceania in that market.

The same sort of potential gains apply with respect to the U.S.-Thailand FTA. While Thailand is not one of our largest export markets, it is one of the most prosperous and fastest growing economies in its region. We therefore recognize the benefit of obtaining preferential market access terms to this net-dairy-importing nation. We also recognize the newly pressing necessity of an FTA with Thailand in order to avoid losing dairy market share to Australia, who recently concluded FTA negotiations with Thailand. In 2000, Australia supplied 29% of Thailand's dairy imports while the U.S. accounted for only 5%. If the U.S. is able to negotiate tariff reductions equivalent to those granted to Australia, we stand poised to gain market share from the EU, which supplied 31% of the market in 2000.

Thailand requires more dairy products than its domestic industry can produce. In 2001, per capita production of dairy products was 19 million pounds per person, compared with a per capita demand of 52 million pounds per person. Given this tremendous imbalance between domestic supply and demand, a U.S.-Thailand FTA could benefit both countries. Thai processors are clamoring for more product and we would like to help supply more of that market. The market access advantage that a properly negotiated FTA could provide would hopefully encourage this direction.

*Rules of Origin*

Rules of origin is a fundamental concept of bilateral and/or regional trade agreements that dictates that economic benefits accrue exclusively to the countries within the region. Dairy suppliers from around the world continually explore ways to expand their shipments to the United States. Milk's versatility creates the opportunity for that expansion by its great variety of tradable products – almost 400 individual tariff lines of the HTSUS include significant proportions of milk and dairy components. In the absence of appropriate rules of origin, it will no doubt be tempting for non-party countries to attempt to transship their dairy products through participating countries.

NAFTA includes excellent provisions addressing rules of origin. For the purpose of determining origin, NAFTA rules of origin restrict exports of dairy products to milk and milk products originating in the FTA country (Mexico-Canada).

If the rules of origin permit non-parties to transship dairy components into the U.S. market via FTA partners, then we estimate that the quantity of these additional imports – above and beyond those that truly originate from FTA members – could amount to as much as 5 billion pounds per year, on a milk equivalent basis, following full implementation of all the FTAs currently being negotiated. The negative impact of these additional imports on the U.S. dairy industry would be substantial. Milk prices received by producers would drop significantly and gross revenues received by U.S. dairy farmers would decline by more than $1 billion per year. Several thousand dairy farms, mostly smaller and medium family farms, would be forced out of business.

**Rules of origin must be specific enough in order to mandate that all milk and dairy ingredients for which access to the U.S. market is liberalized must be manufactured from milk produced by cows in the FTA country.** In the absence of such rules of origin, dairy products and dairy ingredients produced in third countries, particularly New Zealand, Australia and member countries of the European Union, could easily be transshipped through an FTA partner to benefit from the large difference in tariff treatment afforded products that will qualify for liberalized access to the U.S. market under a bilateral agreement.

**Dairy Export Incentive Program (DEIP)**

On a milk equivalent basis, the EU accounts for fully 72 percent of the subsidy allowances agreed upon in the Uruguay Round; the U.S., which produces two–thirds as much milk as the EU, accounts for just three percent of these allowances. Such heavy export subsidies drive down international prices, making U.S. dairy commodity exports uncompetitive. With a renewal of the DEIP program, U.S. suppliers have some ability to compete. Please see Annex 1 which depicts the gross disparity between the levels of support that EU and U.S. producers have available to them through export assistance.

Amazingly, only 16 percent of all available butterfat DEIP awards have been used since 1995 regardless of high or low market prices (see Annex 3). Despite numerous pleas from this committee and other members of Congress, USDA never made available all the butterfat DEIP awards when prices were at its lowest in 25 years.

During the Uruguay round, the U.S. government gave a number of concessions (including in dairy) and obtained a number of rights. One of these legitimate tools that dairy producers agreed to cap, but continue to use was the Dairy Export Incentive Program. Our tariffs are lower and access given to other countries has not stopped; we do not understand why we are complying with all our obligations under the WTO, but we cannot make use of our rights. This is of paramount importance to dairy producers if we are to demonstrate that the Administration is committed to leveling the playing field while continuing to utilize all of our tools to combat distorted trade practices.

**Enforcement of Current Agreements – Importation of Milk Proteins**

Of course, strong trade rules are of little value if they are not enforced. That is why National Milk was so pleased with the successful challenge by the U.S. of the Canadian dairy export policy under WTO dispute settlement. Not only did that case force a change in Canadian policy, it also prevented the EU from adopting a similar regime and avoiding disciplines on export subsidies.

We are now facing another significant enforcement problem, but we do not see a similar willingness on the part of the Administration to address it. Milk protein concentrate (MPC) and casein products are freely flowing at exponentially increasing rates of importation into the U.S. market. Few issues have galvanized the U.S. dairy producer community as strongly in recent years as has the topic of MPC and the impact that imports of MPC & casein have had on the economic health and stability of the dairy sector.

When the U.S. established its tariff-rate schedules for imported dairy products, first during the creation of the Harmonized Tariff Schedule in 1989 and later during negotiations of the General Agreement on Tariffs and Trade in 1994, the technology to both produce and use concentrated milk proteins was in its infancy. The U.S. established Tariff Rate Quotas (TRQs) for other forms of dairy products, such as cheese, butter and nonfat dry milk, but it created no significant tariffs or quotas for MPC or casein. As a result, six years after the implementation of the GATT agreement, MPC and casein can be imported into this country with virtually no trade limitations.

Although MPC and casein are produced by at least half a dozen major dairy exporting nations, the U.S. alone represents about 70% of the world market for these products, primarily because other countries successfully established restrictive tariffs on MPC and casein in 1994. American dairy farmers are thus forced to compete with often heavily-subsidized MPC and casein exports even while other nations jealously guard their own domestic markets from competition from these and other dairy products. In recent years when milk prices were at twenty-five year lows, this unfair competition was particularly painful for U.S. producers to bear, especially given the drastic rate of increase of this product.

Because of the Administration's unwillingness to correct this oversight and growing problem, members of Congress have introduced H.R. 1160 and S. 560 which seek to close these import loopholes and provide a fairer and more level playing field in dairy trade. We thank many on this committee for being sponsors of this important legislation and urge those of you who have not yet signed on to do so without delay. Already, 184 members have signed the House legislation as cosponsors.

I appreciate the opportunity to testify before you today and will be pleased to answer any questions you might have.

Thank you.

**Charles Beckendorf**

# Annex 1

## Comparison of EU and U.S. Dairy Export Subsidies: EU 2002/2003 & U.S. 2003/2004

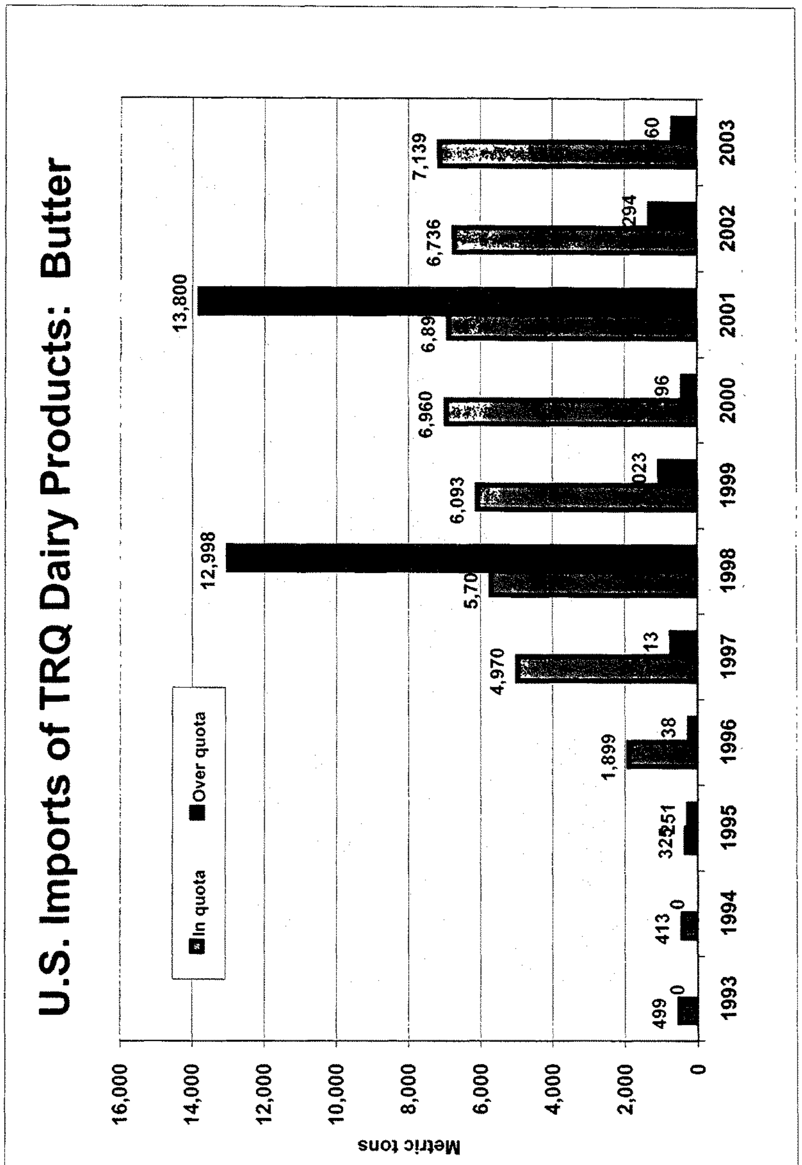
| | Volumes Exported With Subsidies[1] | | | WTO Limits[1] | | |
|---|---|---|---|---|---|---|
| | Volumes (metric tonnes) | Budgetary Outlays (000 $)[2] | Budgetary Outlay (000 Euros) | Volumes (metric tonnes) | Budgetary Outlays (000 $) | Budgetary Outlay (000 Euros) |
| **European Union (2002/2003)** | | | | | | |
| Butter | 294,167 | *$646,064* | € 542,662 | 399,300 | *$1,128,400* | € 947,800 |
| SMP | 222,698 | *$196,172* | € 164,775 | 272,500 | *$328,353* | € 275,800 |
| Cheese | 319,458 | *$318,209* | € 267,280 | 321,300 | *$406,810* | € 341,700 |
| Other Dairy | 850,867 | *$720,496* | € 605,181 | 958,100 | *$830,644* | € 697,700 |
| **United States (2003/2004)** | | | | | | |
| Butter | 0 | $0 | *€ 0* | 21,097 | $30,497 | *€ 25,616* |
| SMP | 68,201 | $4,499 | *€ 3,779* | 68,201 | $82,464 | *€ 69,266* |
| Cheese | 3,030 | $934 | *€ 784* | 3,030 | $3,636 | *€ 3,054* |
| Other Dairy | 0 | $0 | *€ 0* | 34 | $21 | *€ 18* |

Notes:

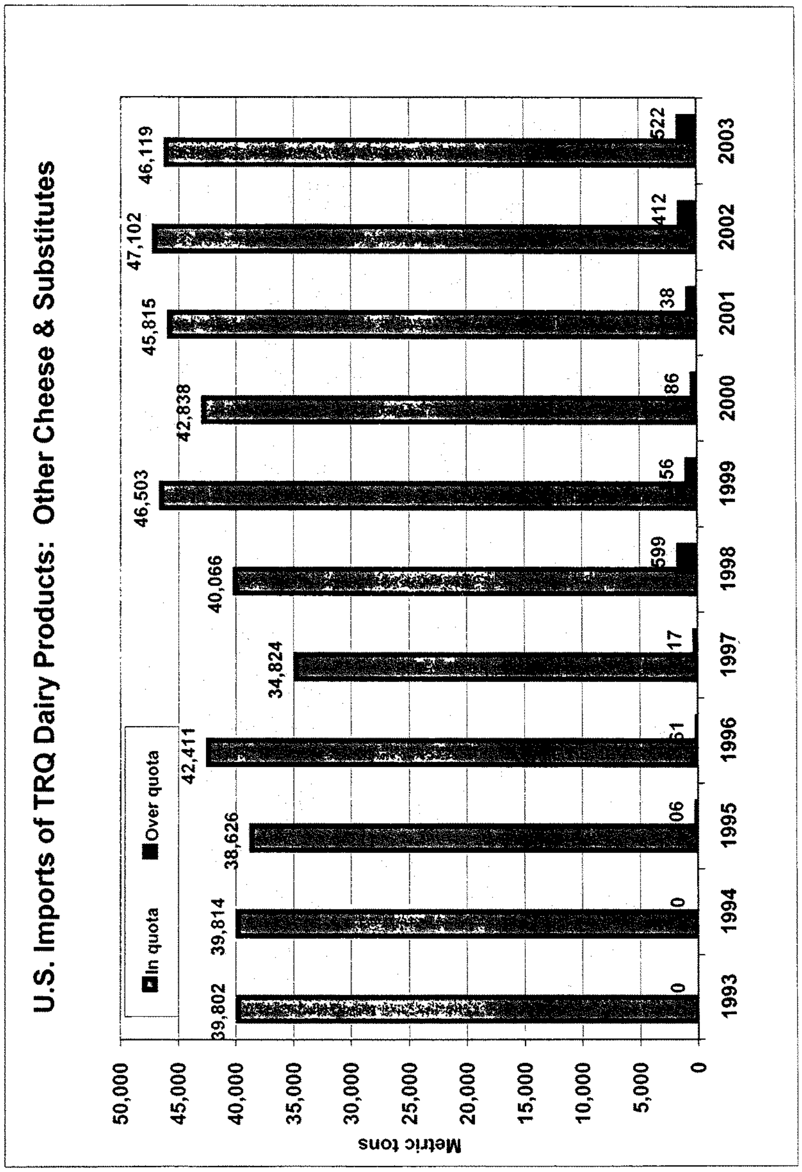
(1) The currency conversion factor used is 1.1905 Dollars to the Euro, which was the rate in effect from 7/1/03 - 5/4/04. Converted currency figures are in italics to denote their potential mobility.

(2) Actual budget outlays in US$s are those that support the actual volume commitments in tonnes for the time period. The budgetary outlays that the U.S. reports to the WTO are calculated on a U.S. fiscal year (Oct. 1 - Sept. 30) basis and are not reported.

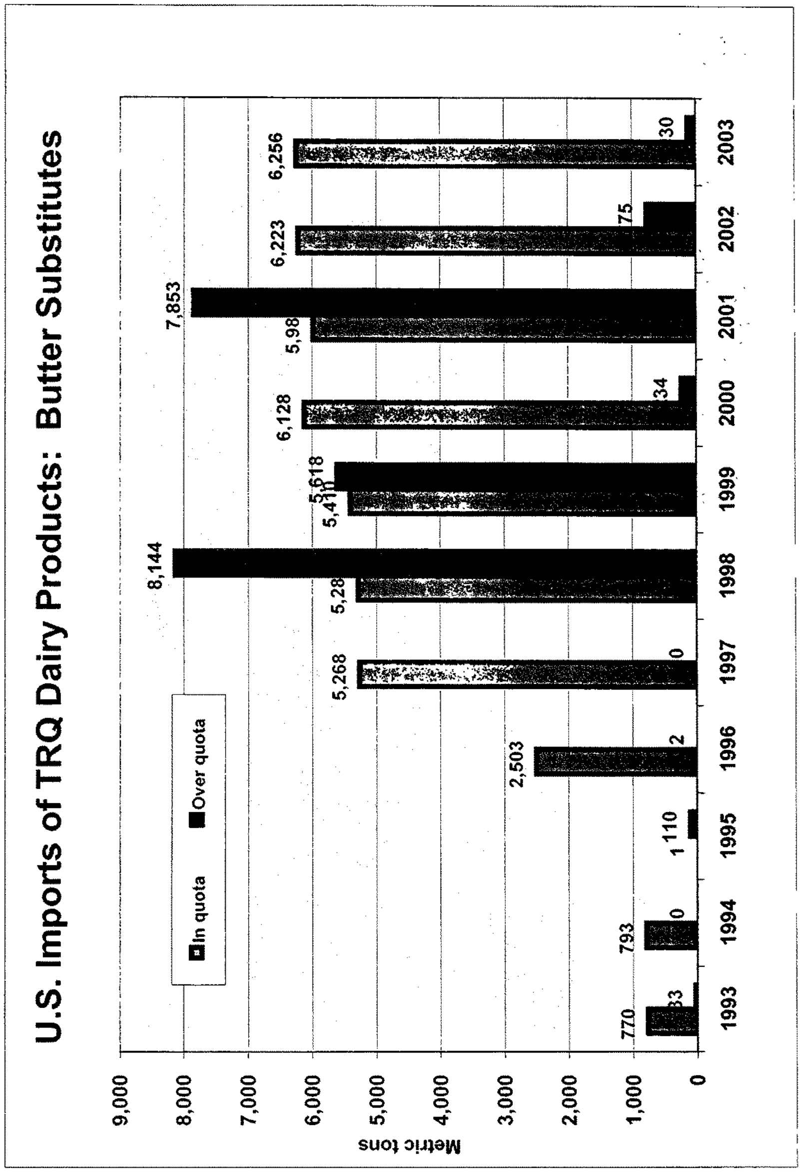
Annex 2


U.S. Imports of TRQ Dairy Products: Butter
Metric tons
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
In quota
Over quota
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
499
0
413
0
251
1,899
38
4,970
13
5,70
12,998
6,093
023
6,960
96
6,89
13,800
6,736
294
7,139
60

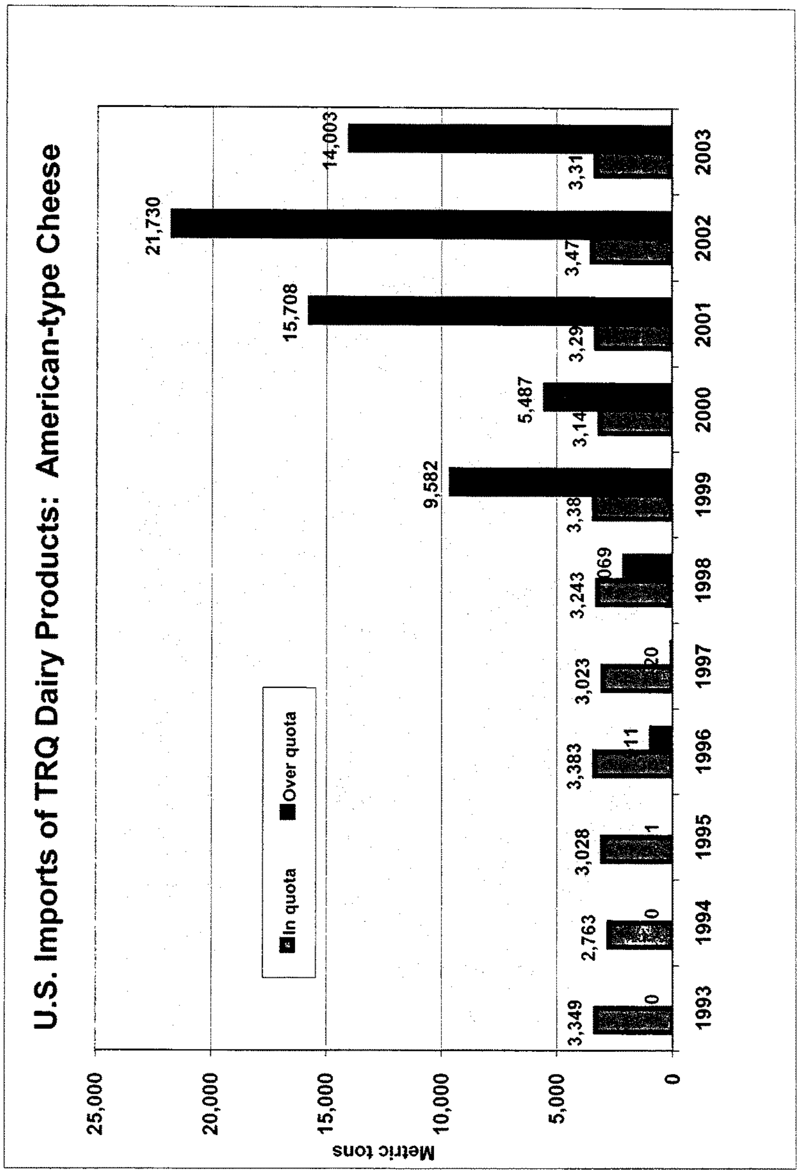
Annex 2


U.S. Imports of TRQ Dairy Products: Other Cheese & Substitutes
In quota
Over quota
Metric tons
50,000
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
39,802
0
39,814
0
38,626
06
42,411
61
34,824
17
40,066
599
46,503
56
42,838
86
45,815
38
47,102
412
46,119
522

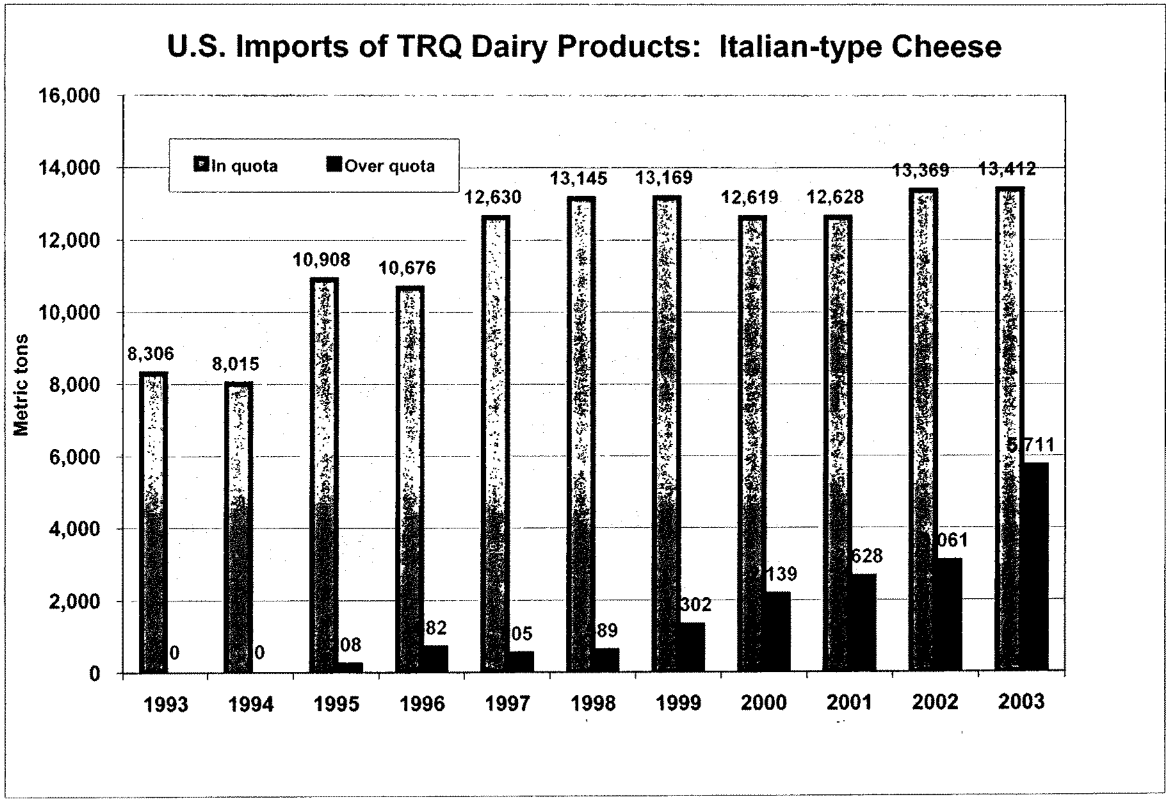
Annex 2


U.S. Imports of TRQ Dairy Products: Butter Substitutes
In quota
Over quota
Metric tons
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
770
33
793
0
1
110
2,503
2
5,268
0
8,144
5,618
6,128
34
7,853
6,223
75
6,256
30

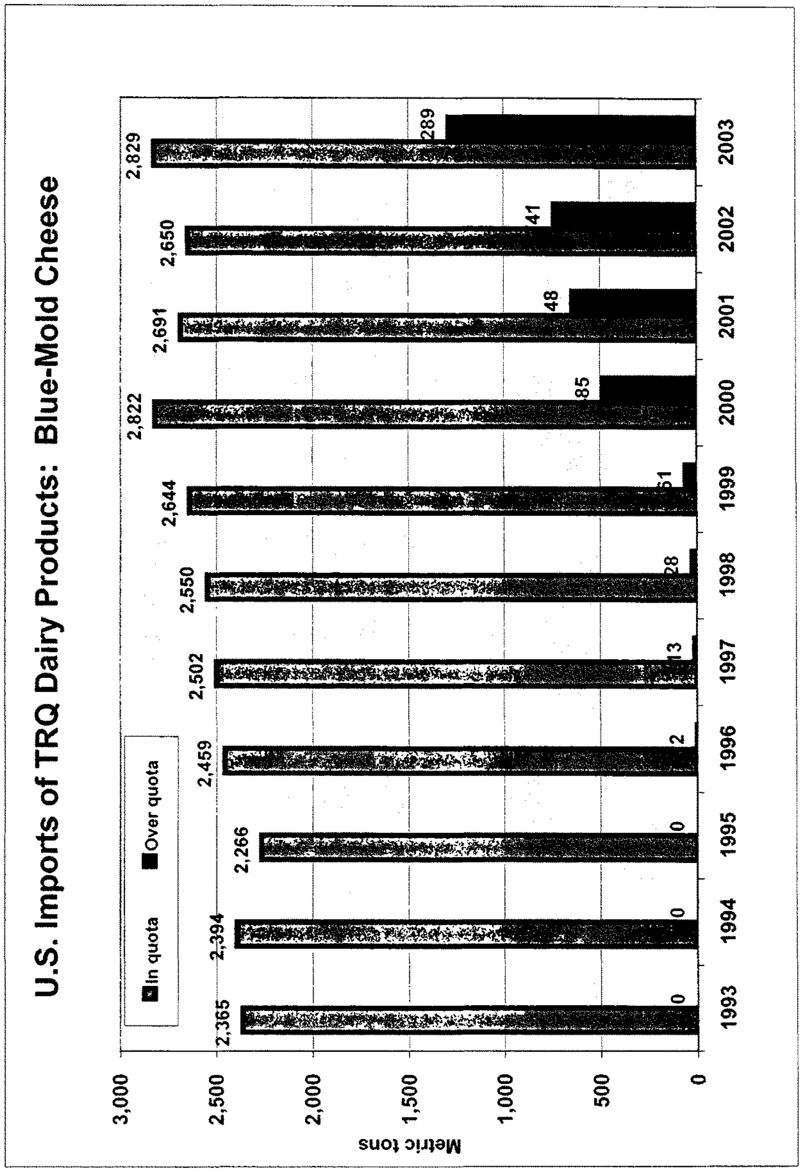
Annex 2


U.S. Imports of TRQ Dairy Products: American-type Cheese
Metric tons
25,000
20,000
15,000
10,000
5,000
0
In quota
Over quota
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
3,349
0
2,763
0
3,028
1
3,383
11
3,023
20
3,243
9,582
5,487
15,708
21,730
14,003

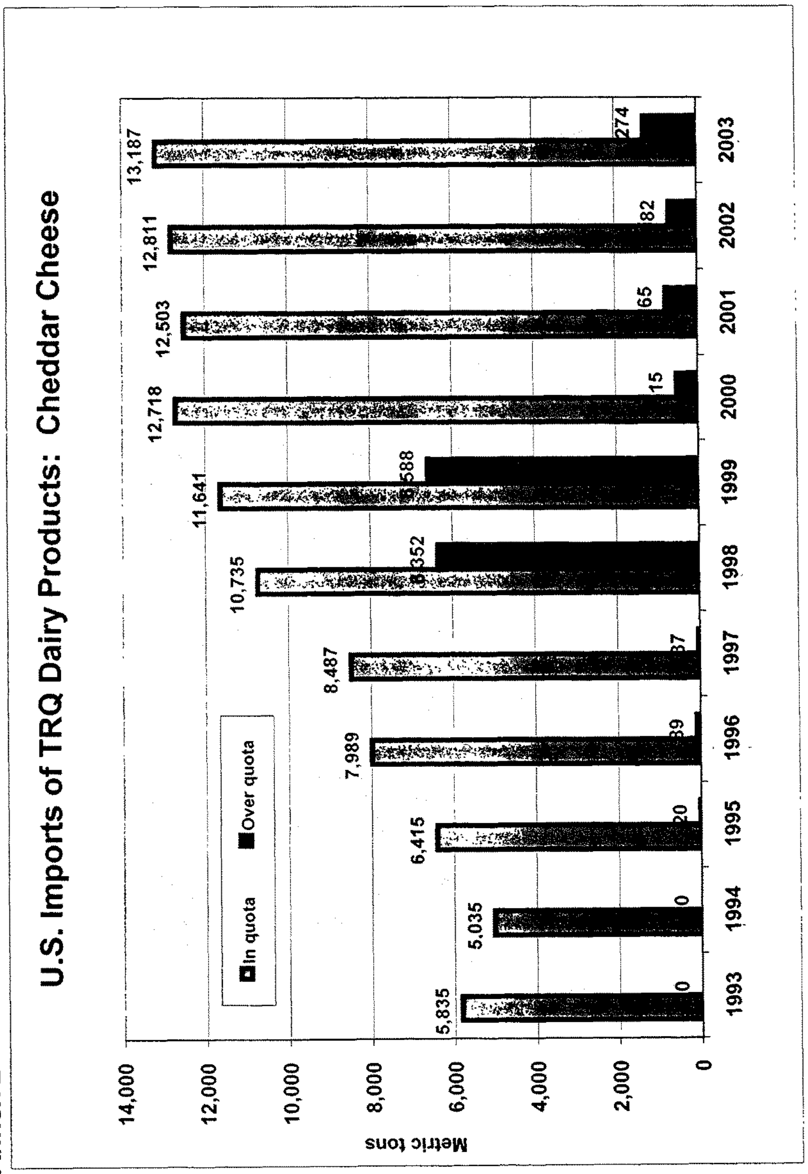
Annex 2


U.S. Imports of TRQ Dairy Products: Italian-type Cheese
In quota
Over quota
Metric tons
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
8,306
0
8,015
0
10,908
08
10,676
82
12,630
05
13,145
89
13,169
302
12,619
139
12,628
628
13,369
061
13,412
5,711

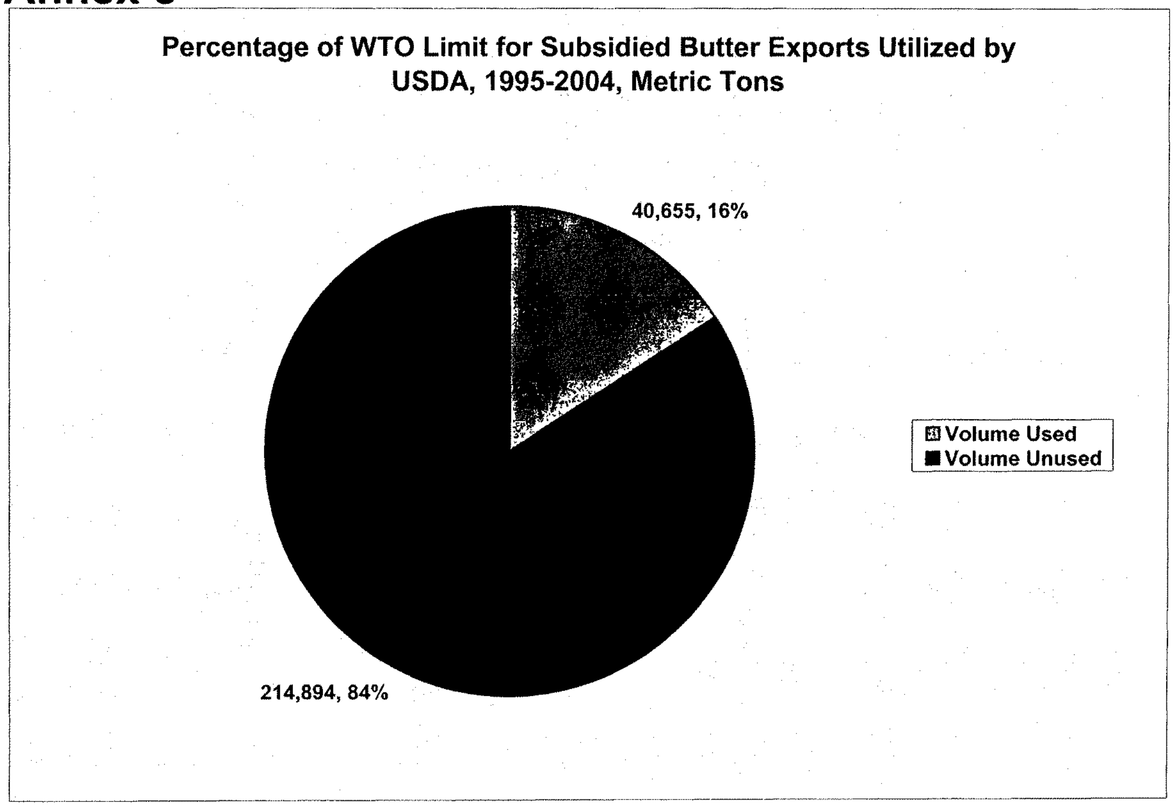
Annex 2


U.S. Imports of TRQ Dairy Products: Blue-Mold Cheese
In quota
Over quota
Metric tons
3,000
2,500
2,000
1,500
1,000
500
0
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2,365
0
2,394
0
2,266
0
2,459
2
2,502
13
2,550
28
2,644
61
2,822
85
2,691
48
2,650
41
2,829
289

Annex 2


U.S. Imports of TRQ Dairy Products: Cheddar Cheese
In quota
Over quota
Metric tons
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
5,835
0
5,035
0
6,415
20
7,989
39
8,487
37
10,735
6,352
11,641
6,588
12,718
15
12,503
65
12,811
82
13,187
274

# Annex 3


Percentage of WTO Limit for Subsidied Butter Exports Utilized by USDA, 1995-2004, Metric Tons
40,655, 16%
214,894, 84%
Volume Used
Volume Unused

**Statement of**

**ELLEN S. LEVINSON**
**Government Relations Director**
**Cadwalader, Wickersham & Taft**
**1201 F Street, N.W.**
**Washington, DC 20004**

**Before the**

**HOUSE COMMITTEE ON AGRICULTURE**
**May 19, 2004**

Mr. Chairman, I appreciate this opportunity to testify before the Committee on the status of agricultural trade negotiations. I will focus my comments on the affect of trade negotiations on international food assistance.

I am Government Relations Director at the firm Cadwalader, Wickersham & Taft and also serve as Executive Director of the Coalition for Food Aid. The members of the Coalition are private, non-profit organizations and cooperatives that design and implement food aid and other programs in developing countries to improve the quality of life and to promote food security and economic growth.[1] Attached is a letter sent by the Coalition last year to the World Trade Organization (WTO) after the first text on agriculture modalities for the Doha Development Agenda (DDA) was released.

Although the purpose of food aid is humanitarian and development assistance, it is the subject of agricultural trade negotiations because it involves agricultural commodity exports. Food aid is not considered an export subsidy and is permitted without limitation under Article 10.4 of the Uruguay Round (UR) Agreement on Agriculture, which strikes a fair balance between the legitimate food aid needs of poor and transitional countries and non-interference with commercial trade. Under Article 10.4, food aid is considered legitimate if it meets the requirements of the Food Aid Convention (FAC), does not create a disincentive to agricultural development in the recipient country, and does not interfere with commercial sales to the recipient country. The FAC is a multilateral agreement that seeks to assure minimum commitments of food aid by donor countries each year and supports the use of food aid for both emergency and chronic (e.g. non-emergency) needs. Agreements are permitted between a donor country and a foreign government, inter-governmental agency or humanitarian and development organization.

Proposals currently under consideration at the World Trade Organization (WTO) DDA trade negotiations threaten the continuation of non-emergency food assistance programs that promote

[1]The members of the Coalition for Food Aid are: ACDI/VOCA, Adventist Development & Relief Agency International, Africare, American Red Cross, CARE, Catholic Relief Services, Counterpart, Food for the Hungry International, International Orthodox Christian Charities, International Relief & Development, Land O'Lakes, Mercy Corps, OIC International, Project Concern, Save the Children, and World Vision.

food security and economic growth in low-income, food-deficit countries. It is critical that the Doha Round negotiators protect against any deviation from the present text of Article 10.4 that could place existing food assistance programs in jeopardy and result in a loss of flexibility in providing aid to poor and transitional countries.

In arguing for restrictions on food aid programs, several agricultural exporting nations have overstated the effect of these programs on commercial trade. Although the donor base and types of commodities provided have expanded over the years, minimum donor commitments under the FAC have actually fallen from 7.52 million metric tons per year in 1986 to 4.895 million metric tons per year (plus a $130 million cash contribution) in 1999. This is well short of the original FAC goal for minimum donor commitments of 10 million metric tons per year. U.S. non-emergency programs currently provide 2 million metric tons per year, which is much less than the chronic shortfall of 15 million metric tons of food in the sixty poorest, food deficit countries.

To assure that adequate amounts of food aid are available on a regular basis and that effective programs can be developed to promote food security, the following actions are recommended:

- Both governmental and non-governmental bilateral agreements must continue to be allowed. Non-emergency bilateral programs are critical for reaching a diversity of underserved populations, as a tool for long-term improvements in food security and for building local capacity.

- To provide a predictable and steady amount of assistance to address chronic needs, donor countries should increase their annual food aid commitments, aiming for the original FAC minimum of 10 million metric tons. In regards to U.S. programs, no further cuts should be made in the P.L. 480 Title I program, the 400,000 metric ton minimum for the Food for Progress Program should be met, adequate funding should be provided for the 2,500,000 metric ton requirement for P.L. 480 Title II programs, and the U.S. Agency for International Development (USAID) should meet to the 1,875,000 metric ton minimum level for non-emergency programs.

- Countries should adhere to the notification and consultation requirements of the UN Food and Agricultural Organization (FAO) Consultative Subcommittee on Surplus Disposal (CSSD). This, rather than the WTO, is the appropriate forum for considering issues related to non-interference with commercial sales.

**Continued Need for Food Aid**

This year marks the Fiftieth Anniversary of the Food for Peace program. With bipartisan and broad public support, Food for Peace has provided 72 million metric tons of food aid to alleviate hunger and to promote growth and security in the developing world. It has helped 750 million people – more than any other U.S. foreign assistance program. Former recipients include Korea, Hong Kong, Taiwan, Indonesia, Philippines, Thailand, Malaysia, Singapore, Mexico, Turkey, Algeria, Egypt, Greece, Brazil, and Poland – all of which are important trade partners, today.

While the United States can be proud of this record, there are challenges ahead. Sadly, today, over 800 million people do not get enough to eat. Chronic needs are growing due to the prevalence of HIV/AIDS and setbacks caused by natural disasters, civil strife and economic downturns. If non-emergency food aid programs are reduced, millions of people will suffer.

**Status of Food Aid in the Doha Round**

The United States' original position on food aid in the Doha Round, as stated in its June 2000 submission, was to preserve Article 10.4 as is. Since then, the U.S. position has changed. The export competition section of the US-EU Agriculture Framework (presented on August 13, 2003) states: "Disciplines shall be agreed in order to prevent commercial displacement through food aid operations." This language was included in September 13, 2003 Derbez Text, which states under Annex A, Section 3.5, "Additional disciplines shall be agreed in order to prevent commercial displacement thru food aid operations." The Derbez Text is currently being used in DDA agricultural meetings as the members develop the framework for further negotiations.

The meaning of "additional disciplines" is open to interpretation. The WTO Secretariat's April 20, 2004 update on the negotiations provided the following explanation: "The Derbez draft proposes that an end date for phasing out all forms of export subsidies (i.e. including subsidized export credit and some forms of food aid) should be negotiated." [WTO Agriculture Negotiations: *The Issues, And Where We Are Now: April 20, 2004.* WTO Secretariat, page 18.]

This reference to phasing out "some forms of food aid" is worrisome. It is not clear what this would include. Last year, Attachment 6 of the Revised Draft Modalities on Agriculture (March 18, 2003, "Harbinson Draft") proposed eliminating government-to-government bilateral food aid agreements for non-emergency programs and allowing other food aid programs to be challenged by WTO members and subject to WTO dispute settlement procedures. However, the EU wanted to go further, only allowing cash to be used for non-emergency food aid, which would effectively eliminate the Title I, Title II non-emergency, McGovern-Dole and Food for Progress programs.

The European Commission's May 9, 2004 open letter to WTO colleagues states that in order for the EU to move forward on export subsidy negotiations, there must be "full parallelism on all forms of export competition, including export credits, food aid and STEs." On May 13, 2004, U.S. Trade Representative Zoellick commented, "If the European Union can move on this critical point, as it seems close to doing, the United States will eliminate the subsidy element of export credits and discipline food aid to avoid commercial displacement, while still permitting countries to meet vital humanitarian needs." Although it is understandable that Ambassador Zoellick welcomes an opening to proceed with the negotiations, this implied comparison between food aid and export subsidies is disturbing.

Export subsidies lower the cost of commercial sales on the international market and the purchaser pays the seller. Food aid is a donation of commodity for direct distribution to specific populations; the sale of a donated commodity and the retention of the currencies in the recipient country to be used on specific projects; or a long-term loan at concessional rates, allowing the commodity to be sold on the market and the currencies used in the recipient country for many years before repayment is due. Food aid targets countries and populations that lack access to adequate amounts of food to lead healthy, productive lives. If the tenets of the FAC are followed, as they are for U.S. food assistance, then food aid is an effective tool for emergency relief, alleviating chronic hunger, and addressing transitional or structural food shortages in net food-importing developing countries (NFIDCs).

It seems that EU concerns views about food aid reflect (1) a lack of information about current U.S. food aid programs; (2) memories of several large U.S. food aid programs; (3) a general distrust of the United States' assertions that its food aid programs are not a form of export subsidy; and (4) positioning by the EU for negotiations on the elimination of export subsidies.

Many developing countries have a very different view of food aid and have expressed their views through a variety of submissions to the WTO. However, it is necessary to differentiate between developing countries that are agricultural exporters, such as Argentina and Brazil, and the 49 least developed countries (LDCs), such as Bangladesh and Uganda, and NFIDCs such as Honduras and Guatemala. Countries in the latter two categories support continued bilateral food aid for both emergencies and chronic needs. Of course, they do not want commodities to be "dumped" on their markets or through distribution programs because it could harm their fragile agricultural economies. However, they recognize that food aid programs can be and are being used to promote food security and that too much emphasis is being placed in the WTO on potential negative impacts. As an example, the "Dakar Declaration of the Third LDC Trade Ministers' Meeting" (May 5, 2004) proposes that Derbez Text should include the following positive statement: "Food aid provided by Members to meet emergency situations, and humanitarian and development objectives, and to address the chronic food deficit situation in LDCs shall be allowed."

**Rationale for Limiting Food Aid is Flawed**

The Harbinson Draft (Attachment 6, *Revised Draft of the Modalities on Agriculture*, March 18, 2003) states that the intent of creating new food aid disciplines in the DDA is to ensure that food aid is not used for surplus disposal or to achieve advantages in the commercial market. Currently, Article 10.4 relies on the UN Food and Agricultural Organization (FAO) Consultative Subcommittee on Surplus Disposal (CSSD) to provide this oversight because it has been used for that purpose for decades. If there are concerns that countries are not meeting the notification and consultation requirements of the CSSD, then these issues should be discussed at the FAO and appropriate measures should be taken to address problems.

Papers submitted by WTO members for the DDA and discussions with several of the negotiators from different countries indicate that U.S. food aid programs are not well understood. In addition, the EU approaches food aid very differently than the United States. The EU has concluded that food aid can not be used effectively to promote long-term food security and is only useful for certain emergencies. Therefore, the EU claims that non-emergency food aid is surplus disposal or circumvention of export subsidy limitations. With all of the political posturing over export subsidies, it is difficult to separate fact from fiction.

First, the potential impact of food aid on commercial trade is overstated. The levels of food aid are much less than what is needed to meet chronic needs and emergencies. Total US food aid was only 4.6 million metric tons (MMT) in FY 2003, of which 57% was for emergency use, leaving only 2.0 MMT for countries and people who suffer from chronic food shortages or hunger. The USDA Economic Research Service reports that chronic food shortages in the 60 most food insecure countries equals about 15 MMT/year. Thus, the United States is only providing 13% of the amount needed to address chronic food shortages, and other donors combined provide even less.

Second, claims are made that large-scale food aid programs are interfering with local agricultural production and commercial imports. Indeed, this is possible, but large-scale programs are rare. Large distributions occur during emergencies when needs assessments indicate that large quantities are needed to prevent hunger and starvation. Recent examples are the war in Afghanistan, the southern African drought in 2002, the Ethiopian and Eritrean drought in 2002 and 2003, and the current crisis in the Sudan.

Since 1993, there have been very few large non-emergency programs. One program that caused a great deal of controversy both here and abroad was the 1999 Section 416 program approved for Russia. Because of the negative feedback, it was not repeated. The memory of the Russia program seems to haunt food aid negotiations, even though such programs have been discontinued.

Third, some countries believe that since donations tend to be greater in years when prices are low, food aid is linked to surplus disposal. Developing countries and the FAC point out that a predictable and steady amount of food aid should be made available and that donors should endeavor to provide more food assistance when commodity. In this way, food aid is more clearly linked to addressing food insecurity in vulnerable countries, rather than building dependency. It is ironic that U.S. food aid programs are being faulted for not meeting this intent, because U.S. laws explicitly call for linking food aid to food security. However, budget constraints make it difficult to meet this objective.

Food aid funding is largely dependent on annual appropriations and the budget is limited. Within a limited budget, when prices are low, more commodities can be purchased; when prices are high, fewer commodities can be purchased. For example, Title I allows government-to-government agreements that are very helpful to NFIDCs, but its budget has been drastically cut over the past decade. High commodity and freight rates this year will cause the amount provided under Title I to fall even further.

Although funding for Title II has increased over the past several years, the amount provided for non-emergency programs has actually decreased. The Title II statute includes a requirement that at least 2,500,000 metric tons of commodities be made available each fiscal year, of which 1,875,000 metric tons is reserved for nonemergency programs. The U.S. Agency for International Development is not seeking proposals to meet the 1,875,000 metric ton requirement, even though additional food aid is needed for nonemergency programs that help food insecure communities, such as those that are vulnerable to disasters and where HIV/AIDS is prevalent. The Office of Management and Budget has decided that the current Title II budget must cover all emergency food aid needs, rather than depend on the Bill Emerson Humanitarian Trust as a contingency reserve for emergencies. Therefore, USAID sets aside extra Title II funds for emergencies and is only providing 900,000 to 1,000,000 metric tons for nonemergency programs.

Fourth, one of the papers submitted during the Doha Round negotiations assumes that food aid donations provide special advantages for commercial companies to sell additional products in the recipient country. U.S. food aid program rules and procedures protect against such "tied" commercial benefits through the use of an open tender for commodities that is separate from the tender for freight. No one company is guaranteed to win the commodity tender and the commercial company is kept arm's length from the receivers. Thus, it is not possible for the commercial company to link a food aid donation or sale to a future commercial sale.

In an idealized international free market, any food aid, whether a grant or concessional loan, could be considered a distortion. However, the actual circumstances must be considered, including the economic and humanitarian needs of the country and the degree to which the market would be affected. There is a need for balance in addressing this issue as more than 800 million people lack sufficient diets to lead healthy lives.

**Background**

***Article 10.4: Uruguay Round Food Aid Provisions:***

Under Article 10.4 of the Agreement on Agriculture, a country's food aid programs are not subject to limitation under the WTO if they meet the following criteria:

1. The provision of food aid is not tied to commercial sales.

2. The provision of food aid does not create disincentives to recipient country production or marketing, following rules set by the Food Aid Convention (FAC). Established in 1967 and most recently revised in 1999, the FAC defines food aid, allowing donations and concessional loans, distribution and sales ("monetization"), and donations through governments, intergovernmental agencies or humanitarian and development organizations. Donor countries that are parties to the FAC pledge to provide minimum amounts of food aid each year and report on compliance with FAC rules governing the use of food aid.

3. The commodities provided do not displace commercial imports in the recipient country, as determined by the UN Food and Agricultural Organization (FAO) Consultative Subcommittee on Surplus Disposal (CSSD). Prior to implementing a food aid program, a donor country is required to notify the CSSD of the tonnage and type of commodity that will be provided and to allow prior consultation with other exporters. The "usual marketing requirements (UMR)" are established – the amount of the commodity that the recipient country must continue to import commercially during the same year it receives the food aid.

### *Recognition of Least-Developed and Net Food-Importing Developing Countries*

At the close of the UR in Marrakech in 1994, the Ministers recognized that with fewer subsidized agricultural exports, developing countries that are net importers of agricultural commodities may be subject to higher prices for some products. Since this could have a negative impact on these food insecure and poor countries, the Ministers issued a decision on "Least-Developed and Net Food-Importing Developing Countries" stating that the legitimate food needs of these countries should be monitored by the WTO Committee on Agriculture and certain measures should be taken to provide appropriate aid to such countries. The Ministers agreed to the following measures --

1. To review the food aid levels established under the Food Aid Convention (FAC) and (a) to initiate negotiations to establish a level of food aid commitments sufficient to meet the legitimate needs of developing countries, and (b) to adopt guidelines to increase the proportion of food aid provided in grant form or through appropriate concessional terms in line with the FAC.

2. To give "full consideration" in their aid programs to requests for technical and financial assistance to improve agricultural productivity and infrastructure in these countries.

3. To ensure that any agreement relating to agricultural export credits makes appropriate provision for differential treatment in favor of these countries.

4. To consult with the IMF and WB about short-term difficulties some countries may have in financing normal levels of commercial imports and whether these countries may be eligible to draw on the resources of these institutions.

### *Harbinson Draft*

Attachment 6 of the Harbinson Draft rewrites Article 10.4 of the Agreement on Agriculture. The most prominent changes in food aid disciplines are --

1. <u>Section 4(b)(iii), grant only.</u> This provision requires all food aid on grant terms, even though the FAC permits concessional loans. This would result in the elimination of the P.L. 480 Title I program.

2. <u>Section 4(b)(ii), nonemergency programs.</u> This provision only allows cash for nonemergency food aid programs, except that in-kind food aid could be provided through donor agreements with UN specialized food agencies and humanitarian organizations and international organizations. Thus, government-to-government "in-kind" food aid agreements would not be permitted, even though they are allowed under the FAC. Some exporting countries, particularly the EU, are advocating further restrictions, such as eliminating <u>all</u> bilateral in-kind programs, having a UN agency sanction all food aid programs or establishing criteria regarding where and how food aid can be provided. The ban on government-to-government agreements and any of

the additional restrictions proposed above will eliminate targeted food security programs that are assisting millions of people. Thus, both governmental and nongovernmental bilateral agreements should be permitted, as they are under the FAC. Restrictions on the types of food aid programs should not be decided as part of the Doha Round.

3. Binding WTO commitment. These new food aid disciplines would be binding commitments in the WTO and would be subject to dispute settlement proceedings and related penalties. Because all donor countries are members of the WTO, the restrictions in the Doha Round would apply to the provision of food aid by a donor country to any country, regardless of the recipient's WTO membership status. Thus, another exporting country could challenge the United States on the shipment of wheat, corn, soy, dairy, legumes or any other commodity under a food aid program and initiate a dispute under WTO rules.

Mr. Chairman, thank you for this opportunity to testify. I would be pleased to answer any questions you may have.

# Coalition for Food Aid

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**Executive Director:**
**Ellen S. Levinson**

March 9, 2003

Mr. Stuart Harbinson
Chairperson
Committee on Agriculture
World Trade Organization
Rue de Lausanne 154
CH-1211 Geneva 21
Switzerland

Dear Mr. Harbinson:

I am writing on behalf of fourteen US nongovernmental organizations (NGOs) that conduct food assistance programs in net food-importing, developing countries (NFIDCs) and less developed countries (LDCs).[1] With a commitment to improving the food security of such countries and over fifty years of experience in food aid programming, we were shocked to see that the First Draft of the Modalities on Agriculture ("Modalities") would no longer permit the programming of food aid directly through NGOs in nonemergency circumstances. We can only conclude that this omission is due to a lack of understanding of the mission and work of NGOs, and urge that the Ministers continue to allow the provision of food aid directly through humanitarian NGOs so they may continue their work with impoverished communities throughout the world.

Coalition members believe that food aid should be used in ways that promote food security, which includes improving the health, living conditions and livelihoods of the poor. Our members share the interests of the Committee on Agriculture and the Food Aid Convention (FAC) to assure that food assistance is provided in a manner that does not distort trade or interfere with local production and marketing. As provided for in Article IX(e)(I) of the FAC and Article 10.4 of the Uruguay Round Trade Agreement, food aid should not be tied, directly or indirectly, to commercial exports from the donor country. We also advocate for predictable levels of food aid, rather than surplus-driven donations, to assure that NFIDCs and LDCs have access to food when world prices are high and supplies are tight. We are dismayed that donor volume commitments under the FAC have decreased from 7.52 million metric tons (wheat

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[1] The Coalition for Food Aid was established in 1985 and its members are: Adventist Development & Relief Agency International, ACDI/VOCA, Africare, American Red Cross, CARE, Catholic Relief Services, Counterpart International, Food for the Hungry International, International Orthodox Christian Charities, International Relief & Development, Mercy Corps, OIC International, Save the Children and World Vision.

equivalents) in 1986 to 4.895 million metric tons in 1999, and urge donors to commit to higher levels in the future for both acute and chronic hunger.[2]

As organizations dedicated to promoting growth and development, the last thing that Coalition members would want to do is to create dependency or undermine local agricultural production. An important step in food aid program planning is a "disincentive analysis" reviewing local production and markets to assure non-interference in the country's agricultural economy.

Attachment 5 of the Modalities amends Article 10.4 of the Uruguay Round Trade Agreement, which currently includes safeguards to assure that food aid does not circumvent export subsidy commitments. We understand that the intent of these changes is to have stricter controls to assure that food aid may not be tied in any way to commercial exports from the donor country. We do not see how the elimination of donor agreements with NGOs for nonemergency food aid programs would achieve this purpose. Instead, the result would be the loss of effective programs that promote food security in NFIDCs and LDCs.

Proposed paragraph 4(a)(i) permits the provision of food aid for crises and post-crises situations through specialized United Nations (UN) food agencies, humanitarian NGOs, governments and private charitable bodies. This provision generally maintains the FAC modalities for the provision of food aid and is appropriate. In poor, developing countries, outside intervention is needed for both the emergency and recovery phases, and international response must be rapid to limit morbidity and mortality. The role and importance of NGOs in such cases is well established. NGOs coordinate with communities (a) to identify the interventions that are needed immediately, such as they types of food, who should receive commodities and the best ways to deliver goods and services; (b) to identify the interventions for recovery, such as seeds, tools and fertilizer; and (c) to implement and to monitor programs.

As a recent example, a consortium of US NGOs entered into a food aid program agreement with the US Agency for International Development (USAID) that will allow the seamless linkage of emergency response and recovery assistance in several southern African countries suffering from acute food shortages. NGOs would not be able to conduct this type of program through specialized UN food aid agencies since such agencies will only agree to provide food aid for a short period of time because they adjust their pipelines regularly.

Proposed paragraph 4(a)(ii) would only permit donor countries to provide food aid for nonemergency situations through specialized UN food aid agencies – humanitarian NGOs or private charitable bodies could only access food aid through such UN agencies. This strays from the FAC modalities because it would no longer permit direct agreements between donor governments and humanitarian NGOs, private charitable bodies and recipient governments. This provision will have the serious and presumably unintended consequence of practically

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[2] Acute hunger is associated with severe food shortages due to natural disasters or other crises and could lead to death from starvation or hunger-related illness if not immediately addressed. Chronic hunger is associated with insufficient amounts of the right mix of foods to meet nutritional needs over an extended period of time, which leads to stunted growth and development, greater susceptibility to disease, poor productivity and higher rates of mortality.

eliminating humanitarian NGOs from using food aid to address chronic hunger, thereby cutting assistance to millions of people.

Chronic hunger has many causes and manifestations, but is most often associated with poverty and lack of empowerment. In developing countries, where poverty is prevalent and employment opportunities are limited, governments are unable to provide basic health and education services or sanitation and clean water due to low revenues and high debt burdens. In many of these countries a large majority of the people are dependent on agricultural production to make a living, yet agricultural productivity is often low, banking and marketing systems are usually weak, and many people struggle just to meet their basic needs. In such countries, at the individual and household level, insufficient incomes and/or dependence on subsistence farming are important contributors to chronic hunger.

The opposite of hunger is food security – the ability to access through production and/or purchase adequate amounts of the right mix of foods for a healthy life. To develop a plan for achieving food security, first, the underlying causes of hunger in a particular situation must be analyzed and then interventions can be developed to remedy the problems. Multiple activities are often needed to have an impact.

US NGOs are effectively implementing food security programs throughout the world, using food aid in integrated programs to improve the nutrition of infants and children, rural infrastructure, flood protection, access to clean water, sanitation and agricultural development. NGOs have the comparative advantage of being development agencies with multi-sector expertise, and are not merely food delivery agencies.

Nonemergency food aid programs are similar to other bilateral assistance provided through NGOs – they involve thousands of local partnerships and include skills training and capacity building for local organizations. NGOs cooperate directly with the poor and develop approaches from the perspective of people involved, increasing the capacity of local groups and administrative structures to address a range of social service and development problems. None of these activities conducted by NGOs, whether the assistance is in the form of commodity or cash, "tie" the provision of US assistance to commercial exports from the United States.

Over the years, US NGO nonemergency food aid programs have evolved from a focus on food distribution to sustainable development. For example, food-assisted agricultural programs have been integrated with complementary activities such as technical assistance and training. Agricultural yields have been increased, storage losses reduced and household provisioning improved. To improve the nutritional status of children, mother-child nutrition programs must do more than provide supplemental food rations; they include activities to address other factors that cause infants and children to be malnourished, such as hygiene and sanitation training, clean water projects, income-generating projects for mothers, vegetable garden projects, and immunization.

We must ask: what is the benefit of eliminating these programs? US NGOs would not find it possible to conduct these types of integrated food assistance programs through specialized UN food aid agencies. Thus, this provision would eliminate programs that are assisting millions of people in NFIDCs and LDCs.

It is important to assure that there is flexibility to provide food aid through humanitarian NGOs for emergencies and nonemergency situations since they can often provide the most effective means for achieving results. As you revise the First Draft of the Modalities, we urge that humanitarian NGOs be inserted into paragraph 4(a)(ii) as eligible to implement "in-kind" food aid programs through bilateral agreements with donor countries.

Sincerely,

Ellen S. Levinson

Ellen S. Levinson
Executive Director

Mr. Chairman and Members of the Committee:

I am Jon Caspers, Immediate Past President of the National Pork Producers Council (NPPC) and a pork producer from Swaledale, Iowa. I operate a nursery-to-finish operation, marketing 18,000 hogs per year.

Mr. Chairman, I greatly appreciate everything that you and other members of this Committee have done to advance U.S. agricultural exports. I strongly believe that the future of the U.S. pork industry, and the future livelihood of my family's operation, depend in large part on further trade agreements and continued trade expansion.

The National Pork Producers Council is a national association representing pork producers in 44 affiliated states that annually generate approximately $11 billion in farm gate sales. The U.S. pork industry supports an estimated 600,000 domestic jobs and generates more than $64 billion annually in total economic activity. With 10,988,850 litters being fed out annually, U.S. pork producers consume 1.065 billion bushels of corn valued at $2.558 billion. Feed supplements and additives represent another $2.522 billion of purchased inputs from U.S. suppliers which help support U.S. soybean prices, the U.S. soybean processing industry, local elevators and transportation services based in rural areas.

Pork is the world's meat of choice. Pork represents 47 percent of daily meat protein intake in the world. (Beef and poultry each represent less than 30 percent of daily global meat protein intake.) As the world moves from grain based diets to meat based diets, U.S. exports of safe, high-quality and affordable pork will increase because economic and environmental factors dictate that pork be produced largely in grain surplus areas and, for the most part, imported in grain deficit areas. However, the extent of the increase in global pork trade – and the lower consumer prices in importing nations and the higher quality products associated with such trade - will depend substantially on continued agricultural trade liberalization.

**Pork Producers are Benefiting from Trade**

In 2003, U.S. pork exports set another export record totaling 757,905 metric tons (MT) valued at $1.582 billion. Much of the growth in U.S. pork exports is directly attributable to new and expanded market access through recent trade agreements. However, as the benefits from the Uruguay Round and the North American Free Trade Agreement (NAFTA) begin to diminish, the negotiation of new trade agreements becomes paramount to the continued growth and profitability of U.S. pork producers. For this reason, NPPC led a coalition of more than 30 U.S. agriculture organizations in working to get the U.S.-Chile Free Trade Agreement through the U.S. Congress last year. On behalf of U.S. pork producers, NPPC is now deeply involved in many trade initiatives, including the World Trade Organization (WTO) agriculture negotiations. The potential payoff to producers from a new WTO agriculture agreement is high. As good as the past trade agreement have been, global pork tariffs still average a whopping 77 percent.

Even in Japan - America's largest pork export market - U.S. pork exports are severely limited due to a gate price system and safeguards designed to protect Japanese producers. Moreover, the U.S. pork industry must compete globally with subsidized pork from the European Union and other countries.

In addition, NPPC continues to be active in bilateral and regional trade negotiations. While the WTO negotiations clearly offer the single largest opportunity to increase exports, the bilateral and regional negotiations also offer significant opportunity.

**I. Existing Trade Agreements Must be Enforced**

While U.S. pork producers and others in U.S. agriculture have benefited significantly from past trade agreements, we must all remain vigilant in enforcing U.S. trade laws and protecting the gains made in past trade agreements. This is particularly the case when considering our NAFTA trading partners. There is strong evidence to suggest that Canada's pork producers are receiving illegal subsidies that are allowing them an unfair advantage over U.S. producers, thus inflicting financial harm on U.S. pork producers who have lost money for 28 of the past 34 months. There is cause for concern in Mexico as well, where U.S. agriculture has invested huge amounts of time and money to succeed. Mexico illegally initiated an antidumping investigation against U.S. pork in January of 2003, and has not yet terminated this case. Pork producers and our colleagues in American agriculture simply cannot stomach having these markets snatched away and still believe that trade agreements are of any value. It is that simple. It is imperative that the United States act decisively to protect the gains made in past trade agreements in order to retain and shore up support in U.S. agriculture for new trade agreement initiatives.

**A. Canadian Expansion Greatly Concerns U.S. Pork Producers**

While U.S. producers have reacted rationally to poor market conditions by stabilizing or reducing herd size, Canadian pork producers have not reacted in the same manner. Although U.S. production declined by 4.5 million head during 1998-2003, Canadian production increased by 8.6 million head during the same period. According to Statistics Canada's most recent quarterly report of hog inventories, Canada's swine breeding herd continues to grow in spite of the appreciation of the Canadian dollar; the impact of massive quantities of Canadian-produced beef on the Canadian market due to BSE; and, the low prices that continue to plague producers on both sides of the border. **Indeed, the Canadian herd has not posted a year-over-year quarterly decline since 1997. All of the reduction in the North**

**American swine breeding herd has been accomplished by U.S. producers**. The Canadian producers' failure to respond to economic signals appears to be directly related to the receipt of billions of dollars in subsidies. Consequently, on March 5, 2004 the National Pork Producers Council, along with state pork producer organizations and individual U.S. pork producers, filed trade cases against live hogs from Canada. The antidumping and countervailing duty petitions were filed with the U.S. government and cover all live hogs from Canada except breeding stock. Pork is not included.

We are not attempting to close the border or otherwise halt the export of hogs from Canada to the United States. We filed these cases for one reason: to offset the unfair trade practices in Canada that have caused overproduction and a surge of hog imports from Canada.

Federal and Provincial lawmakers in Canada have traditionally used a host of policies that subsidize production and protect Canadian producers against market downturns. In the period after the market price collapse **in the fall of 1998 the average Canadian pork producer had an income of $44,000 of which $43,000 came in the form of Government payments**. One of the most significant programs available to Canadian hog producers is the "ASRA" program in Quebec. This is an income stabilization program where benefits are received when producers are losing money and is based on prevailing market prices; substantial benefits appear to have been received in 2003 and will likely continue through 2004. There are **many** other Canadian programs that appear to bestow subsidies on Canadian producers including the Canadian Agricultural Income Stabilization Program (CAIS). The CAIS program is particularly noteworthy because it provides pork producers with a guarantee that they will receive the average of the income they have earned over the past five years. This has put the Canadian pork producer in a no-lose situation, if markets are good, the producer gets a market reward and if markets are bad, the producer gets a government reward.

In filing these cases, NPPC is not changing its policy on trade. We will continue to be strong advocates of expanded trade. And rightfully so, considering that since the implementation of the Uruguay Round U.S. pork exports have soared by over 150 percent we would be foolish to do anything other than support expanded trade. However, supporting trade and opposing unfair trade practices are not mutually exclusive. They go hand-in-hand. Indeed, NPPC has for years opposed unfair Canadian trade practices. In 1984, U.S. pork producers filed a countervailing duty case that resulted in the imposition of a countervailing duty order in 1985 that covered as many as 43 subsidy programs. Because the Canadians reduced their subsidies the U.S. Commerce Department erroneously revoked the CVD order in 1999. **The Canadians have reinvigorated their subsidy programs in recent years to the detriment of U.S. pork producers.**

The United States International Trade Commission (ITC) gave an indication that this is a strong case by affirming 6-0, in a preliminary vote on May 7, that U.S. pork producers are likely injured by imports from Canada.

These cases will take about one year to litigate. Preliminary duties could become effective in early summer for the countervailing duty case and late summer 2004 for the antidumping case.

### B. U.S. Pork Exports to Mexico Are Imperiled

Like the U.S. and other countries, Mexico has a right to use its trade laws. However, Mexico does not have license to flaunt WTO rules and use its trade laws as a tool of protectionism. The antidumping investigation that Mexico initiated against U.S. pork exports in January 2003 is probably the greatest abuse ever of WTO antidumping rules. As underscored by USTR in its discussions with Mexico, **the case is illegally initiated and must be terminated.** A preliminary determination in the case was due about a year ago but has still not been issued, presumably because of the lack of a basis for this investigation.

There are a number of important points with respect to the illegality of the pork antidumping case. First, the Mexican association that requested the investigation, the CMP, does not represent the Mexican pork industry, and therefore, did not have any legal right to make the request. The producers of pork in Mexico, the slaughterhouses and the packers, have stated that they do not want the investigation to proceed and have asked that it be terminated. We understand that the U.S. government has refused to begin antidumping investigations of Mexican products under similar circumstances, and we do not understand why the U.S. pork industry is not being given reciprocal treatment here. Second, the CMP created the appearance that U.S. exporters are dumping pork in Mexico by comparing apples and oranges. The CMP compared prices for our sales to Mexico of fresh hams to prices for our sales to Japan of pork loins. Although any consumer knows that fresh hams have a lower price than tenderloins, the CMP nevertheless concluded that this comparison was proof that we were dumping pork in Mexico. Third, the CMP claimed that it was threatened with harm by imports of pork from the United States, but did not provide any proof about the financial condition of Mexican producers. The World Trade Organization already has found in other cases that each of these errors, taken alone, is sufficient to negate the entire case.

In addition to the fatal flaws I just mentioned, the dumping case is not based on present material injury but on a threat of future injury to the Mexican industry. This is extremely speculative. In fact, an injurious increase in exports of U.S. pork to Mexico is highly unlikely. The duty on U.S. pork in 2002 was only 2% and last year the duty went to zero. The duty has steadily phased down over the past ten years and any future increase is expected to be incremental as in past years. Indeed, in 2003, U.S. pork exports to Mexico were flat.

Moreover, the dumping case does not include Canada and Chile. In recent years these countries have increased their share of the Mexican pork market faster than the United States. Any restriction on U.S. pork exports will be offset by increased exports from Canada and Chile at the expense of Mexican producers.

In addition to the illegal initiation of an antidumping case against U.S. pork, until recently it was fairly common for Mexico to illegally stop U.S. pork at the border for alleged sanitary concerns. In December 2002, large quantities of U.S. pork were rejected at the border for unjustifiable sulfamethazine concerns costing the U.S. pork industry millions of dollars in losses. Last year, Mexico slowed U.S. pork exports by testing for copper and other metals.

The stakes in Mexico are very high for U.S. pork producers. Any interruption of our pork exports to Mexico, whether through a trade case or through legislative or regulatory means, would be catastrophic for the industry. Mexico is the second largest export market for the U.S. pork industry -- in 2003 the U.S. exported to Mexico 218,927 metric tons of pork valued at $295 million. There is no good time to lose a major export market but U.S. pork producers are particularly vulnerable at the present time. **The average U.S. pork producer has endured losses for 28 of the past 34 months. If the Mexicans place dumping duties on U.S. pork or take other action to restrict U.S. pork exports, U.S. hog prices will remain low and thousands of producers will be forced out of business.**

U.S. pork producers urge the U.S. Government to use all available means to get Mexico to refrain from its illegal actions against U.S. pork and to keep the Mexican market open to U.S. pork exports.

## II. The WTO Negotiations Present the Best Opportunity for Increased U.S. Pork Exports

### A. Zero-for-Zero Negotiating Objective for Pork in the WTO

The most important trade initiative now underway for U.S. pork producers is the negotiation of a new WTO agreement. This is because global pork tariffs average 77 percent. Even in Japan – America's largest pork export market – U.S. pork exports are severely limited due to a gate price system and safeguards designed to protect Japanese producers. Moreover, the U.S. pork industry – which is not eligible for export subsidies and receives virtually no domestic support -- must compete globally with subsidized pork from the European Union and other countries. These impediments must be overcome in any new WTO agreement on pork with safeguards abolished and global pork tariffs reduced to the levels prevailing on pork imported into the United States.

U.S. pork producers therefore are aggressively pursuing in the WTO agricultural negotiations a **"zero-for-zero" initiative**. Under this initiative, countries would totally eliminate, in the shortest possible time frame, all tariffs, all export subsidies and all trade-distorting domestic subsidies for pork and pork products. In late 1999 a bipartisan group of 29 U.S. Senators sent a letter to U.S. Trade Ambassador Charlene Barshefsky endorsing this initiative. In late 2002, another bipartisan group of 29 U.S. Senators once again endorsed the zero-for-zero initiative on pork. In addition, the pork industries of the Canada, Chile, and Mexico also support this initiative. Producers in other countries are also interested in the initiative.

Pork producers support the Administration's proposal for agricultural trade in the WTO negotiations and the tariff cutting formula contained in that proposal. We are particularly pleased that an integral part of the U.S. proposal calls for sector-specific negotiations that will include "deeper tariff reductions" that " . . . go beyond the basic reductions that will apply for all products." This enables request/offer negotiations to achieve deeper-than-formula reductions for specific products. This segment of the negotiation will provide the opportunity to pursue the zero-for-zero initiative in the pork sector.

**B. WTO Negotiating Objectives For The Agriculture Sector**

I want to make it clear that we in the pork industry do not view our zero for zero initiative in any way as a substitute for a comprehensive negotiation in agriculture. Fundamental liberalization in the pork industry can be most easily achieved in the context of an ambitious overall agreement. Therefore, I will outline our negotiating objectives for the agricultural sector as a whole.

1. Tariff Reductions Must Be Accelerated

One of the fundamental principles of the Uruguay Round Agreement on Agriculture is the requirement that non-tariff barriers such as quotas, variable levies, and import bans be eliminated and immediately replaced by either a tariff equivalent or a tariff rate quota (TRQ) through the process of "tariffication." The Agreement used a "formula" approach to reduce tariffs. It required tariff reductions of 36 percent on average for developed countries and 24 percent for developing countries over a six-year period on a simple average basis. (Tariff reductions as small as 15 percent were allowed for "sensitive items.") The Agreement also established minimum access levels at 3 percent of domestic consumption gradually expanding to 5 percent thereafter.

Notwithstanding the progress made in the Uruguay Round, tariffs on agricultural products remain very high. <u>The accelerated reduction of tariffs should be the number one U.S. priority in the upcoming trade round</u>. U.S. agricultural tariffs are dwarfed by the agricultural tariffs of other nations. For some products, tariffs of over 200 percent remain in effect. Agricultural tariffs must be lowered from these high levels on an accelerated basis. A substantial reduction in the highest tariffs would help to end practices such as "price bands" in which high bound tariffs create a cushion that allows lower applied tariffs to be adjusted frequently in order to keep domestic prices within a specified range.

The best way to achieve such comprehensive liberalization is through the use of a tariff cutting formula that is applied to every product without exception. In addition, countries could engage in request/offer negotiations to achieve deeper-than-formula reductions for specific products. This segment of the negotiation would provide the opportunity to pursue the zero-for-zero objective in the pork sector.

2. The Administration of Tariff Rate Quotas Must Be Improved

In most instances, creating a TRQ satisfied the minimum access commitment for tariffied agricultural products in the Uruguay Round. Under this mechanism, the quantity of imports within the minimum access commitment is subject to a low duty (the "in-quota" tariff), while imports exceeding that quantity will be assessed the tariff established through tariffication (the "over-quota tariff").

Unfortunately, in some cases, the administration of TRQ's has been used as an instrument to thwart imports. For example, the Philippines tried to close off its market to pork imports by manipulating in various ways the terms governing its pork TRQ. These kinds of problems arise from the lack of clear, specific rules on import licensing and the administration of TRQ's. In the WTO agriculture negotiations, rules on TRQ administration must be clearly delineated. In addition, ceilings must be established for over-quota duty levels.

3. Export Subsidies Should Be Eliminated

Export subsidies are universally recognized as the most trade-distortive of government policies. Prior to the Uruguay Round, export subsidies for agricultural products were relatively undisciplined. Although earlier rounds of multilateral trade negotiations were successful in disciplining export subsidies for industrial products, only the most basic of these disciplines applied to agriculture. As a result of the Uruguay Round, subsidies on agricultural exports were reduced in both terms of quantity and government expenditures on a product-specific basis.

While significant progress was made in the Uruguay Round, export subsidies remain a major problem for U.S. pork producers. Export subsidies transfer market share away from efficient U.S. pork producers and give it to EU and other less efficient pork producers. The EU notified spending about 34 million euros on export subsidies for pork in 2000/01 (about $40 million), but could have spent up to 117 million euros under WTO limits (about $138 million) on up to 401,200 metric tons. The U.S. spends zero. Here is another way to look at the advantage that EU pork producers have. Current WTO export subsidy allowances for EU pork:

117 million euros & 401,200 tons

Therefore, the EU could subsidize pork at:
292 euros/metric ton, or
$343/metric ton, or
$.15/lb
Compare this to the unit value of U.S. pork exports of:
$1.11/lb
A potential cost advantage to the EU of 13.5% in global markets.

4. Trade-Distorting Domestic Support Should Be Further Disciplined

The 20 percent reduction in the Aggregate Measure of Support (AMS) achieved in the Uruguay Round did not go far enough. We need to see further significant reductions. Moreover, those reductions should be applied on a commodity-by-commodity basis, rather than a sector-wide basis, as was the case under the Uruguay Round agreement. For pork, all trade-distorting supports should be eliminated, and all tariffs and export subsidies abolished as part of the zero-for-zero initiative.

5. The SPS Agreement Should Not Be Reopened

The Uruguay Round Agreement on Sanitary and Phytosanitary Measures requires import measures intended to protect public health or to control plant and animal disease to be based on science. Enforcement of the strict science-based trading rules established in the SPS Agreement is critical to ensure the continued expansion of U.S. pork exports. One measure of the soundness of the SPS Agreement is the fact that other countries, notably the EU, would like to see the disciplines in the agreement relaxed to allow countries to maintain measures that are not based on science. To avoid this outcome, the pork industry adamantly opposes opening the SPS Agreement for further negotiation.

**III. Priorities for the Free Trade Area of the Americas Negotiations**

The zero for zero initiative discussed above should be incorporated into the FTAA. The pork industries of the Canada, Chile, and Mexico support this initiative. Upon the creation of a Free Trade Area of the Americas, all tariffs on U.S. pork and pork products should immediately be zero. There should be no tariff-rate-quotas and no phase-in period for obligations.

**IV. Australia**

Australia has had a de facto ban on U.S. pork for quite some time, citing unjustified animal health concerns. NPPC is pleased that the government of Australia announced on May 10, 2004 that the results of its Import Risk Analysis on pork would be implemented. The U.S. pork industry soon will be able to ship processed pork or unprocessed frozen pork for further processing in Australia. The Australian Import Risk Analysis was greatly flawed in not permitting unprocessed fresh or frozen U.S. pork to be sold at retail. However, given the estimate of Iowa State economist Dermot Hayes that the U.S. could ship $50 million worth of pork annually to Australia even with these restrictions, NPPC decided to accept partial market access today and fight tomorrow for full market access. A few administrative details need to be worked out over the course of the next 1-2 months. By mid-summer, U.S. pork should be flowing to Australia.

**V. U.S. Pork Producers Will Benefit Greatly from the Implementation of the Free Trade Agreements with the Five Central American Countries and the Dominican Republic**

Although negotiations were difficult, in the end U.S. pork producers obtained a good result in the negotiations with the five Central American countries and the Dominican Republic that will result in significant market access when implemented. Importantly, these are comprehensive agreements, with substantially all agricultural sectors included. That was a large part of the reason why U.S. pork producers were able to obtain a fairly ambitious result. The negotiators from almost all of these six countries were under tremendous pressure from their domestic producers to exclude pork from the agreements.

Prior to Congressional action, we expect each of these nations to undertake the work needed to pave the way for recognition of the U.S. meat inspection system and to resolve sanitary and licensing issues that currently restrict U.S. pork exports to the region. Absent the elimination of sanitary and licensing barriers, tariff reduction and abolition is meaningless. In sum, **U.S. pork producers will be strong proponents of these FTAs, but only if sanitary, inspection, and licensing issues are resolved.**

**VI. COLOMBIA, PERU, ECUADOR AND BOLIVIA**

There is significant and increasing market potential for U.S. pork exports in the Andean nations, particularly Colombia. However, very little of this potential can be realized until high and unpredictable tariffs, complicated import licensing systems, and unjustified sanitary restrictions are abolished. Given that the United States is a mature market for meat consumption, it is important for U.S. pork producers to pursue opportunities in new markets such as the Andean nations.

1. The Four Andean Countries Must Terminate the Use of the Price Band on U.S. Pork Exports

The Andean Community's price band would become irrelevant if these four countries immediately eliminated tariffs on all U.S. pork and pork products. Under the status quo, the price band severely limits the volume of U.S. pork exports because it is difficult, if not impossible, for Andean importers and U.S. exporters to know what the tariff will be prior to export of the pork. In particular, in Colombia and Ecuador the tariff on pork fluctuates based on a reference price for the product. The Colombian duty on pork has been known to fluctuate from the normal 20% to 60% due to the vagaries of the price band. Given that the price band can be used to change the duty on a product as often as every two weeks, it is impossible for pork importers and exporters to have any confidence in what the duty will be for any given shipment -- thus making it extraordinarily difficult to conduct business. The risk resulting from this unpredictability ensures that none but the largest importers can afford to import significant quantities of pork.

2. Tariffs Should Immediately be Reduced to Zero

Upon the implementation of a United States-Andean Countries Free Trade Agreement, all tariffs on U.S. pork and pork products should immediately be zero. There should be no tariff-rate-quotas and no phase-in period for obligations. This is in stark contrast to the tariffs these countries currently maintain on pork products. Current tariffs on pork are: 20% in Colombia and Ecuador (and more when the price band causes a tariff increase), 30% in Peru, and 10% in Bolivia.

3. The Andean Nations Must Not Use Unjustified Sanitary or Licensing Barriers to Restrict U.S. Pork.

While there are no current reports of unjustified sanitary barriers imposed by the Andean nations on U.S. pork exports, high tariffs and price bands restrict pork exports from the United States to miniscule amounts. Once tariffs are eliminated, the Andean nations are likely to follow the lead of other U.S. trading partners and erect bogus sanitary barriers to thwart U.S. pork exports. In addition, some reports have indicated that the Colombian government tends to protect the domestic pork industry by refusing to issue import permits for pork when there is any fear that imports might be harmful to the domestic industry. Thus, to diminish the likelihood of future problems, it is imperative that the Andean nations now agree in writing to maintain a transparent system for issuing import permits, to recognize the U.S. pork inspection system, and to accept pork from all USDA-approved facilities.

4. The US-Andean National Free Trade Agreement Should Permit no Product or Sector Exclusions

Negotiators are sure to encounter numerous sensitivities and difficulties on agricultural products from each country involved in the U.S.-Andean Nations Free Trade Agreement. There is no question that the United States, along with each of the four Andean nations, will have import-sensitive products in this agreement. Our trading partners are entitled to take their sensitive products out of the agreement if the United States begins to make their own exclusions, and thus it is clear that the United States will attain a far more ambitious overall agreement if it is acknowledged from the start that neither side will have the option of excluding sensitive commodities. This is especially important for U.S. pork producers in light of the fact that pork is a traditional product for production and consumption and thus there are sure to be calls to shield this industry from any competition.

**VII. Thailand**

There is significant and increasing market potential for U.S. pork exports in Thailand. However, very little of this potential can be realized until high tariffs, costly livestock inspection fees, and many other cumbersome and unpredictable import permit issues are done away with. Given that the United States is a mature market for meat consumption, it is important for U.S. pork producers to pursue opportunities in new markets such as Thailand. The opportunities and barriers to pork trade with Thailand are discussed below.

1. Thailand Has a Modern and Competitive Pork Industry Which Does Not Need or Deserve Special Protection

The pork industry in Thailand is efficient and export-oriented. Betagro Agro-Group Public Co., Ltd. (a Thai conglomerate of 27 group companies centered on agricultural business, with net annual sales of 20 billion Baht= 511 Million USD), recently formed a joint venture with Ajinomoto Frozen Foods Co., Inc. of Japan (a company which manufactures and sells frozen foods, with net annual sales of 105 billion yen= 982 Million USD) to import Thai pork. The announcement of this joint venture specifically stated that the target for this new company is to sell 4 billion Japanese yen (38 million USD) worth of Thai pork in Japan in 2009[1].

In an effort to modernize its industry and leapfrog production systems in North America, Thailand recently announced a large-scale plan to encourage the use of cutting-edge radio frequency identification technology for hog identification and trace-back. Somsak Thepsutin, Thailand's Minister of Agriculture and Cooperatives, on March 15 of this year asked for the immediate implementation of this technology throughout Thailand's entire hog industry[2]. Reports indicate that Thailand obtained

[1] www.ajinomoto.com/press/g2004_01_15.html

[2] http://home.businesswire.com/portal/site/google/index.jsp?ndmViewId=news_view&newsId=20040324005167&newsLang=en

approximately 1,000,000 tags for this system, which would cover a substantial portion of the 7,000,000 hogs FAOSTAT estimates in Thailand's stocks in 2003[3].

Considering the above arrangements and other developments in Thailand's pork industry, there is no doubt that Thailand's pork exports to Japan are increasing. This demonstrates Thailand's ability to compete with the United Sates and other suppliers in Japan and other markets. The Thai pork industry does not need, and should not expect, any special protection in the Thailand-U.S. FTA. Such protection would not only hurt U.S. pork producers by creating disadvantage in the domestic Thai market but would also provide additional opportunities for Thailand to use such protection to expand their exports and take more of the current U.S. market share in Japan and other markets. The Thai pork industry requested and obtained special protection in the Thailand-Australia FTA, in which there was a 15-year phase-in for duty elimination. Such a lengthy period before tariff elimination on pork and pork products would be entirely unacceptable to U.S. pork producers in this agreement. Tariffs should be eliminated immediately, with no tariff-rate-quotas and no phase-in period.

2. Thailand's Import Permit Fees Must Not Be Discriminatory

The government of Thailand imposes a Baht 5/kg (US$114/MT) import permit fee on imported pork and offal products. This fee is supposed to simply cover the costs of meat inspection, but really acts as a strong deterrent to any pork or offal imports. While it is true that this fee was reduced significantly from Baht 20/kg to the current Baht 5/kg, that does not change the fact that this fee is unjustified and is a significant impediment to pork imports. This fee clearly violates Thailand's commitment to uphold the WTO's national treatment rule, since the fee for domestic producers to inspect their product is only $15/MT for pork and $0 for offal- at most, little more than a tenth of the fee charged for imported product. Even with these large fees, Thailand's system for issuing import permits is far from transparent and extremely difficult. This inspection fee, along with high tariffs and difficult licensing procedures, keep U.S. pork exporters from competing nearly as well as they otherwise would in the Thai market.

3. Thailand Must Not Use Unjustified Sanitary or Licensing Barriers to Restrict U.S. Pork

High tariffs and the import permit issues mentioned above restrict Thailand's pork imports from the United States to miniscule amounts. Once tariffs are eliminated, Thailand is likely to follow the lead of other U.S. trading partners and erect bogus sanitary barriers to thwart U.S. pork exports. In fact, since current market barriers

[3]http://faostat.fao.org/faostat/servlet/XteServlet3?Areas=216&Items=1034&Elements=11&Years=2003&Years=2002&Format=Table&Xaxis=Years&Yaxis=Countries&Aggregate=&Calculate=&Domain=SUA&ItemTypes=Production.Livestock.Stocks&language=EN

in Thailand prevent U.S. pork producers from competing fairly in this market, it is not clear whether Thailand is willing to accept pork from all USDA-approved facilities. Thailand has had a generally un-enforced policy of requiring individual plant inspections for exporters of meat from the United States. It is imperative that Thailand agrees in writing to maintain a transparent system for issuing import permits, to recognize the U.S. meat inspection system, and to accept pork from all USDA-approved facilities to prevent any such problems from occurring in the future as market access gains are made in this FTA.

4. Tariffs Should Immediately Be Reduced to Zero

Upon the implementation of a United States-Thailand Free Trade Agreement, all tariffs on U.S. pork and pork products should immediately be zero. There should be no tariff-rate-quotas and no phase-in period for obligations. Thailand currently maintains some of the highest tariffs on red meat in Asia: 33% in 2004. The complete and immediate liberalization of all trade in pork and pork products should include all applicable tariff lines.

5. The US-Thailand Free Trade Agreement Should Permit No Product or Sector Exclusions

The United States and Thailand both have import-sensitive products. The United States will attain a far more ambitious overall agreement if it is acknowledged from the start that neither side will have the option of excluding sensitive products. This is especially important for U.S. pork producers in light of the fact that pork is a traditional product for production and consumption in Thailand and thus there are sure to be calls to shield this industry from any competition. As previously mentioned, the Thai pork industry obtained an extremely prolonged 15-year phase-in period for tariff elimination on pork in their FTA with Australia. It is important that all sectors are involved in this agreement in order for export-oriented agriculture to make significant gains.

**VIII. Panama**

There is significant and increasing market potential for U.S. pork exports in Panama. However, very little of this potential can be realized until high tariffs, unjustified plant inspection requirements, and Panama's costly quota bid system for pork are abolished. Given that the United States is a mature market for meat consumption, it is important for U.S. pork producers to pursue opportunities in new markets such as Panama. The opportunities and barriers to pork trade with Panama are discussed below.

1. Panama Must Recognize the U.S. Meat Inspection System

Unlike virtually all the countries to which the U.S. exports pork, Panama does not accept pork from all USDA-approved facilities. Rather, like the European Union, Panama insists on sending its own inspectors to U.S. pork plants. This practice is completely unacceptable. It operates as a non-tariff barrier to trade.

The United States has the most comprehensive and effective system of food safety management in the world. The wholesomeness of the U.S. food supply is second to none in the world. An integral part of the U.S. food safety system is USDA's inspection and certification of U.S. meat producing facilities. Panama must agree to accept pork from any USDA-approved facility.

At one point not long ago, China was reluctant to accept pork from all USDA-approved facilities. USTR and USDA persuaded China to change its position, which is memorialized in the Agreement on U.S.-China Agricultural Cooperation. Panama must also guarantee in writing that it will accept pork from all USDA facilities.

2. Tariffs Should Immediately Be Reduced to Zero

Upon the implementation of a United States-Panama Free Trade Agreement, all tariffs on U.S. pork and pork products should immediately be zero. There should be no tariff-rate-quotas and no phase-in period for obligations. This is in stark contrast to the tariffs Panama currently maintains on pork products. Current tariffs on pork products range from 15% to 79%. The complete and immediate liberalization of all trade in pork and pork products should include all applicable tariff lines.

3. Panama Must Eliminate Its Costly Quota Bid System

Panama offers only an extremely limited quota for pork imports, and importers must bid in order to obtain part of the quota. Even if an importer goes through the process of obtaining a permit to use part of this quota, in-quota tariff rates on some pork products are a staggering 79%. This is why it is important for Panama not only to eliminate its tariffs on pork and pork products but to do away with this costly and complicated quota bid system. These complications, along with high tariffs and inspection issues, have caused U.S. exports to decrease in the past two years to miniscule levels. There is no doubt that Panama will provide a meaningful and growing market for U.S. pork once trade on pork is truly liberalized.

4. The US-Panama Free Trade Agreement Should Permit No Product of Sector Exclusions

Negotiators are sure to encounter numerous sensitivities and difficulties on agricultural products from each country involved in the U.S.-Panama Free Trade Agreement. There is no question that the United States and Panama will both have import-sensitive products in this agreement. Our trading partners are entitled to take their sensitive products out of the agreement if the United States begins to make its own exclusions, and thus it is clear that the United States will attain a far more ambitious overall agreement if it is acknowledged from the start that neither side will have the option of excluding sensitive commodities. This is especially important for U.S. pork producers in light of the fact that pork is a traditional product for production and consumption in Panama and thus there are sure to be calls to shield this industry from any competition. Just as with the Central American Free Trade Agreement, it is important that all sectors are involved in this agreement in order for export-oriented agriculture to make significant gains.

**IX. Southern Africa Customs Union**

The opportunities and barriers to pork trade with Southern Africa are discussed below. The focus will be on the country of South Africa because that country constitutes a larger current and potential market for pork than the other four countries. And, because tariffs and other trade policies are highly standardized among the countries of the Southern Africa Customs Union, and so the country of South Africa is representative of all.

1. Tariffs Should Immediately Be Reduced To Zero

Under the U.S. – Southern Africa Free Trade Agreement, all tariffs on U.S. pork and pork products should immediately be zero. There should be no tariff-rate-quotas and no phase-in period for obligations.

2. The Five Countries Of Southern Africa Must Recognize The U.S. Meat Inspection System

Unlike virtually all the countries to which the U.S. exports pork, the countries of Southern African do not necessarily accept pork from all USDA-approved facilities. Rather, like the European Union and some of the countries of Central America that were mentioned, these countries insist on assessing individual U.S. pork plants. This practice is completely unacceptable. It operates as a non-tariff barrier to trade.

The United States has the most comprehensive and effective system of food safety management in the world. The wholesomeness of the U.S. food supply is second to none in the world. An integral part of the U.S. food safety system is USDA's inspection and certification of U.S. meat producing facilities. Each of the five Southern African nations must agree to accept pork from any USDA-approved facility.

At one point not long ago, China was reluctant to accept pork from all USDA-approved facilities. USTR and USDA persuaded China to change its position, which is memorialized in the Agreement on U.S.-China Agricultural Cooperation. The

Southern African countries must also be persuaded to accept pork from all USDA facilities.

3. South Africa's Restrictive Disease Certification Requirements Should Be Lifted

For several years, South Africa has been requiring that U.S. pork be deboned and held in frozen storage at or below 18 degrees centigrade for 35 days. The long duration of this period makes it especially difficult for U.S. producers to export to South Africa. The requirement purportedly is intended to control the spread of pseudo rabies disease (PRV) -- also know as aujesky's disease. However, the risk of transmission of PRV through imported meat to domestic livestock is negligible. Indeed, for years the U.S. has exported pork to Canada, a PRV-free country, because, based on science, Canada recognizes that PRV is not transmissible to its domestic hogs by virtue of its pork imports from the United States. In sum, there is no valid scientific reason for this requirement and it should be abolished.

Mr. Chairman,

I thank you for the opportunity to present this statement.

**STATEMENT OF**
**THE AMERICAN FARM BUREAU FEDERATION**
**TO THE**
**HOUSE AGRICULTURE COMMITTEE**
**REGARDING**
**THE CURRENT STATUS OF AGRICULTURAL IN TRADE NEGOTIATIONS**

**May 19, 2004**

We appreciate the opportunity to submit testimony on behalf of the American Farm Bureau Federation on the current status of the agricultural negotiations in the Doha Round of World Trade Organization (WTO) multilateral trade negotiations and the Australia and Central American Free Trade Agreements.

Farm Bureau is supportive of Ambassador Zoellick's initiatives to move World Trade Organization (WTO) Doha agenda negotiations forward. His initiative has been well received around the globe. Reports on WTO Agriculture discussions last week in Paris indicate progress in the negotiations. We hope this is a signal that nations are ready to move forward with meaningful discussions. It is critical we have a framework by July in order to assure 2004 is not a lost year.

Farm Bureau policy as adopted by the delegate body at our 85th annual convention makes clear that our highest priority remains that of a successful conclusion to the multilateral Doha Round of the WTO trade negotiations.

Our delegates approved a thorough and well-thought-out position to guide AFBF in the trade arena. Farm Bureau policy affirms that all commodity sectors should be on the table during trade negotiations. Our delegates believe U.S. agriculture's best opportunity to address critical trade issues, such as market access and domestic subsidies is through the multilateral rather than through regional or bilateral talks.

## DOHA ROUND OF THE WORLD TRADE ORGANIZATION NEGOTIATIONS

Agriculture's best opportunity to respond to problems in the global market is the Doha Round of WTO trade negotiations. These negotiations cover virtually every type of measure that countries now employ to impede trade or gain an unfair advantage. Since the Doha agricultural framework is currently under discussion with no single proposal having been put forth, our testimony will address Farm Bureaus' interests and concerns regarding WTO trade negotiations.

Export Subsidies -- The complete elimination of export subsidies has been an important and longstanding Farm Bureau objective. Export subsidies are recognized as the most trade-distorting measure in trade and have been banned for manufactured products from the inception of the GATT/WTO. Currently the European Union (EU) spends between $2 billion and $5 billion a year on export subsidies and is allowed to spend as much as $8 billion under the current WTO agreement. The EU accounts for about 90 percent of all export subsidies and uses them to market products of export interest to the United States. Farm Bureau supports the phase-out and elimination of State Trading Enterprises.

Market Access -- Though converting all non-tariff measures to tariffs was critical for agriculture during the Uruguay Round, it created inequitable, unbalanced access to markets. The commitments in the last round permitted many members to isolate their markets entirely, beyond the negotiated minimum access, while countries like the United States provided significantly more net access. Current WTO rules require all countries to cap the maximum tariff that can be applied against any product. While tariffs have come down in recent years, the level of allowed tariff is often substantial. The world average on agricultural products is 62 percent while the U.S. average agricultural tariff is 12 percent.

The United States has proposed the use of a formula for reducing all agricultural tariffs so that high tariffs would be reduced more than low tariffs, thus reducing the gap between high-tariff and low-tariff products. Other proposals have suggested a "banding" approach - and we would not rule out such a "banding" technique – but it must result in significant improvement in the percentage reductions so that the effect is commercially meaningful access.

Applied Tariffs -- The United States has proposed that tariff cuts be implemented from applied rates rather than bound rates. Otherwise, the impact of tariff reduction is likely to be very limited since many countries maintain bound rates far above actual applied rates. Market access negotiations should use the lowest applied rates rather than the higher bound rates when negotiating tariff reductions.

Special and Differential Treatment (S&D) -- GATT and WTO negotiations have traditionally recognized that developing countries, and in particular least developed countries, may require S&D treatment under trade rules to give them more time to adjust to competition and to allow mechanisms to address economic development needs.

Any S&D treatment in agriculture should be temporary, narrowly targeted, and based on objective criteria. Obligations for developing countries must be commensurate with the level of a country's development and, in particular, commensurate with a country's level of competitiveness in a given product sector. Some "developing" countries are actually highly developed and competitive in certain products and it makes no sense for those countries to receive special treatment in such commodities. A good example would be soybean production in Brazil.

Objective and transparent criteria should be established for determining whether a country is generally developing or developed and whether it is developing or developed within a given product sector. Such criteria are used to determine which countries are "least developed" and there is no reason that countries should be able to "opt out" of WTO obligations by self-designating themselves as "developing." The focus must be much more narrow and must be transitional so that those countries are able to assume greater obligations in the future.

Domestic Supports -- Concerning domestic supports, U.S. efforts to convince other countries of U.S. flexibility in this regard went unheeded in Cancun. U.S. agriculture is fully prepared to negotiate significant reductions in trade distorting domestic supports, as part of an overall agreement that increases market access in both developed and developing countries, eliminates export subsidies and subjects net agricultural exporting developing countries to these same disciplines and commitments.

Green Box Domestic Supports – We support maintaining the current criteria and ensuring there are no caps on non-trade-distorting support. We believe more countries should move away from trade-distorting government payment programs and instead make greater use of "green box" programs to achieve their policy objectives.

Sanitary and Phytosanitary (SPS) Agreement -- We adamantly oppose any changes to the SPS agreement. We urge strong resistance to any attempts by the EU or others to allow social or economic considerations to form any basis for applying SPS measures in exchange for reduction in subsidies, tariffs or any other negotiating issue.

Non-Trade Concerns -- The EU has made proposals on compulsory labeling, multifunctionality and the precautionary principle that, if adopted, would substantially offset any gains we could hope to obtain through reductions in tariffs and subsidies. In our view, the EU proposals appear to be, in large part, a blatant attempt to introduce permanent non-tariff barriers into trade in agriculture. The EU proposal does provide for producer costs for animal welfare regulations offset by government payments to be included in the green box. Farm Bureau believes that, in general, non-trade concerns should not be included in the agricultural negotiations. However, we believe that animal welfare concerns could be accommodated in the green box, as long as such payments were limited to the extra cost of complying with the regulatory requirements (as currently required of environmental programs).

Geographical Indications (GIs) -- In the agriculture negotiations, the EU has suggested expansion of the types of products given special protection by "geographical indications." The EU's proposal calls for taking back the names of many famous products such as pilsner, feta, Parmesan and balsamic vinegar. These EU ambitions could seriously compromise the export opportunities of many primary agricultural products such as rice and possibly animal and plant names (fruits, vegetables and other grains) that originate outside the United States. The intent of the European proposal is to give producers in the EU exclusive, monopolistic rights to make and market many products that U.S. producers have spent time and money to make famous. We strongly oppose expansion of GIs.

## WTO RULING ON BRAZILIAN COTTON DISPUTE

Media reports indicate that the WTO panel agreed with Brazil's claim that the program payments boost U.S. production and exports while lowering world cotton prices. Brazilian and U.S. officials agreed not to release details of the panel report. Farm Bureau has not seen the decision and without having an opportunity to evaluate it, we will decline to speculate or offer opinions on outcomes or other implications. We recognize that if the final panel decision rules against the United States that the U.S. government intends to appeal that judgment. The first step however is to request that the panel itself make changes to the initial ruling before it finalizes its report. If the ruling is appealed the process can take six months or longer. We believe that U.S. farm programs are consistent with our WTO obligations.

## FREE TRADE AGREEMENTS (FTAs)

While the American Farm Bureau Federation's trade priority remains that of a successful conclusion to the WTO Doha Round negotiations we understand the importance of opening new markets and expanding existing markets for U.S. agricultural products. The Administration has moved forward on an ambitious trade agenda in the midst of the continuing WTO negotiations. With the recent conclusion of free trade negotiations with Australia, Morocco and the Central American Free Trade Agreement (CAFTA) and negotiations in the process or soon to begin with many more countries and regions it is important to take into account what the trade impacts will be on our domestic agriculture.

Taking this into account, AFBF will take each FTA on a case-by-case basis. AFBF will take a position only after an economic analysis is completed on the terms of the agreement to determine what the possible impact may be on U.S. agriculture producers. Once the economic analysis is completed the AFBF Board of Directors will make the final decision on the position of AFBF. To this point we have completed an economic analysis and taken a position on the CAFTA and Australia FTA. These positions are covered below. We will begin our analysis on the Morocco FTA once USTR releases the terms for agriculture.

We strongly encourage the administration, as a part of its strategy in seeking future FTA partners, to seek negotiations with countries that will lead to benefits for U.S. agriculture. We believe that these FTAs must begin from a point where all agricultural products are included under the negotiations. We understand that agriculture is not the only sector being discussed in these negotiations, but agriculture should not be used as the trade-off for increased benefits in another sector. Agriculture must have input into the selection process of future FTA partners and we are willing to work with USTR and USDA/FAS to find the markets that will improve trade for our industry.

## CENTRAL AMERICA FREE TRADE AGREEMENT (CAFTA)

AFBF supports CAFTA.

United States agriculture has much to gain from the CAFTA. The Agreement involves five middle and low-income countries and the Dominican Republic, with limited production capacity and expanding demand for a variety of bulk, semi-processed and consumer ready farm products. American agriculture is strategically positioned to translate an agreement with the five into export gains across a variety of products estimated at $945 million per year by 2024. To a large extent, American agriculture has already "paid" for their side of this agreement. The Caribbean Basin Initiative (CBI) eliminated or significantly reduced most of the tariffs for agricultural products coming into the United States from these and other Caribbean countries. Thus, most commodities have little to lose in this agreement. The other side of the agreement calls for the CAFTA countries to remove their trade barriers, allowing what will eventually be free entry of

U.S. products – entry that will not be afforded to other countries, such as Brazil or the members of the European Union.

There are, however, some costs. The United States' negotiating partners are looking for increased access to our sugar market to help balance CAFTA changes in imports and exports. The CAFTA draft allows the five Central American countries to ultimately export 145,700 tons per year more sugar to the United States. This amounts to about 1.5 percent of domestic sugar production, but it is a 115 percent increase in current sugar imports from those five countries. Sugar is the only commodity likely to show significant CAFTA-related costs. Hence, by the end of the 20-year implementation period, added sugar imports would reduce CAFTA benefits by $73 million per year, resulting in a net gain in U.S. agricultural exports of $872 million.

## AUSTRALIA FREE TRADE AGREEMENT (AUSFTA)

AFBF supports the Australian Free Trade Agreement after final sanitary and phytosanitary import risk assessments have been completed on U.S. poultry, Florida citrus, stone fruit and apples that are acceptable to AFBF. Until that time, AFBF will not support a vote in Congress to ratify the agreement.

The trade impact of the proposed Australian–United States Free Trade Agreement (AUSFTA) on American agriculture is likely to be limited. From a U.S. perspective, exports of farm products to Australia are likely to be $150-200 million per year higher in the intermediate and long term with an agreement. This compares to U.S. exports of an average of $310 million during 1999-2001. These U.S. export gains would be spread across a variety of semi-processed, processed and high-value products and depend as much on progress in the follow-up talks on sanitary and phytosanitary issues as they do to changes in the tariffs Australia charges on imports of U.S. farm products.

However, these gains will come at a potential cost of up to $330-430 million per year in added U.S. imports of Australian farm products after the agreement is fully implemented. This compares with Australian exports of an average of $1.8 billion per year in farm products to the United States during 1999-2001. Australian gains are likely to be concentrated in the beef and dairy sectors and relate to changes in the U.S. quota system for these two commodities. The resulting $180-230 million annual net loss in U.S. farm exports ($150-200 million in added exports minus $330-430 million in added imports) would be the equivalent of less than one-tenth of one percent of American agricultural production. This compares with estimated agreement gains of $2 billion per year elsewhere in the general U.S. economy.

The Australian agricultural gains are heavily dependent on their filling the agreement's expanded beef quota. Australia has only filled its pre-AUSFTA quota twice in the last seven years. Thus, the idea that they will automatically fill the expanded AUSFTA quota is far from certain. Without this expansion in beef exports, Australian gains from the proposed agreement drop to $130-230 million per year, instead of $330-430 million per year. This suggests that agreement-related changes in U.S. agricultural imports from Australia and U.S. agricultural exports to Australia would essentially cancel each other out and leave the agricultural trade balance unaffected. With regards to dairy, it will also be very important to look at the specific Australian products to be granted increased access to the U.S. market. Some of the increased cheese imports could compete with European cheeses coming into the United States as opposed to replacing domestically produced product. Thus, the numbers cited here may be viewed as an annual upper bound on the trade effects on the dairy sector.

In conclusion, Farm Bureau's highest priority remains the completion of a successful WTO Doha agriculture negotiation. It is our hope that sufficient progress can be made to allow agreement to be reached in 2004 on the framework for the talks. We believe agriculture's future continues to lie in expanding foreign markets and eliminating barriers to our exports. The successful conclusion of the WTO negotiations on agriculture remains our top negotiating priority. We look forward to continuing to work with the Agriculture Committee on these and other important trade issues.

*Agricultural Coalition On Trade*

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The Agricultural Coalition on Trade (ACT)
Testimony before the
House Committee on Agriculture
May 19, 2004

Mr. Chairman, thank you very much for holding this hearing to discuss agricultural trade. Your committee has a good reputation for keeping the Administration informed on where the agricultural community stands on various trade negotiations, and you are to be commended for meeting with representatives of all of agriculture to make sure you and your members are brought up to date on where each of us stands with regard to the ongoing trade negotiations and the impact we believe they will have on our special commodities.

This statement is presented on behalf of the Agricultural Coalition on Trade (ACT). Attached to this statement is a list of ACT members and a mission statement for ACT. As you can see, ACT's members represent directly or indirectly almost all fruit and vegetable crops.

For your information, I am attaching to my statement several graphs which indicate how exports of fruits and vegetables compare with exports of our federal program crops, and you will see that we are right in the ballpark with these other commodities. However, the same is not true with regard to imports, and I hope you will view this information carefully.

The trade deficit for fruits and vegetables since the Uruguay Round has expanded significantly, contrary to the predictions of eight years ago, and the gap is growing.

ACT is concerned that our fruits and vegetables and other specialty crops seemingly do not get the attention of our trade policy makers. There appears to be a philosophy to use fruits and vegetables to open markets for other trade items. In fact, U.S. Trade Representative Robert Zoellick late last year commented that he would like to help Morocco to export fruits and vegetables to the U.S. Currently, pending in the U.S. House of Representatives is a bill, H. R. 4103, the AGOA (African Growth and Opportunity Act) Acceleration Act of 2004. This bill states that "The President shall assign at least 20 full-time personnel for the purpose of providing assistance to the countries identified under subsection (a) to ensure that exports of agricultural products from those countries meet the requirements of United States law." This language disturbs ACT twofold: first, the exports of the African countries to the U.S.

will be fruits and vegetables for the most part, and secondly, placing 20 full-time APHIS personnel to work on import issues will not help our 40-year backlog on U.S. export petitions now pending at APHIS.

**Free Trade Agreements**

We do not see any particular benefit for our specialty crops in the recently completed free trade agreements. ACT believes that these FTAs will not create export opportunities but will in fact increase our fruit and vegetable trade deficit. Many of the soon to be FTA-countries already receive preferential tariff treatment into the United States (for example, APTA, CBI, GSP). Yet, in these agreements in many cases our vegetables and some fruits did not receive immediate phase-out of the foreign country tariffs. The result is that we will continue to face continuing competition from fruit and vegetable imports.

ACT understands that the Administration will be using CAFTA as a template for the free trade agreements with the Andean countries and Panama and that it was used for the Dominican Republic FTA. This is unfortunate for the vegetable and citrus industries. In the CAFTA most vegetables and citrus will have phase-outs of 10-14 years while the same products for these countries will enter the U.S. at zero duty immediately. This appears more like an aid package than an FTA to ACT's membership.

Recently, U.S. Trade Representative Robert Zoellick told your committee that he would like to see FTAs with Japan, Korea and the European Union but that none would negotiate agriculture. All these markets would be significant markets for our specialty crops, and frankly, ACT believes it is worth the time to pursue such agreements.

Mr. Chairman, the FTAs which we have recently negotiated and the ones which we are now negotiating will increase the fruit and vegetable trade deficit.

ACT has submitted testimony in the past to this Committee and is submitting the updated material again today which indicates that our fruit and vegetable industry has not received the benefits which we thought would come as a result of the Uruguay Round.

**Doha Round**

With regard to the Doha Round, ACT believes the emphasis on export subsidies will not benefit our fruit and vegetable sector. We do not understand why high domestic subsidies are not as significant as the export subsidies. ACT has consistently advocated the removal of our amber box domestic support and has urged the need for more transparency in this area. A primary example of the need for more transparency is the case of the European

Union's producer organizations. Information on how these organizations operate and the extent of their funding is not available to the public.

A review of Japan's subsidy information does not disclose how fruits and vegetables are subsidized in Japan. How can our trade negotiators reduce or eliminate amber box subsidies if they do not know of the subsidies?

As you know, Mr. Chairman, agricultural tariffs in the U.S. are extremely low compared with those of all of our trading partners. As a result of the Uruguay Round, tariff levels have been coming down but obviously not coming down at the needed levels to allow us to increase our export markets. High tariffs do have an effect - they keep foreign product out of a country's domestic market, and in the Asian market in particular, our fruits and vegetables face very high tariffs. In some cases, our negotiators have met with some success in negotiating some of the tariffs downward, but if we are to expand our foreign markets, it is imperative that all tariffs be harmonized in the Doha Development Round. I applaud the Administration's effort to seek significant tariff reductions, although I note that recent press reports indicate that the U.S. now seems to be willing to deviate from the Swiss formula approach in order to accommodate concerns of other countries. While compromise may be necessary in order to get the Doha Round moving, I urge your Committee to press the Administration to stand firm in efforts to achieve meaningful tariff levels in order to allow market access for all U.S. crops.

**Sanitary and Phytosanitary Barriers**

When the Agreement on Sanitary and Phytosanitary Measures was accepted as part of the Uruguay Round Act, we thought that all WTO member countries would begin addressing SPS issues strictly on a scientific basis. That was certainly the intent of the Agreement. We have found, however, that there are any number of ways a country can delay action on our export petitions, sometimes for extensive periods of time.

For example, in the Chilean and Australian FTA, sanitary and phytosanitary issues were not resolved. Committees were established to discuss the validity of the SPS issues, but the fruit and vegetable industry is concerned that this is an excuse to prevent our exports. SPS issues should be elevated to the same level as tariff discussions.

Submitted by Robert I. Schramm, Schramm, Williams & Associates, Inc., on behalf of the Agricultural Coalition on Trade
May 19, 2004

# *Agricultural Coalition On Trade*

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## Mission Statement

ACT is a trade organization established by California agricultural associations in 1999 to follow multilateral and bilateral trade developments in agriculture. In addition to this monitoring activity, ACT reviews governmental policies which it believes impact agricultural trade. ACT does not lobby, but every opportunity is made to participate in governmental trade forums to provide Members of Congress and the Administration information on members' objectives in all U.S. agricultural negotiations.

## Members of ACT

California Fresh Carrot Advisory Board
531-D North Alta Avenue
Dinuba, CA 93618

California Olive Association
Post Office Box A
Lindsay, CA 93247

California Pistachio Commission
1318 East Shaw Avenue, #420
Fresno, CA 93710

California Tomato Commission
1625 E. Shaw Street, #122
Fresno, CA 93710

California Tomato Growers Association
10730 Siskiyou Lane
Stockton, CA 95209

Desert Grape Growers of California
52301 Enterprise Way
Coachella, CA 92236-2708

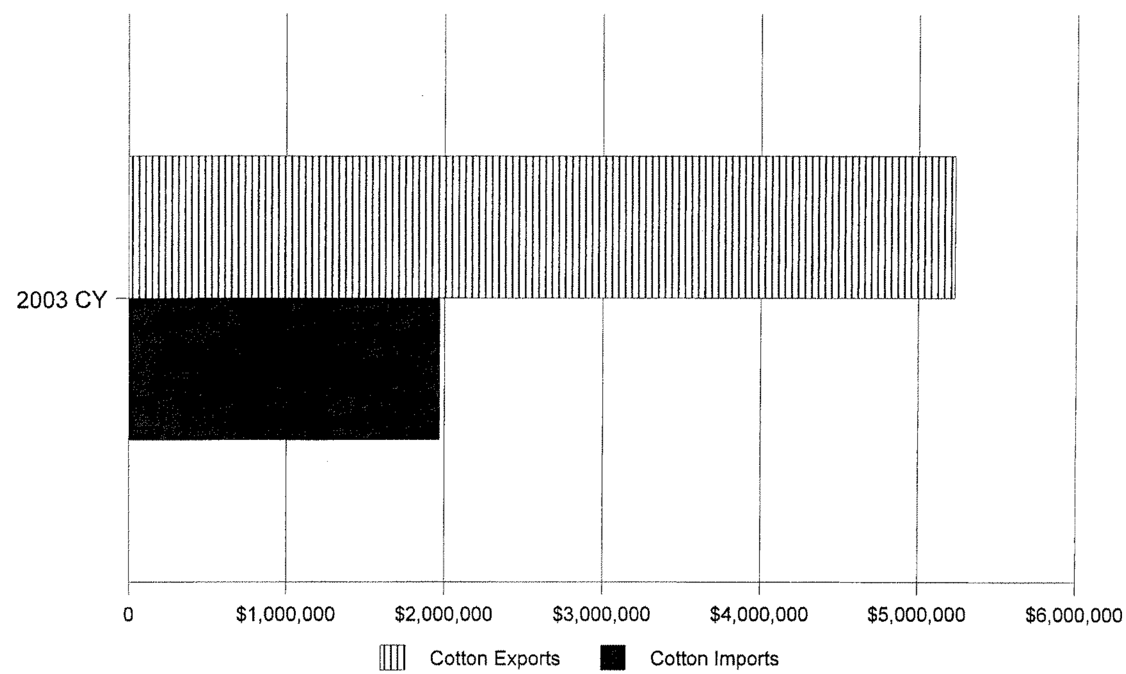
U.S. Citrus Science Council
1141Cummings Road
Santa Paula CA, 93060

Sunsweet Growers Incorporated
901 North Walton Avenue
Yuba City, CA 95993

Western Growers Association
17620 Fitch Street
Irvine, CA 9261

U.S. Export and Import Comparison of Cotton - 2003 CY

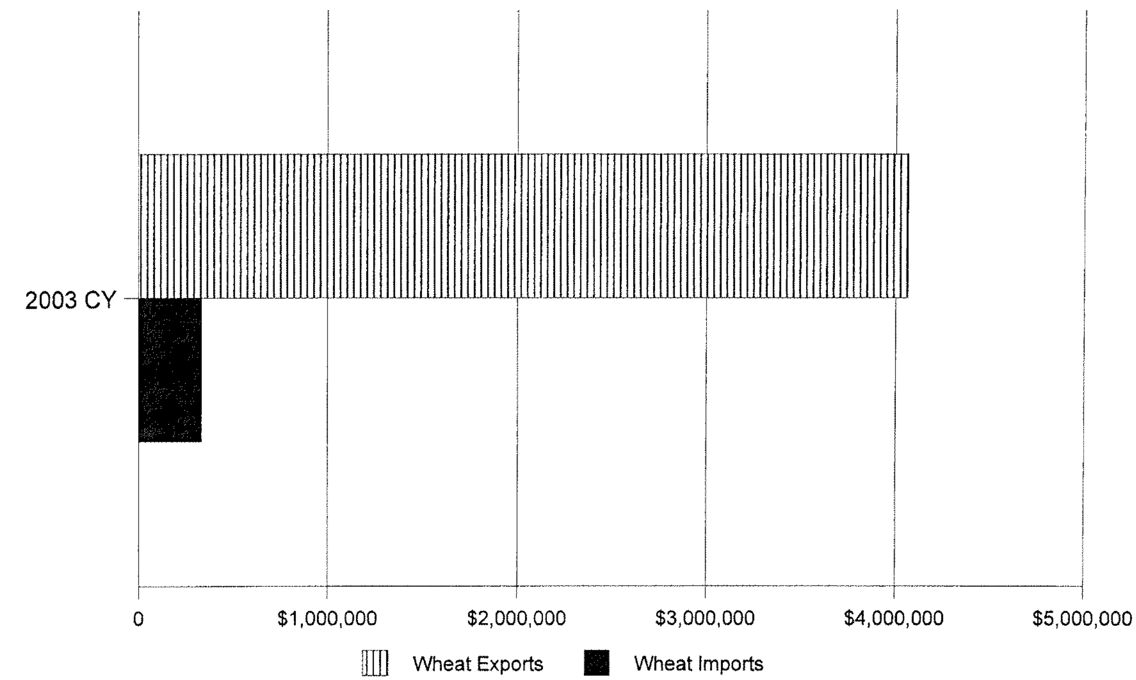
*(in $1,000)*




Prepared by Schramm, Williams & Associates, Inc. using data from the U.S. Department of Commerce.

U.S. Export and Import Comparison of Wheat - 2003 CY

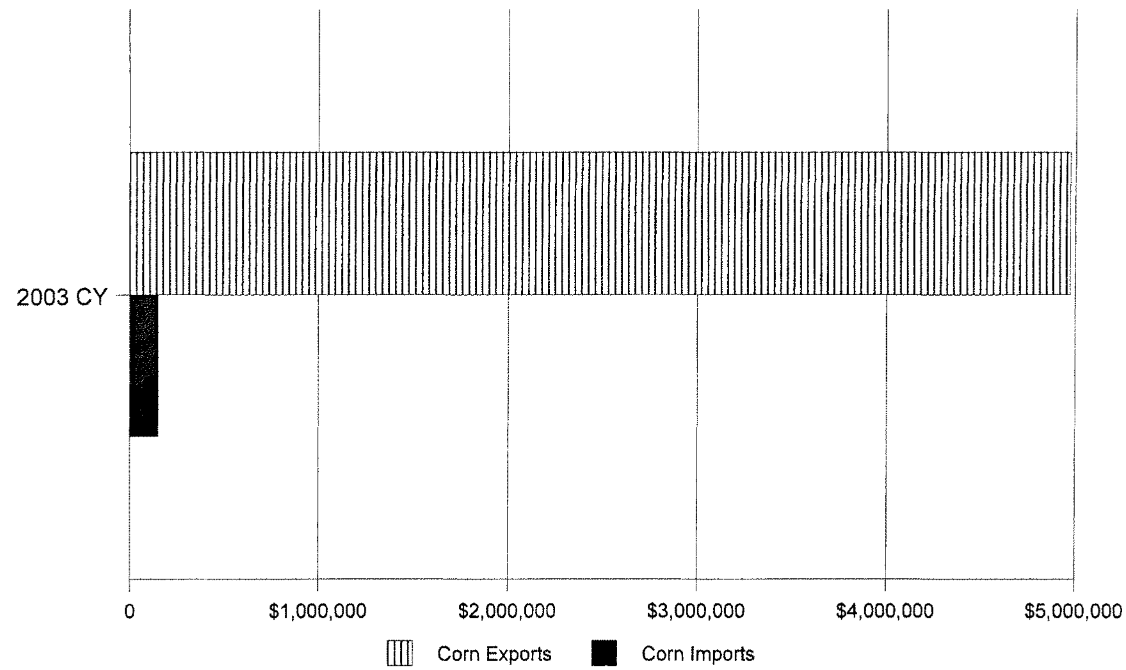
*(in $1,000)*




Prepared by Schramm, Williams & Associates, Inc. using data from the U.S. Department of Commerce.

U.S. Export and Import Comparison of Corn- 2003 CY

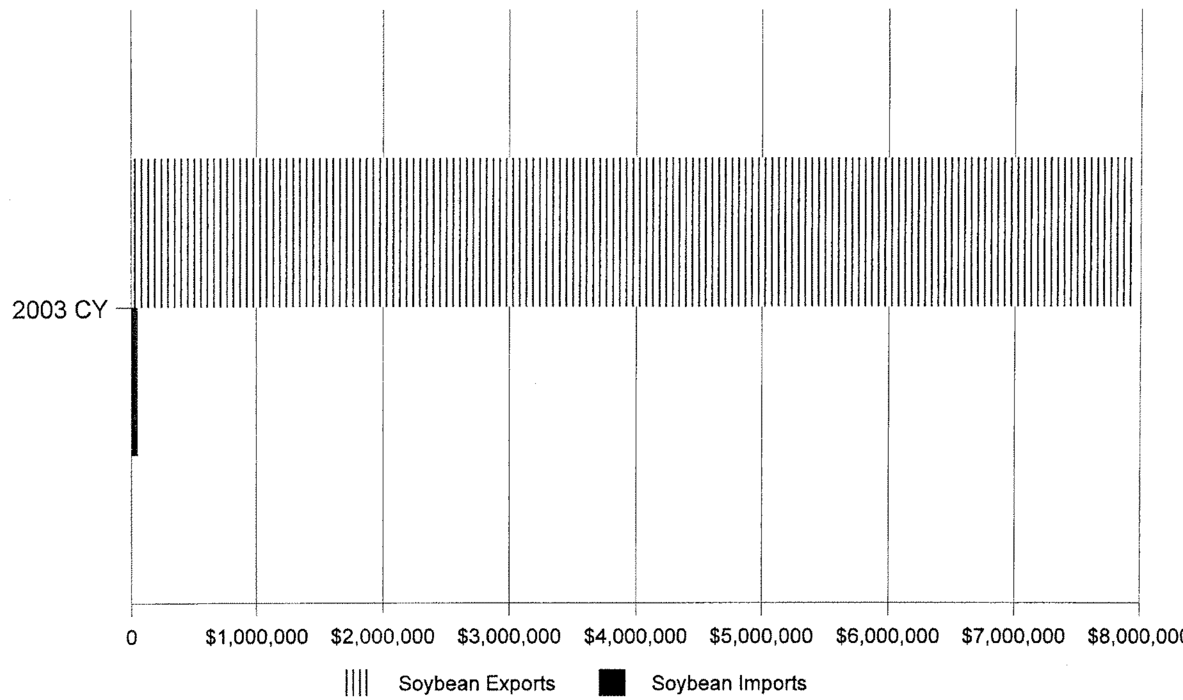
*(in $1,000)*




Prepared by Schramm, Williams & Associates, Inc. using data from the U.S. Department of Commerce.

U.S. Export and Import Comparison of Soybean- 2003 CY

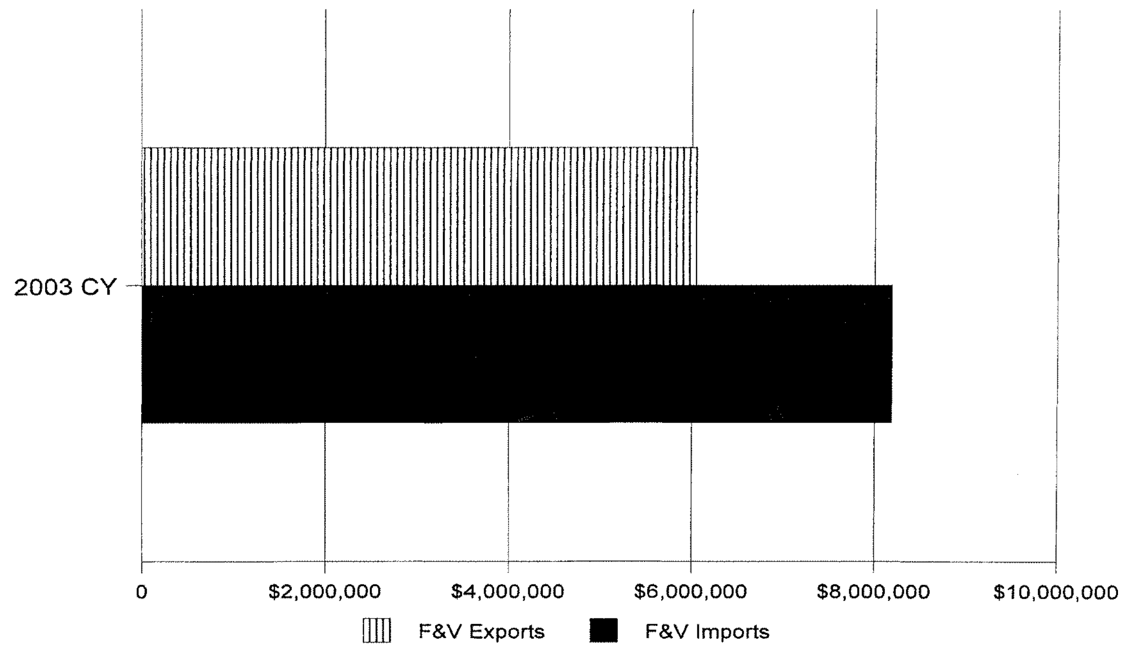
*(in $1,000)*




Prepared by Schramm, Williams & Associates, Inc. using data from the U.S. Department of Commerce.

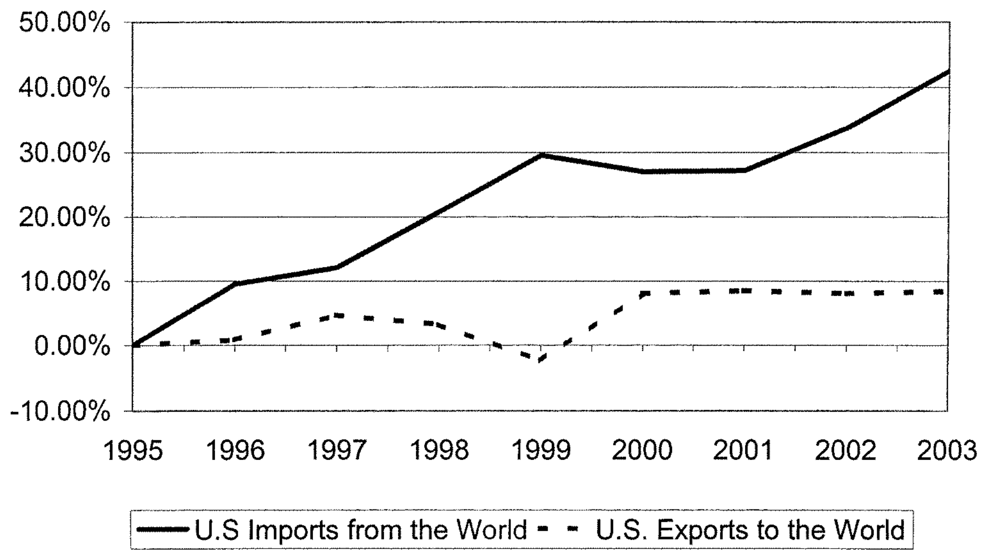
U.S. Export and Import Comparison of Fruits, Vegetables and Nuts- 2003 CY

*(in $1,000)*




Prepared by Schramm, Williams & Associates, Inc. using data from the U.S. Department of Commerce.

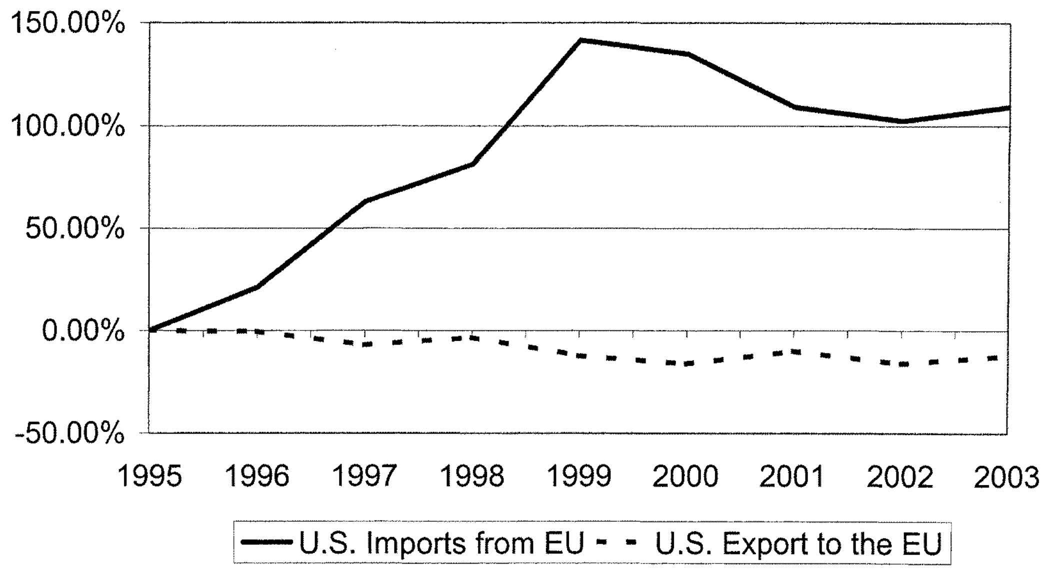
U.S. -World Trade of Fresh Fruits, Vegetables and Nuts




Note: Chart depicts the annual percentage change in trade. Imports and Exports of fresh fruit, vegetables and nuts denotes all commodities in chapters 7 and 8 of the U.S. Harmonized Tariff Schedule in terms of volume. World data includes EU.

Prepared by The Agricultural Coalition On Trade using data from the U.S. Department of Commerce

U.S. -EU Trade of Fresh Fruits, Vegetables and Nuts




Note: Chart depicts the annual percentage change in trade. Imports and Exports of fresh fruit, vegetables and nuts denotes all commodities in chapters 7 and 8 of the U.S. Harmonized Tariff Schedule in terms of volume.

Prepared by The Agricultural Coalition On Trade using data from the U.S. Department of Commerce

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## U.S. Trade in Fresh Fruits, Vegetables and Nuts

### U.S. Imports

| Commodities | Source | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | % Change from 1995 to 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | - in metric tons - | | | | | | |
| Vegetables* | | | | | | | | | | | |
| | EU | 64,719 | 72,361 | 88,263 | 103,637 | 97,136 | 94,796 | 100,732 | 100,258 | 92,283 | 42.59% |
| | All Countries | 2,808,161 | 3,270,510 | 3,251,054 | 3,667,784 | 3,662,310 | 3,566,563 | 3,803,893 | 4,162,211 | 4,393,120 | 56.44% |
| Fruits and Nuts** | | | | | | | | | | | |
| | EU | 25,834 | 37,195 | 59,256 | 60,398 | 121,632 | 117,885 | 88,693 | 83,094 | 97,327 | 276.74% |
| | All Countries | 5,952,160 | 6,323,339 | 6,570,068 | 6,912,230 | 7,686,484 | 7,559,700 | 7,334,313 | 7,830,033 | 8,088,773 | 35.90% |
| Fruits, Vegetables and Nuts | | | | | | | | | | | |
| | EU | 90,553 | 109,556 | 147,519 | 164,035 | 218,768 | 212,681 | 189,425 | 183,352 | 189,610 | 109.39% |
| | All Countries | 8,760,321 | 9,593,849 | 9,821,122 | 10,580,014 | 11,348,794 | 11,126,263 | 11,138,206 | 11,992,244 | 12,481,893 | 42.48% |

### U.S. Exports

| Commodities | Destination | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | % Change from 1995 to 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | - in metric tons - | | | | | | |
| Vegetables* | | | | | | | | | | | |
| | EU | 228,376 | 214,561 | 232,622 | 243,791 | 219,580 | 184,307 | 204,562 | 171,282 | 165,082 | -27.71% |
| | All Countries | 2,535,640 | 2,523,153 | 2,674,375 | 2,797,300 | 2,758,124 | 2,872,006 | 2,827,568 | 2,841,397 | 2,778,804 | 9.59% |
| Fruits and Nuts** | | | | | | | | | | | |
| | EU | 558,590 | 568,285 | 497,907 | 515,757 | 469,181 | 473,258 | 502,244 | 487,097 | 524,003 | -6.19% |
| | All Countries | 3,325,063 | 3,288,539 | 3,457,814 | 3,190,773 | 2,959,964 | 3,461,057 | 3,529,760 | 3,491,612 | 3,574,740 | 7.51% |
| Fruits, Vegetables and Nuts | | | | | | | | | | | |
| | EU | 786,966 | 782,846 | 730,529 | 759,548 | 688,761 | 657,565 | 706,806 | 658,379 | 689,085 | -12.44% |
| | All Countries | 5,860,703 | 5,811,692 | 6,132,189 | 5,988,073 | 5,718,088 | 6,333,063 | 6,357,328 | 6,333,009 | 6,353,544 | 8.41% |

*Includes all of Chapter 7 of the U.S. Harmonized Tariff Schedule.
**Includes all of Chapter 8 of the U.S. Harmonized Tariff Schedule.
Source: U.S. Department of Commerce

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# U.S. Trade in Fresh Fruits, Vegetables and Nuts

## U.S. Import Percentage Changes from Base Year 1995

| Commodities | Source | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | - in terms of metric tons - | | | | | |
| Vegetables* | | | | | | | | | | |
| | EU | 0.00% | 11.81% | 36.38% | 60.13% | 50.09% | 46.47% | 55.65% | 54.91% | 42.59% |
| | All Countries | 0.00% | 16.46% | 15.77% | 30.61% | 30.42% | 27.01% | 35.46% | 48.22% | 56.44% |
| Fruits and Nuts** | | | | | | | | | | |
| | EU | 0.00% | 43.98% | 129.37% | 133.79% | 370.82% | 356.32% | 243.32% | 221.65% | 276.74% |
| | All Countries | 0.00% | 6.24% | 10.38% | 16.13% | 29.14% | 27.01% | 23.22% | 31.55% | 35.90% |
| Fruits, Vegetables and Nuts | | | | | | | | | | |
| | EU | 0.00% | 20.99% | 62.91% | 81.15% | 141.59% | 134.87% | 109.19% | 102.48% | 109.39% |
| | All Countries | 0.00% | 9.51% | 12.11% | 20.77% | 29.55% | 27.01% | 27.14% | 36.89% | 42.48% |

## U.S. Export Percentage Changes from Base Year 1995

| Commodities | Destination | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | - in terms of metric tons - | | | | | |
| Vegetables* | | | | | | | | | | |
| | EU | 0.00% | -6.05% | 1.86% | 6.75% | -3.85% | -19.30% | -10.43% | -25.00% | -27.71% |
| | All Countries | 0.00% | -0.49% | 5.47% | 10.32% | 8.77% | 13.27% | 11.51% | 12.06% | 9.59% |
| Fruits and Nuts** | | | | | | | | | | |
| | EU | 0.00% | 1.74% | -10.86% | -7.67% | -16.01% | -15.28% | -10.09% | -12.80% | -6.19% |
| | All Countries | 0.00% | -1.10% | 3.99% | -4.04% | -10.98% | 4.09% | 6.16% | 5.01% | 7.51% |
| Fruits, Vegetables and Nuts | | | | | | | | | | |
| | EU | 0.00% | -0.52% | -7.17% | -3.48% | -12.48% | -16.44% | -10.19% | -16.34% | -12.44% |
| | All Countries | 0.00% | -0.84% | 4.63% | 2.17% | -2.43% | 8.06% | 8.47% | 8.06% | 8.41% |

**Includes all of Chapter 8 of the U.S. Harmonized Tariff Schedule.
Prepared by The Agricultural Coaltion On Trade using data from the U.S. Department of Commerce

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## U.S. Trade in Fresh Fruits, Vegetables and Nuts

### U.S. Imports

| Commodities | Source | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | % Change from 1995 to 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | - in 1,000 dollars - | | | | | | |
| Vegetables* | | | | | | | | | | | |
| | EU | 129,405 | 140,580 | 156,387 | 194,632 | 182,036 | 168,056 | 182,409 | 188,937 | 180,788 | 39.71% |
| | All Countries | 1,791,079 | 2,056,161 | 2,095,710 | 2,576,599 | 2,523,969 | 2,674,272 | 2,959,963 | 3,137,465 | 3,607,316 | 101.40% |
| Fruits and Nuts** | | | | | | | | | | | |
| | EU | 36,542 | 53,116 | 82,057 | 73,448 | 141,846 | 134,212 | 115,864 | 112,280 | 146,507 | 300.93% |
| | All Countries | 2,755,862 | 3,047,331 | 3,181,303 | 3,406,352 | 4,004,206 | 3,917,679 | 3,890,102 | 4,226,991 | 4,577,642 | 66.11% |
| Fruits, Vegetables and Nuts | | | | | | | | | | | |
| | EU | 165,947 | 193,696 | 238,444 | 268,080 | 323,882 | 302,268 | 298,273 | 301,217 | 327,295 | 97.23% |
| | All Countries | 4,546,941 | 5,103,492 | 5,277,013 | 5,982,951 | 6,528,175 | 6,591,951 | 6,850,065 | 7,364,456 | 8,184,958 | 80.01% |

### U.S. Exports

| Commodities | Destination | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | % Change from 1995 to 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | - in 1,000 dollars - | | | | | | |
| Vegetables* | | | | | | | | | | | |
| | EU | 185,223 | 194,779 | 221,562 | 198,116 | 175,118 | 140,233 | 145,368 | 130,302 | 145,011 | -21.71% |
| | All Countries | 1,611,972 | 1,559,365 | 1,699,912 | 1,769,934 | 1,699,160 | 1,784,727 | 1,742,173 | 1,790,624 | 1,857,822 | 15.25% |
| Fruits and Nuts** | | | | | | | | | | | |
| | EU | 969,026 | 1,105,201 | 919,902 | 937,154 | 788,984 | 783,049 | 785,593 | 842,117 | 1,049,974 | 8.35% |
| | All Countries | 3,543,411 | 3,711,763 | 3,662,953 | 3,389,158 | 3,217,576 | 3,528,758 | 3,587,989 | 3,743,020 | 4,191,106 | 18.28% |
| Fruits, Vegetables and Nuts | | | | | | | | | | | |
| | EU | 1,154,249 | 1,299,980 | 1,141,464 | 1,135,270 | 964,102 | 923,282 | 930,961 | 972,419 | 1,194,985 | 3.53% |
| | All Countries | 5,155,383 | 5,271,128 | 5,362,865 | 5,159,092 | 4,916,736 | 5,313,485 | 5,330,162 | 5,533,644 | 6,048,928 | 17.33% |

*Includes all of Chapter 7 of the U.S. Harmonized Tariff Schedule.
**Includes all of Chapter 8 of the U.S. Harmonized Tariff Schedule.
Source: U.S. Department of Commerce

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## U.S. Trade in Fresh Fruits, Vegetables and Nuts

### U.S. Import Percentage Changes from Base Year 1995

| Commodities | Source | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | - in terms of 1,000 dollars - | | | | | |
| Vegetables* | | | | | | | | | | |
| | EU | 0.00% | 8.64% | 20.85% | 50.41% | 40.67% | 29.87% | 40.96% | 46.00% | 39.71% |
| | All Countries | 0.00% | 14.80% | 17.01% | 43.86% | 40.92% | 49.31% | 65.26% | 75.17% | 101.40% |
| Fruits and Nuts** | | | | | | | | | | |
| | EU | 0.00% | 45.36% | 124.56% | 101.00% | 288.17% | 267.28% | 217.07% | 207.26% | 300.93% |
| | All Countries | 0.00% | 10.58% | 15.44% | 23.60% | 45.30% | 42.16% | 41.16% | 53.38% | 66.11% |
| Fruits, Vegetables and Nuts | | | | | | | | | | |
| | EU | 0.00% | 16.72% | 43.69% | 61.55% | 95.17% | 82.15% | 79.74% | 81.51% | 97.23% |
| | All Countries | 0.00% | 12.24% | 16.06% | 31.58% | 43.57% | 44.98% | 50.65% | 61.97% | 80.01% |

### U.S. Export Percentage Changes from Base Year 1995

| Commodities | Destination | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | - in terms of 1,000 dollars - | | | | | |
| Vegetables* | | | | | | | | | | |
| | EU | 0.00% | 5.16% | 19.62% | 6.96% | -5.46% | -24.29% | -21.52% | -29.65% | -21.71% |
| | All Countries | 0.00% | -3.26% | 5.46% | 9.80% | 5.41% | 10.72% | 8.08% | 11.08% | 15.25% |
| Fruits and Nuts** | | | | | | | | | | |
| | EU | 0.00% | 14.05% | -5.07% | -3.29% | -18.58% | -19.19% | -18.93% | -13.10% | 8.35% |
| | All Countries | 0.00% | 4.75% | 3.37% | -4.35% | -9.20% | -0.41% | 1.26% | 5.63% | 18.28% |
| Fruits, Vegetables and Nuts | | | | | | | | | | |
| | EU | 0.00% | 12.63% | -1.11% | -1.64% | -16.47% | -20.01% | -19.34% | -15.75% | 3.53% |
| | All Countries | 0.00% | 2.25% | 4.02% | 0.07% | -4.63% | 3.07% | 3.39% | 7.34% | 17.33% |

*Includes all of Chapter 7 of the U.S. Harmonized Tariff Schedule.
**Includes all of Chapter 8 of the U.S. Harmonized Tariff Schedule.
Prepared by The Agricultural Coaltion On Trade using data from the U.S. Department of Commerce

submitted by Case

Statement of David G. Rietow
President, Hawaii Macadamia Nut Association
for the U.S. House of Representatives
Committee on Agriculture
Hearing to Review Agricultural Trade Negotiations
Wednesday, May 19, 2004

The impact of the U.S.-Australia Free Trade Agreement on Hawaii's Macadamia Nut Industry is viewed by the Industry as severely negative. The removal of all of the tariffs on the importation of macadamia and macadamia products from Australia is expected to lower the average macadamia kernel price in the U.S. This will result in a reduced price paid to Hawaii's growers. The long-term impact could be the economic failure of many growers and some of the smaller processors and manufacturers in Hawaii.

Hawaii's economic base is tourist driven. The State depends upon the growth of the agricultural sector to help balance its economy. Agriculture also provides the open space and agro-tourism opportunities that a growing number of younger visitors are looking for. It is, therefore, crucial to the economy of Hawaii to maintain the viability of its agricultural sector. Hawaii's Macadamia Industry believes that the removal of the import tariffs imposed on Australia will severely weaken the industry and its economic contribution to the State.

The Hawaii Macadamia Industry is comprised of 650 growers farming approximately 18,000 acres, producing 57 million pounds (in-shell basis), with a farm gate value of $30 million. This does not take into account the value of the industry at the manufacturing and retail sales level estimated to be in excess of $150 million annually. Macadamia ranks fourth in agricultural commodities in Hawaii. Most of Hawaii's macadamia acreage is mature, thus future production is not expected to increase significantly. Hawaii's primary markets are the U.S and the local Hawaii market aimed at the tourist trade. Secondary markets are Europe and Asia.

Australia exceeds Hawaii in annual production with a significant amount of its planted acreage in the pre-bearing stage. Planting of new acreage continues. Australia's high margin markets are Europe and Asia. The U.S. market is viewed as a high volume market with sales generally to larger importers at lower prices. The Australian Industry is primarily a marketer of bulk kernel. Retail products are sold within the country, but are not the primary mode of export. As Australia's producing acreage continues to grow, the production resulting from this growth is expected to be channeled into the U.S. market, primarily to the low-end retail business.

Hawaii's macadamia producers and manufacturers have spent millions of dollars to develop the U.S. market and spend in excess of $20 million annually to provide the continued market development that is crucial to health and welfare of the industry in Hawaii. The industry has also been responsible for research on the health aspects of macadamia nuts that have had a positive influence on the consuming public, thus increasing the demand. The influx of Australian macadamia kernel and manufactured products will increase the pressure on Hawaii's producers and manufactures to increase their market development efforts at an increase in the average cost of production for Hawaiian kernel and retail products.

Statement of David G. Rietow
President, Hawaii Macadamia Nut Association
for the U.S. House of Representatives
Committee on Agriculture
Hearing to Review Agricultural Trade Negotiations
Wednesday, May 19, 2004

The import tariffs on Australian kernel and manufactured products increases the sales price of the imports thus providing somewhat of a balance in the cost of kernel and manufactured products offered into the U.S. market by both Hawaii and Australia. The elimination of the import tariffs will provide Australia with an unfair economic advantage in the U.S. market.

The Hawaii Macadamia Nut Association (HMNA) requests that the House of Representatives' Committee on Agriculture consider the severe negative impact of this trade agreement on Hawaii's Macadamia Industry and the HMNA would hope the Committee takes a position against the approval of the U.S.-Australia Free Trade Agreement.

The HMNA, representing Hawaii's Macadamia Industry, appreciates the opportunity to present this testimony before the Committee.

Respectfully Submitted,

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Statement by Constance E. Tipton

President and CEO

International Dairy Foods Association

For the House Committee on Agriculture's

Hearing on Agriculture Trade Negotiations

May 19, 2004

Mr. Chairman and Members of the Committee, the International Dairy Foods Association (IDFA) would like to thank you for this opportunity to submit a statement as part of today's hearing on U.S. agricultural trade negotiations. IDFA and its constituent organizations -- the Milk Industry Foundation, the International Ice Cream Association and the National Cheese Institute -- represent more than 500 companies that account for over 80 % of the dairy products consumed in the United States.

IDFA strongly supports free trade agreements in order to eliminate barriers to exports of U.S. dairy products, unfair export subsidies, and trade-distorting domestic farm programs in other countries.

Although the American market is large, ninety-six percent of the world's consumers are outside U.S. borders. Developing and newly industrialized economies offer stronger consumption growth rates for food products generally and dairy products in particular. Dairy manufacturers, however, cannot compete in these markets unless there is a reduction of dairy product tariffs and subsidy practices that impair U.S. exports. As more market barriers fall, and the gap closes between U.S. and world dairy market prices, competitive opportunities for U.S. dairy foods expand and more U.S. firms can make inroads into foreign markets. We believe that bilateral and regional free trade agreements, and the Doha Development Agenda of the World Trade Organization (WTO) are important steps to achieving our goal of expanded dairy exports for our members.

As you know, yesterday, U.S. Trade Representative Robert Zoellick signed the Australia Free Trade Agreement, and later in the month, he will also sign the Central American Free Trade Agreement. We applaud the Administration for moving forward on these agreements, although we are extremely disappointed that our members will not gain more access to Australian sugar imports. We urge the Administration to include all commodities in future trade agreements.

The United States has played a major role in advocating for free trade. It should not tarnish this image internationally by excluding sugar, or other commodities from trade agreements. It gives our trading partners the wrong message and hurts U.S. credibility with regards to ongoing and future trade negotiations.

**Australia Free Trade Agreement**

IDFA supports the U.S.-Australia Free Trade Agreement, but does so reluctantly because of the exclusion of sugar from the agreement. However, IDFA feels that it is important to support the Administration in this agreement as a means of maintaining and building momentum for other trade agreements, the Doha Development Agenda and in the end, a more open world trading system.

Although the agreement will increase Australian dairy products access to the U.S. market, that country's main export destinations are and will remain Southeast and East Asian countries. These regions annually receive between two-thirds and three-quarters of all Australian dairy exports.

Further, we do not believe dire predictions about negative impacts of this agreement on the U.S. dairy market. For Australian dairy exports to the United States, the negotiated increase for in-quota TRQs will amount to about 2% of the current value of total U.S. dairy imports. The Australian government has indicated that its dairy industry has the potential to gain approximately US $41 million worth of the United States market in the first year. According to the U.S. Department of Commerce, this number is only about 0.06% of the total value of U.S. dairy product manufacturing, which in 2001 was valued at US $65.5 billion. U.S. dairy products are highly valued by consumers, and we believe that our members can effectively compete with any goods coming from Australia.

Finally, under the agreement, all U.S. dairy exports to Australia will be duty free. In 2003, U.S. dairy exports to Australia were valued at $10 million.

**Central American Free Trade Agreement (CAFTA)**

IDFA supports the U.S.-Central American Free Trade Agreement (CAFTA) with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. In 2003, U.S. dairy exports to all six CAFTA countries were valued at approximately $34 million. If CAFTA is ratified, the United States will be able to export more dairy products to the Central American countries duty-free.

- In the first year the agreement goes into effect, the United States will be permitted to sell an additional 2,614 metric tons of cheese, approximately 4,470 tons of milk powder, 820 tons of butter, 665 tons of ice cream, and 930 tons of other dairy products above the current tariff-rate quotas. Each year thereafter, the in-quota TRQ amounts for products entering El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica will increase by 5%. The Dominican Republic in-quota TRQs will each increase each by 9%.

- For dairy imports into both the United States and the CAFTA countries, the tariff-rate quotas will be phased-out over the course of 20 years. During the tariff phase-out period, if imports exceed volume safeguards, certain additional tariffs can be applied. These safeguard measures may be used until the TRQs are eliminated.

- Tariffs on U.S. and Central American dairy products will drop to zero in various stages. By year 20 of the agreement, the tariffs will be eliminated.

IDFA is particularly pleased that the CAFTA agreement will allow U.S. companies to import an additional 99,000 metric tons of sugar above the current quota from the Central American countries in the first year. This amount would grow to about 140,000 metric tons over 15 years. The Dominican Republic alone will be permitted to export to the U.S. 10,000 metric tons above its current quota the first year the deal goes into effect. This amount would grow by two percent each year thereafter.

**Doha Development Agenda of the Word Trade Organization (WTO)**

Real progress on a multilateral agreement among the 147 members of the World Trade Organization (WTO) holds out the most promise for U.S. agriculture and the U.S. dairy industry. Only through comprehensive and coordinated reform of export subsidies, market access and domestic supports can we achieve significant trade liberalization. Therefore, IDFA strongly supports moving forward aggressively toward an agreement in the Doha Round.

Export Subsidies

Elimination and prohibition of all agricultural export subsidies is one of our most important priorities for this round of WTO negotiations. We have been strongly promoting this Doha objective and applaud the Administration's persistence in working to achieve this goal. The EU's offer to eliminate export supports are a welcome development.

Export subsidies artificially distort world market prices and deny market share to more efficient producers. This is particularly true in the dairy sector, where the extensive export subsidies of the European Union have enabled its dairy products to capture over 40% of world dairy trade. Without export subsidies, world market dairy prices would be higher and more efficient dairy producers, including the U.S. dairy industry, would enjoy a higher share of international markets.

The U.S. government has been persistent in asking that a date certain be set for the elimination of these export subsidy programs and we urge the Administration to continue to be steadfast on this point. IDFA hopes that the elimination of export subsidies is in the near future and that an eventual agreement of the WTO Doha Round guarantees this.

Market access

On market access, IDFA is very supportive of the Administration's efforts to substantially decrease foreign tariffs. Of particular concern to the dairy sector are the extremely high tariffs in certain countries. Greater harmonization and reduction of these high tariffs are necessary in order to close the huge gaps among different countries' levels of protection.

IDFA supports a market access formula that would substantially lower all tariffs on all products. We would oppose any formula that would allow a country to shield its most sensitive products from serious tariff reductions.

On May 9th, Pascal Lamy, European Union (EU) Trade Commissioner and his colleague, Franz Fischler, EU Agriculture Commissioner, sent a letter to the WTO member countries in an effort to reinvigorate the Doha Round. IDFA is opposed to the offer in the letter to exclude an undefined group of G-90 developing countries from further market access concessions in the Doha Round. Many of these countries could provide significant market opportunities for U.S. dairy product exports. A blanket exclusion of these countries from tariff reductions could seriously devalue the benefits of the Round to U.S. exporters.

Domestic Support

With respect to the agricultural rules on domestic support, IDFA supports continued reduction and eventual elimination of all trade-distorting domestic supports, including elimination of the "blue box." Domestic support policies that artificially stimulate or restrict production, or ensure inefficient production, have significant effects on international market conditions that are harmful to the global community.

IDFA believes that it is imperative that the United States begin the process of reforming its domestic subsidy programs immediately. The recent adverse WTO decision regarding the domestic U.S. cotton program only underscores the potential vulnerability of the domestic dairy support programs. We believe it would be wise for the United States to work towards reforming its domestic dairy programs while pursuing similar reforms around the world.

Geographic Indicators

Also under discussion in the Doha Round are negotiations to extend to foods the geographic indication (GI) protections that were established exclusively for wines and spirits in the Uruguay Round. IDFA is adamantly opposed to extending GI to food products and applauds the Administration's firm position on this issue.

The European Union's Protected Designation of Origin (PDO) directive restricts the use of certain names (i.e. Parmigiano Reggiano, Stilton, Neufchatel, etc.) to cheese made or processed in a defined geographic area of Europe. The EU's PDO concept or its synonym, geographic indications (GI) is currently being debated at the WTO level.

Presently, under the 1994 WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), there is a provision which protects GI for wines and spirits The EU is now demanding that the TRIPS Agreement also include GI protection for food. If the EU is successful in getting GIs extended to food, the use of certain cheese names such as Asiago, Cheddar, Edam, Gammelost, Gorganzola, Gouda, Greyere, Mozzarella, Muenster, Neufchatel, Parmesan, Swiss and Emmental would all be in jeopardy. U.S. cheese manufacturers would be prohibited from using these names in their exports or in the U.S. domestic market. U.S. companies would be forced to develop new and confusing names for their traditional cheese products.

IDFA urges the Committee to give this matter full and sustained attention. U.S. officials should continue to firmly reject efforts by the EU to extend GI protection to foods including cheese names, in the ongoing WTO Doha negotiations.

**Imposing Tariffs on Imported Dairy Proteins**

IDFA would point out that free trade agreements advantage U.S. agriculture and food industry exports. However, policies that restrict access to trade run counter to U.S. efforts to liberalize international commerce. Yesterday, the ITC released its report on the economic impact of imported dairy proteins on the domestic dairy market. Congress should take the opportunity to consider the recent findings of the ITC before reversing U.S. policy which has consistently rejected high tariffs on these important dairy proteins.

**Conclusion**

Trade agreements offer enormous potential for growth in new markets for U.S. dairy products. Today, dairy exports account for only about 5 % of U.S. milk production. Interestingly, one of our most successful export products is whey, a by-product of cheese making and a dairy product that is outside of the many domestic government regulatory programs and trade policies. The "free market" status of whey has enabled this industry to be innovative and create valuable dairy ingredients, with particular growth in Asia, where dairy production is not abundant. About 25.5 % of the dry whey and related products produced in the United States are exported to overseas customers.

To realize our potential in trade, it is especially important that we vigorously pursue inclusion of agriculture trade goals in the Doha Round. The U.S. domestic dairy industry needs the elimination of export subsidies, particularly by the European Union, better market access and meaningful reduction of trade-distorting domestic supports in order to reach our potential as a principal supplier of dairy ingredients and products around the globe.

WETEC

**_WHEAT EXPORT TRADE EDUCATION COMMITTEE_**
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**Written Submission on Behalf of the**
**Wheat Export Trade Education Committee,**

**To the Committee on Agriculture**
**U.S. House of Representatives**

**"Review of Agriculture Trade Negotiations"**

**May 19, 2003**

The U.S. wheat industry strongly supports an aggressive approach in all trade negotiations to removing trade barriers worldwide. Multilaterally through the World Trade Organization (WTO), the Hemispheric Free Trade Area of the Americas and current and future bilateral Free Trade Agreements. All these agreements provide global opportunities to solve trade problems. With these opportunities comes responsibility. Each of us, and the organizations we represent, must find ways to cooperate and bring workable solutions to the table.

The U.S. wheat industry has identified a clear set of goals for the World Trade Organization Doha negotiations, but also some concerns. They include:

***Tariffs***
We are disappointed at the direction taken which uses a modified version of the Uruguay Round to reduce tariffs by a simple average. Tariffs must not be seen as simple in any structure. Wheat continues to support harmonization of tariffs as defined in the U.S. position. There must be a clearer understanding that the differential maintained by simple average reductions is not progressive.

The wheat industry recognizes that it is necessary to provide Special and Differential treatment for developing countries. While high tariffs may provide increased funds for developing country treasuries, the maintenance of tariffs does nothing to improve their competitiveness and only serves to continue to disadvantage their consumers. ***The wheat industry seeks your help in continuing efforts to seek greater tariff reductions around the world***

***Tariff Rate Quotas***
While the tariff quota administration proposals should go a long way toward alleviating existing problems, the proposal fails to reduce quotas to the point of elimination. ***It is important that any expansion in tariff quota volumes or values be governed by sound rules to prevent countries from noncompliance with their commitments.*** There is no benefit from expanded quotas if countries implement procedures that are not transparent or are impossible to meet.

***Export Subsidies***
The wheat industry is pleased that all export subsidies, both from developed and developing countries, will be reduced to zero. However, the time frame for elimination is much too long. ***The wheat industry***

***urges our negotiators to seek faster reductions in Export Subsidies than those proposed by the Draft Modalities texts.***

*Export Credits*
The wheat industry is very concerned about the proposed requirements for use of export credit programs. The wheat industry supports stronger rules to govern export credit activities that clearly define permissible practices that enhance transparency but do not alter the effectiveness of these important programs. We believe it is important to underscore those elements of the U.S. proposal that are critical to maintaining the viability of U.S. export credit programs, specifically:

- **Repayment Term**: The maximum repayment term of 30 months for all developing countries is essential, as is the requirement that principal be repaid not more frequently than annually.
- **Special & Differential Treatment For Export Credit Programs**: In order to ensure that meaningful credit terms are available to countries that hold the greatest potential for U.S. agricultural exports, it is crucial that countries eligible for Special and Differential Treatment with respect to export credit programs, include all countries that were considered developing countries in the Uruguay Round.
- **Cash Payments**: The competitiveness of U.S. export credit programs would be severely damaged by any new requirements for cash down payments given that the consuming establishments who benefit from the credits would be subject to additional costs required by their financing banks.
- **Premiums:** Language that would commit the U.S. to major increases in premiums would severely compromise the viability of our export credit programs. We also recommend that premiums be allowed to be financed. Further, the current level of premiums covers all of the commercial risks incurred by the GSM program and no increase is necessary to cover designated risks.
- **Starting Point of Credit:** We recommend that the starting point for commercial export credit be the date the contract terms are met and no later than actual delivery. The use of "not later than the date of arrival" may still provide an opportunity for our competitors to circumvent the rules.

**Our export credit programs are a necessary transition tool for developing countries that lack liquidity from domestic commercial resources but are attempting to become self-reliant. These programs offer a reliable source of food security and can be a major tool in moving away from direct food aid.**

*Food Aid*
Food aid has been an important part of U.S. foreign policy since WWII. While food donations from Europe lag far behind those of the U.S., the European trade representatives target the U.S. in seeking to (a) restrict donations of foodstuffs to 'grant only' contributions and (b) calling food aid from the U.S. a trade distorting export subsidy.

We believe that current food aid language in the WTO is sufficient and continues to work well. The wheat industry supports maintaining the current structure that requires food aid to be consistent with guidelines of legitimate food aid organizations and monitored by the food aid convention of the United Nations. ***Wheat producers support the United States proposal to expand reporting requirements in the WTO to increase transparency of food aid activities and to strengthen the market displacement analysis in international organizations charged with reviewing food aid activity. However, U.S. wheat producers strongly oppose providing food aid "exclusively in fully grant form" except in emergencies. We would also urge you to oppose any attempt to change the food aid convention to require "money or grant only" donations.***

***State Trading Export Enterprises***

While there are many concerns with the modalities, the wheat industry would like to congratulate our negotiators for the excellent U.S. text on State Trading Export Enterprises. This language, which was largely the basis for the Doha draft, should end the monopoly practices of our trading partners and allow for more fair competition in wheat markets worldwide. However the wheat industry is concerned that monopolies and export state trading entities such as the Canadian Wheat Board (CWB) and the Australian Wheat Board (AWB, Ltd.) will find ways to circumvent these proposals.

Some years ago the U.S. lost a case to the CWB when the panel judged that the initial payment was the acquisition price even though it was assumed that there would be a further payment. The Harbinson text language in Attachment 7, 5 (b) (i) could invite exports by the CWB at less than full value if the monopoly were not phased out. To deal with the problem, the wheat industry urges inclusion of the following language in any negotiations:

Attachment 7, 5 (b) (i)

*(i) to ensure that exports of a product by a government export enterprise do not take place at a price which is less than the full commercial value of the product at the time of acquisition. Producers shall receive full value compensation for the product at the time of the sale of the commodity to the governmental export enterprise.*

Monopoly practices are a huge problem of the wheat industry.

***Domestic Support***

Wheat producers across the nation are in full agreement in their opposition to the proposal for domestic support reductions. The approach taken in the modalities paper is totally inadequate as it does very little to eliminate the existing disparities between allowed levels of domestic support for developed countries. In particular the European Union would continue to maintain a disportionate advantage in the level of domestic support it would be allowed to use. We urge support for the elimination of the Blue Box but can see no advantage in allowing language that reduces the *de minimis* level of support by fifty percent. ***The wheat industry strongly opposes the proposed domestic support proposal. The U.S. must seek to eliminate the cut in the de minimis support level and must demand that there be a balance / equalization in the levels of allowed domestic support.***

***Special and Differential Treatment***

We see an extreme effort in the proposal to provide developing country exemptions, which will not facilitate the development of their markets and would appear to continue to support practices that disadvantage their consumers. We urge that efforts be made to include mechanisms that will move these economies forward. They must be encouraged to develop economically sound trade practices, which do not create new trade barriers, while allowing them to function without exemptions in a competitive market place. ***The wheat industry supports the establishment of criteria for eligibility under S&DT provisions.***

***SPS Issues***

In all negotiations we must build upon the Uruguay Round Agreement with respect to plant, health and safety. The negotiations must establish a risk assessment framework, as well as the creation of an accepted and expedited procedure for addressing sanitary/phytosanitary disputes. We also believe that trade in new technologies is adequately addressed in the SPS/TBT agreements of the World Trade Organization.

***MEAs Should Not Disrupt Trade***
We believe that the many Multilateral Environmental Agreements (MEAs) have the potential to disrupt trade around the world. Of immediate concern is the Cartagena Protocol on Biosafety, adopted by the Conference of the Parties to the United Nations Convention on Biodiversity in Montreal on January 29, 2000 and entered into force on September 11, 2003. The United States did not sign the Protocol. However, 103 countries did.

Our negotiators must use all available negotiating opportunities to ensure that the WTO has the lead in any trade disputes. Sound science must prevail in disputes over products of biotechnology and other new technologies.

***The FTAA.***
The FTAA can extend liberalization beyond the level envisioned in the WTO, and holds tremendous market growth potential for wheat producers. Alliances gained in the FTAA should carry over to the WTO negotiations where there are some extremely contentious differences. We believe that a strong commitment in the hemisphere can be a very positive force against the European Union's protectionist positions.

The U.S. must continue to refuse to negotiate domestic supports within the context of the FTAA. We must not unilaterally disarm within the hemisphere while leaving the EU to continue subsidizing their producers at high levels.

***Export Competition Must Be On A Level-Playing Field***
Wheat producers applaud the U.S. government position that calls for the elimination of all trade-distorting export subsidies within the hemisphere and the establishment of a mechanism that would prohibit "agricultural products from being exported to the FTAA by non-FTAA countries with the aid of export subsidies."

We are also very delighted with the U.S. position that would discipline state trading enterprises within the hemisphere. The CUSTA and NAFTA left unresolved issues between the U.S. and Canada, and we must not allow these unresolved issues to be carried into the FTAA.

***Free Trade Agreements (FTAs)***
The FTAs should be seen as critical stepping stones to free and fair trade on a worldwide scale. The wheat industry supports the Moroccan agreement and the Central American Free Trade Agreement.

Unfortunately, we do not support the Australia FTA. In the Australian FTA we asked our negotiators to eliminate the maintenance of monopoly structures that distort trade in third country markets. While the negotiators were able to achieve language that committed Australia to discussions in the WTO, there were no changes made within the FTA. We believe that the monopoly structure of the AWB Ltd. should not be allowed to continue in a Free Trade Agreement. Our trade partners must be subject to commercial practices if we are to compete fairly in the market place.

***Trade Sanctions Are Bad Trade Policy.***
To be able to take full advantage of trading opportunities, we need access to all markets which means ending the use of sanctions as trade policy. We continue to urge Congress to remove the remaining Cuban sanctions.

***Conclusion***

The wheat industry is very pleased by the U.S. Position on Agriculture for the Doha Round of the WTO, in the FTAA negotiations and especially about the negotiated agreements with Chile and Morocco. We believe that U.S. trade policy is headed in the right direction.

To recap, our positions are:

- The unfair advantages given to state trading entities and monopolies must be ended in all markets.
- Reducing high tariffs must be a priority.
- Eliminating trade distorting domestic subsidies must be addressed in the WTO negotiations.
- Existing price band mechanisms for wheat and flour must be eliminated, replaced by a system of tariffs, which would be phased out.
- A risk assessment framework, including an expedited process, should be established to address sanitary/phytosanitary disputes.
- Environmental and labor issues should not unnecessarily hinder trade opportunities.
- The final agreement must ensure that sound science and WTO rules prevail, especially in regards to biotechnology.
- The existing barriers to trade and travel to Cuba should be removed. Sanctions are inappropriate for trade policy.

The U.S. wheat industry has worked for over 50 years to expand export markets, and we are committed to doing all we can to secure fair and open trading practices around the world. We stand ready to work with you towards a successful outcome of these negotiations in order to realize the market potential around the world.

## Statement of Stewart Gallagher

On behalf of the 850 plus cranberry and grapefruit growers of the Ocean Spray Cranberries, Inc. cooperative, we appreciate the opportunity to submit testimony to the committee regarding our interest in ongoing bilateral and multilateral trade negotiations. Given the economic difficulties that have recently confronted the industry as a result of low prices and excess inventories, eliminating both tariff and non-tariff trade barriers are critical to the future health of the US cranberry industry. As negotiations proceed, Ocean Spray strongly encourages the United States to maintain the high priority it has placed on resolving these barriers in the agriculture and processed foods sector.

Given the present and future importance of the international marketplace and current market entry barriers, we are principally interested in efforts that would reduce the present duties on cranberry products to zero as part of ongoing discussions. This is the key negotiating objective for U.S. cranberry growers, whose primary exports include cranberry concentrate, sweetened dried cranberries, fresh cranberries and frozen cranberries. We have submitted numerous letters to this effect on the individual bilateral negotiations and welcome the opportunity to help the administration in any way possible.

After the US, the European Union (EU) is Ocean Spray's largest market and therefore its most important international marketplace with numerous opportunities for growth. However, these opportunities are far more difficult to realize with high tariff rates, which account for nearly $2.5 million in annual duty expense. For our growers, this equates to almost $0.50 per barrel (one barrel equals 100 pounds of cranberries) that could be paid directly to US cranberry farmers. Given the present disparities between the US and the EU in particular with respect to bound agriculture tariff rates, future opportunities for cranberry producers will not be recognized in this and other key markets unless aggressive actions are taken to level the playing field.

As the cranberry industry continues to slowly rebound from some very difficult economic times, market expansion enabled by tariff elimination will to be a crucial factor in determining the future stability and viability of the industry at large. Toward this end, Mr. Chairman, we greatly appreciate the important oversight role of the committee and look forward to working with you and the administration to elevate ongoing efforts to remove the worldwide duty rates on all cranberry products. Please do not hesitate to contact me directly if you have any questions and again, thank you for the opportunity to comment on this important issue.

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## Statement of C. Manly Molpus

Good afternoon, Chairman Goodlatte and Ranking Member Stenholm and Members of the Committee. It is a pleasure to be here today on behalf of the Grocery Manufacturers of America (GMA) to offer our views on the status of multilateral and bilateral free trade negotiations. GMA strongly supports these negotiations, which we believe will yield significant benefits for the food industry in terms of new opportunities for exports and increased access for imports of key raw materials.

GMA is the world's largest association of food, beverage and consumer product companies. Led by a board of 42 Chief Executive Officers, GMA applies legal, scientific and political expertise from its more than 140 member companies to vital public policy issues affecting its membership. The association also leads efforts to increase productivity, efficiency and growth in the food, beverage and consumer products industry. With US sales of more than $500 billion, GMA members employ more than 2.5 million workers in all 50 states.

### Overview of Processed Foods and Agricultural Exports

The processed food industry remains a significant and increasingly important component of the agricultural sector. In fact, consumer food exports now account for a higher percentage of US agricultural exports than bulk commodities, making them a key export gateway for many farm products. Moreover, exports of processed food products deliver greater related economic benefits to rural communities than the export of commodities alone. For example, each dollar in exports of processed food products generates an additional $1.57 in domestic economic activity as compared to $0.81 for commodities. Similarly, every $1 billion of exports of processed food products supports 16,700 jobs, whereas the same dollar value of exports of commodities supports 12,700 jobs.

Unfortunately, tariffs on processed food products remain among the highest in the agricultural sector. Although Uruguay Round commitments required countries to cut tariffs by an average of 36 percent, the high tariffs facing the processed food sector were left relatively unchanged. There are several reasons for this result. First, since countries were only required to make simple average tariff cuts, they naturally chose to take the largest cuts on already low tariffs (e.g., reducing a 4 percent tariff by 50 percent) and only the minimum cut (10 percent or 15 percent) on higher tariffs. Additionally, in many countries tariffs on agricultural products often increase with the level of processing, resulting in significant tariff escalation for many processed food items. Finally, the Uruguay Round tariffication process created a tariff-rate quota (TRQ) system for many sensitive products (for example, sugar, dairy, and peanuts) that are the key ingredients in many processed food products. As a result, processed food products often face complex and prohibitively high tariff structures that not only assess a duty on the product itself but on its ingredients by weight and composition as well.

In addition to these tariff barriers, the processed food sector also faces numerous non-tariff barriers that hamper exports globally. Examples of these types of barriers are unjustified mandatory labeling policies, burdensome export requirements and dissimilar standards for packaging and labeling. These barriers are proliferating most notably in the European Union and are often exported from the EU to other countries around the world, as in the case of mandatory labeling for agricultural biotechnology.

## GMA Goals for Trade Negotiations

GMA has a consistent set of goals for all trade negotiations. Of utmost importance is achieving maximum market access for food, beverage and consumer products through the rapid reduction of tariffs, the expansion of tariff-rate quotas and the elimination of non-tariff barriers to trade. GMA also looks to secure increased access to key ingredients such as sugar, dairy and peanuts to enhance the competitiveness of US manufacturers of food products. Finally, trade negotiations help to ensure a competitive business environment for US investors and exporters through improved rules on investment, distribution and intellectual property rights.

World Trade Organization (WTO) NegotiationsFramework Agreement on Agriculture

GMA believes that of all the negotiations in which USTR is engaged, the WTO negotiations offer the best opportunity for meaningful trade liberalization in food and agriculture products. We were deeply disappointed by the collapse of the Cancun Ministerial and believe that the best chance for any real progress in the WTO lies with achieving a framework agreement by the next General Council meeting in July.

In the agriculture negotiations, it appears that the major outstanding issue remains finding consensus on the market access formula. Given the tariff profile (peaks and escalation) that characterize the barriers to trade in food products, GMA strongly supports a formula for tariff reductions that cuts higher tariffs faster than lower ones and harmonizes all tariffs to the already low US schedule. Ambition in tariff reductions is a priority for GMA and, as such, we support any tariff formula that affords maximum market access globally.

We are concerned, however, that the US-supported "blended" formula (part Swiss/part Uruguay Round) might not deliver the ambitious results that our industry needs. For example, the combination of formulas could produce a result where countries apply only minimal (Uruguay Round) cuts to the highest tariffs. Not only would this leave tariff peaks relatively unchanged, but it also could have the adverse effect of creating inverted tariffs globally by leaving the high tariffs on ingredients while reducing the tariffs on finished products. In this instance, global manufacturers would have difficulty sourcing ingredients while facing increased competition on finished food items.

The blended formula could also allow major developed countries (for example, Japan, EU, and Canada) to shelter their most sensitive commodities from any meaningful liberalization. It is likely that developing countries would reciprocate by refusing to open their markets in return. As a result, the blended formula could result in less ambition overall, even though it includes the Swiss formula, which is designed to produce the most aggressive tariff cuts.

GMA believes that a solution can be found by either accepting a banded approach or altering the blended formula to strictly define the number of products that would be subject to the Uruguay Round formula. All formulas should also clearly specify that any products that receive minimal tariff cuts must be subject to a proportionate expansion of tariff-rate quotas. GMA urges negotiators to consider a variety of approaches that would result in the maximum reduction of all tariffs by the July deadline for a framework agreement.

### GEOGRAPHICAL INDICATIONS (GIs)

Prior to the Cancun Ministerial, the European Union placed enormous emphasis on commencing new negotiations on geographical indications, so that they would have something to "take back to their producers" as compensation for commitments in the agriculture negotiations. Since the collapse in Cancun, however, the EU has been conspicuously silent on their GI demands. In recent meetings at the WTO, GMA learned that while the EU had not made any new proposals on geographical indications, they remain committed to their earlier objectives and have continued to raise the issue in the Trade Related Intellectual Property (TRIPs) Council and the Trade Negotiating Committee meetings.

In the agriculture negotiations, the EU continues to demand "absolute protection" for a determined list of geographical indications regardless of whether these products are generic (e.g.; cheddar, parmesan, Dijon mustard, etc.) or whether there is an existing trademark on the product. The EU also continues to insist on new negotiations on the extension of protections for wines and spirits to all products.

GMA remains adamantly opposed to new negotiations on GIs. We believe that sufficient rules already exist to guarantee that GIs are protected and that new commitments in this area are not needed. New rules may only serve to confuse consumers and represent a direct threat to trademarks and brands that are essential to the future growth of the food industry. Concessions on GIs will likely have enormous negative consequences for food and agriculture groups as well as for a wide variety of industries that rely on strong intellectual property protections to market their products globally. GMA believes the limited references to geographical indications in the Cancun text are sufficient and should not be changed in any way to imply consensus on new negotiations under the Agriculture, Implementation, or TRIPS Committees.

### RECENTLY CONCLUDED NEGOTIATIONS; GOALS FOR REGIONAL AND BILATERAL NEGOTIATIONS

GMA goals for the regional and bilateral negotiations are largely consistent with those for multilateral negotiations. In addition, we believe that these negotiations must be comprehensive, meaning that all products must be subject to meaningful liberalization. Exempting sectors, even politically sensitive sectors, will not only hurt US manufacturers and consumers who rely on imports, but will disadvantage the export opportunities for competitive agricultural sectors. Removing products or sectors ultimately undermines the value of the agreement to all exporting sectors. For these reasons, GMA strongly supports the US-Central American Free Trade Agreement (FTA) and does not support the US-Australia FTA.

### US-CENTRAL AMERICAN FREE TRADE AGREEMENT (CAFTA)

Food, beverage and consumer products currently face an average ad valorem duty of 15 percent into the CAFTA countries and 20 percent into the Dominican Republic. Some GMA products like cheese and yogurt face prohibitive tariffs well in excess of 60 percent in many CAFTA countries. Under this FTA, many of these duties will be eliminated immediately, most within 15 years and a very few dairy products will receive duty free treatment in 20 years. In addition, all products are covered by the agreement.

These market access commitments will yield meaningful benefits to GMA companies. A recent GMA-sponsored study by the International Trade Services Corporation estimates that the potential savings from the tariff reductions and quota expansion alone will be nearly $8.8 million in the first year of the agreement. This figure grows to nearly $28 million annually upon full implementation of the agreement.

The study also measures the potential aggregated increase in GMA exports to the five Central American countries and the Dominican Republic one year after the elimination of tariffs on GMA priority products. The trade flow analysis suggests that upon elimination of tariffs, GMA exports could increase from $359 million to $662 million annually—an 84 percent increase over current exports to the region. GMA also expects to see strong growth in particular sectors as a result of the agreement. For example, we predict that exports of snack foods, confectionary products, and soups could nearly double to about $30 million annually in each category as a result of the CAFTA.

Although we are excited about these new export opportunities, GMA also supports the CAFTA because it will provide new avenues for imports of key ingredients for food processors. For example, under the agreement the US peanut tariff will be phased out over a 15-year period, with an initial TRQ of 10,000 metric tons (mt) for Nicaragua and 500 mt for El Salvador. US manufacturers will also have access to an additional 153,140 tons of sugar in year 15 of the agreement. GMA regrets that the over-quota tariff on sugar will never be reduced or eliminated, the only tariff under this agreement that will be preserved. We are pleased, however, that the sugar quota will continue to grow at two percent annually. The additional access to peanuts and sugar, although modest, will help to increase the competitiveness of US companies vis-a-vis other manufacturers who have access to lower cost raw materials.

### Ongoing Negotiations. Free Trade Area of the Americas (FTAA)

As you are aware, Trade Ministers agreed to develop a two-tiered FTAA at the November Miami Ministerial. Under this new structure, all countries will agree to a common set of rights and obligations. Others may also negotiate a higher standard pluralateral agreement, which will be modeled on US bilateral free trade agreements. GMA questions whether the two-tiered FTAA will yield meaningful new market access in the Hemisphere, given that countries will be likely to limit tariff concessions in order to provide an incentive for more comprehensive commitments in other negotiation areas such as services or intellectual property rights in the pluralateral agreement. While we continue to support a high-standard, comprehensive FTAA, we wonder whether this might be better achieved through the integration of the many bilateral and regional free trade agreements in the Hemisphere. To this end, we recommend that all agreements in the Hemisphere contain consistent rules of origin for ease of future integration.

### Future Negotiations

GMA supports all future bilateral and regional free trade negotiations, provided that they are comprehensive and achieve high standards in all negotiating groups. In many ways bilateral and regional negotiations allow for a greater integration of markets and provide the opportunity to enhance existing WTO commitments in key areas such as intellectual property rights and services. Following, please find comments on select future agreements.

US-Andean Free Trade Agreement and US-Panama Free Trade AgreementGMA supports new negotiations with the Andean countries and Panama, which are strong and growing markets for US food, beverage and consumer products. For example, Colombia is the largest export market in the Central and South America for food and agricultural products. In addition, although a small country, Panama is a stable economy with one of the highest per-capita gross domestic products in the region. Panama's economy is primarily service oriented and, as a result, roughly 84 percent of food products in Panama are imported. Average tariffs in the Andean region and Panama are 20 percent. Immediate elimination of these duties is a priority for GMA in the negotiations.

### US-Thailand Free Trade Agreement

GMA strongly supports the US-Thailand FTA negotiations. Exports of consumer-oriented food and agriculture products to Thailand have increased dramatically in the last 4 years, from less than $51 million in 1999 to over $81 million in 2003. As tourism rebounds and incomes rise, we expect this exponential growth to continue. Within the consumer-oriented category, some products that experienced substantial growth rates over the 1999–2003 period include breakfast cereals, red meats, dairy products and pet foods.

There are, however, significant tariff and non-tariff barriers that hamper US exports to Thailand. Most onerous are the extremely high tariffs on processed food products, ranging between 40 and 50 percent on many items. Eliminating these tariffs over the shortest time practicable is a key GMA goal for the negotiations. In addition, there are many non-tariff barriers to trade in Thailand such as restrictive import procedures and burdensome testing requirements that we hope to have addressed in the negotiations.

### Sugar Access

Thailand, Colombia and Panama are all major sugar exporters, and GMA supports inclusion of sugar in all of these agreements. We remain concerned that the exclusion of sugar could have devastating results on the overall level of ambition of the agreements. All future FTA partners have many sensitive agriculture sectors and will not hesitate to limit our exports if we exclude sugar. In addition, given the importance of sugar exports to the region, we are concerned that limitations on sugar imports to the US could limit commitments in other areas such as services and intellectual property rights, as was the case in the US-Australia FTA. We firmly believe that the exception granted for sugar in the US-Australia FTA must be viewed as an unfortunate exception and not the rule for bilateral free trade agreements.

Thank you for the opportunity to present our views this afternoon. GMA believes that it is of critical importance to farmers and manufacturers alike to continue to expand market access through reduced tariffs and the elimination of barriers to trade for food and agricultural products. We are very optimistic about the chances for meaningful trade reform for the processed food sector, which will lead to increased choice and more affordable food for consumers globally. I look forward to answering any questions.

## Statement of Dee Vaughan

Good morning. Chairman Goodlatte, Ranking Member Stenholm and members of the Committee. My name is Dee Vaughan. I am a farmer from Dumas, Texas, and president of the National Corn Growers Association. I would like to thank the Committee for giving me the opportunity to testify and speak today regarding trade negotiations important to corn producers.

The National Corn Growers Association (NCGA) was founded in 1957 and represents more than 33,000 dues-paying corn growers from 48 states. The Association also represents the interests of more than 350,000 farmers who contribute to corn checkoff programs in 19 states.

NCGA's mission is to create and increase opportunities for corn growers in a changing world and to enhance corn's profitability and use. Trade is vital to the future of corn growers as we search for new markets and provide grain that is more abundant and of better quality.

### Market Outlook

One out of every five rows of corn in the United States is exported, and exports of value-added corn and co-products add to the importance of foreign markets for U.S. corn producers. In 2003, U.S. corn exports totaled 51million metric tons with a value of $4.7 billion. This represents approximately 20 percent of total domestic production, with the U.S. accounting for nearly 65 percent of worldwide production last year (see attached charts). Our two closest competitors in the international marketplace are Argentina and China with 12 and 10 percent of world production respectively.

I am pleased to report that the United States Department of Agriculture (USDA) recently estimated U.S. corn exports would increase in the 2003/2004 marketing year to 2.05 million bushels (52.08 million metric tons). U.S. corn exports are up 50 million bushels, largely because of less competition from China. Although global coarse grain use is up 8 million tons, global coarse grain imports are down just over one million tons. U.S. and Argentine corn exports are expected to expand while those of China and Brazil decline.

Across the country, corn farmers are enjoying the benefits of a commodity boom. Despite the good news, we need to ask ourselves could prices go higher, how long will this price strength last and how do we ensure farmers position themselves favorably in a competitive international marketplace.

NCGA believes trade is a vital component in the farm economy and supports trade agreements that will open markets for U.S. farmers and increase market development opportunities throughout the world. We reaffirm our commitment to an aggressive trade agenda. However, farmers and ranchers are already expressing frustration with free trade agreements and import sensitive commodities are rallying against efforts to lower tariffs and expand market opportunities. In order to maintain the confidence of grassroots producers we need to evaluate our successes and failures. We need to use the lessons learned constructively to achieve comprehensive and beneficial agreements. For corn growers, Mexico represents our greatest success and failure of U.S. trade policy.

### Mexico Sweetener Dispute

In the ten years since the North American Free Trade Agreement (NAFTA) passed the Congress, U.S. corn exports to Mexico have grown from 1.1 million metric tons in 1992 to 5.6 million metric tons in 2003. Mexico is now our second largest export market as the domestic livestock industry in Mexico continues to grow.

However, as you know, the U.S. corn industry has been embroiled in a trade dispute with Mexico for more than seven years on high fructose corn syrup (HFCS). This sweetener dispute has exacted a heavy toll on our sector.

Mexico is a market with an estimated potential of two million metric tons of HFCS, or half of the supply of sweeteners in that economy. This equates to more than 133 million bushels of corn grown on over 945 thousand acres annually. However, that production opportunity has been lost for America's corn farmers and refiners. Shortly after the NAFTA was implemented, we experienced increased market access to Mexico. And then our troubles on HFCS began and have only intensified since.

In 1997, Mexico implemented an illegal antidumping investigation. The United States won five separate World Trade Organization (WTO) and NAFTA panel rulings against Mexico. When Mexico finally lifted its dumping duties on U.S. HFCS exports, it simply substituted one illegal measure for another.

On January 1, 2002, Mexico implemented a 20 percent tax on all beverages sold in Mexico that are not sweetened with its own cane sugar. This highly discriminatory tax was aimed squarely at our HFCS exports and the production of HFCS from U.S. corn by U.S. owned plants in Mexico.

The so-called soda tax shut down our top HFCS export market overnight. And that was more than two years ago. Never before in recent U.S. history has an industry been shut out of its top export market for this extensive period of time.

NCGA is now engaged in private sector discussions with the Corn Refiners Association (CRA) , the U.S. sugar industry and the Mexican sugar industry to craft a proposal for our respective governments that we hope will resolve this dispute and restore trade in HFCS with Mexico.

At the same time, we are pursuing our rights through a WTO dispute settlement against Mexico's illegal soda tax. WTO consultations were held with Mexico just last week. We are confident that Mexico's tax will be found to be in violation of the important WTO principle of national treatment.

We urge the U.S. Trade Representative (USTR) to expedite the process to enable an interim ruling of the WTO panel before the end of the year.

Mr. Chairman, we appreciate your continuing support for a solution to this issue and look forward to working with you and your colleagues to resolve this dispute once and for all.

## CHINA

In recent years, U.S. grain producers and exporters have had serious concerns about China's problems living up to the commitments it made upon joining the WTO, specifically in the areas of export subsidies and administration of tariff rate quotas.

Of most concern was China's use of export subsidies to ship major volumes of corn into markets such as South Korea, Malaysia, Indonesia, Japan and Taiwan. Those exports came mostly at the expense of the U.S. corn industry. However, the situation has abated recently with declining exports due largely to China's large drawdown in stocks and surges in industrial use (for production of starch, alcohol, and other products). Rising domestic consumption and lower stocks continues to put pressure on prices in the major producing provinces.

It is too early to tell if/when China will become a net importer, but the implementation of policies that will abolish the floor price for corn purchases and moves towards a more open corn trading environment are encouraging. We continue to experience problems with the grain tariff rate quota (TRQ) allocation under the WTO accession agreement, but progress is being made and the Chinese Government did release a list of TRQ recipients this year.

## WORLD TRADE ORGANIZATION

NCGA still believes that future efforts to successfully liberalize international agriculture markets hinges on the current WTO negotiations. Exports and trade liberalization are vital to global economic development and to U.S. agriculture's continued profitability. We applaud the efforts of Ambassadors Zoellick and Johnson and remain hopeful negotiations will produce a framework by July.

For corn growers, key to the success of this round is the extent to which developing country markets are fully integrated into the global trading system. The fastest growing markets are in developing countries, where an emerging middle class has increased purchasing power and is consuming more and higher quality foods. The U.S. farmer has long known that the U.S. feed grain sector benefits when citizens in developing countries improve their standard of living—higher incomes translate into higher demand for protein products, which results in additional demand for feed grains in those countries to produce meat, milk and eggs.

But lowering those barriers will not only provide a boost for U.S. feed grain exports, but developing countries will benefit from reforms that enhance their own competitiveness and income growth potential as well. High tariffs in developing countries curtail economic activity and investment generated by livestock production and processing. Additionally, high tariffs limit trade among developing countries, thus limiting their own opportunities to capitalize on their comparative advantages through export opportunities. After all, it is the developing countries which are going to represent the largest share of consumption growth over the next decade not only for the U.S. producer to fulfill, but also their developing country neighbors.

Regardless of the approach ultimately agreed to for lowering tariffs, developing countries need to be full participants and meaningfully liberalize import tariffs in order to facilitate trade. They cannot retrench behind rhetoric and ignore the need and benefits of liberalization. Higher tariffs not only hurt exporting countries but agricultural producers around the globe.

One example is India. Recently thought of as one of the greatest future export opportunities for U.S. feed grains, the imposition of a 15 percent tariff on corn in 2000 has lead to the complete cessation of imports. Without an agreement that lowers this tariff and expands the existing 500,000 metric ton TRQ in India, the U.S. feed grain producer will have to forgo access over the next decade to 15 percent of the world's population. On the other hand, India's poultry industry will not have the opportunity to fully develop its potential because of continuing high costs of production.

The Doha round must not miss this opportunity to forward trade liberalization and the process of reform, in both developed and developing countries. If delayed, the next opportunity for realizing the benefits of a more open trading system will not be realized for another generation. We must do all we can to ensure a successful outcome of the Doha round on agriculture not only for U.S. producers, but for consumers around the world.

Perhaps the most sensitive topic for U.S. producers will be domestic support. A successful agreement will ensure harmonization of levels among developed countries and shift levels away from trade distorting mechanism to green box alternatives. Even with lower tariffs, international competition in feed grains will not be fair if U.S. farmers are denied an adequate safety net.

As we have stated in the past, a final agreement needs to provide Congress with the ability to construct a farm program that meets our domestic objectives while complying with international agreements. Negotiators must ensure maximum flexibility to preserve the farm safety-net while at the same time providing an environment where U.S. producers are competitive.

The NCGA believes a national farm program can be constructed that is green box compliant while meeting the same objectives provided in current law. This was and remains a stated objective of NCGA and formed the foundation of our proposal to Congress three years ago prior to farm bill reauthorization. We remain committed to this goal.

## FREE TRADE AREA OF THE AMERICAS

Progress on a Free Trade Area of the Americas is slow and reports from the negotiations are not encouraging. While a more limited agreement would be welcome news, discussions do not seem to be moving forward.

As stated last year before the Committee corn growers seek the following objectives: 1) overall reduction in tariff levels; 2) elimination of the use of export subsidies for trade in the Western hemisphere; 3) the phasing out of tariff-rate quotas; 4) fair administration of quotas and import permits; 5) eliminate other market access restrictions; 6) disciplines on State Trading Enterprises; 7) science-based regulations pertaining to human, animal and plant health and; 8) an expedited dispute settlement process.

Two of these objectives deserve special note. Specifically, the U.S. feed grain industry would benefit from increased access to the complex system of preferential regional and bilateral trade that has emerged in the Hemisphere. Tariff reduction, and ultimate elimination, would ensure that U.S. corn exports gain or retain access to markets on a basis comparable to that granted to other trading partners.

For example, duties between Mercosur countries are generally zero whereas members apply the common external tariff and statistical tax for imports from the United States (and other non-member countries). For example, Argentina enjoys a 2 percent tariff for corn exports to Brazil. The comparable rate for U.S. exports is

9.5 percent. While Brazil has at times in the past announced a tariff reduction for U.S. exports due to short supplies, it remains difficult for the U.S. to compete in that region for much of the year, despite some seasonal and freight advantages.

Bilateral Economic Complementary Agreements (ECA's) also work to our disadvantage. The ECA between Chile and Mercosur members subjects corn from Argentina to a lower import duty (1.8 percent in 2003) than the United States (6 percent in 2003).

Such elimination of feed grain tariffs for our exports similar to those extended under regional and bilateral agreements would allow United States feed grains to compete in the Hemisphere under market conditions.

The "price band system" employed by Andean Pact countries continues to protect domestic agricultural products from imports. Under the Andean Pact's common external tariff policies, corn imports from non-member countries are subject to a fixed tariff and a variable tariff based on import prices. The complex variable tariff component keeps internal prices high when world prices are low and declines as world prices increase, effectively setting a floor on the import price of third-country products. Overall feed grain demand is dampened as domestic markets are insulated at artificially high price levels, and as a result demand for imported feed grains is diminished. The use of price bands is inconsistent with WTO rules and should be eliminated as part of the FTAA agreement.

Another top priority for corn growers is to prevent export subsidies from being used by any member. We seek a commitment from each country to refuse to accept subsidized exports from third parties. Export subsidies are the most trade distorting of government policies and severely injure efficient producers. Elimination and prohibition of future subsidies in the FTAA will not only level the playing field for agricultural commodities but also will increase pressure on the European Union to reform its export subsidies in the WTO negotiations on agriculture.

In addition, to better understand the short and long term impacts of tariff liberalization on the feed grain sector, the National Corn Growers Association has commissioned a study to examine the Free Trade Area of the Americas (FTAA). In addition, study will also examine the impacts on the HFCS and ethanol industries. We believe the study will provide critical information and help us provide good counsel to USTR and the Congress on this important issue.

Bilateral Free Trade Agreements

While the WTO negotiations and Doha Round are the top trade priority of the NCGA, we do support bilateral free trade agreements with significant and emerging trade partners. Generally, the list of candidates provide benefits to feed grain producers, but we need to ensure the Administration selects partners that represent significant future potential for economic activity and trade.

## Central America Free Trade Agreement

NCGA supports the Central American Free Trade Agreement (CAFTA) and urges its speedy passage. In 2003 CAFTA countries imported 1.7 million metric tons of corn with the United States supplying nearly all of that demand. With approval of the agreement, it is expected that this number will grow and likewise for the United States.

The agreement will stimulate domestic exports of corn, co-products and value-added products like gluten, distillers dried grains (DDGs), starches, oils and sweeteners as well as meat and poultry products. All tariffs on corn products (such as corn flour, corn oil, and high fructose corn syrup) will be eliminated within 15 years. Tariffs on corn gluten feed/meal and distillers dried grains will be eliminated immediately.

Import duties on yellow corn currently range from 15–35 percent in CAFTA countries other than Costa Rica where it is 1 percent. Under the terms of the agreement, guaranteed access will total nearly over 1 million metric tons duty free.

The import duty on white corn in CAFTA countries is currently 20 percent. Under the agreement Costa Rica will drop their duty to zero. The other countries will liberalize access thru a TRQ that will grow at 2 percent per year perpetuity.

Corn usage resulting from the agreement will increase due to favorable provisions for beef, pork and poultry. Last year, over 500 million bushels were exported from the U.S. as finished meat and developing countries are a growing market for value added corn products.

It is important to note that the only two commodities that do not transition to zero are white corn and sugar. The U.S. and the Central American countries will receive comparable access on both sensitive commodities and upon implementation; the United States can ship 83,000 metric tons of white corn duty free to Central America with reciprocal access for sugar totaling 86,000 metric tons. Our organization understands the necessity of this compromise and while not ideal, we believe it important to ensure the principles and objectives of the trade agreement are met for the benefit of all sectors of the agricultural economy.

Regarding ethanol, historically, all of the Central American countries have been grouped with Caribbean countries under the Caribbean Basin Economic Recovery Act (CBERA), which created the current import rules for ethanol under the Caribbean Basin Initiative (CBI). The current rule, which has been in place since 1990, allows duty-free status to any ethanol regardless of domestic content up to 7 percent of the U.S. domestic production total. The ethanol must be dehydrated in a CBI country. An additional 35 million gallons can be imported to the US duty free if it contains 30 percent by volume indigenous feedstock. No duties are assessed on any CBI processed ethanol if it contains 50 percent by volume indigenous feedstock. Under the current rule, any country within the CBI is allowed to provide the allocation on a first available basis. In practice, at no time since the adoption of CBI in 1990, has the full volume allocation been met.

Under the CAFTA, El Salvador receives an annual country allocation of 20 million liters to be applied against the current CBI maximum of 7 percent of U.S. consumption provision for ethanol made from non-local feedstock. This 20 million liter allocation to El Salvador grows 25 percent annually, but will never exceed 10 percent of the 7 percent maximum for U.S. ethanol consumption under the CBI.

The intention of the original CBI and CAFTA provisions seeks to promote economic development, facilitate the utilization of domestic agricultural commodities and diversify the domestic economies. However, recently we learned a U.S. company intends to build a dehydration plant in El Salvador for Brazilian ethanol and ultimate transshipment into the United States.

This is of concern to the NCGA because we believe it does not meet the original intention of the provision. While legal, we believe it serves as a reminder how trade agreements can sometimes undermine the overriding goals of the agreement. When this happens, farmers and ranchers become suspicious of free trade and begin to soften their enthusiasm. This particular incident will undoubtedly have an impact throughout the countryside and we would encourage the Committee to further investigate this issue.

### Dominican Republic

In mid March, the USTR announced the completion of negotiations with the Dominican Republic, integrating that country into the recently concluded CAFTA. The terms of the agreement are favorable to corn and feed grain producers and our organization applauds USTR for their efforts.

The Dominican Republic is a minor producer of feed grains, with corn and sorghum production combined totaling less than 100,000 metric tons. In recent years the country has become an important market for U.S. feed grains as imports of U.S. corn have grown to more than 1 million metric tons annually. The U.S. currently has a 100 percent share of that market, and the FTA ensures that at no time will any other competitor have a tariff advantage over the United States.

Approximately 75 percent of imported corn is used by the poultry industry, followed by the pork industry (22 percent), and the dairy industry (3 percent). Binding favorable tariff rates will ensure future U.S. feed grain imports are available to the developing livestock industries at commercial costs.

### Morocco

This Morocco Free Trade Agreement promises additional access while opening market opportunities for corn and feed grain producers. Corn growers have been actively building markets in Morocco for many years. The completion of a free trade agreement between the U.S. and Morocco will further benefit U.S. feed grain exports.

Morocco's expanding poultry sector is driving the country's demand for feed grains. While poultry is the fastest growing meat production sector in Morocco, the cost of chicken meat production is one of the highest when compared to other middle-income countries. Costs to the Moroccan poultry producers will be significantly reduced through lower feed grain prices as a result of this agreement.

In 2002, the U.S. accounted for approximately 60 percent of Morocco's total corn imports. However, due to stiff competition from Latin America, the U.S. share decreased to only about 10 percent of the over 1 million metric tons Morocco imported last year. Tariff elimination will give U.S. producers and exporters significant tariff advantages over these competitors.

## AUSTRALIA

The Australia Free Trade Agreement offers little benefit for corn or other feed grain producers. Due to stringent Sanitary and Phytosanitary procedures, exports to Australia and cost prohibitive.

These requirements drive up the cost of U.S. corn to the point where they can only begin to be competitive in the most extreme drought conditions, such as those that existed in 2002. Even under those marketing conditions, the U.S. was able to export 48,000 metric tons of corn. While the drought has eased, Australia will not likely be in need of imported grain in the near-term. Changes to the import requirements would allow for a greater level of opportunity for the U.S. to access the Australian market in the future. While discussion have been ongoing between the United States Department of Agriculture (USDA) and Biosecurity Australia (BA) and the Australian Quarantine and Inspection Service (AQIS), obtaining a solution is unlikely in the near future.

Furthermore, the exclusion of certain sectors within the agreement is an unfortunate precedent and should not be utilized in future negotiations. If this approach was used during the CAFTA negotiations, additional market access for corn to Central America would have been denied. Exclusions work against efforts to promote U.S. agriculture and result in trade agreements that will have long term negative consequences for the future of rural America.

## INTROSPECTIVE FREE TRADE AGREEMENTS

We understand the United States Trade Representative (USTR) utilizes a variety of measures to select potential negotiating partners, but of paramount importance are the economic benefits resulting from a free trade agreement. The current list of prospective partners offers some but not a significant benefit to corn and feed grain producers. We encourage USTR to proceed cautiously to ensure agriculture benefits from future FTAs while maintaining support among farmers and ranchers.

## THAILAND

Thailand produces roughly 4.5 million metric tons of corn per year and consumes approximately 4.3 million metric tons. While it has imported as much as 450,000 metric tons in 1999 (none from the U.S.), it typically is a net exporter, exporting 75,000 to 400,000 metric tons per year to Association of Southeast Nations (ASEAN) countries.

Thailand's import quota in 2003 was 54,411 metric tons at a 20 percent in-quota tariff rate for shipment during March 1–June 30, 2003. Meanwhile, the out of-quota imports are subject to a 73.8 percent tariff rate with a surcharge of 180 baht per ton. While a Free Trade Agreement (FTA) with Thailand does not represent a significant opportunity for future U.S. corn exports, preferential tariffs could allow for a competitive advantage in years that Thailand imports feed grains.

## BAHRAIN

Bahrain generally imports less than 50,000 MT of corn per year, which typically goes through Dubai, or as a partial shipment with one of the other GCC countries. An FTA with Bahrain would yield no meaningful benefits to U.S. corn exports.

## COLOMBIA

Colombia is a developing country with 55 percent of its population living in poverty. Agriculture accounts for 13 percent of gross domestic product (GDP), and 30 percent of the labor force is involved in agricultural production. Colombian corn production has remained relatively flat in recent years, increasing from 980,000 metric tons in the 1996/1997 marketing year (MY) to an estimated 1.2 million metric tons in MY 2002/2003. Virtually all of the domestically produced corn is used for human consumption, while 95 percent of the imported yellow corn is used in the animal feed industry, with the remainder going to wet milling for starch products. Colombian imports of U.S. corn have increased steadily over the years, from 1.3 million metric tons in MY 1996 to about 1.8 million metric tons in MY 2002, driven primarily by increased demand on the part of feed manufacturers, with most of their increased feed production going to the poultry industry. Since feed accounts for the majority of production costs, eliminating the tariff under an FTA would boost demand for U.S. corn by making it cheaper for the poultry and pork sectors to import corn and ultimately expand production.

Besides tariffs, in the past the primary policy issue affecting U.S. corn exports to Colombia was an absorption agreement tying imports of corn to purchases of the domestic corn crop. The Colombian Government maintained an agreement with the Colombian Grain Producers Federation under which licenses for imported corn were only issued if the importer had purchased domestically produced corn at an artificially high price. Under that agreement, importers were required to purchase one metric ton of domestically produced corn for every 5.2 metric tons of corn imported. While clearly WTO illegal, Colombia received a waiver under the WTO Agreement on Trade Related Investment Measures (TRIMS) for the use of this arrangement, with the waiver scheduled to expire at the end of last year. We are monitoring the situation to make sure that any alternative measure imposed to replace the absorption policy does not hamper the issuances of import licenses. Colombian corn imports are also subject to the Andean Community Price Band system.

U.S. officials report there have been no trade issues or disputes arising from biotechnology.

### SRI LANKA

Sri Lanka is a very small corn market, only importing around 100,000 MT of corn imports per year. Shipment sizes are generally small, originating in India and Myanmar, or via Indonesia or Malaysia. Current tariffs on corn are only 2 percent. Thus, the potential for U.S. corn shipments to Sri Lanka are unlikely, even under an FTA.

### SOUTH AFRICAN CUSTOMS UNION

Corn is South Africa's single most important crop, serving as s dietary staple (white corn), a source of livestock feed and an export crop. South African corn production has been volatile in recent years because of drought conditions. The two most important policy issues now affecting U.S. corn trade with South Africa are the 1) the upcoming South African Customs Union (SACU) FTA negotiations and 2) South African biotechnology policies as they related to corn imports.

A significant U.S. bilateral market access issue related to corn was addressed in 2000, when South Africa lifted previous restrictions on U.S. corn related to Stewarts Wilt, a bacterial disease that affects primarily sweet corn.

Regarding biotechnology, industry and public views in South Africa appear relatively favorable. The primary issue is the failure of some technology companies to file or finalize applications for products that may be planted in the United States. Because not all U.S. corn events have completed the registration system, corn exports from the United States have temporarily ceased. Beyond the issues of product approvals, a key to South Africa is the degree it will either influence, or be influenced by its SACU neighbors who have periodically rejected food aid or insisted it be milled before delivery.

South Africa represents a potential market for 500,000 to 750,000 metric tons of U.S. corn, with exact levels depending on the domestic production situation. Based on current South African tariff treatment of feed grains, corn should be a candidate for early or immediate tariff elimination in the negotiations. The FTA should also acknowledge the need for science-based regulatory systems for biotech approvals.

### PANAMA & ECUADOR

We are working on an analysis for both Panama and Ecuador. When complete, we intend to submit to USTR to assist their efforts to open these markets. We will be happy to make that information available to the Committee upon your request.

### FUTURE EXPORT OPPORTUNITIES

Over the past ten years, while the percentage of the U.S. corn crop exported has stabilized, we have seen a shift from traditional markets to new and developing economies. Japan remains our largest customer but compared to 1994, three of our top ten markets are new (Turkey, Dominican Republic, and Israel) and three others moved up in ranking (Mexico, Egypt and Colombia). All but Israel are considered developing economies and represent some of the most promising markets for corn growers.

For example, the Middle East Region is heavily reliant on feed grain imports to produce livestock and poultry to satisfy its demand for protein-based animal products. In 2001–02, total corn imports by countries in the region was approximately 11.6 million metric tons, of which the United States supplied 7.7 million metric tons, or 66 percent. While imports to the region increased last year, U.S. market share dropped to 41 percent due to competition from Argentina and China. Despite this, U.S. corn imports are rising to historic levels with large purchases recently by Egypt, Israel, and others.

While many governments seek to increase production of various feed crops, the region's climate and scarce water supplies are expected to put these countries in a situation to rely even more on imports. Growth in income and population are fueling rising consumption of poultry and to a lesser extent beef, dairy and sheep products. As a result, we expect the region to be an expanding market for U.S. feed grains in the future given economic and political stability.

Although red meat, especially lamb, is the preferred meat throughout the Middle East, the production of beef and mutton has remained static over the past 6 years. The only exceptions are Turkey and Iran where beef production has declined. The decline was most dramatic in Iran where production dropped by over 22 percent. The primary reason for the steady decline is the lack of adequate pastures and roughage sources in the area. As a result, most of the consumers in the Middle East are forced to turn to poultry meat, eggs and dairy products to fulfill their requirements of animal protein. This has resulted in the growth of the poultry sector throughout the Middle East ranging from 7 to 10 percent. It is projected that this growth will be maintained over the next five years.

Population growth, coupled with increases in consumer disposable income has translated into increased demand for meat, milk and eggs, and consequently, demands for imported feed grains in the region. For example, this is reflected in Egypt's increased corn imports from 1.2 million metric tons in 1990 to 5 million metric tons in 2002. Consequently, Egypt has become our fourth largest corn market. The other countries in the region, Iran, Syria, Saudi Arabia, Turkey and Israel, are sizable markets importing nearly or more than one million metric tons of corn per year. With the exception of Israel, those are also the countries which demonstrate the most potential for growth in the livestock and poultry sectors and feed grain imports. The dynamics of this growth is illustrated by demographic changes. Nearly a third of the population in these countries is below the age of 15 years. In addition, changing eating habits of younger generations is also impacting the demand of animal products.

## FUTURE CHALLENGES—BIOTECHNOLOGY

Trade issues related to biotechnology continue to be of great concern to corn producers. With 46 percent of this year's corn crop being planted to biotech varieties and the corn production industry's willingness to be early adopters of these important production and management tools, the U.S. government must do everything it can to assure that other countries are not imposing unworkable and non-tariff trade barriers to inhibit their sale to major U.S. trading partners.

We continue to monitor and watch with interest the case filed by the U.S. government against the European Union (EU)for the illegal moratorium imposed in 1998 against the approval of all new biotech products. While we welcome the progress the EU purports it is making on restarting a scientifically sound approvals process, the questions raised in the WTO case have not been addressed, and USTR should continue to urge a swift determination in the our favor to end these trade distorting and illegal practices. It should be recognized that even if the moratorium is lifted, recently imposed traceability and labeling requirements, will have the net effect of continuing to unduly and illegally restrict U.S. commodity and food trade with Europe.

We believe that USTR should be actively engaged in pursuing further WTO action against the EU for these recently enacted requirements. The new regulations impose unrealistic, and non-science based, mandatory labeling, onerous paper trails to accompany shipments of bulk commodities and processed foods. Furthermore, the regulations treat processing enzymes (primarily used in the EU) differently than biotech-derived products (primarily produced from U.S. and other export country commodities). Late last year, 22 organizations representing all segments of the domestic food chain wrote Ambassador Zoellick to urge him to begin trade dispute settlement actions. We are concerned that the Administration is yet to take a decisive position regarding the new rules on the WTO case itself.

There are a number of other international forums and issues where biotech-derived product trade continues to be of concern. We, in cooperation with other organizations in the food chain, continue to urge the Administration to coordinate activities related to trade of biotechnology across agencies and with input from the private sector to develop strategies that do not result in the disruption of trade of U.S. bulk commodities and food.

We also believe it possible negotiations can facilitate a process to harmonize approvals of products derived from biotechnology with trading partners. Asynchronous approvals already threaten to disrupt grain shipments to foreign markets and undoubtedly force delays in commercialization within the United States of new varieties that have promising agronomic and commercial value. While NCGA policy encourages technology providers to delay commercialization until major trading partners approve varieties, this is a voluntary process and one that is predicated on the regulatory process in other countries. Free trade agreements can help promote the utilization of sound science and orderly approval processes with trading partners and serve as a model for regulatory processes worldwide.

The future strength of the agricultural economy in the United States will depend on expanding trade opportunities. At the same time we need to continue educating farmers across the country on the benefits of trade. At times it is hard to articulate the importance when most farmers never see their grain again once it leaves the elevator and is transported by barge or train. We must do a better job communicating with our grassroots, but we need the Congress and Administration to negotiate trade agreements that allow farmers to participate on a level playing field in the international marketplace.

We look forward working with the Committee on this and other issues of importance in the future. I thank you again for the opportunity to address the Committee. I welcome your questions.

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