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# U.S. EFFORTS TO REDUCE BARRIERS TO TRADE IN AGRICULTURE

## HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

FEBRUARY 12, 1998

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# U.S. EFFORTS TO REDUCE BARRIERS TO TRADE IN AGRICULTURE

**THURSDAY, FEBRUARY 12, 1998**

HOUSE OF REPRESENTATIVES,
HOUSE WAYS AND MEANS COMMITTEE,
SUBCOMMITTEE ON TRADE,
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:21 p.m., in room B–318, Rayburn House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

# *ADVISORY*

## FROM THE COMMITTEE ON WAYS AND MEANS

### SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
January 26, 1998
No. TR-20

CONTACT: (202) 225-1721

## Crane Announces Hearing on U.S. Efforts to Reduce Barriers to Trade in Agriculture

Congressman Philip M. Crane (R-IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the status of U.S. efforts to reduce barriers to trade in agriculture. **The hearing will take place on Thursday, February 12, 1998, in room B-318 Rayburn House Office Building, beginning at 2:00 p.m.**

Oral testimony at this hearing will be from both invited and public witnesses. Invited witnesses will include Ambassador Peter Scher, Special Trade Negotiator for the Office of the United States Trade Representative. Also, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

**BACKGROUND:**

As the most competitive producer of food and agricultural products in the world, the United States stands to gain enormously from the continued elimination of trade barriers in this sector. While the Uruguay Round Agreement on Agriculture laid the groundwork for the progressive reduction of market access barriers, domestic supports and export subsidies, significant barriers to U.S. agricultural exports remain. Article 20 of the Agreement states that member countries of the World Trade Organization (WTO) agree to initiate negotiations in 1999 for continuing the process of reform.

However, preparatory work in the WTO has been slow because of the reluctance of a number of countries to agree to consider a broad range of issues in the negotiations. The United States has expressed interest in addressing implementation of the WTO agreement in areas such as the administration of tariff rate quotas (TRQs), the use of special safeguards for agricultural imports, and circumvention of export subsidy reduction commitments. Other possible issues for the future WTO agenda include the operations of state-trading enterprises, trade in biotechnology products, and strengthening the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures, which restricts the use of non-scientifically based SPS standards that unfairly deny market access.

The North American Free Trade Agreement (NAFTA) has achieved substantial trade liberalization for U.S. exports of agricultural products. In addition, the United States has been successful in challenging a number of foreign policies and practices under the WTO dispute settlement process. Future opportunities to achieve expanded market access have been identified in ongoing negotiations to establish a Free Trade Agreement of the Americas, and in the Asia Pacific Economic Cooperation forum. Finally, China, Russia and Taiwan, three important markets for U.S. farm exports, are currently involved in discussions with the United States and other member countries concerning requirements for their possible accession to the WTO.

In announcing the hearing Chairman Crane stated: "Although the Uruguay Round Agreements succeeded for the first time in bringing agriculture trade under standard multilateral disciplines, the WTO Agreement on agriculture is only a beginning. Arguably the most important provision in this agreement is the one providing for the initiation of a second round of negotiations for trade in agriculture. I look forward to actively contributing to developing the U.S. agenda for these important trade talks set to be launched next year."

**FOCUS OF THE HEARING:**

The hearing will examine the implementation and enforcement of the Uruguay Round trade agreements and the NAFTA as they relate to trade in agricultural products. In particular, the Subcommittee is interested in receiving views from the public on the impact of these trade agreements on the U.S. agriculture sector and issues unresolved in, or arising from, these agreements that warrant further attention by the Subcommittee, such as: (1) the adequacy of current mechanisms for consulting with Congress and the private sector; (2) goals and objectives for future trade negotiations; (3) the importance of legislation to extend the President's "fast-track" trade negotiating authority for the purpose of concluding future agreements; and, (4) the achievement of consistency and coordination among the various existing and future trade agreements governing this sector.

**DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:**

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225-1721 no later than the close of business, Friday, February 6, 1998. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225-6649.

**In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard.** Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.**

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statement and an *IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format*, for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than close of business, Tuesday, February 10, 1998.** Failure to do so may result in the witness being denied the opportunity to testify in person.

**WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:**

Any person or organization wishing to submit a written statement for the printed record of the hearing should *submit at least six (6) single-space legal-size copies of their statement, along with an IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format only, with their name, address, and hearing date noted on a label*, by the close of business, Thursday, February 26, 1998, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

**FORMATTING REQUIREMENTS:**

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on an IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format. **Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.**

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at "http://www.house.gov/ways_means/".

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Mr. CRANE. Thank you. The committee will now come to order. Good afternoon.

This is a meeting of the Ways and Means Subcommittee on Trade to consider the status of U.S. efforts to reduce barriers to agricultural trade. I want to welcome the witnesses and thank them for coming today. I'm sorry to announce that the chairman of the House Agriculture Committee, Bob Smith, will not be with us today. I hope to reschedule his testimony at a later date. He has supplied an excellent written statement for the record which is available for members to review.

The trade agenda for U.S. agriculture which we plan to discuss today will be severely damaged if Congress and the President are not successful in passing legislation to extend the President's fast-track negotiating authority.

Looking at the trends facing U.S. farmers from a strategic perspective leads only to one conclusion: opening foreign markets is essential for the future health of U.S. agriculture. The United States possesses the most efficient and most competitive agriculture sectors in the world. Our farmers capitalize on this country's rich natural resources and on their extraordinary ability to develop and apply the latest managerial and technological innovations in the achievement of ever-expanding crop yields. But because U.S. food consumption is projected to remain relatively stable in the future, the further elimination of trade barriers and the development of export opportunities is absolutely essential as we move into the 21st century.

Currently, 96 percent of the world's population lives outside of the United States. The markets for the greatest potential for growth are abroad, not here at home. U.S. inaction on the fast-track issue dictates that we are missing opportunities every day to improve the well-being of U.S. farmers and safeguard their future. Europeans who we continually have to bring to the negotiating table on these tough issues will be thrilled if we fail.

U.S. agriculture exports have doubled since 1985 reaching almost $60 billion last year. It is my view that it is the responsibility and the duty of the Congress and the President to preserve and support the continuation of this success story. The language in the fast-track bill laying out objectives for trade negotiating for U.S. agriculture is the strongest ever approved by the Ways and Means Committee, and my goal is to get it enacted into law.

With these comments, I'll yield to our ranking member, Mr. Matsui, on an issue I know is important in his State of California.

Mr. MATSUI. Thank you very much, Mr. Chairman. I commend you for holding these hearings today on the United States' effort to reduce barriers to trade in agriculture. Agriculture exports account for over 30 percent of the United States' farms income and support nearly a million American jobs; one out of every three acres of our crop production is exported. The United States is the largest agricultural exporter in the world reaching a record of $60 billion or nearly double the level of imports in 1996.

The United States is the most competitive nation in the world, of course, in agriculture. As a result, many agricultural and crude industry interests have been among the strongest supporters of renewing fast-track authority for the President. They recognize that

the continued prosperity of American agriculture lies in further opening of foreign markets through trade agreements. At the same time, we need to recognize concerns raised by some of the agriculture interests about the impact of increased import competition on domestic producers and assure consumers that trade agreements will not result in the lowering of our food, safety, and health standards.

So far, we have had an excellent record in the World Trade Organization, the WTO, on settling disputes affecting market access for agricultural goods. Significantly, the WTO vindicated the United States' complaints against the European Union's ban on hormone-treated meat and discriminatory banana regime; however, full and timely implementation of the results is essential for the system to maintain credibility and domestic support.

Much work remains to be done as the agricultural sector is still highly protected and subsidized around the world, and now the financial crisis is hurting our farm exports to Asia, of course, the largest and fastest growing market in the world at least in the short-term.

Another round of negotiations in the WTO on agriculture is scheduled to begin in 1999. It is essential that these negotiations make further progress beyond the Uruguay Round to strengthen international rules against trade-distorting subsidies and to reduce import barriers. Meaningful market access commitments for agriculture exports are also essential—to the ongoing WTO accession talks with China. Agriculture will also be an important component of the negotiations to be launched in April for a free trade agreement for the Americas.

I welcome the testimony of Representative Karen Thurman, a member of our committee, and certainly, we will review the record of Chairman Smith. We look forward to the views of you, Representative Thurman, and, of course, the other witnesses that will testify today. Thank you.

Mr. RAMSTAD [presiding]. Thank you, Mr. Matsui. Mr. Watkins, do you have an opening statement?

Mr. WATKINS. I should say, I look forward to hearing testimony and asking questions of several of you. Karen, I'm glad to see you.

Mrs. THURMAN. I'm glad to be here.

[The opening statement follows:]

**Statement of Rep. Jim Ramstad -- Ways and Means Subcommittee on Trade**
**February 10, 1998**
**Hearing on U.S. Efforts to Reduce Barriers to Trade in Agriculture**

Mr. Chairman, thank you for calling today's hearing to discuss U.S. efforts to reduce barriers to trade in agriculture.

Today's topic is especially critical to my state of Minnesota, which ranked seventh among all 50 states in agriculture exports, with some $3 billion in 1996. These exports are absolutely essential to boosting farm income, and they support an estimated 48,000 jobs both on and off the farm in Minnesota.

The 1996 Farm Bill moved American farmers into a more market driven economy. Now we must continue working to provide greater opportunities for our farmers to compete in the global marketplace.

American farmers are the most efficient in the world. As they continue to develop larger crop yields each year and U.S. consumption remains level, we must work to open up the markets of the rest of the world's consumers.

Of course, as many will testify today, we must also pass legislation to renew fast track authority for the Administration so they can achieve this goal. We can move forward, remaining engaged in the global marketplace. Fast track is badly needed to break down the barriers to those critical markets.

I want to thank you again, Mr. Chairman, for calling this important hearing. I look forward to hearing from today's witnesses about our efforts to reduce barriers for America's farmers.

Mr. RAMSTAD. Our first witness, our distinguished colleague, Karen Thurman. Please begin Karen.

**STATEMENT OF THE HONORABLE KAREN L. THURMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA**

Mrs. THURMAN. Thank you, Mr. Chairman and members; I appreciate that. I actually came from the Agriculture Committee to the Ways and Means Committee, and one of the reasons that this was extremely important to me was because I knew that trade issues would begin to take an important part in this Congress and the future of this country. So, I speak from a feeling that I at least know Florida agriculture and hope that I have some good understanding of some other areas. While we may disagree because of our specialty crops, we don't necessarily disagree in the area of trade, but we do have some very big concerns in Florida.

I want to thank the chairman for scheduling this meeting. I applaud your efforts in scheduling this hearing on obstacles that our Nation faces in trade. Agriculture, especially for Florida, perishable agriculture faces an uneven playing field abroad. In many instances, it is even denied entry into the game. Florida agriculture differs from agriculture in the chairman's State of Illinois. During the winter months, Florida is the only State which produces the many fresh fruits and vegetables that are so critical to the diet and health of Americans. The total economic impact for Florida agriculture is $54 billion. We are the winter basket—winter food basket of the United States.

Yes, Florida and Illinois have different crops, a different climate, and different needs, but the challenges we meet with the rest of U.S. agriculture is one and the same. We competitively provide safe abundant food for American families and millions of families around the world, but we face too many closed doors as we try to open new trade opportunities. U.S. officials should not negotiate away the few safeguards left to American farmers nor should they reduce tariffs and other protections where unequal barriers and subsidies exist for major foreign producers.

The U.S. showed its leadership with the passage of the 1996 Freedom to Farm Act. This landmark legislation set forth a disciplined 7-year, phase-out of subsidies and price reports to American farmers. Farmers in other countries continue to be more protected than their U.S. counterparts. Inconsistent regulatory requirements, non-tariff trade barriers, and unworkable safeguards put unfair pressure on U.S. agricultural exports.

Aggressive and thoughtful U.S. leadership is necessary to prevent any further erosion and disappearance of our food production. We must address tariff equivalency on most agricultural products, the elimination of export subsidies, and the establishment of meaningful rules on State trading enterprises now.

Just as importantly, U.S. leadership must acknowledge that U.S. agriculture cannot truly enjoy free trade until all of its commodities enjoy fair trade. As I have stated many times before this committee, Florida has yet to get one orange into Mexico, and our citrus shipments into China remain blocked by their unfounded concerns about the Mediterranean fruit fly. I call upon our negotiators to seek workable and effective safeguards for seasonal and perish-

able commodities and to remove unfounded SPS barriers to all U.S. agricultural exports. Agriculture disputes at the WTO must be resolved quickly.

Perishable agriculture products have many unique considerations. For instance, oranges, tomatoes, and peppers cannot be stored until markets change or trade disputes get resolved—often, very slowly. The United States should encourage the development of international trading rules that address the special concerns of some of our seasonal and perishable produce such as our fresh fruits, vegetables, and orange juice.

On another side with food safety, I commend the President for his food safety initiative. We must ensure that our negotiators do not lower food and safety standards which are based on sound science. Let's keep in mind the recent food-borne outbreaks caused by imported agriculture products. In March of 1997, almost 200 Michigan children were infected with Hepatitis A after eating imported frozen strawberries in their school cafeteria. In Florida, hundreds of Floridians were infected with the parasite, Cyclospora, from imported Guatemalan raspberries. The United States must retain its right to take appropriate science-based actions against imports when necessary. After all, if my Government tells me not to eat the fruits and vegetables in a certain country when I travel, why should I eat them at home?

Florida agriculture believes that labor and environmental issues can and should be addressed as an integral part to any new negotiations. The health of U.S. agriculture and consumers is gravely impacted by the use of child labor in competing countries and their tolerance of contaminated waters for irrigation.

American food production faces another threat but it is a domestic threat that we can readily control. It is the threat of conflicting policy. I do not understand why one agency is seeking to liberalize markets but other agencies are giving away the means which help us open those markets. Why do these agencies persist in giving our direct competitors significant competitive advantages over our own farmers?

Mr. Chairman, I greatly appreciate this emphasis on reducing barriers to trade in agriculture. The concerns I have broached today represent all segments of Florida agriculture, especially the Florida Department of Agriculture and Consumer Services. For any more details, I would refer you to testimony that was presented to the Subcommittee on Risk Management and Specialty Crops of the House Agriculture Committee during the January 22 meeting in 1998 which was held in West Palm Beach.

Agriculture, as I see it, continues to be an important component in our balance of trade. Our ability to produce food for the world remains one of our country's greatest strengths. Our trade policies and negotiations must not allow to be weakened U.S. food production and the safety of our food supply.

I thank you, and I'll answer any questions. And if I could ask that my written statement be included for the record.

Mr. RAMSTAD. So ordered.

[The prepared statement follows:]

## STATEMENT OF REP. KAREN THURMAN
## SUBCOMMITTEE ON TRADE
## FEBRUARY 12, 1998
## EFFORTS TO REDUCE BARRIERS TO TRADE IN AGRICULTURE

Mr. Chairman, I applaud your efforts in scheduling this very important hearing on obstacles our nation faces in trade. Agriculture, particularly perishable agriculture such as fruits and vegetables, faces major obstacles and denial of access in many nations. During the winter months, my state of Florida is the only state in the nation in which you will find commercial production of the many fresh fruits and vegetables that are so critical to the diet and health of the American public. Florida has over $6 billion in crop cash receipts of which over $1.2 billion is exported. Along with forestry, the total agricultural economic impact is $54 billion to my state. We are the winter food basket of the United States. We are competitive. But we face too many closed doors as we try to open new trade opportunities. Or the door is cracked open, only to be slammed shut with unjustified sanitary and phytosanitary accusations. Any trade policies that help to eliminate these obstacles will greatly affect the survival of this vital U.S. industry.

### Multilateral Trade Negotiations

The upcoming Round of Multilateral Trade Negotiations of the World Trade Organization beginning in 1999 is extremely important to Florida agriculture. The globalization of trade has increasingly placed unacceptable pressures on Florida agriculture. Inconsistent regulatory requirements, unequal subsidies and supports, non-tariff trade barriers and unsatisfactory and unworkable safeguards and dispute resolution mechanisms have been continually encountered. Aggressive and thoughtful leadership by U.S. officials involved in the upcoming negotiations will be necessary to prevent any further erosion and disappearance of Florida and U.S. food production.

### Competitive Status of Agriculture

Mr. Chairman, in your announcement of this hearing you stated that the U.S. is the most competitive producer of food and agricultural products in the world. I fully agree with you. And in future negotiations, U.S. officials must keep in mind that, in comparison with most farmers in the world, U.S. growers have traditionally received little government support. Following the Uruguay Round and the 1996 farm bill, government assistance to American farmers was even further reduced. Since farmers in most other countries are more protected and receive higher subsidies than their counterparts in the United States, U.S. officials must be careful not to negotiate away the few protections left to American farmers nor to reduce tariffs and other protections in the U.S. where disparate barriers and subsidies exist for major foreign producers whether in Europe, South America or elsewhere. The producers of Florida citrus, other fruits and vegetables were not and are not subsidized or supported; however, the international trade of agricultural products is characterized by extensive protection and high levels of subsidies.

### Perishable Agriculture

One sector of agriculture has woefully been neglected in the trade negotiations of the past. Perishable agriculture products have many unique considerations. For instance, oranges, tomatoes and peppers cannot be stored until markets change or trade disputes get resolved--which may occur very, very slowly. In the past Business Forum in Brazil, the chief agriculture negotiator in the Uruguay Round agreed that there was no special consideration for perishable products and that this was needed. The United States should encourage the development of international trading rules that will address the special concerns of producers of seasonal and perishable agricultural commodities such as fresh fruits and vegetables and orange juice.

### Major Issues to Address

The United States should seek workable and effective safeguards for seasonal and perishable commodities and the removal of unfounded sanitary and phytosanitary (SPS) barriers to Florida agricultural exports. In addition, the U.S. should seek tariff equivalency on most agricultural products, the elimination of export subsidies, and the establishment of meaningful international rules on state trading enterprises. Agriculture disputes at the WTO must be resolved quickly and any way our negotiators find to expedite dispute settlement will be very beneficial.

**Fast Track**

Mr Chairman, you also listed your focus as including the importance of "fast track" authority in future negotiations. Florida has learned well that we must correct the problems of the past as we move to the future, and all segments of U.S. agriculture must work together to do so. Florida has also learned well that safeguards in current law and international agreements can be ineffective. Promises of the past must be kept if appropriate trust and faith is desired in trade negotiations.

**"Request Offer" Approach**

The manner in which our nation negotiates has a tremendous impact on the ultimate outcome. The United States should adopt a "request-offer" approach in future WTO negotiations on tariff reductions. During the Uruguay Round, many of our trading partners pushed for across-the-board formulas to reduce tariffs. Through a request-offer strategy, the United States could negotiate to lower tariffs but only where U.S. producers are not disadvantaged on a total level of protection basis. A request-offer strategy could also permit the U. S. to reflect particular sensitivities on individual agricultural products. Florida is concerned that many developing countries continue to have a range of high tariff and other barriers on agricultural trade. I think that the U.S. should devote more resources in the next WTO round to ensuring equitable access to these important markets. The across-the-board formula totally discounts the many other barriers such as quotas and subsidies that often surround a product in major foreign markets.

**Adherence to Currently Negotiated Tariffs**

I am told that, according to the U.S. Trade Representative, the average international tariff on agricultural products is 56 percent while the average U.S. tariff is only 3 percent. Clearly, American farmers, including farmers in Florida, would benefit from reductions in our trading partners' tariffs. At the same time, however, we must not unilaterally disarm by reducing our tariffs or expanding tariff rate quotas on highly import sensitive products.

**State Trading Enterprises**

Many of our trading partners have unique ways of working the system. The state trading enterprises (STE's) of our trading partners need to be dealt with in future WTO agricultural negotiations. Like pooling arrangements and dual pricing systems, STE's can lead to no effective access in foreign markets and to prices that are artificially high in domestic markets, yet artificially low in the world market. For instance, Queensland Sugar Board in Australia controls all the buying and selling of sugar and contributes to the distortion of the world price of sugar. Future negotiations should strive to make such institutions more transparent in their operations and eliminate their discriminatory pricing.

Florida agriculture recommends that all customs regulations, procedures and documentation should be publicly available and should be available to the trading community in both print and via the internet. Moreover, reasonable public notice and opportunity to comment should be provided to the public, whether national or within the FTAA.

**Dispute Resolution**

Florida believes that the United States should use the WTO's dispute settlement process to aggressively challenge unfounded barriers to Florida agricultural products. I hope that the U.S. will focus on making necessary amendments to the dispute settlement system that will permit rapid resolution of issues and prompt implementation of solutions when appeals have been exhausted. I also encourage the U.S. to improve further the transparency of dispute settlement proceedings. In far too many cases, public version of briefs from foreign governments are not made available. In Florida, we have a Government in the Sunshine Act that requires public disclosure and access to all information except confidential trade secrets. I support as public a process as possible in any dispute.

**Sanitary & Phytosanitary Issues**

I appreciate our pursuing discussions under the WTO's dispute settlement process against Japan for its laborious testing procedures of agricultural products. Florida supports the need to address SPS barriers product by product, and species by species; although very time consuming, this is scientifically justified. However, we do not agree that there is scientific

justification to require data on each variety of a particular product. This is a policy that Japan follows at present. It is the type of issue that can be handled through the dispute settlement or through clarifications in the SPS Agreement.

Sanitary and phytosanitary measures are critical issues to Florida agriculture in dealing with other countries not only in the Americas but around the world. The negotiators should seek to establish policies that promote the removal of scientifically unfounded SPS measures that inhibit or block the trade of agricultural and food products. Florida has yet to get one orange into Mexico. Australia continues to prohibit Florida citrus due to unjustified and thoroughly researched phytosanitary concerns. Florida remains unable to ship citrus into China with verbally their main concerns centering on whether we have adequate quarantines in place for the Mediterranean fruit fly. At last we were able to get an agreement to allow tomatoes into Japan only to find that, in the first weeks of shipment, Japan suddenly had another previously unmentioned and invalid phytosanitary issue that had to be resolved. While each member country should maintain its right to set its own SPS standards at the levels of quarantine security it deems appropriate, member countries should not be able to maintain standards that are not supported by science. We support our negotiators using the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) of the World Trade Agreement (WTO) as a guide. Farmers will benefit most from increased market access caused by the successful removal of scientifically unfounded SPS measures. They will also suffer the most from any failures in maintaining adequate quarantine measures.

**Food Safety**

The President has proposed a laudable Food Safety Initiative for our country. As we remove unfounded health and safety measures that block trade, we must also be vigilant during negotiations to see that policies do not lower food and safety standards that are based on legitimate science. In particular, U.S. negotiators should keep in mind recent food borne outbreaks caused by imported agricultural products. For example, in March 1997 almost 200 children in Michigan were infected with hepatitis A after eating imported frozen strawberries at school. Hundreds of citizens in my state have succumbed to the parasite Cyclospora from imported raspberries from Guatemala and now possibly imported salad from Peru. When Americans become ill, the sales of U.S. grown products are damaged as many consumers in the United States have incorrectly associated sanitary U.S. grown products with tainted imports. The United States must maintain its right to take appropriate science-based actions against imports when necessary. We will increase the food safety risk of our U.S. citizens if we do not require the same conditions of sanitation for our trading partners. Also, if we drive some of our domestic producers out of business with unnecessary restrictions, won't we also be increasing our food safety risk because we are replacing our domestic supply with imports from certain countries that lack proper sanitation? If my government tells me not to eat the fruits and vegetables in a certain country when I travel, why would I want to eat them in the U.S.?

**Labor and Environmental Issues**

Florida agriculture believes that labor and environmental issues can and should be addressed as integral parts of any new negotiations. Child labor in competing countries and raw sewage and polluting chemicals in irrigation waters are but part of the unequal impacts upon U.S. agriculture and that of much of the world.

**Coordination is Key**

The safety of the American food supply faces another threat, but it is a domestic threat that we can readily control. It is the threat of conflicting policies. I do not understand why one agency is seeking to liberalize markets, but other agencies are "giving away" the means which help open those markets. Why do these agencies persist in giving our direct competitors significant competitive advantages over our own farmers?

**Summary**

Mr. Chairman, we in Florida greatly appreciate this emphasis on reducing barriers to trad in agriculture. Agriculture remains our historical strong component in our balance of trade. Our ability to produce food for the world remains one of country's greatest strengths. I urge that our policies on trade and our future negotiations with other countries not be allowed to weaken U.S. food production and the safety of the food supply of the American public.

Mr. RAMSTAD. Thank you for your thoughtful testimony, Karen, and I just have two brief questions. First of all, you refer in your testimony to the broken promises of NAFTA. In your view, what were those broken promises, and how can they be addressed in a way that will restore the trust and faith that's desired for trade negotiations?

Mrs. THURMAN. Well, I think, Mr. Ramstad, one of the things that we talked about during the fast-track was some language that we actually were trying to get to trade representatives which, quite frankly, was not conclusive, but with our tomato industry particularly, the anti-dumping. When we saw dumping coming in Florida, tomatoes below cost which subsidize through their own country and we were never able to get any kind of remedy which was one of the things that was promised during the NAFTA; that there would be remedies available for our agriculture products.

Mr. RAMSTAD. Thank you for your response, Karen. Let me ask you what I think is a key question here today. It is mind boggling to realize that our country spent about a little over $5 billion in direct payments to farmers in agricultural programs last year while the EU spent about $47 billion; over eight times as much as our country. Do you think that we could truly get reforms in this area in 1999 negotiations for agriculture if the administration does not have fast-track authority?

Mrs. THURMAN. I don't know, and—but let me say that in reading some of the material I know that the EU has been working on trying to reduce some of their subsidies. We were over there in England a couple of years ago; talked with the Parliament; they had, in fact, done some things at that point. It is my understanding that by the year 2002 they are also looking at trying to reduce some of areas within their subsidies as well. Now, whether they do that or not, I don't know, but they continue to be one of our biggest competitors.

Mr. RAMSTAD. Well, again, I thank you. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. I have really no questions. Karen and I have talked a lot about NAFTA and our interpretation of the negotiations that went on in 1993, and we may differ a little bit, but, certainly, we have the same goals of making sure that our industries are put in a fair position to be competitive, and I think your efforts to try to help work in that direction are extremely helpful, and we, obviously, want to continue to work with you on that.

Mrs. THURMAN. Well, I appreciate that, and that's one of the reasons I wanted to testify. At least this lays it out a little bit as we go into further kinds of trade issues and discussions whether it's fast-track or whatever. We do have an awful lot of things in common much more so than that are different, so I hope that we can continue this kind of dialogue and conversation and thank you.

Mr. RAMSTAD. Thank you. Mr. Watkins, any questions?

Mr. WATKINS. Karen, I appreciate your testimony. I think we have a real job to do if we're going to get the fairness up in the international marketplace for our farmers and our ranchers, and I'd be happy to have a bipartisan effort to do that.

Mrs. THURMAN. You betcha, thanks.

Mr. RAMSTAD. Mr. McDermott. Too late for rhetoric. [Laughter.]

Thank you, again, Mrs. Thurman.

The next panel consists of the honorable August Schumacher, Jr., Under Secretary for Farm and Foreign Agricultural Services in the U.S. Department of Agriculture and the honorable Peter L. Scher, Special Trade Negotiator for Agriculture, Office of the USTR. Welcome to the subcommittee, gentlemen. We'll begin with you, Mr. Schumacher.

**STATEMENT OF AUGUST SCHUMACHER, JR., UNDER SECRETARY, FARM AND FOREIGN AGRICULTURE SERVICES, U.S. DEPARTMENT OF AGRICULTURE**

Mr. SCHUMACHER. Thank you, Mr. Chairman, Mr. Matsui, Mr. McDermott, and Mr. Watkins. Chairman, it's a distinct pleasure to be here from the agricultural side to report in this committee. I'm delighted to be here with Ambassador Scher.

American agriculture, like most other industries, is absolutely linked to the global economy as we've seen with the Asian crisis increasingly dependent on trade. Given the opportunity, American agriculture can meet export challenges anywhere in the world. Our farmers, ranchers, and others in the ag community have made investments in technology, transportation, research that have turned opportunity into real export success. I'll mention that we reached $60 billion in 1996, $57 billion last year, and we really actually haven't plateaued. In the early nineties, we were going along about $42 billion, $43 billion; a bit of a plateau, and that has jumped now in the late nineties to $55 billion, $57 billion, $59 billion, $57 billion, and we're in that higher plateau now which I think is terrific.

These sales generated close to 1 million jobs, and as we mentioned the trade surplus during the last year was $21 billion. American agriculture has now registered trade surpluses in each of the last 37 years; an extraordinary record. The success of the American farmers and ranchers affects, certainly, a decade, many decades, of bipartisan efforts to put American agriculture on a level playing field in the global arena. The bilateral and multilateral agreements are working for the benefit of agriculture.

In the last year alone, we mentioned the success in the WTO that Peter will talk about in Geneva on hormone treated animals, so our beef will now be able to, eventually, get into the EU. The Appellate Body released its review of the panel decision and clearly affirms the earlier finding that the EU ban was imposed and maintained without credible scientific evidence. Removing the beef import ban has now become a serious international obligation of the European Union and Members of Congress will be expecting them to fulfill it.

Other accomplishments including the first commercial shipment of U.S. tomatoes to Japan; the lifting of Egypt's ban on imported poultry; gaining market access for sweet cherries to Mexico; preserving the market for U.S. pet food exports to Switzerland; implementing the pilot project to expedite shipments of live cattle from Montana, and Washington to Canada, and working, particularly, to open Chile market and reopen it to U.S. wheat—our successes have been solid and significant, Mr. Chairman, but we have serious challenges ahead. It is crucial that we work to support the international effort led by the IMF, the International Monetary Fund,

to help the countries of Southeast Asia to help themselves. It is very much in the interest to America's farmers and ranchers and the American people in general.

To conclude, we continue to face trade policy challenges with the European Union. It's unfortunate that the United States and EU have appeared to be on the verge of trade wars more often than not in the past few years. The list of issues that remain to be resolved include the EU ban on specified risk materials; European Union approvals for new biotech products that are coming out very rapidly and benefiting farmers and consumers; the veterinary equivalency issue; the circumvention in the European Union of export subsidies, and the continuing EU subsidies on canned fruit and wheat gluten. Mr. Chairman, let me assure you that we will do whatever is necessary to protect U.S. trade interests.

We're also concerned about Canada's dual dairy pricing system and have launched a panel request in the WTO. We're also committed to preserving the hard won achievements of the Uruguay Round as we negotiate with China and Russia and many other countries on accession to the World Trade Organization.

And then in conclusion, we've begun preparations for the continuation of the reform process begun in the Uruguay Round. We're looking at a number of key issues such as how countries are applying tariff rate quotas; state trading entities, both for import and export, and how to pursue further liberalization disciplines in the area negotiated in the Uruguay Round especially domestic support and market access.

As you can see, Mr. Chairman, much work remains ahead, but we are optimistic about the future of U.S. ag exports and working under the leadership of Peter Scher and his great team at STR. We hope to work very closely with you in a bipartisan effort to overcome some of these challenges and to move forward. Thank you for holding this hearing.

[The prepared statement follows:]

**Statement by August Schumacher, Jr.**
**Under Secretary for Farm and Foreign Agricultural Services**
**U.S. Department of Agriculture**
**Before the**
**House Ways and Means Committee**
**Subcommittee on Trade**
**February 12, 1998**

Mr. Chairman, members of the Committee, it is a pleasure to appear before you with Ambassador Scher to discuss U.S. efforts to reduce barriers to trade.

**American Global Competitiveness**

First let me start by saying that by all measurable accounts, U.S. agricultural trade policy has helped put our food and agricultural sector on the road to success. Recent trade liberalization agreements such as the North American Free Trade Agreement (NAFTA) and the Uruguay Round Agreement on Agriculture are landmark accomplishments that lay the groundwork for long-term growth in U.S. agricultural trade. These bipartisan efforts have helped free American producers from some of the most egregious trade barriers and have allowed them to do what they do best--produce high-quality, economical food, fiber and wood products.

In fiscal year 1997, U.S. agricultural exports reached $57.3 billion, the second highest level on record. Last year also marked the third consecutive year that exports topped $50 billion.

Exports of intermediate products (such as soybean meal and planting seeds) set a record at $12.3 billion. Consumer-oriented products also reached a record level of $20.8 billion, with poultry and fresh fruit leading the way. Exports of bulk products were down 16 percent in value because reduced wheat, corn, and cotton sales offset record soybean and tobacco sales.

Four of 1997's top 10 markets for U.S. agricultural exports rose to new highs. Records were set in exports to our NAFTA partners, Canada and Mexico. Together, these two countries accounted for $11.7 billion in U.S. exports this past year, 20 percent of our total agricultural exports worldwide and greater than our sales to Japan. Records were also set in exports to Hong Kong and Russia. However, we also experienced declines in other top markets with value declines in exports to three key Asian markets--Japan, Taiwan, South Korea--ranging from 10 to 12 percent, in 1997.

The Latin American market continues to grow in importance for U.S. agriculture. U.S. exports to Latin America reached $10 billion in 1997, exceeding the total for all of Western Europe.

As usual, agriculture made a healthy contribution to the U.S. trade balance in fiscal 1997. The agricultural trade surplus (exports minus imports) ended the year at $21.5 billion. With this latest figure, agriculture has now registered trade surpluses in each of the last 37 years.

**Trade Policy Challenges**

Despite these positive export numbers, trade policy challenges remain. I would like to spend a few minutes outlining our priorities for the next two years.

**Asia**

The Asian financial situation has taught us that ours is indeed ***a global economy***. East Asia is an important market for America's farmers. Overall, it accounts for 40 percent of our agricultural exports, or $23 billion annually. During 1991-97, Asia accounted for 45 percent of our export growth.

U.S. agricultural exports will be lower in fiscal years 1998 and 1999 compared with what they would have been without the problems in Asia. The cumulative effect will be greater than the Department's initial estimate of $500 million, but it is difficult to say how much more. The effect will depend on many things, including the use of our CCC export credit guarantee programs, the progress in stabilization of Asian economies, and the degree to which these countries implement structural reforms and liberalize their import regimes as called for by the International Monetary Fund (IMF), World Bank and Asian Development Bank reform packages.

The imposition of IMF-supported economic reforms is resulting in strides in trade policy and import regimes that will benefit U.S. agriculture. For example, **Indonesia**, effective February 1, reduced tariffs on imported food products from the 20- to 40-percent range to a top rate of only 5 percent. More than 500 tariff line items have been lowered. As a result, U.S. producers are more competitive.

The IMF structural adjustment package calls for BULOG (Indonesia's sole importer of wheat, wheat flour, rice, sugar, garlic, and soybeans) to relinquish monopoly control of imports of wheat, wheat flour, soybeans, sugar, and garlic. Rice will remain under BULOG's control. The lifting of BULOG's monopoly of wheat imports and wheat flour distribution could increase exports of U.S. wheat. In recent years, the U.S. share of Indonesia's wheat imports has normally not exceeded 10 percent due to competition from Australia, which has proximity and freight advantages and a monopolistic wheat board. However, two new, smaller Indonesian mills are likely to aim toward quality and specialty markets that require higher protein wheat, potentially boosting U.S. wheat sales to this growing, 4.5-million-ton market.

In addition, the Indonesian government has agreed to dissolve APKINDO, its Hardwood Plywood Marketing Board, effective February 1. This could offer increased opportunities to U.S. exporters of wood panel products over the long term. However, these opportunities may be difficult to seize in the short term, since the sharp devaluation of the Indonesian rupiah has made Indonesian wood products very competitive.

In **Korea**, the IMF agreement specifically requires Korea to move toward trade liberalization -- a move that would resolve several longstanding problems for the United States.

In January, Korea began to harmonize its standards with international codes, which will increase access for U.S. exporters. Korea has revised pesticide tolerance levels in harmonization with CODEX, which should allow U.S. fresh fruit shipments to enter Korea unimpeded. Under the IMF agreement, Korea agreed to address the problem of import licensing. Elimination of restrictive licensing will provide Korean food industries with needed inputs at lower prices and could lead to the solution of a number of longstanding access problems for U.S. exporters of such items as corn grits, soyflakes, and peanuts.

The outlook for American agriculture is closely linked to our export efforts and the overall recovery of these economies with the benefit of IMF support. Because agricultural exports are so important in terms of producer prices and, ultimately, farm income, we at ***USDA will be working to do everything possible*** to keep America's farm trade flowing to these critical markets.

**U.S.-EU Trade Issues**

Perhaps nowhere are we facing greater challenges on trade policy issues than in our dealings with the **European Union (EU)**. It is unfortunate that the United States and the EU appeared to be on the verge of trade wars more often than not in the past few years. Free trade,

but more importantly fair trade, is important to the United States. However, the EU continues to adopt policies that are unnecessarily restrictive, resulting in serious consequences for U.S. trade. As long as the EU continues to disregard its obligations under the World Trade Organization (WTO), we will do whatever is necessary to protect our trade interests.

Of particular importance is the EU's longstanding hormone ban that has hurt U.S. beef exports to that lucrative market for more than 10 years. On January 16, the WTO Appellate Body released its review of the August 1997 Panel decision on the EU's ban. The most important point is that the appellate report firmly upheld the panel's finding that the EU ban is inconsistent with the Uruguay Round Sanitary and Phytosanitary (SPS) Agreement and calls for the EU to bring its measure into conformity with its WTO obligations. This latest report clearly affirms the earlier Panel's finding that the EU ban was imposed and maintained without credible scientific evidence. Removing the beef import ban has now become a serious international obligation for the EU, and we expect them to fulfill it.

**Biotechnology and Trade**

Because of the importance that biotechnology plays in new agricultural products, USDA has recently established a Department-wide working group on biotechnology that will coordinate the Department's efforts in this area. USDA, in coordination with other U.S. regulatory agencies, USTR, and industry groups has initiated harmonization efforts in a number of multilateral and bilateral fora.

The *EU* Commission has already approved two biotechnology products. However, other products still face a lengthy EU approval process and consumer opposition in several Member States. The U.S. government continues to hold discussions with the EU to encourage the EU to

evaluate genetically modified products using scientifically based analysis. USDA is also working closely with the developers of genetically modified products, manufacturers of processed products, and exporters to keep them informed of developments in the EU.

A biotechnology initiative has been undertaken in the Asia Pacific Economic Cooperation (APEC) forum and was endorsed at the recent APEC Ministerial. Bilateral harmonization efforts continue with Japan; Japan has approved 14 products. In addition, USDA has played a prominent role in developing the U.S. position for the negotiation of a Biosafety Protocol under the Convention on Biodiversity.

**WTO Implementation**

As we begin to prepare for upcoming WTO agricultural trade negotiations (set to begin at the end of 1999) that will continue the reform process, we are faced with some unfinished business. Some issues currently outstanding will be resolved as the terms of the Uruguay Round Agreements are implemented. However, other areas will require further negotiation in the new talks. Since the conclusion of the Uruguay Round negotiations, our primary trade policy focus has been on ensuring compliance with the terms of the Uruguay Round agreements by our trading partners. We believe monitoring other countries' compliance with these and other agreements (NAFTA and numerous bilateral agreements) is vital if the United States is to realize their full benefits.

Through the WTO Committees on Agriculture and Sanitary and Phytosanitary Measures and through consultations and bilateral meetings, we have sought to ensure that all countries understand and implement their WTO obligations. While we have successfully resolved issues,

some outstanding disputes remain with regard to implementation in the areas of market access, subsidy commitments, and sanitary and phytosanitary issues.

***Market access and subsidy commitments***

For the most part, countries are living up to their commitments to eliminate non-tariff barriers, lower duties, open tariff rate quotas (TRQs), and reduce subsidies. However, there are some instances where these commitments have not been kept. For example, ***Canada*** is circumventing its export subsidies commitments on dairy products through a system of special milk classes. We have launched a panel request in the WTO dispute settlement body.

We are also concerned that the EU is subsidizing more cheese exports than allowed by the Uruguay Round Agreement on Agriculture. We have held WTO consultations with the EU on this issue. We are now working with USTR to consider additional action, which may include launching a request for dispute settlement through the WTO.

We are also working to improve market access for U.S. rice in ***Japan.*** Japanese consumers prefer American rice, as demonstrated by the level of U.S. market share in private simultaneous buy and sell (SBS) tenders that bring U.S. exporters and Japanese users in direct contact.

We are using the dispute settlement mechanism to resolve several cases of importance to U.S. exporters. Two issues that have been addressed are ***Hungary*** providing export subsidies at higher levels on a substantially broader group of products (i.e., fruits, vegetables and dairy products) than were included in its WTO schedule of commitments and ***the Philippines*** administering its pork and poultry TRQs in a manner that assures that they will not be filled.

In these cases, the United States and other concerned countries first raised the issue as part of the monitoring process in the WTO Committee on Agriculture and followed up by informal consultations under the auspices of the Chairman of that Committee. Because Hungary refused to resolve our concerns about its use of excessive export subsidies, the United States and three other countries requested a dispute settlement panel on the issue. We were able to bring the Hungarians into compliance with the WTO and protect our export interests. We have nearly concluded our negotiations with the Philippines on implementation of revisions to the system of administration of tariff-rate quotas for pork and poultry.

***Sanitary and phytosanitary issues***

We have placed special emphasis on monitoring and aggressively challenging other countries' use of non-scientifically based SPS standards that unfairly restrict U.S. access to foreign markets. In addition, the United States is playing a leading role in the WTO Committee on SPS measures.

A recent GAO report raises the issue of better government coordination of SPS issues. Over the past few years, USDA has taken numerous steps to strengthen how USDA and other agencies address these trade issues. We are working with the other agencies involved to prepare a statement of action that outlines coordinated goals and objectives to respond to SPS issues.

We believe that some countries are using specious scientific claims to support SPS measures that unfairly restrict market access for U.S. agricultural products. While we have resolved a number of SPS issues successfully through the WTO, estimates of lost global trade due to SPS barriers range as high as nearly $5 billion annually.

We are working to resolve U.S. concerns over ***Japan's*** restrictions on imports of U.S. apples and other fruits, for which Japan is requiring variety-by-variety testing on the efficacy of quarantine treatment for pests. We began formal dispute settlement consultations with Japan on this issue last February. After years of negotiation, last year Japan opened its market to U.S. tomatoes. The potential value of the Japanese tomato market may be as high as $20 million annually. Taiwan also has removed its ban on imports of U.S. tomatoes.

**WTO Accessions**

In addition to focusing on WTO implementation, USDA is actively working with USTR and the ***more than 25 nations*** that are currently applying to the WTO for full membership in the world trading community. Trading partners such as ***China, Russia, Taiwan, Vietnam, Saudi Arabia*** and ***Ukraine*** must demonstrate that their trade regimes comply with WTO rules and improve market access for imported agricultural products. We are working to help these countries put into place the disciplines and access commitments commensurate with those made by the 125 countries involved in the Uruguay Round trade negotiations. It is particularly important for us to examine the trading practices of the countries of the former Soviet Union and China to ensure that our agricultural producers are able to compete fairly in those markets and in third countries. As part of this effort, USDA is focusing on the areas of market access, internal support, export subsidies and SPS measures.

The United States has intensified discussion with China, but the ball is now in China's court to make the difficult decisions required for WTO membership. USDA and USTR officials have met numerous times with Chinese negotiators and emphasized the importance of a strong

commercial agreement with specific commitments to improve market access, discipline subsidies, and apply the WTO rules on sanitary and phytosanitary measures to China's trade regime.

**State Trading**

It is difficult to mention China without discussing the issue of state trading enterprises, although this issue is not exclusive to China. We are aggressively pursuing the issue of state trading in a number of fora--notably, we have made state trading a top priority in the accession of the countries of the former Soviet Union and China to the WTO.

In the WTO, we are also using the *Working Party on State Trading Enterprises* to review activities of state trading enterprises to determine if their practices are WTO-consistent, and we are working on strengthening reporting requirements for those organizations so a clearer picture of their activities can be obtained. In the Organization for Economic Cooperation and Development (OECD), we have raised state trading practices in the context of the ongoing negotiations regarding agricultural export credits and credit guarantees. We have also raised state trading in the Free Trade Agreement of the Americas (FTAA) discussions on subsidies and unfair export practices.

**Additional Negotiation of Free Trade Agreements**

President Clinton has repeatedly stated how important it is to have fast-track negotiating authority so that the United States can negotiate to expand access for U.S. products abroad. We support the Administration's efforts to build consensus for fast track based on the understanding that we cannot influence other countries' decisions by backing away from trade with them.

**Regional Trading Arrangements: FTAA/APEC**

Another major facet of trade policy we must address in coming years is the growing trend toward regional trading groups. The EU continues to grow; South American countries have formed several groupings, including MERCOSUR and the Andean Pact; and our NAFTA partners Canada and Mexico have already negotiated preferential agreements with Chile. In Asia the ASEAN group is taking measures to strengthen its members' ties with one another, and Australia and New Zealand are doing the same.

The United States is also participating in regional liberalization through the Asian Pacific Economic Cooperation (APEC) forum and the FTAA processes. In APEC, we are taking part in a number of activities to provide for greater cooperation and transparency on technical issues such as import requirements, plant and animal quarantine, biotechnology and agricultural finance. APEC has adopted the goal of attaining free trade in the Asia Pacific region by the year 2020 for developing countries and 2010 for developed countries. The FTAA process has the ultimate goal of free trade among its members in the Western Hemisphere, with negotiations to be completed by 2005. USDA objectives in the FTAA focus on encouraging the countries of the hemisphere to understand and implement their WTO obligations on SPS measures, and on identifying and developing strategies for reducing trade-distorting export practices affecting agricultural trade in and with the hemisphere.

**Future WTO Negotiations: Continuing the Reform Process**

As important as the Uruguay Round was for initiating the process of liberalizing world trade in agricultural products, a lot of work remains to be done. WTO members agreed to begin negotiations on the next phase of agricultural trade liberalization at the end of 1999. These negotiations are the best chance U.S. agriculture has for further reducing tariffs, opening new

markets, and addressing unfair trade practices on a global scale. Fast track authority was critical in concluding the Uruguay Round, and renewed authority is viewed as essential for U.S. negotiating credibility and success in future WTO negotiations. Several key issues stand out:

- Substantial further reductions in tariffs are needed.
- Tariff-rate quotas (TRQ's) should be substantially increased or effectively eliminated by cutting the out-of-quota duty.
- Export subsidies should be substantially cut or eliminated.
- Rigorous disciplines should be imposed on the activities of state trading enterprises.
- Tighter disciplines are needed to prevent countries from circumventing their trade commitments through disguised subsidies and nontariff measures.
- Rules on sanitary and phytosanitary measures should be tightened so countries cannot disguise protectionist intentions or pander to irrational concerns regarding public health.

We recognize that even with full compliance with WTO rules, global agricultural trade barriers and trade-distorting export practices by competitors remain high relative to other industries. This inhibits U.S. agriculture from reaching its full export potential. We are exploring these issues to determine what they mean for future negotiations. We also will seek input from our private sector advisors and the general public.

**Conclusion**

As you can see, Mr. Chairman, much work lies ahead, but we are optimistic about the future for U.S. agricultural exports, and we believe U.S. agriculture is up to the challenge. We look forward to working with our partners throughout U.S. agriculture to meet this challenge.

I would be happy to answer any questions.

Mr. RAMSTAD. Thank you, Mr. Secretary. Well, let me just ask a couple of questions. First of all, to what extent are the Federal agencies charged with monitoring the agreement confronted with the competing goals of food safety and effective monitoring of the WTO Agreement?

Mr. SCHER. Sure, I'm happy to Congressman. Let me say, I think that both are very important goals, and one of the important elements of the——

Mr. RAMSTAD. Ambassador Scher, if I may interrupt, I'm not used to doing this. I'm not the chairman; I'm a pretender here. Unfortunately, Chairman Crane took ill, and, hopefully, it's not serious, but he's not going to be back. Please give your testimony first which is proper procedure. I'm sorry I screwed up. I'll ask my questions later. [Laughter.]

Go ahead, Ambassador.

**STATEMENT OF PETER L. SCHER, SPECIAL TRADE NEGOTIATOR FOR AGRICULTURE, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE**

Mr. SCHER. Mr. Chairman, this is a first for us both, so we'll muddle our way through it. You have my written statement, and so I will just summarize a couple of points, so we can get on to some of the issues of concern.

First, let me say I am pleased to be before the committee and very pleased to be testifying alongside Under Secretary Schumacher who is such an important leader around the world for American agriculture.

I want to start out by just recognizing that we are at the start of another year of economic expansion in this country. This is, in fact, the seventh year. Our unemployment rate is the lowest in nearly a quarter century. We've created nearly 13 million new jobs. More Americans are working today than in any time since the Government began recording labor statistics. Now, I know this is not a hearing on the economics in the United States, but one cannot understate the role that international trade has played in our economic expansion. Since 1992, exports have accounted for one-third of our growth, and, today, more than 11 million jobs now depend on exports.

There is no other sector of our economy where the link between trade and today's economic prosperity is clearer than in agriculture, and as Under Secretary Schumacher and the chairman earlier pointed out, we've had near record agricultural exports of over $57 billion. I believe that the importance of trade to our agricultural community is underscored by our shrinking share of the world's population. We are near 4 percent—only 4 percent of the world's population and are reaching close to zero population growth, but the world is still growing, and the success of American agriculture, frankly, will depend on our ability to engage global consumers in the—that live outside our borders; the 96 percent of the world that do not live within the borders of the United States.

So, despite our successes which are many, we still face many hurdles as Congresswoman Thurman pointed out. We still face high tariffs in Europe and elsewhere; trade restrictions which are very thinly disguised as science; administration schemes in many

countries for tariff rate quotes that, frankly, mimic the tariffs that they were intended to replace, and state trading enterprises that restrict imports and unfairly compete with our exports. So, we need to continue aggressively our efforts to tear down these barriers using all of the tools at our disposable including the dispute settlement process in the WTO; including the agreements of the Uruguay Round, and, frankly, our own domestic trade laws.

Mr. Schumacher referred to one of the most important victories—I know Mr. Watkins has taken a great interest in the beef hormone victory which we can talk about in a minute. Let me also say that we are currently using the WTO to challenge a number of practices which we believe violate obligations under the Uruguay Round. We are challenging the way Canada and the EU subsidize dairy exports. In fact, tomorrow, we will take the next step in Geneva in our case against Canada by asking for the formulation of a dispute settlement panel to hear our complaint. We are challenging Japan's testing program for fruit—I know an issue that's very important to the Congresswoman's constituents in Florida. We are challenging Korea's taxes on alcoholic beverages; Chile and the Philippines failure to open its market for pork and poultry.

Let me say we have been very aggressive in using the WTO to assert our rights. In fact, we have brought more cases than any other country, and we are winning more cases than any other country. In fact, a third of the cases we have brought have been in the area of agriculture. We have new negotiations in 1999 which are an important opportunity to address things like cap reform which was discussed earlier, and we've already begun preparations for that effort.

Let me just say in conclusion, because so much of what was in my statement has been said by others, I often hear people in this country blame trade agreements as the cause of trade problems, and I want to strongly disagree with that notion, because it fails to recognize that the United States already has the most open market in the world. The objective of trade agreements is to open new markets and create new opportunities for our products. That is why we cannot shrink from the challenges of a global economy. Because as the chairman pointed out, as we hold back and we debate the merits of trade, our competitors are aggressively moving forward to seize new markets at our expense.

Mr. Chairman, let me end there and simply say I look forward to working with you and the members of the subcommittee as we seek to forge new partnerships and create new opportunities for American agriculture. Thank you.

[The prepared statement follows:]

**Testimony of**
**Ambassador Peter L. Scher**
**Special Trade Negotiator for Agriculture**
**before the Subcommittee on Trade, House Committee on Ways and Means**
**February 12, 1998**

Thank you, Mr. Chairman and Members of the Subcommittee. I appreciate the opportunity to appear before you today to discuss the status of the Administration's efforts to reduce trade barriers facing U.S. agriculture.

**The Importance of Trade to U.S. Economic Prosperity**

Let me begin by putting agricultural trade in the context of the U.S. economy. We are at the start of another year--the 7th to be exact--of economic expansion for the United States. The unemployment rate is at the lowest level in nearly a quarter-century. We have created nearly 13 million new jobs since 1992. More Americans are working now than at any time since the Government began recording labor statistics nearly 50 years ago.

The good news continues on inflation, and consumer confidence is the highest in 28 years, more than twice the level of 1992. The combination of the unemployment and inflation rates in the U.S. is just over 6 percent, the lowest so-called "misery index" of any major economy, and the lowest for the U.S. since the 1960's.

And the New Year brought perhaps the best news. The President submitted last week a budget for 1999 that will be in balance. For the first time since 1969 the federal government will spend no more than it takes in, an achievement that was not expected until the year 2002. In 1997, the deficit was down to $22 billion, representing the smallest share of our economy since 1970, and a far cry from the $300- billion level of just a few years ago. We also see the very real prospect of budget surpluses in the near future.

The role international trade has played in our economic expansion cannot be understated. Trade is essential to our domestic prosperity and to our long-term economic security. It is both a pocketbook issue and a strategic issue. Under the President's leadership and the bipartisan support of Congress, we have negotiated 240 trade agreements in the last 5 years, all designed to advance our domestic economic and trade interests.

Since 1992, exports have accounted for over one third of U.S. economic growth. By comparison, in 1970 exports accounted for only 5 percent of our GDP; by last year the share had more than doubled to 13 percent. Between 1992 and 1996, exports accounted for 1 in 7 new jobs. More than 11 million jobs now depend on U.S. exports, and jobs supported by exports pay an average of 13 percent to 16 percent higher than the U.S. national average.

**Trade and Agriculture**

Trade and U.S. agriculture are virtually indistinguishable. During the last five years, U.S. agricultural exports have nearly doubled. There is no other sector of the economy where the link between trade and today's prosperity is clearer than in agriculture. Exports mean farm income, exports mean jobs, and exports mean reduced risk for American agriculture.

The contributions of agricultural exports to the U.S. economy are impressive and bear repeating: near-record farm exports of just over $57 billion in fiscal year 1997 and a positive trade balance of $22 billion, among the largest of any economic sector. Agricultural sales abroad account for nearly 10 percent of total merchandise exports.

It's not surprising, then, that America's farmers and ranchers are twice as reliant on foreign trade as the U.S. economy as a whole, with exports accounting for an estimated 30 percent of gross cash receipts. Exports are critical to nearly every sector of U.S. agriculture. Overall, one out of every three acres of America's farms is dedicated to exports, and agricultural sales overseas support nearly one million jobs in the United States.

The importance of trade is underscored by our shrinking share of the world's population. Americans now comprise only 4% of the world's population, and the world's population is growing more rapidly than our own. The power of emerging middle classes made up of consumers with the ability to shift their consumption patterns have become a critical factor driving markets. In India, for example, there will be 115 million new members of the middle class by 2005. In China, probably the fastest growing economy in the world, there will be 196 million more members of the middle class by 2005. These new middle class consumers around the world represent a booming potential market for our farm products.

Whether we capture this export potential will determine whether U.S. agriculture remains on top of the world in the next century. Our success depends on a vision that sees the future of U.S. agriculture in the 96 percent of global consumers that live outside our borders. Vision that demands an active trade agenda to open new markets and reduce barriers. Vision that insists that other countries live up to their obligations just as we live up to ours. Vision that recognizes that our ability to compete in a changing global environment will be critical to our children's future and the future of U.S. agriculture. This is the vision that underlies the Clinton Administration's efforts to open up and preserve access to overseas markets.

**Trade Policy Successes Create Market Opportunities for U.S. Agriculture**

Today's impressive agricultural export numbers reflect the efficiency and competitiveness of U.S. agriculture. They also reflect years of bipartisan work to reduce trade barriers and gain access to foreign markets. Our successes have been based on 2 landmark market-opening agreements--the North American Free Trade Agreement (NAFTA) and the Uruguay Round Agreements. These trade policy successes have provided the access US farmers and ranchers needed to take advantage of robust foreign demand for high-quality agricultural products. It's fair to say that when U.S. agriculture can compete fairly overseas, we more than hold our own.

We have just entered the fourth year of the 15-year implementation period for the ***NAFTA***. Even at this relatively early stage, NAFTA is having a positive effect on U.S. agriculture. The competitiveness of the United States in a broad range of agricultural sectors is enhanced by reduced restrictions at the border. Consumers in all three NAFTA countries have benefitted from more access to wider sources of supply.

Under NAFTA, our agricultural exports are rising and our market share is increasing. Overall, U.S. agricultural exports to the NAFTA countries increased from $8.9 billion in 1993 to a record $11.6 billion in 1996. The United States had an agricultural trade surplus of over $1 billion with its NAFTA partners in 1996. Although all the numbers are not yet in for the past year, combined farm exports to our NAFTA partners for 1997 are on track for another record.

U.S. agricultural exports to Canada for 1997 will surpass the 1996 record of $6.1 billion, and our two-thirds market share of Canada's agricultural imports should remain. Even in the mature Canadian market, U.S. agricultural exports have averaged 5.2 percent annual growth since 1993.

Since the NAFTA was implemented on January 1, 1994, U.S. agricultural exports to Mexico have increased **to** $8.1 billion, and the U.S. agricultural trade surplus with Mexico has grown by $800 million. NAFTA's preferential tariffs have helped U.S. suppliers solidify, and for some commodities expand, their dominant 76- percent overall market share. Although sales to Mexico for last year will be off slightly from the 1996 record, they will remain impressive and well above our agricultural imports from that country.

*NAFTA Preserves Trade Benefits*. NAFTA has also helped preserve benefits during periods of economic downturn. After a $1-billion increase in U.S. agricultural exports to Mexico in 1994, a devaluation of Mexico's peso and severe economic recession in 1995 threatened long-term damage to the U.S. market. Were it not for the NAFTA and the U.S. Government loan package assembled under President Clinton's leadership, U.S. exports could have faced a repeat of the scenario following a similar economic shock in 1982: a precipitous drop in U.S. exports to Mexico followed by years before recovery.

During that earlier crisis, Mexican officials were not bound by NAFTA or by the GATT. As a consequence, they were free to impose strict licencing requirements and prohibitively high duties on American products. This is exactly what they did. U.S. exports dropped by 50 percent, and it took 7 years to recover that export performance.

Mexico's response to the 1995 crisis could not have been more different. U.S. agricultural exports to Mexico fell by $1 billion in 1995, but surged by more than 50 percent in 1996 to reach a record $5.4 billion. Mexico's adherence to its NAFTA commitments and the rapid recovery in trade in 1996 show that NAFTA achieved one of its primary goals of locking in and expanding Mexican trade and investment reforms.

The ***Uruguay Round*** resulted in hard-won gains in disciplining export subsidies, improving market access; controlling domestic price supports; and, importantly, agreeing to sanitary and phytosanitary (SPS) disciplines and establishing a tighter, more enforceable dispute settlement mechanism. By the year 2000, the value of global agricultural export subsidies will be about one-third less than when the Uruguay Round Agreements were signed.

We have had some notable bilateral and multilateral successes. For example:

- During the Uruguay Round, we negotiated new access to Japan for U.S. pork and rice exports. Before these negotiations, Japan refused to purchase U.S. rice. Over the last two years they have purchased approximately 570,000 tons of our rice. The United States is now providing just over one-half of Japan's rice imports.

- We have opened up markets and overcome phytosanitary hurdles for a range of U.S. citrus and other fruits in countries like Brazil, Chile, Mexico, China, Korea, Japan, and Thailand.

- In April, Japan removed its import ban on 25 varieties of U.S. tomatoes, a move which could open a $100-million market. We used our success in Japan to leverage export approval of these same 25 tomato varieties in Taiwan.

- In China, we have opened the market for U.S. live horses, apples from the states of Washington, Oregon, and Idaho, cherries, and , most recently, grapes.

- China has instituted a one year trial program to allow specific U.S. meat processing plants to export to China for retail sale.

- U.S. officials recently established export protocols to ship live swine to Argentina and Peru and to also export live cattle to Peru.

*Dispute Settlement, SPS Agreement Critical to U.S. Agriculture.* Two of the most significant longterm achievements of the Uruguay Round are the dispute settlement system established in the World Trade Organization and the Sanitary and Phytosanitary (SPS) Agreement. These two events have more than proven the worth of the Uruguay Round, and they, along with the next round of multilateral agricultural negotiations in 1999, form the basis of our attack on the remaining trade barriers facing U.S. farmers and ranchers.

Prior to the Uruguay Round, countries faced little cost if they refused to honor their international trade obligations. Today, in cases where countries are not living up to their commitments, there is a framework in which parties can pursue their rights.

The United States has not been shy in using dispute settlement. Of the 35 complaints that the United States has filed with the WTO, 14--just over one-third--have involved agricultural

products. We are very serious about using the dispute settlement mechanism as a tool to break down agricultural trade barriers by ensuring that countries comply with their international trade obligations. We have brought good cases to the WTO and we have scored significant victories.

Just last month, an appeals panel of the WTO reaffirmed the U.S. position that the EU's ban on the sale of American beef in Europe because of the use of growth-promoting hormones violates the EU's obligations under the SPS Agreement. The WTO has now said twice that the EU's restrictions have no basis in science. This decision demonstrates that the WTO dispute settlement system can handle complex and difficult disputes over food safety and health.

The mere threat of U.S. action in the WTO has helped to open markets for American agriculture. We have successfully used the WTO to obtain favorable settlements without having to proceed all the way through the panel process in, for example, Korea on shelf-life restrictions for processed foods; the EU on grain imports; Hungary on export subsidies, and Japan on taxes on distilled spirits.

We are currently challenging the way Canada and the EU subsidize dairy exports, Japan's varietal testing program for fruit, taxes on alcoholic beverages by Korea and Chile, and the Philippines' failure to open its market for pork and poultry.

It is no accident that the most visible victories for the United States in WTO dispute settlement, either in formal panel decisions or in the earlier phase of bilateral consultations, have relied upon the SPS Agreement. As we negotiate trade agreements that reduce tariffs, SPS barriers become more visible, relevant, and, to countries seeking to restrict access, attractive. We must guard against the increasing use of SPS barriers as the "trade barrier of choice."

Our ability to invoke an agreed set of international principles and rules on protecting plant, animal, and human health -- which we did not have three years ago -- is a key tool in influencing the decisions of many of our trading partners on these issues. Armed with this Agreement, the Administration has made progress in removing unjustified trade barriers and opening the door to increased agricultural and food exports.

But clearly more work is needed. We view this year's review of the SPS Agreement as an important opportunity to address the all-too-many examples of WTO members that have adopted measures which violate provisions of the SPS Agreement or have failed to fully implement the Agreement's other requirements.

As a result of U.S. efforts, the Administration has opened Japan's market to exports of tomatoes, China's market to table grapes, Chile's market to lemons, table grapes, kiwis, oranges and grapefruit, Mexico's market to sweet cherries, Argentina's and Peru's market to live swine, and Peru's market to live cattle. We will continue to press our trading partners to remove unjustified SPS barriers facing U.S. agricultural exports. Billions of dollars of trade are at stake

The SPS Agreement is an important tool in our efforts to remove unjustified barriers to U.S. agricultural exports, and we will continue to make aggressive use of WTO dispute settlement procedures to push for the removal of these barriers. And, as our competitors negotiate bilateral and multilateral trade agreements, it is essential that the SPS portion of these agreements reflect U.S. leadership.

**Significant Hurdles Remain for U.S. Farm Exports**

While U.S. agriculture is justly proud of its export success, our work is not finished. The NAFTA and Uruguay Round were only down payments. U.S. agriculture still faces high tariffs, trade restrictions thinly disguised as health and safety restrictions, administrative schemes for tariff rate quotas that mimic the tariffs they replaced, and state trading enterprises that restrict imports and unfairly compete with our exports.

*New Agriculture Negotiations in 1999*. The Uruguay Round made great strides in imposing discipline and reducing agricultural export subsidies. But the United States realized even before the negotiations concluded that more should be done to reform world agricultural trade. That's why we insisted that the Agreement on Agriculture provide for the beginning of another round of multilateral talks in agriculture to begin in 1999.

We have already begun the process of preparing for 1999 by building consensus now for moving our agricultural agenda forward. That means laying the ground-work for reducing tariffs on US agricultural exports, disciplining state trading enterprises, developing consensus for scientifically justified rules governing biotechnology products, and strengthening rules on the administration of tariff rate quotas. Let me address each of these briefly:

- *We will press for global tariff-reduction on agricultural products*. The U.S. has on average the lowest tariffs in the world (around 3 percent) while the world average is 56 percent. Other countries such as Korea, Norway, Pakistan and India have much higher tariffs. Across the board tariff reductions will greatly benefit U.S. producers, and fast track is essential to make this happen.

- *We will press for transparency and improved disciplines on State Trading Enterprises*: The United States has much to gain from disciplining STEs. STEs can distort trade and

they frequently operate behind a veil of secrecy. They allow some countries to undercut US exports into third markets and restrict imports.

- *We will negotiate improved rules in the area of Genetically Modified Organisms*: The United States leads the world in developing GMOs and is poised to capture a larger share of the global agricultural marketplace because of increased efficiencies and improved product lines. Other countries, most notably those in Europe, threaten to adopt policies regarding the importation and planting of GMO's and the labeling of products containing GMO's that are not based on scientifically-justified principles.

- *We will strengthen the rules on the administration of tariff rate quotas:* In the Uruguay Round, many countries converted their non-tariff trade barriers to tariff rate quotas (TRQ's). TRQ's provide increased market access within a defined import quota. Our goal over time is to negotiate increases in the size of TRQ's. However, we are faced with many cases of countries administering their TRQ's in a way that substantially or completely restricts access. We need to negotiate improved rules for TRQ's and ensure that countries cannot fall back on restrictive administrative procedures.

In Geneva, in addition to using the WTO's Committee on Agriculture (COA) as a mechanism for continued oversight of individual country's compliance with the agriculture agreement, we are using the COA as an informal forum for the presentation and discussion of issue papers and proposals with a view to shaping what the 1999 negotiations will look like.

This informal forum, called the Analysis and Information Exchange (A&IE) process, was mandated by the Singapore Agricultural Ministerial in December 1996. The first A&IE meeting was held last May, followed by sessions in June, September, and January of this year. Australia has submitted papers on the administration of tariff rate quotas (TRQs) and domestic subsidies, and the United States has made submissions on export subsidies, TRQ administration, data gathering activities, and the elimination of subsidies tied to production, the so-called "blue box" subsidies. We expect the A&IE to also discuss papers on disciplining state trading enterprises, methods for improving market access, and methods for reducing or eliminating subsidies.

We are urging that the A&IE process be accelerated, and we would like to see the 1998 WTO Ministerial launch a serious process of preparation so that the negotiations called for in the Agriculture Agreement can begin on schedule.

Here in Washington, we are establishing a procedure to solicit the views of agriculture producer and commodity groups, private sector companies, academics, and Congress to identify the goals, objectives, and negotiating positions for U.S. agriculture. We are in close coordination in all our activities with the Department of Agriculture and other trade-related agencies.

*Other Bilateral and Multilateral Issues*. While we are gearing up for 1999, we have not lost focus on seeking a more immediate removal of agricultural trade barriers. We are also faced with severe economic dislocation in Asia which threatens critical markets for U.S. agriculture.

We have a full agenda of **WTO accession negotiations**. We are setting high standards for accession in terms of adherence to multilateral rules and market access. Accessions offer an opportunity to help ground new economies in the rules-based trading system. Regardless of other concessions, agricultural issues must be appropriately resolved in these accessions or there will be no entry into the WTO.

The process of negotiating the terms of China's accession to the WTO is a major focus of our efforts to open up China for U.S. agricultural exports. It is a means not only to expand market access for U.S. exports, but also to bring China into compliance with international norms. While China has taken some constructive steps in recent meetings, much remains to be done. We will not conclude our WTO negotiations with China without receiving solid, commercially meaningful commitments on agriculture.

We are making steady progress in the **Asia-Pacific Economic Cooperation (APEC)** forum. At the APEC Ministerial meeting last November in Vancouver, ministers identified 15 sectors for accelerated market opening initiatives. Two of these sectors--food products and oilseeds--concern agriculture. We are currently working with other APEC countries to develop proposals on both sectors for ministerial review this June, followed by possible action by APEC leaders in November of this year.

The oilseeds initiative, which would remove all tariffs and non-tariff measures on trade in oilseeds, oilseed meal, and vegetable oils by 2002, was originally offered by the United States in the closing days of the Uruguay Round negotiations. It has the strong support of the U.S. oilseeds industry as well as the backing of the governments of Canada and Malaysia.

**Regional Free Trade Agreements.** America's farmers and ranchers are not alone in seeing the future in exports. All of our major competitors--the EU, Canada, Australia, Brazil and Argentina--are moving aggressively to develop foreign markets, often through preferential trade agreements that go around us, rather than include us. The United States risks being placed on the sidelines of global farm trade as our competitors secure access to markets at our expense. Increasingly, the rules are being written without us.

Nowhere does the rush to expand trade agreements affect U.S. agriculture more than in Latin America. The region is home to two major competitors for agricultural exports--Argentina and Brazil. Brazil, along with a host of other countries in the region, also holds promise as a major market for U.S. exports.

The danger of inaction in Latin America, and in other regions where free trade agreements are being signed, is the danger of lost opportunity for U.S. agriculture. We risk losing out increasingly to others in our own backyard, not because they are more efficient producers, but because they are party to trade agreements that put the United States at a commercial disadvantage.

Perhaps the most immediate trade challenge facing U.S. agriculture is unfolding in **Asia**. Press reports of financial and political events in countries like Malaysia, Thailand, South Korea, and Indonesia raise questions about the future of several large and important markets. Overall, Asia accounts for 40 percent of our agricultural exports and, in recent years, it accounted for 45 percent of our export growth.

We know that in the short term U.S. agricultural exports will be lower in 1998 and 1999 compared with what they would have been without the Asian problems; and high-value products will be the hardest hit. But the international effort to restore economic and financial stability to the region offers an unparalleled opportunity to push for much-needed and long-delayed fundamental economic reforms. Reforms that can lead to improved economic performance and economies more open to international trade.

We cannot and should not turn our backs on events in Asia. As Treasury Secretary Rubin has said, the United States has enormously important economic and national security interests at stake in promoting restoration of financial stability in Asia. When we act to resolve the Asian crisis, we act to protect and benefit the American people. Put another way, the countries in trouble are some of our biggest customers.

Let me be clear that we cannot, nor do we want to, save countries from the consequences of bad policies and structural deficiencies. These countries may receive temporary financial assistance, but they also inevitably go through a very difficult economic period before recovery takes hold.

But we can work to support an international effort to help countries that help themselves, and that is very much in the interest of the American people. The international effort involves the countries in the region; ourselves and other members of the G-7 group of nations; the World Bank; and the Asian Development bank--all working with the International Monetary Fund. The role of the IMF is critical. The IMF, using its pool of capital, spreads the burden around the globe so that we are not left doing all the heavy lifting.

**U.S. Agriculture Must Stay Involved in World Trade**

Mr. Chairman, let me say in conclusion that I often hear people blame trade agreements as the cause of trade problems. I strongly disagree with that argument because it fails to recognize

that the United States already has the most open market in the world. The objective of trade agreements is to open new markets and create new opportunities for our products.

The problem is not trade agreements. The problem is high tariffs. The problem is phony science. The problem is preferential treatment that other countries enjoy. The solution is to be very, very aggressive in using all of the tools at our disposal to crack open what is clearly a world of opportunity. We owe it to U.S. agriculture to resolve today's disputes without loosing sight of the benefits of further reform of the international agricultural trading system.

American agriculture simply does not have the option of closing our borders and ignoring the rest of the world. There is nothing that our competitors would like more than for this country to retreat and engage in an endless debate on trade. While we wait, the world moves further ahead. While we wait, those who resist the move to open markets use our inaction as an excuse for their own inaction.

As the President said in his State of the Union Address, "As we enter the 21st century, the global economy requires us to seek opportunity not just at home, but in all the markets of the world. We must shape this global economy, not shrink from it".

The President reiterated his intention to ask Congress for the fast track authority he needs to negotiate open markets for U.S. agriculture and other sectors of the economy. He was also very clear that advancing worker and environmental standards will be part of the Administration's trade agenda. A trade agenda that builds consensus for fast track and is based on the understanding that we cannot influence other countries' decisions by backing away from trade with them.

Mr. Chairman, as you have reminded us, U.S. leadership in the global trading system is essential to opening markets. But for U.S. leadership to be effective it must have the visible support of U.S. agriculture. It's the ultimate irony that while we are the envy of the trading world, we have difficulty selling our own people on the importance of trade.

The trade work ahead can seem daunting. But the livelihood of American farm and ranch families depends, in large part, on our ability to sustain and to build a global presence for U.S. agriculture--the most competitive, productive, and efficient agriculture market in the world.

I look forward to working with you, Mr. Chairman, and members of the Subcommittee and the agriculture community as we seek to forge new partnerships and create new opportunities for American agriculture.

Mr. RAMSTAD. Thank you, Secretary Schumacher and Ambassador Scher; both of you for your testimony, and, moreover, for working with us in a bipartisan, pragmatic, collaborative way on these important issues. That is appreciated; that's the way it should be done, and you're doing your jobs well.

Let me ask you, first, Secretary Schumacher, in light of the Asian financial crisis, how is the Economic Research Service revising its forecast of agricultural exports? And, also, what commodities do you think will be most effective?

Mr. SCHUMACHER. Right, three things, Mr. Chairman. One, we looked at this very hard. Lat Hadamir is with me today, the new head of the Foreign Ag Service from California who's doing an outstanding job. He and I and the general sales manager spent two weeks talking to some 600 traders, government officials, and others in Asia to get an on the ground view of what was going on in Asia right after Christmas. During Christmas, we saw that there was some liquidity problems in Korea, and we felt that the economy's going to come back, and so we put on the guarantees on the GSM of about $1 billion; slightly increased it last week if that economy comes back, and that is having a resonating affect, we feel, and especially in key areas like cotton and meat and hides and skins, and also horticulture. We fought hard to get horticulture to keep that flowing very well. So, I think that's been taking up about $270 million right away, and that's certainly had, I think, a stabilizing impact out there.

We looked at other countries, and, over all, I think we're going certainly to see a softening, and the formal announcement will be made of the new export figures during the Ag Outlook Conference, but they certainly will be in the order of 3 percent, maybe slightly higher, but in that area, but probably not below the plateau that we've seen the last 2 or 3 or 4 years, but certainly on that newer plateau above $55 billion, and I think we're very competitive, and with the tools, GSM, and others, we're going to stay there.

One of the key issues, however, as I said earlier, is that the IMF package, if you didn't have it, we couldn't have made the GSM, because they would not have been creditworthy because of liquidity and currency issues. So, with the IMF package, we came in quickly underneath that and are helping to stabilize exports to that critical market.

Mr. RAMSTAD. And, hopefully, that message won't be lost on the present Congress as we look down the road.

Let me ask you, Ambassador Scher, a constituent recently wrote to me that "The IMF has been successful at getting Indonesia to do something that USTR has been aggressively working at for a long time; that is opening up their markets to agricultural imports with the exception of rice." Has the IMF been successful at opening markets as conditions for assistance in any other Nation?

Mr. SCHER. Well, I think that, frankly, you look at the whole IMF effort and what is going on in Asia, and the message out of this financial crisis is that the closed markets that Korea and Japan and so many other countries have followed don't work. In fact, they've led to this type of instability, and so the whole thrust of our efforts—this administration's efforts and the President's efforts is to move these countries to more market-based systems, and

we have had success with Korea and with other countries in getting them to adopt more market-based systems which will lead to more open markets. One of the analogies I would point out—you know, we've heard so much about NAFTA and the criticism several years ago when the administration took efforts to help Mexico during their recession in 1995. The fact is by doing that we protected our own interests. As a result of the peso crisis in 1995, we lost about $1 billion in agricultural exports, but because this administration and the United States stood by Mexico and Mexico stood by their commitments to open their market, not only did we rebound within a year but we have now exceeded our agricultural exports by over 20 percent. So, this is an opportunity, I believe, to do what we all have been trying to do in a bipartisan fashion for many years: to move Asia and many of these countries into a more open market-based system, and I think it's clearly in our interest to pursue that goal.

Mr. RAMSTAD. So, you're implying these are permanent improvements?

Mr. SCHER. Well, I think if these countries hope to remain stable economically, they need to be.

Mr. RAMSTAD. And there is, in your judgment, then, the potential to work through the IMF for additional liberalization.

Mr. SCHER. Absolutely, absolutely.

Mr. RAMSTAD. Very well. Thank you, again, both of you for your testimony. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. I want to thank both you, Mr. Secretary and Mr. Ambassador, for your testimony. Let me start with you, Peter. The recent Kodak. Fuji case ruling that last month, was completed and finalized, created somewhat of an uproar. In fact, there's a lot of interest in this issue on Capitol Hill. The fact that we've been out of session probably has dampened that somewhat, but probably in either the month of March and April it may intensify again. I know there's a couple of letters that are going around and certainly a bipartisan resolution that may be brought to the floor—it will probably have to go through our committee or subcommittee first. How has the WTO worked in terms of agriculture—and both of you can answer, but, Peter, you first, perhaps? It seems to me—I understand the record was 16 to 1—or 16 to 0; now it's 16 to 1 after the Kodak case. Could you give me an idea of—you said a third of the challenges by the U.S. have been on the area of agriculture. Perhaps, you can state the impact of this on our interests.

Mr. SCHER. Mr. Congressman, let me say a couple of things. Obviously, we never like to lose a case. One of the common threads that run through trade negotiators I've found, whether it's been Mickey Cantor or Charlene Barshefsky is they're all bad losers. Having said that, let me say, again, we are bringing more cases in the WTO than any other country, and we are winning more cases in the WTO than any other country. We have a vested interest.

Agriculture—the agricultural community in this country has a vested interest in maintaining the integrity of that system, because we can win. We are meeting our obligations. It's other countries that are not, and finally we have a system in place, as a result of the Uruguay Round, that countries understand they can't get out

of their obligations. They can't block panel decisions, and, frankly, we are at the point now that merely by bringing cases even without seeing them through to the whole dispute panel, we are opening new markets, and, frankly, in Korea on the shelf life issue, simply by bringing the case and making clear to the government of Korea that we intended to pursue our rights, Korea agreed on a number of measures that opened that market.

So, I would, again, say we hate losing cases, but we have to keep the broader picture in mind, and the broader picture here is that we are winning and will continue to win more cases than we lose, and I think our job is to support the system, and to, frankly, educate people around the country about how important this system is to our interests.

Mr. MATSUI. Do you have a dollar value—either of you have a dollar value in terms of what those 16 victories meant to us as compared to, perhaps, would have been otherwise?

Mr. SCHER. I don't offhand. We can certainly get that for you. I can tell you just last week we won a case against the EU which is always a great pleasure for the—[laughter]—in the computer field which, as I know, is important to some of your constituents which is valued at $500 million. I mean, these are—now—as Secretary Schumacher said earlier, now we have a binding obligation, and if countries don't abide by these rulings, we have the ability either to seek compensation for the loss or to retaliate, and we are going to be very aggressive in using all of our rights under the WTO.

Mr. MATSUI. Would you disagree with that, August, at all in terms of the impact of the WTO; the importance of it in terms of your department and how it operates?

Mr. SCHUMACHER. Well, certainly, Peter and I work closely together and the impact of the WTO has been very helpful—the combination—we have the IMF opening up—helping to open more transparency, and it's really helped us a lot in Asia and Indonesia on getting rid of monopolies and BULOG and others for our recourse, but I think as Peter said very clearly and very forcefully, the WTO has been very helpful to American family farmers.

Mr. MATSUI. With the Asian crisis now, and, obviously, the whole issue of the IMF funding is not certain yet in terms of the results of it, the Ex-Im Bank may have to take on a larger role in terms of making sure that we provide at least some assistance to some of these countries so that they might continue to purchase our exports, particularly agricultural exports. Is your Department working in that area now in terms of trying to, perhaps, rachet up the interest of Ex-Im Bank and some of the companies and countries to look at this?

Mr. SCHUMACHER. Well, we've had a number—several interagency meetings recently, and we have the tools provided by you in Congress for the general sales, the GSM program, and we've been using that, frankly, quite aggressively by increasing it $2 billion; that certainly has helped as I said earlier. A lot of the industry, especially in the West Coast, have maintained market share, because it's a liquidity problem, and once we can get through that with the IMF and other bank structural reforms that have been encouraged, these countries will be more transparent; more open to

trade from all countries, and we certainly think we have a competitive agriculture and can compete—meet with competition in those countries.

Mr. MATSUI. If I could move over, Mr. Chairman, to anther area—I know my time is running out, but I do want to explore the whole issue of fast-track. Obviously, without fast-track, the 1999 negotiations, although they will continue and they'll go on and we'll prepare for them and we'll probably begin our negotiations; it is somewhat more difficult, obviously, and I don't want to get into, and you wouldn't want to get into, how difficult it will be because, obviously, that's something you want to keep somewhat proprietary, although I don't think anything proprietary anymore, but, you know, we do the best we can.

In terms of the other countries that we're negotiating with—180 or whatever it is, 186—are they cooperating? I know the French are always a historic problem for us. Are we getting any kind of feeling that they're going to be helpful in trying to resolve? Not helpful in terms of working with us but in resolving the ag problems and subsidies?

Mr. SCHER. Some are. I mean the Cannes group, as you know, is taking a big leadership role. In fact, they're meeting in early April in Australia, and I believe Secretary Glickman is planning to attend that meeting—at the end of March? In March. But I think, again, without revealing any proprietary information, I think you're right.

We are going through a process now of preparing for the next round in 1999. We're working with the administration; we're working with other countries, but I also think we can't kid ourselves here, and the fact is there are other countries that will use any excuse not only to not adopt the type of reforms that we're seeking but to block the type of reforms that we're seeking, and what I fear is that fast-track becomes just that excuse, and we have to be prepared that many countries—I'm not saying all—but many countries will use an excuse, our inaction, as an excuse not to come to the table and not to negotiate seriously.

People will come to Geneva; we'll all make our statements; we'll have good meetings, but I think if we expect to obtain the type of reforms—I know earlier there was discussion of the EU's cap; I think Congressman Ramstad brought this up—that's the type of thing that we have to try to pursue in the next round in 1999, and we need to have every tool at our disposal to ensure that other countries are negotiating with us, and other countries are making tough political decisions that we have already made in this country. Without fast-track, it makes the job harder.

Mr. MATSUI. If I could just make an observation and not to ask a question, there's a lot of ag people in the audience right now. I think most of us that were working on fast-track—and I know on the Republican side and Democratic side—were somewhat disappointed in the agriculture community's enthusiasm for this. We had a whole year to work on it, and it wasn't until right at the end did they come on board after they cut a few deals that were probably coincidental to the main thrust of getting fast-track.

I guess what's a little troubling to me is that you got the WTO; we lost 1 case, but we won 16, and we really helped ag, because

one-third of the cases we brought were for agriculture's interest, and so you're all being helped. Yet, when the opposition of the WTO comes out and starts pounding away—and I'll tell you, there's a lot of opposition to the WTO; you can see a real thrust to do some real damage to the WTO over the next few years; we know where it's all coming from—I don't hear from agriculture saying, "Hey, look, we're the beneficiaries of this."

You know, in this town, it's the one who squeaks the loudest that's going to get the grease, and if you don't make your noise, two years from now, you can see the WTO greatly dismantled or diminished, and all of a sudden you're going to say, "Well, geez, how come we can't open up markets?" Same thing applies to fast-track. I don't think we're going to get fast-track this year unless some miracle happens, and we're going to go right into the year 1999, and then you're going to get into the presidential election year, and it may never happen, I think as Mr. Crane has been saying over and over again in 1997. And you're going to be the losers. There may be a few that are going to win out of this, but you're going to be the big losers, and you can't come back to us and start complaining once you find out that you are going to be the losers, and so I would hope that you would look more strategically instead of tactically next time we have an issue like the WTO or fast-track that you know is clearly in your long-term interests, but because of various reasons, because you want to try to squeeze the lemon for just a little bit more, you wait to the point where we can no longer be successful in a lot of our efforts. So, it's my hope that these hearings, perhaps, will be a lesson that you know what's in your interest, and you have to pursue your particular interests. Thank you, Mr. Chairman.

Mr. RAMSTAD. Well, thank you, Mr. Matsui, and, again, thank you, Secretary Schumacher and Ambassador Scher for your testimony. Mr. Portman?

Mr. PORTMAN. Mr. Chairman, I don't want to hold things up, I know you've got a lot of panels, but if I could just make one quick comment and ask a question.

I just want to thank the panelists for their support of the new WTO dispute settlement mechanism and just echo what Bob Matsui said which was many of us fought hard for the new, more binding WTO process. We said the old GATT panel system didn't work, because countries could veto it as the Europeans did repeatedly on various issues; twice on bananas, for instance. We had to argue against people who had legitimate concerns about sovereignty, and, frankly, back home it was not a terribly popular issue. Now, finally, we're at the point where we've got a couple good cases, the beef hormone case, which I know Mr. Watkins feels strongly about and the banana case; which I feel strongly about it. And I want to thank Peter Scher, particularly, because he has been out front and pushing this issue as we must on behalf of U.S. interests, but just to tell folks in the audience and others at USTR and in the administration, if we cannot—as Bob Matsui implied—be able to enforce these cases where we so clearly have a victory—I think in the banana case we have 20 some violations of international trade laws; the most of any case ever—if we can't do this, then what good is

it and how can we move with not just retaining WTO but fast-track and other important liberalization measures that all of us support?

So, Mr. Chairman, I thank you for the time and appreciate all the support, and I want to encourage USTR to continue to promote U.S. interests in this case. Thank you.

Mr. RAMSTAD. Mrs. Thurman.

Mrs. THURMAN. Thank you, Mr. Chairman.

Peter, let me just ask you a couple of questions that—this really goes to my testimony when I talked about the kind of conflicting policies that we were having. This question deals with methylbromide and the issues that have actually happened over the last couple of months. What I want to know right now is what USTR is doing to get those countries to change their policies? Because as you mentioned, and others will mention, that that is a major issue for the citrus industry, because Japan will not take our citrus without methylbromide. Are we negotiating or do anything in those areas as to what would happen once this goes into effect?

Mr. SCHER. Well, let me say a couple things. In terms of Japan, we are pursuing a WTO case against them right now on the issue of varietal testing, because we disagree—we don't believe there's any scientific basis for their regulations. To the broader issue of methylbromide in terms—and I think you're referring to the differences between the Montreal protocol and the Clean Air Act obligations—we need recognize that there are differences between our obligations under the 1990 Clean Air Act regulations and the Montreal protocol, and as the administration has said that we are committed to working with Congress to try to address those differences, because there is a disparity right now. We recognize it needs to be addressed, and we are committed to working with you and other members to try to address that.

Mrs. THURMAN. Maybe to Mr. Schumacher, then, because it also falls under your purview, and I know in earlier testimony before the Ag Committee there has been—at least from USDA, a concerted effort to try to do better research to find an alternative, but in—one of the things that I'm seeing and not necessarily, maybe, with Peter and yourself, but in other areas where there doesn't seem to be much coordination between the agencies. Who would be looking at the regulatory process? If other countries are allowed to continue to use methylbromide who might be our direct competition with us in citrus and we're phased out by 1998?

Mr. SCHUMACHER. Two thousand, 2000.

Mrs. THURMAN. Two thousand, and then—but some of these countries in 15 years down the road. So, maybe you can help me understand what the Department of Agriculture is doing. Are we speeding up some kind of research? What are we doing, on the other side, to help our agriculture community?

Mr. SCHUMACHER. Well, again, as Peter said, this is one of the most difficult ones we're dealing with, Congresswoman. I think in agriculture one with working through the interagency very closely through EPA and with working with STR, but the key one is what other alternatives and we've actually greatly expanded our research into the alternatives. It is not much yet underway, but we've seen an enormous amount of progress in things like biotech and others, we expect, hopefully, to come up with some alternatives

that will help not only Florida but also California. It's a major issue we're working very hard on. Mr. Romerage, the Deputy, has taken great leadership on that issue.

Mr. SCHER. Could I just add one thing to that just to plug the President's budget? There is a substantial increase in research funds in the Fiscal Year 1999 budget for methylbromide research. I think it's an indication that we recognize that there is a real issue here that our agricultural community has not been shy in letting us know——

Mrs. THURMAN. Nor have they been shy in letting me know. [Laughter.]

Mr. SCHER [continuing]. And we have to figure out how to fix it.

Mrs. THURMAN. Let me continue on that same line. We had a problem just recently with some product coming in from some other countries that potentially had med fly. We stopped it. Florida really came out against it, because it potentially came into Florida. We'll go to the President's budget again then. What do you know is in Fiscal Year 1999 budget request for APHIS inspectors? How many in Florida and how many along the Southwest border?

Mr. SCHUMACHER. Well, that's, again, a very interesting question. I think my understanding is that APHIS has expanded its coverage in Florida and along the borders, and I believe there's money in for additional expansion. What I would like to do is get the exact numbers back to you, Congresswoman, and we're prepared to do that very quickly early next week.

Mrs. THURMAN. Since the Med fly is also one of those issues that keeps us out of these countries or superficially, I think, keeps us out of some of these countries, let me ask you this question, because this is a really—again, as an interagency issue. Do you think Florida has a med fly problem?

Mr. SCHUMACHER. Well, my understanding is, according to Dan who's sitting right behind me from APHIS, if there is one it's going to eradicated in March.

Mrs. THURMAN. Okay, but then I've got EPA saying we do or we don't—[laughter]—so we should get rid of any of the pesticides that we have available to us today to get rid of it. I mean, this is—somehow, we need to get this intercoordination going. I mean, we need to have these agencies understand what's going on on the other side, because it is really causing some major problems. We're getting some very mixed signals. That's not your fault. I just think it's the fact that these agencies don't sit down and talk to each other, and you've got to start doing that, because I think we're creating some real problems for us domestically. I thank you for your testimony.

[The following was subsequently received:]

Ways and Means Committee, Trade Subcommittee Hearing on Agricultural Barriers to Trade
Response to Question from Congresswoman Thurman

The President's Budget requests for the Department's Animal and Plant Health Inspection Service includes $100 million for the Agricultural Quarantine Inspection (AQI)-User Fees Program. The 1996 FAIR Act AQI provisions will make another $43 million available as well. The total available funding would increase by $2 million over FY 1998. For the part of the AQI program not covered by user fees, the President's Budget requests $30.7 million, an increase of $3.9 million. This increase would allow for additional inspectors along the Canadian border, the Southwest border, and in Puerto Rico and Hawaii.

All of the Florida AQI work is covered by user fees, while the AQI work along the Southwest border is funded by user fees and regular appropriated funds. In FY 1998, 315 AQI inspectors are assigned to Florida, over 100 more inspectors than APHIS had in place 2 years ago. This number will remain the same or increase very slightly in FY 1999. In FY 1998, 573 AQI inspectors are assigned to Texas, New Mexico, Arizona, and Southern California, including Los Angeles. The FY 1999 President's Budget would increase this to about 585, with the increase in the non-user fee portion of the program.

It is important to note that the AQI inspectors provide only a first line of defense against pest introductions. It is impossible to ensure complete detection of all pests at the point of inspection and the threat posed by passengers and cargo arriving from international locations does not end at that point. Additional survey, investigatory, and eradication work, such as the Mediterranean fruit fly program currently underway in Florida, are also essential parts of a total safeguarding system to prevent the entry and eventual establishment of pests.

In further response to your questions about Medfly in Florida, there have been no detections in Florida since October 6, 1997, and APHIS anticipates declaring eradication complete some time in April. Nonetheless, it is critical that appropriate tools be available to address any future incursions should they occur. To this end, APHIS is working closely with the Environmental Protection Agency to review the status of our section 18 exemption for the use of malathion in any future Medfly eradication activities. APHIS will also continue its ongoing work to improve other existing tools and develop alternative tools.

Mr. RAMSTAD. Thank you, Karen. When it's 10 below, we don't have Med flies in Minnesota. [Laughter.]

Mr. Watkins.

Mrs. THURMAN. Do you have pretenders?

Mr. RAMSTAD. Well, our State bird is the mosquito. [Laughter.]

Go ahead, Mr. Watkins.

Mr. WATKINS. Thank you, Mr. Chairman, and let me say I want to express my thanks to Chairman Crane and members of this Trade Subcommittee for allowing me to participate. I know I'm a ex-officio, but I want you to know my heart—I'm genuine, sincere, and committed to international trade and to agriculture. I know I was probably obnoxious about the beef hormone ban with the European Union. I guess you were nodding, Peter, that I was obnoxious. [Laughter.]

Mr. SCHER. No, no; just that it was an important issue. We noted your interest.

Mr. WATKINS. I felt like I was, maybe to some extent, out of character, but a lot of people think I'm in character when I got obnoxious, but I thought it was so blatantly unfair.

I might say to members of the panel I grew up on a cattle and peanut farm. I went to college and got a couple degrees in agriculture, so I'm genuine in my thinking. I can remember when I served as State President of the Oklahoma Future Farmers of America. As I traveled across the State of Oklahoma, I would talk about the fact that 16 percent of us were in the production of agriculture. Four years later at graduation, I was lucky enough to be the outstanding ag student at OSU. I got up and made this speech that there's only 12.5 percent of us in the production of agriculture. As a United States Congressman, I now make speeches, and I say there's 1.5 percent of the population in the production of agriculture. That's as clear a vision, I think, as I can put it on what's happened in the production of agriculture in this country.

In 1996, we passed a farm bill here. I wasn't here at that time. We moved from subsidies to a free market, freedom to farm; depending on our international markets. So, it behooves us to do everything—and let me say ditto to what Bob Matsui said: it means that we, as agriculture, need to get together or we're going to leave our farmers and ranchers dangling out there.

Now, I was unabashed and unconditional in my support of fast-track. I was deeply disappointed we couldn't get the kind of support we needed, and I imagine there's a lot of reasons for it. We put in the strongest agriculture language that we've every had in a trade bill in this country. Part of it was my language there, and we also put in a permanent chief negotiator for agriculture, which would have been the first time with ambassadorial status. As I said to a lot of my agricultural community, "we should be out there supporting fast track". Now, part of the problem was the beef hormone situation, but let me say, we've got to have WTO. We've got the greatest quality agriculture products in the world, and surely the WTO will rule in our favor. However, the biggest problem is that the beef hormone went into effect in 1989; 9 years ago. Now, we've got to get some kind of ruling, why so long?—I'm getting to the question, I guess—why so long?

Mr. SCHER. Congressman——

Mr. WATKINS. Pardon me, but I'm mean about this thing.

Mr. SCHER. No, no. I share your emotion. Let me first make a comment about the beef hormone. One of the reasons why so long is because under the old GATT there was not an enforceable mechanism, so we could bring as many cases—as Congressman Portman referred to the banana case; we won the banana case two times under the GATT, and you could say, "Well, thanks, we appreciate your advice, but we're just not going to abide by the ruling." You now have—as a result of the Uruguay Round negotiations in 1994, which went into effect in 1995—you now have an enforceable dispute settlement mechanism. That's why we're winning so many cases, and that's why these countries, in many cases, abiding by it. But, I think, as Congressman Portman referred to, both about the banana case and the beef hormone case, these are very important tests of the WTO, particularly with regard to the European Union. The European Union was always quick to tell us we have to respect the multilateral system.

I remember several years ago when I was working for Ambassador Cantor and we got into a little discussion with Japan over automobiles, and there was unilateral action threatened and many in Europe said, "You can't do that. You have to respect the multilateral system. That's why we have the WTO." Well, we are respecting the multilateral system. We're using those processes, but now other countries have to respect it as well, and the only way we can demonstrate to the American people that being part of the WTO and being part of the World Trading System works is if Europe abides by these rulings.

Mr. WATKINS. What's the time limit, now we think we can start——

Mr. SCHER. In terms of beef hormones?

Mr. WATKINS. Well, the beef hormones we're expecting—hopefully, through the appeal process we'll be able to get that beef—we better get there before election day. [Laughter.]

Mr. SCHER. Well, Congressman, I, of course, don't think in those terms, so it would be——

Mr. WATKINS. You should from now on. [Laughter.]

Mr. SCHER. I know, I know. I'm just very apolitical. Let me say that tomorrow in Geneva the appeal decision, the appellate decision of the—on the beef hormone case will be adopted by the WTO. The European Union then has 30 days to indicate whether or not it plans to comply with the decision, and let me make clear that we expect the WTO to comply with the decision. The panel was very clear, there is no scientific evidence that supports this ban, and, in fact, the panel went out and brought in another panel of scientific experts and said, "You tell us whether or not there's a scientific basis for this ban," and they said "No," and the appellate body upheld that finding, and, in fact, upheld the right of the initial dispute panel to bring in these scientific experts.

Mr. WATKINS. Peter, let me say I've been over there with the European Union; I met with them, and the agriculture ministry in France. Being a, I guess an agriculture farmboy. If Wally would just yield to me just a little bit—but as I kneeled down and dug in the soil in France, I looked up and I saw all these multitude of small farms. We all know we've shifted that to bigger farms. So,

I stood up; I looked at the agriculture minister, and I said, "Why all the small farms? Why are you taking it and going in the opposite direction?" I'll never forget his answer. He said, "Congressman, we went hungry twice in our life, World War I, World War II." He said, "We'll pay whatever the price it takes to maintain our agriculture in those countries." That we should never forget, and you should never forget it. They'll pay whatever price. Now, not only are they subsidizing internally the production, they're subsidizing externally to get markets and they're willing to lose. In fact, the European Union back in that time, five or six years ago, they were using 70 percent of their budget to subsidize agriculture against our farmers and our ranchers. Now, you've got a big job to do.

Mr. SCHER. And it's now up to 75 percent.

Mr. WATKINS. And I'd like to know—yes. I'd like to know what all—how many times have you gone before the WTO?

Mr. SCHER. How many times has the United States?

Mr. WATKINS. Yes.

Mr. SCHER. We have brought 35 cases.

Mr. WATKINS. No, I said you.

Mr. SCHER. Me, personally? We have a team of litigators who are much more adept at appearing before the WTO than I am, but we have a very good team of people who do that.

Mr. WATKINS. And this is the point I want to make: I don't know what those litigators' background, but they're dumb if they don't understand that 99.9 percent of our beef in the United States is grown with beef hormones. They were not willing—they didn't understand around that table that they were negotiating our ranchers right out of business with Europe. Now, either they don't care or they sold our cattlemen down the drain. Now, that's what I'm mostly—that's why I wanted to set the stage. It's not political to me, I'm sincere. We've got to have, Mr. Chairman, negotiators who understand agriculture—and Mr. Chairman is very patient, and I appreciate that, and I appreciate getting to kindly led this off. You may have saved a heart attack this afternoon. [Laughter.]

Mr. RAMSTAD. Thank you, Mr. Watkins, for telling it like it is. Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman. I'm not sure if I can be quite as lively as my predecessor here from Oklahoma, but, Mr. Ambassador, I'm sure you can tell by the questioning and the fact that we're having this hearing that this is an incredibly important issue to the Congress; to those of us on Ways and Means; certainly, to the districts that we represent in the Nation. I also have been one who has supported our trade agreements over the years. I was a supporter of fast-track. But in supporting these agreements, we're doing so—I'm certainly doing so—with the presumption that the Administration is going to be enforcing the agreements that we're making. I mean, that has to be a given; that the Administration is going to be enforcing the agreements that we're making, and I share the same concerns of each of those who have questioned prior to me.

I want to move to another question, and it has to do with the USTR and the issue of the EU canned fruit subsidies. Ambassador Barshefsky has acknowledged that the EU regime under which Europe has been subsidizing their canned peach producers with hun-

dreds of million of dollars annually is "an inequity"—that was a quote from her—that needs to be corrected. I understood that several months ago that resolving this problem was a priority at USTR, and my question is: What positive steps has the USTR determined to take over the next 6 to 12 months to resolve the quote "inequities" and harm to the California industry that we all agree have resulted from the EU regime?

Mr. SCHER. Congressman, let me say a couple things. First of all, we are concerned that these subsidies are putting our producers, your producers, at a competitive disadvantage, and this is something—as you know, this is a long standing issue between the United States and the EU. We are working very closely with the industry to develop the strongest possible case and the strongest possible strategy to address this problem. I would rather not go into the specifics of that right now in a public hearing, but I'm happy to come up and go through those with you in your office or with your staff at your convenience, and one of the reasons I say that—one of the reasons we have been successful in the WTO, particularly on the agricultural front is that we do our homework before we go in there and that we go in there with the strongest possible case, so whatever action we choose to pursue on the issue of the canned peaches, we want to have the strongest possible action.

So, I hope—I'm not trying to put you off at all, but given the fact that this will likely be subject to further negotiation, I'd rather not do that publicly, and I'd rather come up and talk to you privately and bring our team an go over what we believe we can do to address this issue.

Mr. HERGER. I can understand that, and I want to take you up on that. I would like you to come in and go over that with me.

Mr. SCHER. Okay. Can I—Mr. Chairman, if I—can I make—I want to make one other point, because I—one of the things that both Congressman Matsui and Congressman Herger brought up I think is relevant and that is this sort of—people, often, in this country look at a trade problem and say because we have this trade problem we shouldn't move forward on other areas, and I think there were some suggestions that the agricultural community has not been as supportive as they should have been on fast-track, and I hate to come before the committee and disagree with any member, but I will say from my vantage point the agriculture community, frankly, has been the strongest supporter of our fast-track efforts, and I know Dean Kleckner is up next, and there is no stronger supporter in this country in the agriculture community for the adoption of fast-track than the farm bureau and the pork producers and the many of the industries that will be testifying later today.

But there remains this disconnect between what we're trying to do and the success we're having around the world and how people perceive trade, and I think until we can try to bridge that and educate people about the realities of global economy, the fact is the biggest challenge in the next 30 to 50 years will be meeting world demand for food. We are in a position to take advantage of that challenge, and it doesn't serve the interests of Oklahoma or Ohio or California or Minnesota farmers if we don't have all the tools at our disposal to do that. So, I would like to just take a second and commend the agriculture community for their very strong and very

forceful support and very continuing support for fast-track and hope we can work with you to build the type of consensus we need to move forward.

Mr. HERGER. Good. Thank you.

Mr. RAMSTAD. One final question that Mrs. Dunn asked me to ask you, Ambassador Scher, if I can read her writing. Mrs. Dunn wanted me to inquire about a duty that Mexico has recently imposed on U.S. exports of apples.

Mr. SCHER. Right.

Mr. RAMSTAD. I understand that this duty is high enough that it has virtually stopped U.S. exports of apples to Mexico. Do you intend to request consultations in the WTO on this matter which is of great interest to growers in the State of Washington?

Mr. SCHER. When you said Congresswoman Dunn, I was going to offer to ask the question for you. [Laughter.]

No, this is—and she has communicated very forceful as have Chairman Smith and other people from Washington and Oregon about this. This is a very major problem and the actions that the Mexicans have taken to impose these duties are of great concern to us. We are working very closely with her industry in fact, right now. The duties are not final which is a fact that is relevant to our review of this, but we're reviewing our options, and we will get back to Congresswoman Dunn on what we believe the best way—I will tell you, in addition, that Deputy U.S. Trade Representative, Richard Fisher, was in Mexico this week and raised this issue, himself, with the highest levels in the Mexican government including the trade ministry and the foreign ministry, and so this is something that we're very concerned about, particularly as we see the problems in the Asian market for our northwest producers, and we will continue to focus on it.

Mr. RAMSTAD. Well, thank you. I know Mrs. Dunn's on a plane back to her district. I know she'll be reading your response; probably getting back to you soon.

Well, thank you again, Mr. Secretary, Mr. Ambassador, for your testimony and responding to the questions so well.

The next witness is Dean Kleckner who is president of the American Farm Bureau, and, Dean, before you begin your testimony Chairman Crane asked that I think you were here when I explained that the chairman took ill—asked that I just state, for the record, his feelings, and I'm quoting now from our Chairman Crane who says "As the president of the American Farm Bureau since 1986, Dean, you are the only farmer on the Private Sector Advisory team to the GATT when the Uruguay Round was launched. You have been actively involved in promoting free trade at the grassroots level for many years, and the Trade Subcommittee has benefited enormously from your work as I have as chairman. I want to thank you for your tireless effort on behalf of fast-track and urge you to continue to do everything possible to let the Nation know how important this legislation is." Those words from Chairman Crane.

Please begin your testimony and welcome to the committee.

**STATEMENT OF DEAN R. KLECKNER, PRESIDENT, AMERICAN FARM BUREAU**

Mr. KLECKNER. Thank you, Chairman Ramstad, and I thank Congressman Crane for his compliments and comments. I'm a farmer from northern Iowa, about 35 miles south of Austin, Minnesota. I grow corn, soybeans, and hogs on my farm when I'm able to be there. I'm serving as president of the American Farm Bureau which is the world's largest farm organization not only just in the U.S. but in the world, and our members grow all the 280 or so commodities that are produced commercially in the country; there's farm bureau members growing all of them. And, Mrs. Thurman, I want to say just off the subject a little bit, we appreciate your support and your cosponsoring the farm legislation. I testified on that this morning before the full committee. Twice before the Ways and Means Committee in one day is a lot, but I'm here again. [Laughter.]

We want to thank this committee for your support to pass fast-track in the last session and pledge to you that the American Farm Bureau is going to do everything we can to work on it yet in this session. I know there's a lot doubt of—I heard Congressman Matsui say it doesn't look good, and maybe it doesn't, but we're going to work on it, and we think turn a few votes around, and we can have it yet this year. We need it now.

Our producers are the most effective and efficient producers in the world, but what we can't do is break down barriers created by other governments. This has got to be done government to government with our negotiators, hopefully, in the leadership role. What we, as producers, hope that we can do is have a positive impact on removing barriers created here at home.

I want to discuss some of those barriers that I see that we're creating here. We continue to put economic sanctions on our trading partners which only have the effect of cutting our sales out of their markets. History has shown, gentleman and Mrs. Thurman, that economic sanctions are an ineffective means of resolving political differences. Short-sided budget reductions, also, and market development promotion programs; reduced resources for research—that's eating our seed corn, in other words; cutting back on human resources in overseas posts—and we're doing that—only reduce our ability to compete.

I want to comment that the expertise that we have in our overseas USDA–FAS offices are the eyes and ears to us, and we're cutting back on that, and we simply cannot afford to do it. They help us resolve trade barriers before they become irritant. They could have resolved, Congressman Watkins, maybe, back then in a proper manner, the beef hormone issue. We're cutting back on those people now, and that's wrong.

The economic crisis in Asia puts the entire U.S. economy at risk if strong, effective measures are not taken to stabilize the currencies in those countries. IMF has taken steps to see that this happens. We should not risk losing our biggest market by failing to provide IMF with needed funding to prevent economic disaster. Whether that means we continue IMF in the future, I don't know. I read the Wall Street Journal article 10 days ago saying we

shouldn't have an IMF, but it's there now, and we've got to use it now today.

I'd like to submit, for the record, Mr. Chairman, a copy of letters of intent from Korea, Thailand, and Indonesia that show that critical, structural changes are part of the IMF program to bring stability to those markets, and they've committed to do that.

Going on, failing to grant the administration fast-track negotiation authority has allowed our competitors to move forward while we watch market share disappear and see our leadership role in shaping trade diminish. We would not have the agreements that have made the United States a leader in international trade without the fast-track authority of the past. They wouldn't be there. At the beginning of the Tokyo Round there was no fast-track authority. At the beginning of the Uruguay Round there was no fast-track authority to negotiate. The world waited for two years to begin negotiations after September 1986 as you mentioned, Mr. Chairman or Chairman Crane mentioned. It was two years before we got fast-track authority. Nothing happened in those two years. I guess we negotiated the size and shape of the table and how soft the chairs were but not much else. You don't talk seriously without fast-track negotiating authority, and many people are saying we won't have the next round which is scheduled to start in 1999—whether it will be called Millennium Round or whatever—we won't be a player without fast-track. We can't afford to wait for this authority in 1999 when the talks are due to begin.

Our trading partners are not going to wait for us. We believe that the European Union has a number of issues they wish to move forward that they know we won't support. We won't be at the table without fast-track; EU goes forward. The beef hormone issue is maybe a tip of the iceberg for what they want to do. The same is true of Canada and a number of other trading partners in the WTO.

Also, we are going to be very concerned if the administration negotiates trade deals without agriculture as part of the package. We strongly oppose any agreements or negotiations that exclude agriculture. We're currently losing market share in South American. Canada just negotiated a deal with Chile; eliminated tariffs 11 percent at the border. How can we compete with 11 percent tax at the border with Canada and Chile? Answer: we can't.

Over 20 new agreements are in the western hemisphere in recent years; we're a part of one, called NAFTA. Nineteen, if not more, we're not a part of. Trade is our future; we can't reverse our course. Our share of international sales—of U.S. farm cash receipts now, is 30 percent and rising; it was 20 percent a dozen years ago. Over 50 percent of our rice and wheat are exported; 40 percent of our soybeans and cotton have been exported in recent years; beef, pork, and poultry are lower, but it's increasing. Exports have doubled since 1998, so have exports of value of added products.

Our agriculture exports are now $60 billion versus $29 billion in 1985—some of you were in Congress, I think, In 1985—it's more than doubled, and it's due to opening markets through trade agreements and multilateral trade negotiations. That's the only reason that happened. Developing countries now in Asia and the Pacific rim are more important than at the previous time. Over 40 percent

of our U.S. ag exports now go to Asia. Last year that was $23 billion of the roughly $60 billion that was exported; $23 billion to that part of the world. We've got to have low duty—we give low duty access now to most Nations of the world. I heard Secretary Glickman say at our convention that our average ag tariff is about 2 percent, and he said trade fluctuations make more than that difference daily, and that's how open we are; other countries aren't open. We can't open them without trade negotiations, and we've got to have authority to do it, and that's called fast-track.

Three things that we believe should be in future negotiating authority and they're in there in the President's message last September: binding agreements to resolve sanitary and phytosanitary issues on the bases of sound science. You can argue with sound science, but there is a broad middle ground of science where it's peer-reviewed and the scientists do agree. The fringes don't agree; we write them off.

Secondly, tariff equalization and increasing market access by requiring U.S. trading partners to eliminate tariff barriers within specified timeframes; eliminate them. Don't do what we did with Canada and kind of put it off. And we're not getting poultry, poultry products, and dairy products into Canada today.

The third one, changes in international agreements in U.S. law and practices that would facilitate and shorten dispute resolution procedures and processes and that speaks directly to Florida and their niche markets with their vegetables.

Our dispute resolution processes are working, but they are not time efficient to respond to market needs. Our trading partners continue to take advantage of the timeframes allowed within the process to delay compliance with banana findings—beef hormones, the banana case would be examples of that also. There is a potential trade dispute or barrier for every product we have in the marketplace. I hadn't thought about that until recently. For every product we sell there's a potential barrier in place somewhere in the world. The list would go from unfair tariffs and phytosanitary barriers in Mexico and Japan to apples and wheat and pork into China. There is no product not affected by barriers somewhere in the world.

Our trade agreements are good but not perfect. We must expand the existing market access and open new markets. Our negotiators have got to have fast-track authority or our trading partners will not meet us at the negotiating table. If I were them I wouldn't talk to us either without fast-track authority. It's a waste of time when fast-track is not in place. I wouldn't negotiate with us if I were from Europe or China or somewhere else. Tremendous resources and effort have been expended to create the current markets for U.S. ag products whose sells support millions of U.S. workers.

In conclusion, our ability to gain and maintain market share is based on many factors including strong trade agreements; the administration's ability to negotiation freer and fairer market access with fast-track authority; sound monetary policies, and the ability to utilized market stabilizing tools such as a properly functioning IMF. It is extremely important to U.S. agriculture and the Nation's economic strengths that you all do the right thing and pass both of these trade measures early in this session of Congress. I urge

you also to take the steps necessary to prevent us from creating our own trade barriers by providing funding necessary for the IMF to address the needs of our trading partners in Asia and to move as quickly as possible to provide fast-track authority to continue to open the markets. We're ready to work with you in any we can, and I thank you for this opportunity to talk with you.

[The prepared statement follows:]

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**STATEMENT OF**
**THE AMERICAN FARM BUREAU FEDERATION**
**TO THE**
**TRADE SUBCOMMITTEE**
**HOUSE WAYS AND MEANS COMMITTEE**
**REGARDING**
**U.S. EFFORTS TO REDUCE BARRIERS TO TRADE IN AGRICULTURE**

**Presented by**
**Dean R. Kleckner, President**
**American Farm Bureau Federation**

**February 12, 1998**

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**February 12, 1998**

Mr. Chairman, I am Dean Kleckner, president of the American Farm Bureau Federation (AFBF). The American Farm Bureau Federation is the nation's largest general farm organization with member state Farm Bureaus in 50 states and Puerto Rico, representing 4.7 million member families.

Our members produce virtually every agricultural commodity produced commercially in the United States.

Among other purposes, AFBF was organized to assist Farm Bureau members in attaining economic opportunities through domestic and international markets.

I also want to thank you for holding this hearing and providing the opportunity to review the scope of trade barriers to agriculture and the market opportunities we will be denied if every means is not utilized to remove these barriers.

I want to thank you for your efforts to pass fast track legislation in the last session and pledge to you that the American Farm Bureau Federation is ready to work with you to do what ever is needed to make fast track a reality in this session.

Our producers are the most productive and efficient in the world. What they cannot do is break down barriers created by other governments. That must be done in government-to-government negotiations with our negotiators maintaining the leadership role. But what we as producers hope that we can do is have a positive impact on removing barriers that are created here at home.

We have created our own barriers to trade.

The United States continues to put economic sanctions on our trading partners which only have

the effect of cutting ourselves out of their markets. History has shown us that economic sanctions are an ineffective means of resolving political differences.

Shortsighted reductions in market development and promotion programs, reduced resources for research, which has been the backbone of our industry, and cutting back on human resources in our overseas posts only reduce our ability to compete. The expertise that USDA has in its offices overseas provides the eyes and ears to market opportunities and helps resolve trade irritants before they become barriers.

The economic crisis in Asia puts the entire U.S. economy at risk if strong effective measures are not taken to stabilize the currencies in these countries. The International Monetary Fund (IMF) has taken steps to help make this happen. We should not risk our biggest market by failing to provide IMF the needed funding to prevent economic disaster.

Failing to grant the administration fast track negotiating authority has allowed our competitors to move forward while we watch market share disappear and see our leadership role in shaping trade diminish.

With the strongest economy and lowest unemployment in memory, it makes no sense to back away from the very tools that made these possible.

We would not have the agreements that have made the United States a leader in international trade without the fast track negotiating authority of the past.

At the beginning of the Tokyo round, there was no fast track authority. That round did not get started until our leaders came to the table with the authority to negotiate. The same happened in the Uruguay Round. The world waited for two years to begin the negotiations. Some say the next round will not happen until our negotiators have fast track authority.

American agriculture cannot afford to wait for this authority in 1999 when the next round of agricultural talks are due to begin in the Word Trade Organization.

When the next round of talks begin, we must have all sectors at the table.

We would be concerned if the administration negotiated trade deals without agriculture as part of the package. These deals would greatly disadvantage agriculture's efforts to improve market access in the future. We strongly oppose any agreements or negotiations that exclude agriculture.

Our trading partners are not going to wait for us. We believe that the European Union has a number of issues they wish to move forward that they know we will not support. The same is true of Canada and a number of our other trading partners in the World Trade Organization.

We are currently losing market share in Latin America because our negotiators do not have fast track authority. We are already at an 11 percent disadvantage with Canada in the Chilean market.

Over 20 new agreements have been completed in our hemisphere--the United States is only part of one of these, the North American Free Trade Agreement.

These issues are important to American farmers and ranchers.

During the last decade, agriculture in the United States has become increasingly dependent on international trade. U.S. agriculture is now four times more dependent on foreign trade than the U.S. economy as a whole.

Implementation of the Canada-U.S. Trade Agreement in 1989, the North American Free Trade Agreement in 1994, and the Uruguay Round Agreement in 1995 have helped to move agricultural trade forward.

Trade is our future and we should not reverse our course. Let me give you a few figures on imports and exports.

**IMPORTANCE OF EXPORTS:**

In 1985, agricultural exports accounted for 20 percent of U.S. farm cash receipts. By 1997, this share had risen to 30 percent and is still rising.

Over 50 percent of all U.S. wheat and rice and 40 percent of U.S. soybeans and cotton production has been exported in recent years. Although the U.S. export shares of beef, pork and poultry are relatively small, each has at least doubled since 1988, reflecting increased dependence on international markets. Our producers' incomes are directly linked to these sales.

U.S. agricultural trade has grown steadily during the last decade. Our agricultural exports have more than doubled from $29 billion in 1985 to just under $60 billion today. Much of this growth has been attributed to efforts to open markets through trade agreements and multilateral trade negotiations that reduced trade barriers.

Major markets for U.S. agricultural exports have been relatively stable since 1990. Japan, the European Union and Canada have been the top three markets, accounting for nearly 50 percent of all U.S. agricultural exports in the 1990's. But, the Far East and developing countries are catching up. In 1990, for example, Korea, Mexico, Taiwan, China, Hong Kong, Egypt, and the former Soviet Union accounted for 29 percent of all U.S. agricultural exports. By 1997, this share had increased to 40 percent and total nearly $23 billion today.

Developing countries, especially in Asia and the Pacific Rim, are more important now than at any previous time. We are greatly concerned about these economies and their currency devaluations over the past six months. Such devaluations are harmful and will tend to slow imports from the United States.

**IMPORTANCE OF IMPORTS:**

U.S. agricultural imports are also growing in importance. Broccoli imports now account for 75 percent of U.S. domestic consumption, compared to 20 percent in 1985. A growing share of U.S. consumption of fresh fruits and vegetables, fish, beef, lamb, and vegetables for processing is being supplied by imported products.

U.S. agricultural imports have expanded 50 percent from $20 billion in 1985, to $30 billion at present. More open U.S. markets, along with relatively strong economic growth, have been contributing factors which led to higher imports. Even so, U.S. agriculture consistently exports more than it imports. Since 1990, the value of the agricultural trade surplus has grown from $17 billion to a peak of about $30 billion in 1996.

The importance of future trade agreements is proven by the success of the past agreements.

The Importance of General Agreement on Tariffs and Trade (GATT):

The Uruguay Round Agreement of GATT became effective on January 1, 1995 and required member countries of the World Trade Organization (WTO) to comply with agreed upon provisions. Among the most important provisions affecting agriculture are:

1) Creation of the WTO, including an internal Dispute Resolution Body.

2) Conversion of non-tariff barriers to their "tariff equivalent" based on the difference between average internal prices and world market prices.

3) Establishment of the sanitary - phytosanitary agreement binding our trading partners to base constraints to trade on sound science.

4) The binding of tariffs -- meaning that tariffs can be lowered, but not raised without consultation by affected countries and compensation to countries adversely affected by higher tariffs.

5) The reduction of tariffs over 6 years for developed countries and 10 years for developing countries by up to 36 percent on average. Each tariff line must be reduced by a minimum of 10 percent. Less developed countries are exempt from reduction commitments related to tariffs.

6) Commodities under tariffication are subject to a "minimum access requirement" which allows imports to increase from base levels of 1986/88 from 3 percent of domestic consumption to 5 percent over 6 to 10 years.

7) Special safeguards in the form of tariffs can be used to protect producers by raising domestic prices and limiting import competition and surges in imported goods.

8) Reduce export subsidies by up to 21 percent in tonnage and 36 percent in value of government expenditures over 6 years for developed countries and for developing countries over 10 years.

**THE FUTURE OF TRADE:**

With declining government support to U.S. agriculture, increased access to international markets is crucial to the future growth and prosperity of the U.S. agricultural economy.

U.S. agriculture still has much to gain from expanded trade since most countries already have relatively low duty access to the U.S. market. Over the long run, trade agreements are an important market-opening tool.

The pursuit of future trade agreements highlight three key areas:

1) Some agricultural sectors will experience the price-depressing effects of higher supplies due to more foreign competition, both in the United States and overseas.

This outcome is inescapable if we are to negotiate and compete with other countries in good faith and expect to have credibility with trading partners.

2) The use of technical barriers to trade, such as sanitary and phytosanitary regulations, food safety standards, restrictive labeling practices, and environmental regulations, has increased as the traditional tariff restrictions have been lowered and in some cases eliminated.

The Uruguay Round of GATT went a long way toward providing rules that are science based concerning trade. These rules need to be followed precisely and not used as new technical barriers.

3) The consequences of unexpected macroeconomic and political events in the U.S. and other countries will become more important factors affecting the well being of U.S. agriculture than at any time in recent history. In many cases, these unanticipated forces may partially offset or completely negate the intended effects of trade agreements.

The Mexican peso devaluation of 1995 and the current crisis in Asia are two good examples.

Farm Bureau believes that future negotiating authority must include the following:

1) Binding agreements to resolve sanitary and phytosanitary issues on the basis of sound scientific principles in accordance with the Uruguay Round Agreement on agriculture.

2) Tariff equalization and increasing market access by requiring U.S. trading partners to eliminate tariff barriers within specified time frames; and

3) Changes in international agreements and U.S. law and practices that would facilitate and shorten dispute resolution procedures and processes.

There is a potential trade dispute or barrier for every product we have in the market place. The list would go from unfair tariffs and phytosanitary barriers in Mexico and Japan on apples to wheat and pork into China. There is no product not affected by trade barriers somewhere in the world. We believe that on the whole our trade agreements have worked well for American agriculture .

However, our trade agreements are not perfect. Our negotiators must have fast track authority or our trading partners will not meet us at the negotiating table.

We must look to expanding existing market access and opening new markets. Our negotiators must have fast track negotiating authority to do this.

The stakes are too high to allow inaction.

Tremendous resources and effort have been expended to create the current markets for U.S. agricultural products whose sales support millions of U.S. workers.

The U.S.'s ability to gain and maintain market share is based on many factors, including strong trade agreements, the administration's ability to negotiate freer and fairer market access with fast track authority, sound monetary policies and the ability to utilize market stabilizing tools such as a properly functioning IMF.

It is extremely important to U.S. agriculture and the nation's economic strength that you do the right thing and pass both of these trade measures early in this session of Congress.

I urge you to take the steps necessary to prevent us from creating our own trade barriers by providing the funding necessary for the IMF to address the needs of our trading partners in Asia and to move as quickly as possible to provide the administration fast track negotiating authority to continue to open markets for all sectors.

The American Farm Bureau Federation stands ready to work with you.

Thank you.

Mr. RAMSTAD. Thank you very much, and thank you for your outstanding leadership as president of the Farm Bureau. I think, although it's probably already been printed, the Congress Daily pm quote of the day should certainly be from you from your testimony, "We won't be at the table without fast-track." How true that is. I just hope we can get that message out to the other members.

Let me just ask you a question, If I may, Dean. Other Nations, as you know, are reticent to reduce their barriers to agricultural imports, and we don't have very many barriers to bargain away. Do you think we should be calling for another major round of negotiations along with the agricultural negotiations?

Mr. KLECKNER. Well, Congressman, I think in 1999, the WTO negotiation are supposed to be broad ranging agriculture. What I'm afraid of is ag. may be cut out of that. We're talking something about a transatlantic—I think it's called that—an atlantic trading authority with Europe. I met with Charlene Barshefsky yesterday or the day before, and said we would be unalterably opposed to negotiating a transatlantic authority—or whatever it's called—without agriculture, and she said we're not going to do it. That was good news, but the WTO round that's scheduled to start in 1999—I'm hoping early 1999, not December 31. I think that's what Europe wants; if not December 31, 1999, maybe the year 2005, but delay it as long as you can, but we're going to start it, and it should be major; it should encompass services and intellectual property and all the other things, and I think without a broad negotiation in 1999 WTO, agriculture probably can't do anything by itself. There needs to be a broad agreement like the GATT was, the Uruguay Round.

Mr. RAMSTAD. Dean, in terms of new or ongoing negotiations, what are your specific priorities, your organizations specific priorities?

Mr. KLECKNER. Yes, the sanitary and phytosanitary we simply somehow must make sure that's scientifically based, and I know you can find a scientist somewhere in the world who will tell you anything you want to hear just like you can find a lawyer that will tell you anything you want to hear or anybody else, but there is a broad—I offended all the lawyers on the panel, didn't I? [Laughter.]

I didn't intend to, but there's a broad, middle ground of science, in my view, that does agree, it's in essence peer reviewed, you forget the wings that will tell you what you want to hear. There's a broad, middle ground of science that agrees, and if they tell Dean Kleckner that the corn or the soybeans that I'm growing with BT or whatever it is are not safe for human consumption, I want to quit growing them. I don't want to grow them anymore, but I don't want Europe telling us that we can't do it when science today says it's completely safe. And we need the—sanitary and phytosanitary is one; phase out tariffs in a time certain, and I don't think it has to be within five years. Some tariffs you can phase out in five years. It may take 10 or 15, but at least have an ending date to phase out tariffs. Those are very high priority.

Mr. RAMSTAD. Well, thank you, again, Dean. I can tell you as one recovering attorney, I wasn't at all offended by your remarks. [Laughter.]

Mrs. Thurman, Mrs. Thurman.

Mrs. THURMAN. I thank you for your comment earlier, and I'm sorry I missed your testimony.

I guess the one thing that strikes me, and I know that you're here for the Farm Bureau, but I know that Florida has departed from the National Farm Bureau within the fast-track debate. I just kind of want that clarified, because I know that is a big issue, and I don't to mean to diminish your presidency and the people that you are representing, but for the panel members you need to know that the Florida Farm Bureau has not accepted this position and has been very concerned about what is going to happen to them in particular.

But I do appreciate the fact that you have recognized at least two or three things that the Florida Farm Bureau has picked up and has said were very critical and the last three things that you talked about as well as some additional areas that they're very concerned about. So, I do appreciate the fact that you've included some of their issues within as we move forward into this debate, and I thank you for being here today.

Mr. KLECKNER. Thank you, Mrs. Thurman, I appreciate that. I get to Florida often; I hear the same things you hear only you hear it oftener. I've not changed many minds in Florida, but I think the thing that I think we need to keep in mind that you fix what's wrong with present agreements in the context of new agreements. If my Florida farming friends—and I have many in Florida; Carl Loop is the vice president of the American Farm Bureau. He and I are long-time buddies, and Carl is great; he was the first chairman of our Farm Bureau Trade Advisory Committee, but—and I know that Florida is more concerned, in my view, than any other State because of the niche marketing, the Mexican dumping. I personally think that the Mexican dumping of tomatoes and peppers, et cetera in Florida has zero to do with NAFTA and 100 percent to do with the peso devaluation, but it happened at the same time; NAFTA got the blame, and I can't convince my Florida friends that it isn't NAFTA's fault, and I don't think you can either. But you fix what's wrong by coming up with new agreements, and without fast-track negotiating authority—I've been told by people high in USDA—we can't even go to Mexico, Canada, and other countries to fix what's wrong because we don't have authority to talk. If Florida, for example, or North Dakota with Durham wheat or Maine with potatoes or beef in Montana or wherever concerned about the trucks coming across, if you really want to fix what's wrong, and there are things wrong, you should be in favor, in my view, of fast-track which gives us the authority to fix what's wrong. I've got good friends, Mrs. Thurman, in Florida that said the old saying, "Fool me once, shame on you; fool me twice, shame on me." We've all heard it and probably said it. And my friends down there who grow oranges and grapefruit—disastrously priced right now, certainly grapefruit—are saying, "I'm not going to be fooled again," and my answer is, "Yes, there's things wrong, but we fix it in the context of new trade agreements, and we need fast-track to do it."

Mr. RAMSTAD. Mr. Herger.

Mr. HERGER. I don't have any questions at this time.

Mr. RAMSTAD. Mr. Nussle.

Mr. NUSSLE. Thank you, Mr. Chairman. I want to thank you, Dean, for coming in and speaking to us today. I'd like to go in two directions. One is on your testimony and the other is more having to do with regard to Asia and how what's going on in Asia affects the urgency of what you came to tell us today. Just yesterday it was reported by the Department of Agriculture there would be some concerns with regard to corn exports as an example.

The first has to do with, I think, understanding and education. I don't think there's anybody in this room who does not have at their fingertips good information, statistics, dollars and cents, jobs created, jobs traded, jobs this—on a number of different agreements that we've had before us. Unfortunately, what I've seen in my district in Iowa is that far too few farmers have that same information at their fingertips. In this battle of demagoguery that is out there on the issue of, particularly, jobs lost as a result of trade, we, unfortunately, are losing the battle. It's much easier to blame a straw man of NAFTA than it is to get good information out to real people who are combining in the field and are sending a number of those bushels that they're dumping into their combine in one way, shape, or form, whether through value-added or whether through bulk commodities, to another place in the country and certainly throughout the world through trade.

I would just urge you to do whatever you can to try and impress upon your farmers the urgency of fast-track and the need to be at the table if we're going to improve these agreements. This is not to blame; this is not to point fingers; this is only to suggest to you that on the street corners, at the grain dealers, or wherever you might meet farmers, they're just not getting that information and are listening to the Pat Buchanans and Dick Gephardts of the world that run around trying to scare people. It's on both sides; they're extremists, and they're doing us, I think, a terrible disservice. So that's my speech—amen.

But I guess what I was more interested in is impressing upon you the urgency of getting that information to farmers; second, to get your opinion about how the urgency has changed as a result of what is happening in Asia.

Mr. KLECKNER. Thank you, Congressman Nussle. We come from the same State. I know the people at Dyersville, at Ertl, that lost their jobs blame it on NAFTA or something. That's human nature, I guess; it's not true, but that's human nature.

It bothers me too, maybe even more than you, that we can't get the story out. I think to some degree the good things that have happened, the exports have gone up dramatically to 30%, a third of what we produce. Without exports, we're dead as farmers; we're dead. It's gone up, but we farmers accept it as just a matter of course, and we don't give credit to the trade agreements that created the atmosphere where we could export more. As human nature, again, we seize on the negatives. We're hearing all the bad things that are said from the Buchanans on one wing and the Gephardts on the other wing; organized labor who blames all job losses on NAFTA, or GATT, or something else, and spending a lot of money to get their message out, and we're finding it very difficult.

I'm doing everything I can, and I've got kind of bully pulpit in my job, and I'm using the bully pulpit, but it bothers me that we can't get the true message out.

I mean, we're not going to lose exports without fast-track. I think we're going to maintain what we've got pretty well; Asian crisis was something different. But we're not going to gain—as we increase production as we're going to do in agriculture, we're not going to gain the exports that we need for the increased production without new trade agreements. We're open now, we're taking everything from everybody, we can't get in there. We've got to have agreements to open their markets.

The Asian crisis—I had in my testimony support for IMF. I honestly have some long-term wonderings about IMF and the philosophy that's involved, but right now we're here; IMF is in place. We need to use it, and I hope that the Congress will allocate the $18 billion, or whatever it is, a portion thereof, to make the funding. Asia is very important to us, and the strong economies, basically in my view, those folks over there—and I've been in most of those countries—work hard, and the economy will bounce back. I don't think it's going to be in 1998, maybe not even in early 1999; but it will come back. In the meantime we've got to prop it up, and I think IMF funding, if it moves forward, will do it, and we will lose less exports than we would without it.

Mr. NUSSLE. Thank you.

Mr. RAMSTAD. Mr. Portman.

Mr. PORTMAN. Thank you, Chairman, and Dean, thank you, for your support of free trade, and as Jim Nussle said, it's a grassroots effort in my district. I think you're a district representative on this committee and subcommittee. It's been very helpful to those of us who want to open markets and lead to more agricultural exports, and all those other exports.

I have a question for you. You testified about some of the Farm Bureau interests and future trade agreements. You talked about fast-track. I couldn't agree with you more that we have to have fast-track if we're going to get people to come to the table. In fact, that's a way to fix what's wrong. Rather than looking at it as a problem; it should be looked at as a solution.

With regard to WTO, we talked a little bit earlier—I think you were in the audience—with Peter Scher about whether the beef hormone case, bananas case, and other cases involving agriculture at WTO are satisfactory to us; whether the implementation of a WTO decision was satisfactory.

Do you have any specific reform suggestions on that? Are you satisfied with the way WTO's working or would you like to see some changes?

Mr. KLECKNER. Good question, Congressman. I supported what Peter Scher said.

Under the old GATT agreement, the beef hormone issue and other ones went on forever. They could stonewall it. They'd lose court cases and say—or lose trade panels and say, so what; they wouldn't comply. Under the WTO the rules are in place, it takes about 18 months, and that's what the beef hormone case took. Now, that's the process. But 18 months is a heck of a lot different than 10 years or never.

Now Europe has lost every appeal. They've got in my view three—in beef hormones they've got three choices; they can comply and let our beef in, which is what we want; or they cannot comply, and they can pay retaliation, or pay the amount of supposedly—we won't argue about how much that would be, but they can pay us in some way; or we can legally retaliation, which I hope we do if they don't comply.

I have many good farming friends in Europe; I love them dearly. We have a beer or coffee together, and we talk, but their leaders in government pick at every little niche. It's like a thumb in the dike. There's a little crack, and they wiggle their way through, and expand it, and they drive trucks through. They're masters at that. And I think the WTO, and Peter Scher—I wasn't aware of the figures, but 35 cases we found he said, and most—two-third were in agriculture. We're winning most of them. It's to bad that we've got to file those cases. They ought to comply. But we're going to keep on filing, and I think we'll keep on winning them. And the beef hormone issue, I think it's settled, but how will Europe respond; we don't know.

Mr. PORTMAN. It's probably too early to assess how the changes since 1995 are working, but you are satisfied at this point that we have enough leverage to deal with, of course, these decisions.

Mr. KLECKNER. Congressman Portman, I think we do. It's a little bit early in the process. You're referring to WTO and the process here. It's a bit early. We've got to win some more cases, perhaps lose a few more. We lost—the first case we took, WTO; that was on gasoline from South America. I think we lost that one. We've been winning a lot since.

We need to support WTO. It's the best we've got out there. Maybe it could be made better. It possibly could be made better in the context of the next WTO round of talks. But it's so much better than the old GATT agreement; there really is no comparison.

Mr. PORTMAN. Well, I thank you again, and I hope that we do see results, whether it's on beef hormone, and bananas, and other cases; because if we don't it's tough to continue to have that grassroots support for free trade.

Mr. RAMSTAD. Mr. Watkins, any questions?

Mr. WATKINS. I appreciate it. Let me say, Dean, thank you, and I appreciate the leadership of Farm Bureau on this.

I was reflecting as we're talking. Maybe we need to have a summit among our agriculture groups, concerning not only fast-track, but IMF. I'd like to suggest that we need to discuss that. We've got to monitor IMF. We've got to look at how a lot of the money's going in there, and how it's being utilized, et cetera, and make sure it's a positive way.

But we were divided. Not too many—the farm groups did not support fast-track, but we did have a couple of key groups that found some rationale. To me it doesn't take a rocket scientist to know we've got to penetrate those markets around the world, with 96 percent of the consumers outside the United States.

I don't know what our approach is going to be on the IMF right now. It may be a little shaky, but I think we need to analyze the role of the IMF.

We need to closely monitor the IMF to ensure that they're not engaged in activities we cannot be supportive of.

Let me say, I was alarmed about an article in The Wall Street Journal just a couple of weeks ago, where it stated that the European Union was going to enter into with some trade negotiations which would disclude—that would not include—agriculture. That was quite alarming to me. It was like, we're going to just leave agriculture off from being around the negotiating table.

I shot a letter to the USTR to express my concern and they gave me a letter back. I don't have a comfort zone with their response, and I didn't have a comfort zone with Peter's remarks when he left. I asked him about the article, and he said the European Union leaked that. I don't know exactly what that meant when he said the European Union leaked that article. I think we must be around the negotiating table with agriculture. We're going to give you the tools, all the tools in the world, to do that. So I hope you'll help us keep a running track of our progress.

I'm concerned because politically, because agriculture as I mentioned a while ago, we're small in number, we're scattered, and thank goodness we do have some farm organizations. But sometimes I think it's easy for some of the negotiators to trade us off. Like to be farm-owned, that shouldn't have been—anyone familiar with agriculture should have known that was going to be very, very harmful to our panel people in this country. That's why again I worked to try to put the chief negotiator's position in fast-track, because I felt like it would be one of the most important things we could do is to put someone who understood agriculture around that table.

So I just want to say, help us monitor the IMF; take a good hard look at that. You also may want to consider trying to pull together a little summit of agriculture groups to try to make sure we're all singing the same song on this issue.

So, Mr. Chairman, that's what I mainly wanted to say. I don't know if you have any remarks on that or not, Dean.

Mr. KLECKNER. Thank you, Mr. Watkins.

On the issue of agriculture being excluded, as I mentioned a little while ago—I think they called it a trans-Atlantic meeting or Atlantic conference or something; it was Europe and the U.S. And we also heard, or probably read the same article, that said agriculture would not be a part of it.

Europe doesn't want agriculture to be a part of it. They would rather talk about services, intellectual property, other trade-related items, and leave agriculture out, because it's so controversial in Europe. We can't allow that to happen. If we allow it to happen, agriculture is never going to make any change—we won't have the leverage that we have if we're lumped together.

And I said to Charlene Barshefsky, at a meeting with her and Jeff Lang a couple days ago—just right out, I said, Ms. Barshefsky, if this happens, Farm Bureau is going to be unalterably opposed to it, and whatever results from it. Agriculture has got to be involved, either this one or at the WTO level. We've got to be there at the table.

Mr. WATKINS. Dean, I was working also on some legislation—and my colleagues may want to join me in it—on the retaliation of how

to implement—that we're still waiting now—let normal negotiations take place and trade take place. If they're willing to accept fines and not allow us, I want to use those fines—and this is what my legislation's supposed—I want to use those fines to advertise in that country that product that they're bearing.

Will you join with me in that?

Mr. KLECKNER. I had heard about it before; it doesn't sound too bad an idea to me.

We've always said let the European consumers—let them make their choice. Have American beef in their market. If they're really concerned about hormones, they won't buy it. But let the consumers make the choice around the world. Consumers ought to decide without governments deciding for them.

Mr. WATKINS. Thank you, Chairman.

Mr. RAMSTAD. Thank you again, Dean, for your presence here today and your effective leadership; your support of fast-track as well. Thank you again.

Mr. KLECKNER. Thank you.

Mr. RAMSTAD. The next panel—we're going to have to move along, because we have to conclude by 5:00, and we've got two panels left.

The next panel, Nicholas Giordano, Assistant Vice President for Foreign Trade, National Pork Producers Council on behalf of Agriculture Coalition for fast-track; Leonard W. Condon, Vice President for International Trade, American Meat Institute; and Michael Wootton, Director, Federal Government Affairs, Sunkist Growers.

Gentlemen, thank you for your patience, your indulgence, and for being here today to testify.

Mr. Giordano, please.

**STATEMENT OF NICHOLAS GIORDANO, ASSISTANT VICE PRESIDENT FOR FOREIGN TRADE, NATIONAL PORK PRODUCERS COUNCIL ON BEHALF OF AGRICULTURE COALITION FOR FAST TRACK**

Mr. GIORDANO. Good afternoon, Mr. Ramstad and members of the subcommittee. I am Nicholas Giordano, and I serve as assistant vice president for Foreign Trade for the National Pork Producers Council. I'm testifying today on behalf of the Agriculture Coalition for fast-track, of which I am a co-chair. Our coalition is comprised of 72 members, representing agricultural producers, farm and food groups, trade associations, and companies in all 50 states; and is working to ensure free and fair market access for U.S. agricultural products around the world. I would note that Mr. Kleckner from Farm Bureau of course is—his organization is a member of this coalition, as is Mr. Condon to my right, and the American Meat Institute.

American agriculture is twice as reliant on foreign trade as the economy as a whole. One-third of U.S. agricultural production must go into export markets just to maintain farm income. In order for U.S. agriculture to grow and prosper, we must be able to serve growing markets overseas. Secretary Glickman has stated it well, "For American agriculture it is export or die."

Trade agreements, particularly the Uruguay Round in NAFTA, have played a crucial part in agriculture success. Last year, as you

know, the administration sought broad fast track authority, including the authority to enter into and complete the Uruguay Round follow-on negotiations on agriculture, beginning next year, and to enter to bilateral or regional market-opening agreements beneficial to U.S. exporters. The Ag Coalition for fast-track unequivocally supports such a broad grant of authority.

Let me put our position in perspective. Given our reliance on expanded trade, U.S. agriculture has always steadfastly supported the efforts of our negotiators to break down foreign market barriers. U.S. agriculture strongly supported and ambitious Uruguay Round and the NAFTA. But we have always seen the Uruguay Round and NAFTA as only first steps towards establishing a true level playing field for agricultural trade.

Because of the great competitiveness of U.S. agriculture, the trade distortions that remain worldwide operate to the detriment of the United States. We have always been committed to the importance of the next round of agricultural negotiations, scheduled to begin in 1999 in the WTO. We favor a broad agenda for the upcoming negotiations, including not only the further reduction of tariffs, but internal supports, export subsidies, disciplines on state trading enterprises, rules for trade in biotechnology products, defending the SPS Agreement, and rules on tariff-rate quotas.

The need for U.S. leadership is unmistakable. As Congressman Rangel once said, "In world trade, the United States drives the bus." Without our full, unstinting involvement, there will be no serious agricultural negotiations under the WTO, because there will be no counterweight to the Europeans and others who want to maintain distorting trade practices.

For our negotiators to have credibility and to have a seat at the bargaining table, this administration, any administration, must have fast track authority. Continued rejection of fast-track can only produce two possible outcomes; one is essentially that breaking down foreign market barriers will grind to a halt, particularly in its politically difficult sector, such as agriculture. This is the likely scenario in the WTO if we do not provide the leadership for which fast-track is a prerequisite. But the second scenario is that trade negotiation and expansion will continue to go on without the United States. Strategic alliances and preferential arrangements will be formed without us and around us. The rules of trade will be written by others for the benefit of others.

For example, as you know, Argentina, Brazil, Paraguay, and Uruguay have formed a common market, MERCOSUR, that provides significant trade preferences to each other in this rapidly growing region of the world. Chile, one of the best economic performers in Latin America, has been particularly aggressive, signing trade agreements with Bolivia, Columbia, Ecuador, Mexico, Venezuela, MERCOSUR, and most recently Canada. As a result, these countries exports to Chile have a delivered price advantage of approximately 11 percent over U.S. products. Indeed, more than 30 bilateral and regional trade agreements are already operating here in the Western Hemisphere, and the United States is party to only one, NAFTA.

The EU is already the world's largest trading bloc, and it's expanding into the emerging markets of Central and Eastern Europe.

And the EU has also begun negotiations with Mexico and with MERCOSUR for free trade arrangements.

The great irony is that as we hesitate and debate whether the administration should be given new negotiating authority, nations all over the world are moving forward, lowering barriers, negotiating with their neighbors in an effort to do what—to emulate what we've already done, to emulate the American model and our success of recent years. If we don't get back into the game, we will fall behind.

Mr. Ramstad and members of the committee, I know you agree, we need fast-track, and we need it now.

[The prepared statement follows:]

**TESTIMONY OF NICHOLAS D. GIORDANO**
**ASSISTANT VICE PRESIDENT FOR FOREIGN TRADE**
**THE NATIONAL PORK PRODUCERS COUNCIL**
**ON BEHALF OF THE AGRICULTURE COALITION FOR FAST TRACK**
**CONCERNING**
**U.S. EFFORTS TO REDUCE BARRIERS TO TRADE IN AGRICULTURE**

**before the**

**U.S. HOUSE WAYS AND MEANS COMMITTEE**
**SUBCOMMITTEE ON TRADE**
**February 12, 1998**

Good morning, Mr. Chairman and members of the Subcommittee. My name is Nicholas Giordano, and I serve as Assistant Vice President for Foreign Trade for the National Pork Producers Council. I am testifying today on behalf of the Agriculture Coalition for Fast Track, of which I am Co-chair. Our coalition, comprised of 73 members representing agricultural producers, farm and food groups, trade associations and companies in all 50 states, is working to ensure free trade and fair market access for U.S. agricultural products around the world. Our coalition came together because of our shared view that U.S. trade negotiators need unencumbered, comprehensive negotiating authority to fully represent our interests in the international marketplace. Today, our coalition is more committed than ever to the belief that a clean, broad fast track should be a high legislative priority for both the Congress and the Administration. A list of coalition members is attached.

Nothing is more important to U.S. agriculture than an open trading system. The need for access to foreign markets has been obvious to American agriculture for decades. American agriculture is twice as reliant on foreign trade as the economy as a whole. One-third of U.S. agricultural production must go into export markets just to maintain farm income. In order for

U.S. agriculture to grow and prosper, we must be able to serve growing markets overseas. Secretary Glickman has stated it well -- for American agriculture, it is "export or die."

The domestic U.S. market is relatively mature and slow growing. We have the world's most efficient farmers and the world's most technologically advanced agricultural sector. American farmers and ranchers already produce an abundance far in excess of domestic needs, and their productivity continues to increase. Meanwhile, global food demand is expanding rapidly, and more than 95% of the world's consumers live outside the United States. For these reasons, U.S. exports are growing more than three times as fast as domestic demand for foods, and exports must be the engine of agriculture's future growth in sales and income.

The good news is that we have been succeeding. Agriculture is one of the few U.S. industry sectors that consistently runs a trade surplus, posting a surplus every year since 1960. However, even against that background, the recent record has been dramatic. U.S. agricultural exports climbed to $60 billion in 1996, the highest ever.[1/] Since the implementation of NAFTA and the Uruguay Round, the value of U.S. agricultural exports has increased by $20 billion, or nearly 50 percent, and U.S. agriculture has sustained this growth over time. Each week last year, on average, American producers and processors shipped out more than $1.1 billion in farm and food products to foreign markets. The U.S. is once again the world's largest exporter of food and farm products, commanding around a 22 percent share of global agricultural trade. Among industry sectors, agriculture was the leading positive contributor to the U.S. trade balance in 1996 -- not chemicals, industrial machinery, or computers, but agriculture. Our agricultural trade

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1/ The final figures for 1997, which will be released shortly, are expected to show a decline due to reduced commodity prices and the current financial crisis in Asia.

surplus in fiscal 1996 topped $27 billion, the largest farm trade surplus in history. Last year, our agricultural exports were twice the level of our agricultural imports -- a claim no other industry sector can make. As the Agriculture Department has noted, dollar for dollar, we export more corn than coal, more wheat than steel, more meat than aluminum, and more fruits and vegetables than CD's, records and tapes.

Trade agreements -- particularly the Uruguay Round and NAFTA -- have played a crucial part in Agriculture's success. We have benefitted from the strong leadership of Secretary Glickman and Ambassador Barshefsky, and their predecessors, who have been tireless in their market opening efforts. Our gains have been broadbased. Here are some examples:

- U.S. agriculture exports to the NAFTA countries have increased from $8.9 billion in 1993 to a record $11.6 billion in 1996. The United States had an agriculture trade surplus of over $1 billion with its NAFTA partners in 1996. In 1996, beef and veal exports to Mexico alone jumped nearly 80 percent.
- During the Uruguay Round, we negotiated new access to Japan for U.S. pork and rice exports. Before the negotiations, Japan refused to purchase U.S. rice. In 1995-96, faced with a short-supply situation, Japan purchased approximately 420,000 tons of our rice.
- The export value of U.S. pork topped $1 billion in 1996, up more than 210 percent since 1990. Over that period, exports to Japan -- the largest U.S. market -- rose 228 percent in value, while exports to Mexico increased 54 percent. U.S. pork exports to the growing Canadian and South Korean markets have more than tripled in value since 1990.
- The Administration has fought to ensure that bio-engineered products are

getting access to the EU. As part of this effort, the United States has urged the EU to begin streamlining its approval process so that GMO's are treated fairly and consistently, and reviewed on a scientific basis in a timely and transparent manner.

- We have opened up markets and overcome phytosanitary hurdles for a range of U.S. citrus and other fruits in countries like Brazil, Chile, Mexico, China, Korea, Japan and Thailand.
- In April, 1997, Japan removed its import ban on 25 varieties of U.S. tomatoes, a move which could open a $100-million market. We used our success in Japan to leverage export approval of these same 25 tomato varieties in Taiwan.
- In China, U.S. negotiators have opened the market for U.S. live horses, cattle, wine, and bovine embryos.
- U.S. officials recently established export protocols to ship live swine to Argentina and Peru and to also export live cattle to Peru.
- In 1996, U.S. officials overcame food safety concerns used by Russian officials to ban our poultry exports. U.S. poultry exports to Russia are expected to be approximately $800 million in value in 1997.
- In the past year, Ukraine agreed to recognize the FSIS inspection system and approved a bilateral certificate for U.S. exports of poultry. U.S. poultry exports to the Ukraine are expected to exceed $40 million.

This list of agricultural trade achievements alone is conservatively worth $2 billion, not including NAFTA.

The Administration last year sought broad fast track authority, including the authority to enter into and complete the Uruguay Round follow-on negotiations on agriculture beginning next

year, and to enter into bilateral or regional market opening agreements beneficial to our exporters. We unequivocally support such a broad grant of authority.

Let me put our position in perspective. Given our reliance on expanded trade, U.S. agriculture has always steadfastly supported the efforts of our negotiators to break down foreign market barriers. U.S. agriculture strongly supported an ambitious Uruguay Round, the completion of which was delayed for years largely over European intransigence on agriculture, and the NAFTA.

But we have always seen the Uruguay Round and NAFTA as only first steps towards establishing a true level playing field for agricultural trade. No sector is more politically sensitive everywhere in the world than agriculture. It remains the most protected and subsidized sector in the world economy. Because of the great competitiveness of U.S. agriculture, the trade distortions that remain worldwide operate to the detriment of the United States. We have always been committed to the importance of the next round of agricultural negotiations, scheduled to begin next year in the WTO. We favor a broad agenda for the upcoming negotiations, including not only the further reduction of tariff and non-tariff barriers, but also disciplines on state trading enterprises, rules for trade in biotechnology products and defending the SPS agreement and the rules on tariff rate quotas.

No one in the agricultural community underestimates the difficulties of these negotiations, under the best of circumstances. But the only possible way to advance the agenda is through broad negotiations where the United States has the ability to request concessions from other countries, and induce commitments from them by making some concessions on our own. The need for U.S. leadership is unmistakable. As Congressman Rangel once said, in world trade, "the

U.S. drives the bus." Without our full, unstinting involvement, there will be no serious agricultural negotiations under the WTO, because there will be no counterweight to the Europeans and others who want to maintain trade distorting practices. For our negotiators to have credibility at the bargaining table, this Administration -- any Administration -- must have fast track authority. Other countries will not make concessions for fear that Congress will cause the Administration to make changes in any agreements they bring back. Our trading partners know our system well, and their instinctive fears have been amply confirmed by Congress' effort to rewrite the painstakingly negotiated OECD Shipbuilding agreement.

NAFTA has been a big success for U.S. agriculture, and we believe that further trade agreements in our hemisphere, building toward a Free Trade Area of the Americas would be very much in our economic interest. We believe that our negotiators should be free to explore strategic trade agreements with countries in the Asia-Pacific area, to reinforce any commitments to market opening made by countries responding to the Asian financial crisis. Our negotiators should be able to explore the benefits from trade agreements with Africa and its nations. But this list is suggestive, rather than exhaustive. Opportunities sometimes present themselves which cannot be anticipated. This was very much the case with the Information Technology Agreement (ITA), an unexpected bonanza for our cutting edge information technology industry. The point is that the United States needs to be in the game, with our negotiators fully empowered to engage, rather than on the sidelines, handcuffed by lack of negotiating authority.

Continued rejection of fast track by Congress can produce only two possible outcomes. One is essentially that breaking down foreign market barriers will grind to a halt, particularly in a politically-difficult sector such as agriculture. As I suggested above, such an outcome is not

neutral. It would favor those who continue to subsidize and maintain trade distorting practices, such as the EU and Japan, and it operates to the severe detriment of the United States and Australia, New Zealand and other Cairnes group nations. This is the likely scenario in the WTO if we do not provide the leadership, for which fast track is a prerequisite.

But the second scenario is that trade negotiation and expansion will continue to go on -- without the United States. Strategic alliances and preferential arrangements will be formed without us, and around us. The rules of trade will be written by others, to benefit others.

As the Committee knows, there is nothing hypothetical about this scenario. It is already unfolding in our hemisphere. President Clinton, Ambassador Barshefsky, Chairman Crane and leaders in the business and agriculture communities have long pointed to "the dangers of inaction."

For example, Argentina, Brazil, Paraguay and Uruguay have formed a common market, MERCOSUR, that provides significant trade preferences to each other in this rapidly expanding region. Chile, one of the best economic performers in Latin America, has been particularly aggressive, signing trade agreements with Bolivia, Colombia, Ecuador, Mexico, Venezuela, MERCOSUR, and most recently Canada. As a result, these countries' exports to Chile will have a delivered price advantage of 11 percent over U.S. products. Indeed, more than 30 bilateral and regional trade agreements are already operating here in the Western Hemisphere, and the United States is party to only one -- NAFTA. While these preferential trade agreements multiply, the U.S. share of the region's total agricultural imports is declining.

The EU is already the world's largest trading bloc and is poised for major expansion in the next few years. Through its "association agreements," the EU has already secured for its

exporters a significant advantage in the emerging markets of Central and Eastern Europe. The EU has also begun negotiations with Mexico and with MERCOSUR for "free trade agreements." For U.S. agricultural interests, the best way to meet the challenge presented by EU expansion and initiatives is by negotiating further multilateral liberalization in the next round of WTO talks, and by engaging with our hemispheric neighbors in broadbased negotiations which can, in certain areas, make progress which goes beyond what can be agreed to multilaterally, as we did in NAFTA.

Mr. Chairman, from the standpoint of agriculture, the necessity for broad fast track is clear, the case for fast track is overwhelming, and the consequences of continued rejection by Congress very damaging. Because the stakes are so high, it is incumbent on fast track supporters to both make the positive case and to address frankly and forcefully the concerns of fast track opponents.

While the agricultural interests which I represent are broad and diverse, the beneficiaries of trade expansion, and fast track, cut across the entire economy. It may have once been possible to argue that trade benefitted multinationals, but not small or medium business; or that it benefitted the coasts, but not the heartland; or agriculture, but not manufacturing. Those days are long gone. Our nation's export expansion runs the gamut from agriculture to high tech and services, small business to the Fortune 500, blue collar to white collar, and Main Street to Wall Street. Forty-nine of our fifty states have registered significant export growth over the past five years, and exports are at record levels across the board. Since 1992, in addition to the growth in agricultural exports, manufactured exports increased 60 percent, high tech exports were up 67 percent, and service exports increased by 44 percent. In the past year, the U.S. has provided the

leadership for three global market opening trade agreements that will enormously benefit several of our country's cutting edge industries: information technology, telecommunications and financial services. These agreements have been universally acclaimed by the affected industries. They provide vivid and recent reminders of what U.S. negotiators can do when they have the authority to engage with our trading partners.

Virtually every sector of our economy faces the same opportunities and challenges that we in agriculture do. Virtually every sector is more reliant on exports and foreign sales for growth than ever before. Virtually every sector reports that foreign markets are more open than they were five or ten years ago, but still far less open than the U.S. market. Negotiating authority is needed to break down those foreign market barriers and level the playing field. And every sector faces the same danger we do if the U.S. chooses to sideline itself, while other nations go ahead, making strategic alliances and preferential arrangements without us.

The opponents to fast track say we should continue to oppose further trade agreements in our hemisphere as "NAFTA expansion." They opposed NAFTA, telling the country it would lead to massive job loss and disinvestment. But their earlier predictions have not been borne out. In the four years since NAFTA took effect, the United States has experienced superb economic performance, marked by the creation of more than 12.1 million new jobs, and an investment boom -- reaching $800 billion in business investment in the United States in 1996. In states in the upper midwest, where NAFTA opposition was most intense, the most serious economic problem has not been job flight and disinvestment; rather, it has been a shortage of skilled workers to meet the strong demand for manufactured goods. Our economy has become the envy of the world.

So the critics' fears, which dominated debates over NAFTA and, to some extent, the Uruguay Round, have not materialized. But the opponents of fast track continue to argue that trade expansion is harmful to the U.S. economy and U.S. workers. They are expressing, and seeking to tap into, all the fears that people hold about "globalization" and its effects.

Globalization -- the rapid economic integration brought about by advanced technology, improved communications, and increased trade -- produces a pace of change that is unsettling. Our vigorous debates over NAFTA, GATT and fast track are not completely unique. Around the world, similar debates occur in many countries. But we should recognize that in virtually every country, those debates are being resolved the same way: in favor of trade expansion, open markets and investment. In much of the world, the barriers are coming down, as governments and their people conclude that expanded trade is the path to greater prosperity and opportunity for their people.

The great irony is that as we hesitate and debate whether the President should be given new trade negotiating authority, nations all over the world are moving forward, lowering barriers, negotiating with their neighbors in an effort to emulate the American model and our success of recent years.

Our Coalition believes that the advancement of workers rights and improving environmental protection around the world should be important priorities of the United States. We applaud the Administration's sweatshop initiative last year, undertaken in conjunction with the apparel industry and unions, and the tenfold budget increase proposed for a child labor initiative this year. But it is self-defeating to hold future trade agreements -- and thereby fast track -- hostage to concessions by our trading partners on workers rights, labor standards and the

environment. Nations want preferential access to our market, but not at all costs. They will not negotiate with us on terms that we dictate; they have their politics, their sovereignty and their pride as well. They will find plenty of other trading partners ready to negotiate lower barriers and expand trade; they will deal with each other. If we insist on tying trade to workers rights and the environment, we will not advance our values; we will simply isolate ourselves and sacrifice economic opportunities that should rightfully go to our workers and farmers.

Finally, the Coalition recognizes that many members of Congress -- particularly in the Senate -- view fast track as a usurpation of Congressional power and prerogatives. Fast track is an unusual procedural mechanism, but it has been a necessary and ingenious accommodation between the Executive Branch and Congress in the area of international trade policy and negotiation -- where responsibilities are constitutionally shared. And the claim that fast track deprives members of Congress the opportunity to shape trade policy flies in the face of experience.

Congress sets the terms under which fast track can be used, including specifying the negotiations and their objectives. As negotiations progress, members of Congress, as well as affected private interests, work closely with our negotiators to help develop and influence our specific negotiating positions. When an agreement is reached, if changes in U.S. law are required, Congress of course writes legislation implementing the agreement. While the primary jurisdiction over trade rests with this Committee and the Senate Finance Committee, during NAFTA and the Uruguay Round, the Agriculture committees assumed leadership and shared responsibility for the sections affecting agriculture. Furthermore, during NAFTA and the Uruguay Round, the Administration also dealt directly with the committees with jurisdiction over

commerce, labor, environment, transportation and public works, judiciary, government operations and energy.

Overall, the Coalition believes that the fast track procedure, the negotiating process, and the need to build political support for trade agreements provides meaningful opportunities for literally hundreds of members of Congress to be involved in shaping trade agreements and trade policy. Responsibility for trade -- policy, negotiation and legislation -- is shared far more widely than responsibility for any other major domestic or foreign policy area.

Mr. Chairman, I recognize that our testimony goes somewhat beyond the points often made by an agriculture coalition. But the situation is urgent, and the hour is late on this issue, making straight talk among friends an absolute necessity.

Thank you.

# AG FOR FAST TRACK

# MEMBERSHIP LIST

## Agriculture Coalition for Fast-Track

*As of February 10, 1998*

Agricultural Retailers Association
American Crop Protection Association
American Farm Bureau Federation
American Feed Industry Association
American Frozen Food Institute
American Horse Council
American Meat Institute
American Soybean Association
Animal Health Institute
Biotechnology Industry Organization
Blue Diamond Growers
Bunge Corporation
Cargill, Incorporated
Cerestar USA
Central Soya Company Inc.
Chocolate Manufacturers Association
Coalition for a Competitive Food and Agricultural System
ConAgra, Inc.
CoBank
Continental Grain Company
Corn Refiners Association, Inc.
Distilled Spirits Council
Farmland Industries, Inc.
The Fertilizer Institute
Food Distributors International
General Mills, Inc.
Grocery Manufacturers of America
The IAMS Company
International Dairy Foods Association
Louis Dreyfus Corporation
Miller's National Federation
National Association of Animal Breeders
National Association of State Departments of Agriculture
National Association of Wheat Growers
National Barley Growers Association
National Broiler Council
National Cattlemen's Beef Association
National Confectioners Association
National Corn Growers Association

National Cotton Council
National Council of Farmer Cooperatives
National Food Processors Association
National Dry Bean Council
National Grange
National Grain and Feed Association
National Grain Sorghum Producers
National Grain Trade Council
National Milk Producers Federation
National Pork Producers Council
National Oilseed Processors Association
National Renderers Association
National Sunflower Association
National Turkey Federation
Nestle USA, Inc.
North American Export Grain Association
Northwest Horticultural Council
Pacific Northwest Grain and Feed Association
Pet Food Institute
Pioneer Hi-Bred International
Ralston Purina Company
Rice Producers (MS, MO, TX)
Snack Foods Association
United Egg Association
United Egg Producers
U.S. Apple Association
U.S. Beet Sugar Industry
U.S. Dairy Export Council
U.S. Feed Grains Council
U.S. Meat Export Federation
U.S. Wheat Associates, Inc.
USA Poultry & Egg Export Council
USA Rice Federation
Wine Institute

**Total: 73**

Mr. RAMSTAD. Thank you, Mr. Giordano.

Mr. Condon, please.

**STATEMENT OF LEONARD W. CONDON, VICE PRESIDENT FOR TRADE, AMERICAN MEAT INSTITUTE**

Mr. CONDON. Thank you, Mr. Chairman. I represent the people that process and pack meat, and sell it in world markets. And our members are clearly aware that the growth opportunities in our home market are very limited, and the future of the industry depends on exports.

Exports are directly responsible for a growing share of the income received by U.S. livestock producers. Export sales of U.S. beef added over $110 per head to the value of each fed animal marketed in 1996; pork exports added almost $15 to the value of each hog sold. Without export markets U.S. cattle and hog prices would be much, much lower than they are today.

Exports of red meats have grown rapidly over the past decade, reflecting economic expansion, cultural changes, and the success of U.S. efforts to open Asian markets. In 1996 the Asia Pacific region took over three-fourths of the $3 billion worth of beef and beef variety meets that U.S. packers and processors sold. Japan alone bought $1.9 billion worth. Between 1987 and 1995 the value of U.S. exports of beef and beef variety meats to Japan tripled. In 1996 we exported $1.1 billion worth of pork and pork variety meats, and Japan bought $756 million worth; a seven-fold increase from 1987.

Let me make a few comments about fast-track and briefly support what you've already heard.

The Uruguay Round was expected to the beginning of a process to liberalize trade in agriculture. For the previous many years under the GATT, agriculture wasn't comprehensively addressed, but the Uruguay Round was meant to be a start, and there's much work left to do. You'll see some numbers in my testimony as to what kind of tariffs we'll face in certain countries after the Uruguay Round is done. We're talking about tariffs of 150 percent in Europe. Canada will have a tariff on chicken of 238 percent.

We face many other kinds of barriers in the world; restrictions on beef, and pork, and chicken, placed by the Philippines, Taiwan, Russia, Europe. We need action on these barriers immediately, and the best thing to do is get going with fast-track as Chairman Crane said.

WTO accession. WTO accession negotiations provide another important leverage point for addressing market-access problems with those countries that are not now WTO members. We're talking about over 30 countries, but specifically countries like Russia, China, and Taiwan. Given its huge population, China has the potential to become the largest economy in the world and the largest importer of meat and poultry products.

Beyond the significance of these three WTO-member candidates as important markets for our meat and poultry products, and the opportunity that the accession negotiations provide for solving access problems, the overall political and economic significance of Russia, China, and Taiwan suggest that the terms of accession for these countries will be extremely important. The trade policies of these countries will undoubtedly have a growing impact on global

trade flows, and permitting these countries to enter the WTO on terms more favorable than those which apply to existing members, will seriously erode member support for the organization and weaken its disciplines.

Support for the IMF. Regarding the need for action to stabilize the financial situation in Asia, AMI feels strongly that the United States should support the IMF as the leader of international efforts to help countries in the region. Only if these countries have stable, growth-oriented economies will we see global trade, including trade in livestock, poultry, and other agriculture products, recover and expand further.

The IMF's efforts to shore-up the troubled Asian economies deserve U.S. support, because the multilateral agency is forcing badly needed reforms in these countries in exchange for its financial assistance. In many cases these reforms are consistent with the actions the United States has unsuccessfully advocated to these countries for years.

GSM–102 credits. We urge USDA to make available additional credits for meat and poultry products under the GSM–102 program. Under Secretary Schumacher mentioned earlier that USDA has made available two $50 million allocations for meat and poultry. Those were immediately used. The industry asks for an allocation of $500 million, and continues to believe that is the appropriate amount. At least in the near term, it is clear that the volume of our red meat exports to Korea and other financially-strapped Asian nations will be largely determined by the amount of GSM–102 credits available.

On the hormones case, we commend the administration for its aggressive use of the WTO dispute settlement process to address trade restrictions which clearly WTO rules. We've heard a lot about bananas here today and beef. The significance there is the WTO dispute-settlement pipeline is a relatively long pipeline. The WTO agreement went into effect on January 1, 1995, and so far we've had about 10 cases that have been all the way through the pipeline.

Bananas is just ahead of beef in the pipeline, and what I have told my members, and anyone else who will listen to me, in the last year—so when they ask what is the community going to do on beef, I would say, watch what they do on bananas. If they try to weasel out of their obligations on bananas, they will probably do the same thing on beef. And my understanding at the moment is that's exactly what they're doing.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Testimony of Leonard W. Condon
Vice President for International Trade
American Meat Institute
to the
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
February 12, 1998

Thank you, Mr. Chairman. I am Leonard Condon, Vice President for International Trade, the American Meat Institute (AMI). The Institute is a national trade association which represents the interests of packers and processors of 70 percent of the nation's beef, pork, lamb, veal and turkey production and their suppliers across America.

We appreciate the fact that you are holding these hearings to review the status of U.S. efforts to reduce barriers to trade in agricultural products. It is highly appropriate that the Subcommittee is conducting its review at this time. As you know, the next round of negotiations on agriculture under the auspices of the World Trade Organization (WTO) is scheduled to begin next year. Also, a number of countries -- including key U.S. markets like China, Russia, and Taiwan -- are currently in the process of negotiating their entry into the WTO. Some of these accession negotiations are reaching a critical phase. The terms of these accession agreements could have important implications for U.S. agricultural exporters. In addition, we are facing severe economic instability in Asia -- the flagship market for U.S. agricultural exports. Restoring financial and economic stability in that region is essential to maintaining the economic health of the U.S. agricultural sector. These issues are interconnected in many respects, and each has important implications for the future profitability of the U.S. livestock and poultry sectors.

Our livestock and poultry processors are committed to aggressively pursuing export markets in all regions of the world. The growth potential of our home market is limited by slow population growth and other demographic factors. To support growth in the industry and provide economic opportunity for the next generation, increased exports are essential.

Expanding access to current markets and gaining access to new markets requires active and ongoing cooperation among private sector interests, the Executive Branch and the Legislative Branch of our government. First, the Legislative Branch -- in close consultation with private sector interests and the Executive Branch -- must delegate appropriate and sufficient negotiating authority to the Executive Branch to enable it to credibly participate in international negotiations. Second, the Executive Branch -- in close consultation with the Legislative Branch and private sector interests -- must use its delegated negotiating authority to acquire clear market opportunities for U.S. goods and services. Finally and most importantly, it is then up to the private sector to exploit the opportunities that trade agreements offer. When this process works, America, and often the rest of the world, benefits. When this cooperative process fails to function, America, and often the rest of the world, falters.

Under our system of government, comprehensive "fast track" authority is the only effective instrument devised thus far to make this cooperative process function. Without fast track, the Executive Branch's ability to negotiate access to new markets is severely constrained, and U.S. exporters are handicapped in their ability to compete with exporters from countries that are able to negotiate improved access.

Our nation is blessed with a unique combination of outstanding natural, technological, and human resources which enable us to be the largest and most competitive agricultural producing country in the world. Both farmers and non-farmers benefit from our global competitiveness in agriculture. In that regard, the U.S. Department of Agriculture (USDA) estimates that each dollar received from agricultural exports in 1996 generated another $1.32 in supporting activities to produce the products we shipped overseas. This means, for example, that the nearly $4.2 billion we earned through export sales of U.S. beef and pork, including variety meats, during 1996 contributed an additional $5.5 billion to the U.S. economy.

Also according to USDA, agricultural exports in 1996 supported an estimated 859,000 full-time civilian jobs, including 567,000 jobs in the non-farm sector. Farmers' purchases of fuel fertilizer and other inputs to produce commodities for export spurred economic activity in the manufacturing, trade and transportation sectors.

In the livestock sector, exports are directly responsibly for a growing share of the income received by producers. A study done by CF Resources, Inc., for the U.S. Meat Export Federation concluded that export sales of U.S. beef, including beef variety meats, added $110.06 per head to the value of each fed animal marketed in 1996 and accounted for 12.4 percent of the wholesale value of total U.S. beef production, up from only 4.5 percent in 1987. For hogs, the study found that pork exports added $14.78 per head to the value of an average market hog and accounted for 8.8 percent of the wholesale value of total U.S. pork production in 1996, up from only 1.4 percent in 1987. The flip side of these findings is that without export markets, U.S. cattle and hog prices would be at disastrous levels.

Exports of red meats have grown rapidly over the past decade -- reflecting economic expansion, cultural changes, and the success of U.S. efforts to open the Japanese and Korean markets to meat imports. In 1996, the Asia-Pacific region took over three fourths of the $3 billion worth of beef and beef variety meats that U.S. packers and processors sold to the world. Japan alone bought $1.9 billion worth, down from $2.1 billion in 1995. The value of our beef and beef variety meat exports is expected to be down a little again for 1997 as large gains in sales to Mexico, Russia and Korea failed to offset by another drop in the value of shipments to Japan. Between 1987 and 1995, the value of U.S. exports of beef and beef variety meats to Japan tripled -- largely the result of the U.S.-Japan Beef and Citrus Agreement of 1988 which phased out Japanese quotas for beef and citrus.

In 1990, U.S. imports of beef and veal represented 10.3 percent of our production, and exports were 4.4 percent. By 1996, imports were 8 percent of U.S production, while exports were 7.3 percent.

Led by rapid increases in exports to Japan, the value of exports of pork and pork variety meats to the Asia-Pacific have also been escalating. In 1996, we exported $1.1 billion worth of pork and pork variety meats to the world. Japan bought $756 million, an increase of 26 percent from a year earlier and more than a seven-fold increase from 1987. Through the first 11 months of 1997, the value of our pork exports was running 5 percent above year-earlier levels. Although sales to Japan, our largest customer, were off 8 percent, the value of shipments to Mexico climbed 35 percent, Canada was up 44 percent, and Russia increased 33 percent.

In 1990, U.S. imports of pork represented 5.9 percent of our production. U.S. exports of pork accounted for 1.6 percent. In 1996, imports represented 3.6 percent of our production, and exports accounted for 5.6 percent.

In general, substantial growth in exports of U.S. red meat and poultry has come in spite of significant barriers. Tariffs on meat and poultry, as well as many other agricultural products remain high in many countries. For example, when the Uruguay Round transition period is completed, the European Union's tariff on beef will be 151.9 percent; Poland will assess a 103.7 percent duty on beef; Switzerland, 118.7; Japan 38.5 percent; and Korea, 41.2 percent. Canada's tariff on chicken, above a small tariff-free quota amount, will be 238.3 percent.

U.S. exporters face other constraints like Japan's gate price and safeguard mechanisms for pork, the Philippines practice of issuing import licenses to domestic pork producers who have no intention of importing competing product, government restrictions -- or quasi-governmental agency controls -- on the types of meat which may be imported or the types of establishments which may import, outright bans (such as Taiwan's ban on imports of pork variety meats), and questionable public health restrictions, like the European Union's Third Country Meat Directive.

We commend the Administration for its aggressive use of the WTO dispute settlement process to address trade restrictions which clearly violate WTO rules. In two of the first several disputes pursued under the WTO's new dispute settlement procedures, the European Union's import restrictions on bananas and meats from animals treated with growth-promoting hormones were found to be in violation of WTO rules. In both of these cases, the U.S. was one of the complaining parties. The Administration must now follow through and insist that the European Union modify its banana and meat import policies to ensure full compliance with WTO rules.

Many countries of the world, including most European nations, have less efficient domestic animal industries than we do. Accordingly, producers in these countries do not welcome import competition. There are numerous examples of foreign livestock and/or poultry producer groups using their political influence to block, stall and undermine access concessions to the United States.

Many of these problems can be addressed through persistent effort and close coordination between the U.S. private and public sector officials. A number can be most effectively solved in the context of a multilateral trade negotiation, involving many countries and many products. However, a framework for such negotiations is needed. The WTO-sponsored negotiations on agriculture which are scheduled to begin in 1999 provide such a framework. However, without fast track negotiating authority, the United States will not be able to participate in those discussions.

WTO accession negotiations provide another leverage point for addressing market access problems. Over 30 countries are currently involved in accession. These include key markets like Russia, China and Taiwan. Meat consumption in China, for example, has been growing 10 percent per year. Total per capita consumption is only 12 percent of the U.S. level. China's per capita consumption of poultry meat has more than doubled in the last five years, but it is still only about one-fifth the U.S. rate. Given its huge population, China has the potential to become the world's largest economy and the world's largest importer of meat and poultry products. Russian and Taiwan also have the potential to become increasingly important exports markets for U.S. livestock and poultry products.

Beyond the significance of these three WTO member-candidates as important markets for our meat and poultry products and the opportunity that the accession negotiations provide for solving access problems for these products, the overall political and economic significance of China, Russia, and Taiwan suggest that the terms of accession for these countries will be extremely important. The trade policies of these countries will undoubtedly have a growing impact on global trade flows. In addition, if these countries are permitted to enter the WTO on terms generally considered to be significantly more favorable than those which apply to existing members, it would seriously erode member support for the organization and weaken its disciplines.

Finally, regarding the need for action to stabilize the financial situation in Asia, AMI feels strongly that the United States should support the International Monetary Fund (IMF) as the leader of international efforts to help countries in the region. The IMF, whose mission it is to promote financial stability, trade, and economic growth, is the right institution to lead the effort to assist the affected Asian economies. Only if these countries have stable, growth-oriented economies will we see global trade, including trade in livestock, poultry and other agricultural products, recover and expand further.

The IMF's efforts to shore up the troubled Asian economies deserves U.S. support because the multilateral agency is forcing badly needed reforms in these countries in exchange for its financial assistance. In many cases these reforms are consistent with actions the United States has unsuccessfully advocated to these countries for years. Indonesia's stabilization package, for example, includes a commitment to reduce tariffs on food imports to a maximum of 5 percent, effective immediately. It will also eliminate a range of officially sanctioned import and export monopolies, remove export taxes on resource products, reform the government procurement process, and accelerate the pace of privatization. Among other reforms they have

pledged to the IMF to implement, Thailand and Korea have agreed to eliminate or reduce unfair subsidies.

Support for the IMF is cost-free to the American taxpayer. The IMF has never has a major default, and its lending is backed by very substantial gold reserves. According to the U.S. Department of the Treasury, the IMF presently has $65 billion in loans outstanding -- and fully $40 billion in reserves. We and other countries provide a line of credit, and when the IMF draws on our commitments, we receive a liquid, interest bearing offsetting claim on the IMF. There is no direct budget cost. Our contribution does not increase the deficit, or impact on other U.S. spending priorities. We believe that the case for approving the President's request for supporting the IMF is undeniable.

In the meantime, we urge the Department of Agriculture to make available additional credits for meat and poultry products under the GSM-102 program. The two $50 million allocations made available by USDA over the past several weeks were almost immediately exhausted. The industry requested an allocation of $500 million, and continues to believe that amount is appropriate to support continued sales of meat and poultry products into the region. At least in the near term, it is clear that the volume of our meat exports to Korea and other financially strapped Asian nations will be largely related to the amount of GSM-102 credit available.

That concludes my testimony, Mr. Chairman. I would be pleased to respond to any questions you or other members of the Subcommittee might have. Thank you.

Mr. RAMSTAD. Thank you, Mr. Condon. I want to thank you and the other witnesses as well, for adhering to the committee's 5-minute rule, for presenting your testimony in summary form. I can assure you and the other witnesses that your entire testimony will be included in the record.

Mr. Wootton, please.

**STATEMENT OF MICHAEL WOOTTON, DIRECTOR, FEDERAL GOVERNMENT AFFAIRS, SUNKIST GROWERS**

Mr. WOOTTON. Mr. Chairman, members of the subcommittee, I appreciate the opportunity to be here today. I'm Michael Wootton, director of Federal Government Affairs here in Washington for Sunkist Growers. We commend you for conducting this hearing in anticipation of what we believe will be very important agricultural trade negotiations scheduled to commence next year.

Sunkist Growers is a nonprofit, farmer-owned marketing cooperative, serving 6,500 citrus farmers in California and Arizona. For 105 years Sunkist has successfully marketed citrus fruit grown by its farmer-owners, today producing approximately 65 percent of the oranges, lemons, and grapefruit grown in California and Arizona.

My cooperative enjoys a long history of developing and expanding markets around the world. Over 33 percent of our farmers' fresh fruit is marketed in foreign countries, accounting for 45 percent of our farmer's fresh fruit revenue.

While progress in international agricultural trade was indeed made in the Uruguay Round, much remains to be accomplished. Tariff rates in many markets remain unjustifiably high, imposing tremendous economic and anticompetitive burdens on both the producer and the consumer. Uruguay Round negotiators did reduce or eliminate some tariff or non-tariff barriers, and as a result we currently see those still intent upon maintaining protectionist barriers against fair competition, resorting to the use of sanitary and phytosanitary claims to prevent importation of agricultural products.

Uruguay Round Sanitary and Phytosanitary Agreement or SPS agreement, with its requirement that sound science be the foundation for all SPS standards for agricultural trade, at last has created some order out of chaos. The SPS Agreement is a significant achievement that should be further strengthened and expanded to compel all countries engaged in agricultural trade to adhere to internationally accepted SPS standards, norms, and practices, based upon sound science. Only by adopting and implementing science-based policies can subjective, unpredictable, and arbitrary requirements that constitute unjustified barriers to trade be successfully over come.

SPS issues increasingly determine the course of international trade and agricultural products. SPS concerns, including pest quarantines have with growing regularity become the linchpin of trade negotiations, seeking market access for fresh produce.

For example, our efforts to gain market access to the huge and potentially profitable consumer market in China have for years been stymied by protracted technical discussions and scientific exchanges between our technical experts and scientists from USDA, and their counterparts from the Chinese Ministry of Agriculture.

Along with other SPS issues, we've responded to China's expressed concern about periodic outbreaks of Mediterranean fruit fly in California and Florida, but only when these SPS issues are resolved will market-opening talks yield results.

Given this relatively new aspect of trade negotiations, manpower and resources of USDA agencies like APHIS and ARS, whose technical roles have become pivotal to success, are now spread dangerously thin. SPS management of production areas, swift eradication of destructive pests and diseases, mandatory certification that food exported is pest free, have become critical components of international trade. The discovery of a destructive Med fly in or near our production areas is the fastest way for us to lose our overseas markets. And that is why work of USDA's Agricultural Quarantine and Inspection Service to prevent exotic pests and diseases from entering the U.S. from abroad is vitally important both to the consumers of this country and to our industry.

Tariff rates in many foreign markets remain, as I said, unjustifiably high, suffocating our competitive efforts. These tariff rates need to be reduced and harmonized with our own.

Some quick examples. China, even when we overcome the SPS problems we face in negotiating with China, we still face a 40 percent duty on citrus fruit, plus an additional 17 percent value-added tax. In Korea we face a tariff-rate import quota, which limits citrus imports. Tariffs on imports within the quota are pegged at 50 percent; tariffs on oranges outside the quota impose a stifling 89 percent.

Now furthermore, Korea has granted the license to import its entire citrus quota volume to the control of its own Korean growers. The Korean citrus industry, albeit small and not an objective party, controls all citrus imports. This is clearly a conflict of interest, and one not likely to be favorably disposed toward fair treatment of U.S. fruit. We urge an opening up of that quota volume.

Japan, our second largest market, imposes a duty of 40 percent, nearly, on our winter oranges; 20 percent on our summer oranges. California and Arizona citrus producers last year paid Japan $38 million in tariff fees, just for the right to compete in that market.

Sunkist Growers appreciates the opportunity to bring these matters to the committee's attention in the hopes that agricultural trade policy pursued by the government in 1999 or sooner will address these inequities important to our farmers. It is also for these reasons that we urge the Congress to grant to the administration traditional negotiating authority to remedy these problems.

Thank you, Mr. Chairman.

[The prepared statement follows:]

**Statement of Michael Wootton**
**Director, Federal Government Affairs**
**Sunkist Growers**

**Submitted to**
**The Trade Subcommittee**
**Committee on Ways and Means**

**February 12, 1998**

Chairman Crane, Members of the Subcommittee, Sunkist Growers commends you for conducting this hearing in anticipation of the second round of agricultural trade negotiations scheduled to begin next year as required by the Uruguay Round agreement. These talks will be of great importance to American agriculture and to Sunkist Growers.

As you may be aware, Sunkist Growers is a non-profit, farmer-owned marketing cooperative serving 6,500 citrus farmers in California and Arizona. For nearly 105 years, Sunkist has successfully marketed fresh citrus fruit grown by its farmer-members. Today, Sunkist Growers produce approximately 65 percent of the oranges, lemons and grapefruit grown in Arizona and California. Our cooperative enjoys a long history of dedicated effort to develop and expand markets around the world for our U.S.-grown fresh citrus fruit. Upwards of 33 percent of our fresh fruit is marketed in foreign country markets accounting for nearly 45 percent of our farmers' fresh fruit revenue.

While progress in international agricultural trade policy was made in the Uruguay Round, much remains to be accomplished to further improve agricultural trade around the world. Tariff rates in many markets remain unjustifiably high imposing a tremendous economic burden both on the producer and the consumer. With the degree of success enjoyed by the Uruguay Round negotiators in affecting remedies to some tariff and non-tariff trade obstacles, those intent upon maintaining protectionist barriers have more often resorted to sanitary and phytosanitary claims and allegations to thwart the successful importation of agricultural products like U.S. grown citrus fruit.

The Uruguay Round Sanitary and Phytosanitary (SPS) Agreement with its requirement that sound science be the foundation for all SPS standards for agricultural trade between nations has at last created order out of chaos. This provision should be hailed as a significant achievement which should be further strengthened and expanded to compel all countries engaged in trade in agricultural commodities to adhere to internationally accepted SPS standards and practices based upon sound science. Only by adopting and implementing science based policies can subjective, unpredictable and arbitrary requirements that constitute unjustified barriers to trade be successfully overcome.

Sanitary and phytosanitary issues have become increasingly significant in determining the course of international trade in agricultural products. SPS issues, including pest quarantines, have with growing regularity become the linchpin of trade negotiations in determining market access for fresh produce. For example, the U.S. citrus industry's efforts to gain market access to the huge and potentially profitable consumer market in China has for years been stymied by protracted technical discussions and scientific exchanges between technical experts from the U.S. Department of Agriculture, Animal Plant Health Inspection Service (APHIS) and their counterparts in the Chinese Ministry of Agriculture (CAPQ) to address China's expressed concerns about periodic outbreaks of Mediterranean Fruit Fly in California and Florida. Only when these SPS issues are resolved are trade negotiators even able to undertake market opening talks. Given this relatively new aspect of trade negotiations, manpower and resources of agencies like APHIS and ARS, whose roles have become pivotal to success, are now spread dangerously thin.

Concerns about proper SPS management of production areas, assurance of swift eradication of destructive pests and diseases and mandatory certification that the fruit exported is pest free have become critical components of international trade. It is likewise our experience that despite success in tariff reductions, effective marketing programs, etc., the surest way for American agriculture to have a foreign market slam shut its door to our products is the detection of an exotic pest like Mediterranean fruit fly in or near our production areas. This is why programs like USDA's Agricultural

Quarantine and Inspection Service which seeks by vigilant inspection to prevent exotic pests and diseases from entering the U.S. from abroad are vitally important to the health and well being of our industry. Similarly it is imperative that we continue to have available to us tools like aerial application of malathion pesticide to combat exotic pests brought illegally into the U.S. When our government is unable to prevent importation of destructive pests and diseases, then we need to have the tools to eradicate them once detected. Otherwise we will have no export markets available to us and no pest free fruit to export.

Sunkist Growers offers for the Subcommittee's consideration the following description of country-by-country difficulties confronting the marketing of our American-origin citrus fruit seeking to compete under fair and equitable conditions in key markets around the world. These descriptions identify from our viewpoint an unfinished agenda that needs to be addressed in the 1999 agricultural negotiations or sooner.

People's Republic of China

The People's Republic of China has imposed and maintained an embargo on fresh oranges, lemons and grapefruit from California and Arizona due to the Mediterranean fruit fly infestation, which has been eradicated since its outbreak in the early 1980's. Maintaining this quarantine on a now non-existent infestation is discriminatory and burdens and restricts U.S. commerce in fresh citrus fruit. Furthermore, it is inconsistent with the principles and rules of the WTO and other international organizations, which have found the United States quarantine program adequate to mitigate the risk of transferring pests in international commerce if a temporary infestation should ever occur. Temporary infestations of the Mediterranean fruit fly do not provide the basis for an embargo such as China maintains.

Although a 1992 Bilateral Memorandum of Understanding between the United States and China concerning market access would appear to provide the vehicle for resolving the issue, it has not been resolved at this time. China and the United States have met on a number of occasions in an attempt to resolve this outstanding trade issue. There has been only very limited progress. At present, China continues to insist that California and Arizona are not free of

Mediterranean fruit fly even though none exists there in the context of permanent habitation. Incidents of periodic detections of Mediterranean fruit fly illegally imported into the country are no basis for quarantine outside the U.S. quarantine area. Nevertheless, because of the PRC's quarantine, there are no legal exports directly to the mainland of the People's Republic of China.

Efforts should also be undertaken by the U.S. government to negotiate reductions in the now very high duty rates on imported citrus fruit into China, presently 40% and the added burden of a value added tax (VAT) presently set at 17 percent. The combination of these added costs of marketing fresh citrus fruit in the PRC substantially reduce our pricing attractiveness to the Chinese consumer.

It is estimated that the removal of all barriers on the export of fresh citrus fruit to the People's Republic of China would result in export sales of 300 million dollars in the first five years. This estimate is based upon our intuitive experience with markets in Asia at a comparable stage of development with similar levels of consumer income.

Republic of Korea

Based upon its commitments in the Uruguay Round, Korea instituted a tariff-rate quota import system for fresh oranges on July 1, 1997. Last year the quota for oranges was 25,000 MT. Duty for oranges within the quota was 50%; imports outside the quota permitted after July 1, face an onerous 89 % duty. That 89% duty is currently scheduled to be relaxed to a still very high 50% by the year 2004.

Korea, unfortunately, has granted the license to import its entire citrus quota volume to the control of Korean growers, who produce no fresh sweet oranges and whose tangerines are seasonal. Nevertheless, this means their Korean citrus industry, not an objective party, controls all citrus imports. This has restricted imports of U.S. oranges. Korea, with its price-based import quota, imports low-priced oranges and then complains the imports are undercutting their domestic prices. They also complain the imported oranges are low quality. This is all apparently done to discourage imports. Additionally, Korea also uses slow harbor and customs clearance

as a means to retard imports. Fresh produce in general has experienced problems with customs inspection and clearance prompting the U.S. government to initiate WTO action.

Korea has raised, without foundation in sound science, certain phytosanitary arguments that have become impediments to trade. Late last year, local government inspectors in Korea rejected orange imports from California because of traces of methidathion or carbaryl (pre-harvest pesticides) at tolerance levels well below both the U.S. and CODEX thresholds. The Korean citrus industry began a publicity campaign to raise doubts among Korean consumers about the health and safety values of imported U.S. citrus fruit. This publicity effort has negatively impacted our citrus sales in Korea during the period we are eligible to bring fruit to market outside the quota restrictions. These are the kinds of SPS policy actions taken by some governments to thwart successful importation of U.S. agricultural products. Foreign governments must be reminded of their obligations under the terms and conditions of the SPS Agreement and of international standards and practices when their policies are contrary to the international norm.

If all of the impediments and barriers to import were removed, California and Arizona would export over $100 million in fresh citrus fruit to the Korean market. This calculation is based upon our experience with similar Asian markets at equivalent stage of development with comparable consumer populations in terms of dietary preferences and income levels.

Japan

Despite our expressed national concern about the long-standing, massive trade deficit suffered by the U.S. with Japan - upwards of $40 billion in 1997 - harmonization of tariff rates is still an elusive objective. The duty imposed on fresh oranges into Japan is nearly 40% in the winter months and 20% in the summer months. While these rates are slowly being reduced by Uruguay Round tariff reduction agreement, they nevertheless remain very high. This is an excessive duty when recognizing that Japan does not produce fresh oranges but only tangerines. The impact of this duty can be quantified by noting that California and Arizona orange shippers pay Japan some $38 million in tariff fees annually.

The duty reduction achieved in the Uruguay Round, while helpful, does not solve the problem. After the transition period, the duty will still be excessive, with a consequence of repressed sales in the market. American and Japanese orange import tariffs must be harmonized as soon as possible. Such a harmonization with the U.S. duty on fresh oranges would result in American exports upwards of $150 million in the first year. The gain would be greater in subsequent years and accelerated by duty elimination.

## India

India potentially offers a large market for fresh oranges, lemons and grapefruit. The upper 20% income level of the population - some 200-300 million consumers - can afford fresh oranges, lemons and grapefruit. This represents a consumer population equivalent to Germany. Fresh oranges, lemons and grapefruit are widely used in India and pose a major export market of opportunity for the United States. At present, however, India maintains an absolute embargo on fresh oranges, lemons and grapefruit except for the hotel trade. Additionally, India maintains very high duties and a licensing system wherein no licenses are granted. There exists an urgent need to reform standards to avoid unjustified use of balance-of-payments economic defense for denial of market access for certain imported products, like fresh citrus fruit. Phasing out of these restrictions and gaining market access should be a priority for our government negotiators. Additionally, excessive duties, currently set at 42% on fresh citrus fruit, need to be substantially reduced.

Based upon our experience with new and emerging markets in Southeast Asia, with similar dietary habits, consumer population with disposable income as that segment of the Indian population, we estimate sales of fresh oranges, lemons and grapefruit to India could approach $100 million in five years provided market access and reduced tariff rates are achieved.

European Union

Continuation by the European Union (EU) of discriminatory tariff preference scheme under which the EU gives preferred Mediterranean basin countries, notably Morocco and Algeria, up to an 80% discount from the common external tariff applied to citrus fruit meanwhile imposing up to a 20% duty on American oranges. This discriminatory policy has a particularly adverse effect on our summer and winter oranges. Previous efforts by the U.S. government to remedy this unfair trade practice failed despite a favorable opinion rendered by the GATT-Dispute Resolution entity. These conditions have effectively removed us from competition in Europe. Expansion of the EU to include Sweden, Norway, Finland, Austria et al. has extended the damage and consequent competitive difficulties confronting U.S. citrus fruit in these markets as well.

It is estimated that if the U.S. could obtain equal treatment for fresh orange, lemon and grapefruit exports to the European Union, exports would increase by $5 million to $25 million in the first two years.

Thailand

While Thailand has allowed fresh oranges to be imported from California, it has yet to approve importation of fresh citrus fruit from Arizona because of phytosanitary concerns. However, based upon a successful inspection tour of Arizona citrus production areas in August of this year by Thai Department of Agriculture officials and scientists, we expect this quarantine barrier to Arizona citrus fruit to be removed shortly.

However, even when phytosanitary barriers are successfully removed, U.S. fresh citrus fruit still faces extremely onerous duty rates in Thailand. The duty for U.S. origin oranges is 51%, for lemons and grapefruit it is 56%.

Based upon our intuitive marketing experience in Southeast Asia with emerging and developing markets of comparable consumer populations, similar in dietary preferences and

income levels, we would anticipate export volumes of fresh citrus fruit from California and Arizona to Thailand would annually be at least $25 million within five years. This trade volume would result provided an end to the phytosanitary quarantine and a reduction in tariff rates to a more competitive level.

Taiwan

Taiwan continues to maintain high seasonal tariffs on fresh and processed citrus fruit. These tariffs have been reduced over the years, but from very high levels. Their present rates are in the 40-42 per cent range, which are excessive insofar as Taiwan does not produce fresh oranges, lemons grapefruit or orange juice. Taiwan does grow some tangerines.

It is estimated that a substantial duty reduction on the importation of fresh citrus and processed orange juice would result in increased sales in the $25 to $50 million range within the first three years.

Philippines

The Philippines maintain excessive tariffs on fresh citrus fruit including oranges, lemons and grapefruit. The 50% ad valorem duty on all three varieties of fresh citrus is excessive and imposes a significant barrier to competitive trade for U.S. citrus fruit.

It is calculated that a substantial reduction in the tariff rate would result in increased sales of fresh citrus to the Philippines in the range of $5 to $25 million in the first five years.

Australia

Australia is often problematic as an export market for our fresh citrus fruit. Shipments of U.S. agricultural products experience slow handling, inspection and customs processing upon arrival at Australian docks. This combination of slow import processing and Australia's extensive use of methyl bromide fumigation for many inbound fresh fruit shipments creates conditions for high incidence of spoilage and deterioration of the fruit. Our refunds for fruit

damage for shipments to Australia are .80 cents per carton versus .03 cents per carton for all other export markets.

Australia's expansive and restrictive pest quarantine buffer policy on citrus imports from California because of concern about periodic Mediterranean fruit fly outbreaks in the state far exceed standards dictated by sound science. Australia and New Zealand disallow citrus fruit imports if grown and or packed within 80 kilometers (50 miles) of an exotic fruit fly quarantine area. This contrasts dramatically with the 4.5 mile buffer accepted by the Animal Plant Health Inspection Service (APHIS) of USDA. APHIS' standard is derived from the convention wisdom of science panels which have, over time, concluded that the range of the Mediterranean fruit fly does not exceed 0.8 miles. As a precaution, however, APHIS adds an additional 2.5 miles to the quarantine buffer to further reduce any likelihood the pest will of its own ability travel beyond the quarantine area. This has become the *de facto* international, science-based norm or practice for the establishment of quarantine areas from which no fruit may be transported. Recognized by Japan, Thailand, Korea, Vietnam, major trading partners in Latin America, and others, many of whom are also citrus producers, this science-based standard conversely defines pest free areas from which fresh fruit may be exported into domestic and international markets. The validity of this science-based quarantine policy has been proven over two decades without evidence of ever exporting a single pest in the millions of cartons of citrus fruit shipments we have delivered around the world.

Australia and New Zealand should be pressed to accept this same standard for Medfly quarantine exclusion.

Sunkist Growers appreciates the opportunity to bring these international trade matters to the attention of the Subcommittee in the hope that the agricultural trade policy agenda pursued by our government in 1999 or sooner will address these inequities important to our growers and the U.S. citrus industry.

Mr. RAMSTAD. Thank you, Mr. Wootton.

Mr. Nussle.

Mr. NUSSLE. Thank you, Mr. Chairman. I just have one—it's more of a plea than a question. And that is, in your testimony as an example—of what I was trying to get at with Mr. Kleckner from the Farm Bureau.

I have a real difficult time communicating the importance of this with my farmers, and I think that probably one of the organizations that I've seen that has done the best has been the pork producers. And we called to get information, as an example, we were able to find out that, how everyone of my farmers might be impacted, as far as in the sale of one head of pork; $10 is what they were suggesting may be the impact of trade.

I don't want anyone to feel as though I'm blaming them. But, it's hard to get that same, per farmer, on-farm impact of trade across agriculture. And all of you are very good at summing it up, and putting it in the millions and billions of terms, as we are often times as well, but I think the battle of educating farmers on the importance of trade is going to be done on farm.

And I recently tried to write an opinion article for the Iowa Farm Bureau Spokesman. So I had my staff call around, and I said, just tell me, on an average farm, tell me what the percentage would be of how many bushels of corn harvested went into trade. They couldn't tell me that. They couldn't tell me for soybeans. The most I got was $10 a head for hogs.

The information I finally did get back took 3 days, and I was trying to write this article in order to try and educate farmers about this issue. All I'm trying to get at, is that I think if we're going to beat the demagoguery out there about the importance of trade and agriculture, we're going to have to personalize it, the way that the people who demagogue personalize it; and are able to point at one job, and say this job was lost as a result of trade. It may or may not have been lost, and thank goodness we have passed what we've talked about on many other instances, for that kind of job. But when it comes to $10 a head, or when it comes to however many bushels that are not available, or whatever it might be, we're not good at personalizing this for every farmer out there.

So I would suggest, in my humble opinion, I think it would work better if we're able to personalize it, and anything you can do to assist in that regard, not only through your organizations, which I know does a good job, but through encouraging of other organizations, would be extremely helpful in this education process.

Mr. GIORDANO. Mr. Nussle, I appreciate your kind words regarding the pork industry. We in agriculture, our coalition meet pretty much once a week, and discuss fast-track. And I will ensure that your comments are passed on. It's a difficult thing to get the message out. We're trying; we've had some success. Obviously, we need to do a better job, and we will do that.

Mr. NUSSLE. If you're interested, I would be glad to meet with that coalition, and impart on them some unbelievable stories of just the misinformation that is out there in the hinterlands, outside the Beltway of Washington, because I'll tell you, farmers just do not see that $10 a head. They just don't see the importance of their in-

volvement in the stream of commerce the way they need to, to impact the process in decision-making out here in Washington.

So, anything that I can do to try and give you some, almost, horror stories involving folks who—I've gotten Farm Bureau and other commodity letterhead from county and other leaders within organizations that have told me to vote against fast-track when it was completely and totally counterproductive to their own interest, and I'd be glad to impart some of those stories if you're interested.

Mr. GIORDANO. Thank you, sir.

Mr. RAMSTAD. Mr. Watkins, any questions?

Mr. WATKINS. Yes. Mr. Chairman, I'd like all of you to know, Iowa and Oklahoma's here. My two colleagues and——

Mr. NUSSLE. And Minnesota.

Mr. WATKINS. And so is Minnesota. Iowa, Minnesota—one of the same, corn country; they're too high on their corn. We've got to feed it.

Mr. RAMSTAD. Just because they sit together, doesn't mean that——

Mr. WATKINS. Let me say quickly—the guys are sincere and have done a great job.

United States has the world's lowest tariffs overall, and there's a lot of fear about WTO. But I don't know how we put the leverage, if we don't have WTO there to help us. If we believe we've got the greatest quality of agriculture products—and I believe that—if we believe that we have probably better environmental conditions, and health conditions, and labor conditions, we should not fear going in front of the WTO. We might be able to improve, but we shouldn't be fearing that.

I've just got two quick questions. One. WTO's going to meet in 1999. Do we know when WTO will be meeting in 1999? Do you know when the WTO meets? Since this is going to be on agriculture, to try to be there, and try to do some things along the way.

And also I wanted to ask, Mr. Condon, I think that you mentioned here that the tariff on beef presently is at 151.9 percent in your community?

Mr. CONDON. Yes. Well, actually it's higher than that now. The Uruguay Round requires a minimum 15 percent reduction over 6 years. This is what it will be after it goes down during the Uruguay Round.

Mr. WATKINS. I thought I was keeping up with it pretty good, but I'm just shocked when I realize it's that high, and I think most of our cattle people would be just as shocked as I am to realize we're going up against that kind of——

Mr. CONDON. We have a tariff-rate quota, zero duty for 11,500 tons; that's our free access. Anything beyond that, it would be paying this tariff.

Mr. WATKINS. That's quite interesting. Thank you, Mr. Chairman.

Mr. RAMSTAD. Thank you. And I want to thank you three gentlemen, again, for your presence and continuing counsel on these important issues. Thank you.

Final panel of the day. Anita Brown, Associate, Schramm, Williams and Associates on behalf of Western Growers Association; Doreen Brown, President of the Consumers for World Trade; Caro-

lyn B. Gleason, Counsel of Chiquita Brand International; and John E. Frydenlund, Food and Agricultural Policy Fellow, Council for Citizens Against Government Waste, on behalf of the American Peanut Coalition.

Welcome, ladies and John, to the hearing. Let's begin with your testimony, please, Anita Brown.

**STATEMENT OF ANITA BROWN, ASSOCIATE, SCHRAMM, WILLIAMS AND ASSOCIATES, ON BEHALF OF WESTERN GROWERS ASSOCIATION**

Ms. ANITA BROWN. Thank you, Mr. Chairman. I am Anita Brown. I'm with the firm of Schramm, Williams and Associates, and we are the Washington representatives for the Western Growers Association. The president of WGA, David Moore was planning to present testimony today, but as you know, the weather has not been so good in California, and he had problems associated with some flooding out there, so he was unable to attend the hearing. But we would appreciate your having his full written statement made a part of the hearing record.

In the event the Subcommittee is not familiar with the organization, Western Growers, is a 3,300 member agricultural trade organization, which was organized in 1926. The Association's members, pack, grow, and ship more than half of the nation's fresh fruits, vegetables, and nuts.

The Uruguay Round of the North American Free Trade Agreement has had varying impacts on Agriculture. Unfortunately in the horticultural section, fresh fruits and vegetables have not fared so well. A review of pre-NAFTA data, using the years 1993 and 1997, indicates that U.S. exports of fresh fruits and vegetables to Mexico have declined by 9 percent and 7 percent, respectively; while imports of fresh fruit from Mexico have increased by 30 percent, and fresh vegetable imports from Mexico have increased by 57 percent. Note the sizable difference in the U.S. import/export figures.

World trade data for the same period indicate that fresh fruit exports and imports have increased by 18 percent. On the other hand, U.S. imports of fresh vegetables have increased 48 percent, while our exports have increased only 14 percent.

As you can see, any agricultural success as a result of NAFTA, and to some extent, the Uruguay Round, has not been shared by the fresh produce industry. As a result, Western Growers Association, urges Congress and the administration in new trade agreements to focus more in addressing the continuing obstacles to export trade in fresh produce. One of those obstacles was noted earlier today by Mrs. Thurman and also Mr. Kleckner of the American Farm Bureau—sanitary and phytosanitary barriers.

Your subcommittee press release asked witnesses to provide information on what we thought should be addressed in future trade rounds. WGA recommends four issues which I'll mention briefly. The first issue is phytosanitary barriers, which as I said earlier is one of the principle obstacles to trade and fresh fruits and vegetables. WGA's written statement outlines a number of phytosanitary barriers, many of which are based on unquestionable science. Some of these barriers have taken many, many years to resolve; as, for example the California tomato issue.

The California Tomato Commission was able to get tomatoes into Japan this past year, as a result of 7 years of long, hard work. WGA believes that time frames for completion of studies or tasks should be imposed on all countries that raise phytosanitary questions, and suggests that such time frames be included in forthcoming trade negotiations. I note that the Farm Bureau witness also made this recommendation.

WGA's second recommendation is harmonization. Various multilateral trade rounds have attempted to harmonize many topics that influence trade, but unfortunately country of origin markings, and labeling have not been topics for harmonization to date. The U.S. and Canada, after entering into a free trade agreement over a decade ago still have differences in lettering sizes on labels. The U.S., Mexico, and Canada continue to have different pesticide residue tolerances. These problems do not enhance trade, and certainly should not have any place in a free trade agreement.

A third recommendation is adequate provision of personnel and funds for federal agencies. When the federal agency officials come to Capitol Hill in anticipation of a new trade agreement, they always furnish a number of analyses on the economic impact of the agreement, but they fail to provide an examination of the funding and personnel required for implementation, adequate monitoring, and enforcement of these agreements. Particularly at a time when we are entering into more and more trade arrangements, we must ensure that there are sufficient personnel and funds to help us achieve our export objectives.

The last issue WGA would like to bring to your attention is transparency. Implementation of the Uruguay Round has not curtailed the need for more transparency in the countries who are members of the WTO. This is particularly true with regard to the European Union, whose entry price system for fresh fruits and vegetables is, to say the least, extremely complex and confusing. WGA believes that future trade agreements should try to ensure clear, detailed, and timely data on government support to its agriculture sector.

Mr. Chairman, the trade policy of the U.S. must ensure that other countries open their markets to us. We cannot continue to open our doors to imports when other countries are raising barriers that deny us market access. The U.S. has had a very favorable balance of trade in agriculture for a number of years but interestingly a review of trade data indicates that the U.S. trade surplus in agriculture in 1997 was 23 percent below the previous year.

WGA believes that the U.S. must continue to attack unfair and questionable sanitary barriers, and we must do this very aggressively.

The Subcommittee's press release indicated an interest in the adequacy of current mechanisms for consulting with Congress and the private sector. Mr. Moore has been, for a number of years, a member of the USTR/USDA Agricultural Policy Advisory Committee (APAC); and also the Agricultural Technical Advisory Committee on Trade, in Fruits and Vegetables. WGA believes that these committees are indispensable in coordinating public policy goals and private sector needs.

Regarding fast-track legislation, WGA understands the reason for and supports the general concept of fast track negotiating authority.

With regard to the Subcommittee's interest in consistency and coordination among existing and future trade agreements, WGA believes there has been consistency and coordination for the most part at least in trade agreements involving agriculture; but encourages Congress, as the U.S. enters into more and more trade agreements to strengthen its oversight activities to ensure that this consistency and coordination will continue.

Thank you, Mr. Chairman.

Mr. RAMSTAD. Thank you very much, Ms. Brown, and Mr. Moore's complete statement will be included in the record as you requested.

[The prepared statement follows:]

Western Growers Association
*Serving the California and Arizona Fresh Produce Industry*

Statement of David Moore

President, Western Growers Association

before the Trade Subcommittee of the House

Committee on Ways and Means

February 12, 1998

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OUTLINE OF WGA TESTIMONY

A. Goals and Objectives for New Trade Negotiations

1. Current trade situation in fresh fruits and vegetables

2. Phytosanitary Barriers
   A. Continued use of phytosanitary barriers
   B. Need for deadline for studies/tests

3. Harmonization of Labeling Requirements

4. Transparency
   A. Need for full and timely reports on country levels and methods of government support

B. Mechanisms for Congressional and Private Sector Consulting
1. USTR/USDA Policy Advisory Committees and Technical Advisory Committees
2. Congressional Hearing Process

C. Importance of Fast Track Legislation
1. Understanding the need for fast track legislation
2. Lack of access to other markets

D. Consistency and Coordination in Existing and Future Trade Agreements
1. Appears there is consistency and coordination
2. Need for more Congressional oversight with additional agreements

Mr. Chairman and Members of the Subcommittee, Western Growers Association appreciates very much the opportunity to discuss with you the implementation of the Uruguay Round and the North American Free Trade Agreement (NAFTA) from the perspective of the horticultural industry.

In the event you or other Members of the Subcommittee are not familiar with our organization, WGA is a 3,300 member agricultural trade association organized in 1926. The association's members grow, pack and ship more than half of the nation's fresh fruits, vegetables and nuts. WGA represents over 90 percent of the fresh vegetables and about 60 percent of the fresh fruit and nuts grown in Arizona and California.

OVERVIEW

U.S. as International Trade Leader

I have been fortunate to be in production agriculture all of my life, and have witnessed from that perspective the negotiation and implementation of numerous free trade agreements: the Kennedy, Tokyo, and Uruguay Round multilateral agreements as well as three bi-lateral trade agreements. Also, over the last decade, I have served on the Agricultural Policy Advisory Committee (APAC) to USTR and USDA. Given my experience with international agricultural trade, I recognize that the U.S. is the world's trade leader, and, in many cases, the interpreter of the World Trade Organization rules.

The recent collapse of the "fast track" legislation in the House of Representatives was not a surprise. We have approved three bilateral agreements and one major multilateral round of trade liberalizing measures over a ten year period, and numerous promises were made to the fresh fruit and vegetable industry that these agreements would lead to tremendous growth in exports for our industry. Unfortunately, the reality is that imports have increased more dramatically, and we have not achieved corresponding access for our exports in many markets. With this being the case, enthusiasm for additional import competition through new trade agreement has waned considerably.

If Congress is not successful in approving "fast track" authority, I urge that you require the executive branch to conduct a thorough reexamination of existing trade agreements in order to ensure that our goals are being met and the benefits of free trade are being realized. Our farmers will once again be strong supporters of fast track authority if they are confident that new agreements will result in full market access for their products.

**GOALS AND OBJECTIVES FOR NEW TRADE NEGOTIATIONS**

A. Background

Mr. Chairman, the Uruguay Round and the North American Free Trade Agreement (NAFTA) have had varying impacts on American agriculture, resulting in substantial gains (as much as 150%) in exports for some crops and substantial gains in imports for other crops. In the horticultural sector, this has also generally been the case, although the sector as a whole (which includes fresh and processed fruits, nuts, and vegetables) has experienced thirteen consecutive years of export growth. In 1997, U.S. horticultural exports reached $10.6 billion, nearly quadrupling since FY 1985. Horticultural products now represent 20 percent of all agricultural exports. The U.S. Department of Agriculture forecasts 1998 exports at $11.2 billion.

Having noted this overall increase in all types of U.S. horticultural exports, I must also point out that the situation is quite different in trade in *fresh* fruits (with the exception of apples and pears) and *fresh* vegetables with Mexico. Unfortunately, we have seen that between 1993 (pre-NAFTA) and 1997, U.S. exports of fresh fruits to Mexico declined by 9 percent, while our exports of fresh vegetables to Mexico declined by 7%. However, Mexican exports in fresh produce have increased substantially in the corresponding period. The Administration's status report on the NAFTA noted that "(t)he largest export gains for Mexico over the period were in fresh and processed tomatoes, other vegetables...." An examination of trade data from 1993 to 1997 indicates that Mexican exports of fresh fruit to the U.S. increased by 30 percent, while Mexican exports of fresh vegetables increased by 59 percent.

A comparison of world trade data for the same period of time shows that both our imports and exports of fresh fruit have increased approximately 18 percent, while imports of fresh vegetables have increased 48 percent compared with our export increase of only 14 percent.

NAFTA has brought a fair amount of success to a limited number of agricultural sectors, but as noted, this success has not been shared by the fresh produce industry with respect to Mexico. As a result, WGA believes that Congress and the Administration need to focus more on addressing the continuing obstacles to export trade in fresh produce, and we offer our assistance to you in this regard.

B. Issues to be addressed in upcoming negotiations

1) Phytosanitary Barriers

While tariffs have been lowered as a result of the Uruguay Round and NAFTA, an obstruction to trade which has seemingly become more prevalent in the horticultural industry is the continuing use of phytosanitary barriers which deny access to key international markets for many fruit and vegetable products. While the Uruguay Round Agreement on Sanitary and Phytosanitary Measures (S&P) endorsed science-based S&P measures, some countries nonetheless continue to impose phytosanitary restrictions, many of which are based on differing interpretations of international standards. To address this issue and eliminate these barriers, WGA believes the United States must be more aggressive in its efforts to monitor and implement the World Trade Organization S&P Agreement.

Examples of phytosanitary trade barriers include the following:

In 1990, prior to the Uruguay Round Agreement, the California tomato industry began exploring the Japanese market. As you may know, the Japanese raised the issue of susceptibility of tomatoes to tobacco blue mold (TBM) because this possibility had been questioned in a U.S. scientific publication dating from the 1930s. The California Tomato Commission partially funded and helped scientists in USDA's Agricultural Research Service for over seven years to prove scientifically that the Japanese concern was not valid. Finally, after seven years of discussions with the Japanese government and extensive testing, our first California tomatoes were exported to Japan in 1997.

This success is not the end of the story, however. Japan has allowed only 25 varieties of tomatoes from the U.S. to enter its market. This poses a further problem for our industry, because new varieties of tomatoes are being developed every year, and indications are that the Japanese government may be asking for further testing on new varieties. This will cause further delay in exporting newer and more hardy varieties to this key market.

Another problem with Japan is that its phytosanitary inspection rules for lettuce are arbitrary and based on questionable science. The existence of virtually any insect in a lettuce shipment, even if the pest already exists in Japan, warrants either outright rejection of the shipment or subjects it to costly methyl bromide fumigation. As a result, a large percentage of the U.S. shipments over the past several years have been fumigated with methyl bromide in Japan, which severely damages the lettuce and greatly reduces its value. These arbitrary inspection procedures and fumigation requirements greatly increase the risk involved in shipping to Japan, thus creating a large disincentive for U.S. growers to ship to this potentially large market. The Salinas lettuce growers/shippers have been working on the problem for four years.
The Japanese market also has substantial potential for exports of bell peppers from California. However, as is the case with tomatoes and lettuce and other commodities, our pepper growers face a non-tariff trade barrier in Japan. The Japanese Ministry of Agriculture, Forestry and fisheries (MAFF) maintains that bell peppers from the U.S. are a carrier of the tobacco blue mold (TBM) disease.

A last example relates to Chile, a country that states it is interested in free trade. This declaration is questionable. While the U.S. horticultural market has been open to Chile, the same has not been the case for the U.S. Chile has been shipping well over 500 million boxes of fruit to the United states over the last 20 years at a value that exceeds $5 billion. Why does Congress permit this situation to exist while many members point to Chile as an example of a nation committed to free trade? WGA implores Congress to monitor the Chilean import situation carefully, especially in light of any upcoming free trade agreement with that country.

Mr. Chairman and Members of the Subcommittee, in the event you have not reviewed it, I would like to bring to your attention a recent Government Accounting Office (GAO) report entitled Agricultural Exports - U.S. Needs a More Integrated Approach to Address Sanitary/ Phytosanitary Issues (December, 1997). This report notes that over 12 federal trade, regulatory, and research entities are involved in addressing foreign sanitary and phytosanitary measures. However, the report also notes that some of the roles of these entities are not clearly defined, and that there is a lack of coordination among the various agencies. The GAO recommends that the USTR and the Secretary of Agriculture, in consultation with the Food and Drug Administration, the Environmental Protection Agency and the U.S. Department of State, "work together to develop coordinated goals, objectives, and performance measurements for addressing foreign SPS measures that appear to be inconsistent with the WTO SPS agreement." WGA strongly supports this recommendation.

As discussed above, phytosanitary barriers continue to be the principal concern of the horticultural industry in world trade. Although sanitary and phytosanitary barriers were addressed in the Uruguay Round, some countries continue to raise phytosanitary concerns which we believe are raised only to delay or impede market access. While WGA understands the need to take adequate measures to prevent the spread of diseases and pests, on many occasions these concerns are raised even when the disease and/or pest is prevalent in the importing country. On other occasions, a country may offer a different interpretation of the standards of international organizations. Whether based on sound science or not, WGA suggests that, whenever an importing country raises a phytosanitary issue, a deadline be established for the completion of studies or required testing necessary to respond to the importing country's concerns. A limited time frame for phytosanitary disputes could be a part of any trade agreement in which the U.S. and the importing country are signatories. (Please note the attached letter to USTR expressing WGA's views regarding the Triennial Review of the WTO S&P Agreement).

2) Harmonization of Labeling Requirements

a) The various multilateral trade rounds have attempted to harmonize many topics that influence trade. Unfortunately, county of origin markings and labeling have not been topics for harmonization to date. We recognize that many supporters for free trade view labeling as protectionist. However, this is not the case. The real problem is that the lack of uniformity in labeling restricts trade. Frequently, within the course of a year, a new labeling requirement from a export market is brought to our attention. A new labeling requirement means our shippers must have a different package or use a different packaging procedure for each export market.

For example, in 1987, after we had entered into a free trade agreement with Canada, over nineteen boxcars of fresh carrots destined for Canada were held up at railroad sidings because size of the lettering on the labels was 1/4 inch instead of 3/8 inch. Over a decade later, the requirement for lettering size between the two nations continues to remain different.

Another example is that Switzerland has recently announced a new labeling requirement for our exports of asparagus. This will eventually require that each bunch of asparagus be labeled with the country of origin.

WGA believes that such incidents could be avoided in the future by harmonizing all labeling requirements for products in international trade. We must move forward and start this harmonization process now. The different labeling requirements in export markets will not cease, and as we talk new procedures are being adopted by our trading partners. Congress should provide leadership on this issue and require the executive branch to incorporate in future trade negotiations the harmonization of labeling requirements.

b) One of the benefits of free trade agreements should be harmonization of pesticide residue tolerances as we continue to have different residue tolerances for many of our U.S., Canadian and Mexican products. Increased resources should be directed towards this goal.

3) Adequate provision of personnel and funds for Federal agencies

Prior to any trade agreement being sent to Congress, various Federal agencies conduct extensive analysis of the economic impacts of the agreement. However, no such analysis is undertaken which would examine the funding and personnel required for implementation, adequate monitoring, and enforcement of the agreement.

When considering reductions in tariff revenues, for example, the Ways and Means Committee must provide a means of making up any lost revenue. Similarly, WGA believes that before Congress acts on legislation implementing a trade agreement, other Congressional committees of jurisdiction should authorize whatever additional funding or increase in personnel is needed to satisfactorily implement the agreement. For example, the Committee on Agriculture should review the adequacy of funding and personnel in the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS), the Food Safety and Inspection Service (FSIS), and the Foreign Agricultural Service (FAS).

We cannot continue to accommodate import issues and ignore those issues which would help us achieve our export objectives.

4) Transparency

Implementation of the Uruguay Round Agreement has not curtailed the need for more transparency in the countries who are members of the World Trade Organization (WTO). For example, the European Union (EU) has a variable duty (now called a tariff equivalent ) on imports entering the EU below a certain Entry Price (The Entry Price system is a tariffication of the old Reference Price system). This ad valorem duty is based on a Standard Import Value (SIV), which is established daily by the EU using wholesale prices from certain EU markets. We do not know any more than this about the SIV, and the EU needs to provide more information about how the SIV is set.

The fresh fruit and vegetable industry was promised that the EU would use the reference price system, and that any similar system would be phased out. However, now we learn that tariffs have actually increased while our tariffs were reduced. Growers are concerned that any future trade agreement with EU will bring similar results. Before we enter into any further agricultural talks with the EU, complete disclosure of its trade regime should be provided to the U.S. on how the SIV operates.

WGA believes that there is still not enough transparency in the levels of support some countries provide to their growers. Particularly with regard to the EU, it is difficult to ascertain how certain types of assistance provided to growers is calculated and how much general agricultural support is provided by member States and the Federal government. WGA believes that each WTO member should be required to provide more transparent and timely reports to the WTO on its expenditures for grower support and export subsidies.

While the U.S. Department of Agriculture (USDA) publishes abundant information on American agriculture which is scrutinized by all our competitors, obtaining similar information from our WTO trading partners is much more difficult to obtain, if it can be obtained at all. For example, timely agricultural production and consumption data from Mexico is not available. It is reasonable to expect that the U.S. data provides the Mexican growers an advantage that is not available to the U.S. grower.

**ADEQUACY OF CURRENT MECHANISMS FOR CONSULTING WITH CONGRESS AND THE PRIVATE SECTOR**

Members of the Agricultural Policy Advisory Committee (APAC) and Agricultural Technical Advisory Committee for Trade in Fruits and Vegetables (ATAC) are in a position to confer with the U.S. Trade Representative, the Secretary of Agriculture and relevant staff on any aspects of a trade agreement relating to agriculture. I believe that the private sector committees are indispensable in coordinating public policy goals and private sector interests.

WGA believes that hearings such as this provide the private sector with an invaluable opportunity to express our views and respond to questions from Members of Congress. WGA always responds to the hearings process insofar as possible. Further, in the case of this Subcommittee, we are especially pleased that three Members of the California delegation, the second ranking member of the Majority, Congressman Bill Thomas, the Ranking Minority Member, Congressman Robert Matsui, and Congressman Wally Herger have always kept their doors open to WGA.

**IMPORTANCE OF LEGISLATION TO EXTEND THE PRESIDENT'S FAST-TRACK NEGOTIATING AUTHORITY**

WGA understands the reason for and supports the general concept of fast track negotiating authority. Our organization, however, approaches fast track legislation very cautiously. Last year, it was apparent that Members wanted to include more specific negotiating objectives in fast track legislation, and WGA, like a number of other organizations, withheld its support until we understood what objectives regarding agriculture were being proposed.

As I noted earlier, horticultural exports are expanding significantly each year. Our growers need access to new markets. Preferential trade agreement such as MERCOSUR and the Canada-Chile agreement provide competitor countries with preferential access to each others' markets for a broad range of agricultural commodities. With these agreements, our competitors are reaching markets in which American growers face restricted access.

The U.S. must continue to be in the lead in multilateral trade discussions so that our growers and exporters can take advantage of the competitive marketplace in the 21st century. WGA believes that fast track legislation with the appropriate agricultural negotiating objectives is the key to remaining competitive in that marketplace.

**ACHIEVEMENT OF CONSISTENCY AND COORDINATION AMONG THE EXISTING AND FUTURE TRADE AGREEMENTS**

Consistency and coordination of objectives in all trade agreements is extremely important in achieving success for any sector of the economy. WGA has not observed any particular inconsistencies in recent trade agreements involving agriculture, but would encourage Congress, as the U.S. enters into more and more trade arrangements, to strengthen its oversight activities to ensure that this goal continues.

**- COPY -**

February 2, 1998

Mr. John Ellis
Director of Sanitary and Phytosanitary Affairs
Office of WTO and Multilateral Affairs
Office of the U.S. Trade Representative
600 17th Street, NW
Washington, DC 20508

Dear Mr. Ellis:

On behalf of Western Growers Association (WGA), I am writing with respect to the Triennial Review of the World Trade Organization Agreement on the Application of Sanitary and Phytosanitary measures.

WGA represents over 3,600 growers, shippers, and packers of fresh fruits and vegetables in Arizona and California. WGA members produce over 50% of the fresh produce grown annually nationwide.

Exports of U.S. fresh fruits and vegetables have grown tremendously over the past decade, and contribute significantly to our nation's balance of trade. WGA members believe that the need to expand export opportunities is vital in order to ensure that our industry continues to create jobs and contribute to economic growth in rural areas of Arizona and California. The key to expanded export opportunities for our industry is greater access to international markets.

As tariffs have begun to be reduced in accord with the Uruguay Round agreement, we have unfortunately seen a greater incidence of the use of phytosanitary regulations as non-tariff trade barriers among our trading partners. As such, the strong implementation and enforcement of the Sanitary and Phytosanitary (SPS) measures of the Uruguay Round agreement are more important now than ever before.

WGA urges USTR to move more aggressively in its efforts to ensure our trading partners' compliance with the Uruguay Round SPS measures. In particular, WGA members have experienced several problems with phytosanitary trade barriers which limit opportunities for U.S. agricultural exporters. First, a number of our trading partners continue to block U.S. exports by applying standards for pesticide residues on imports of fresh produce which are different from those applied to their domestic growers. This is, of course, a violation of the national treatment clause.

Second, a deadline should be established on the time allowed to complete studies or assemble data which demonstrate the safety of fresh produce imports. Without an established time-frame for the resolution of SPS disputes, a country which utilizes a questionable phytosanitary measure as a non-tariff trade barrier can stretch out negotiations for many years, thus inhibiting access to its market. An example of this is the fact that it took over seven years for Japan to accept studies showing that California fresh tomatoes posed no phytosanitary threat.

WGA also recommends that the Administration and Congress allocate increased funding to USTR and USDA agencies, in particular the Animal and Plant Health Inspection Service and the Foreign Agriculture Service, which are responsible for working with our trading partners towards full implementation of the Uruguay Round SPS measures.

It is essential that U.S. growers continue to expand sales into foreign markets in the emerging global economy. However, this will not become a reality if international markets remain closed due to SPS measures employed as non-tariff trade barriers. As such, the U.S. must take a leadership role in ensuring the success of the Uruguay Round SPS measures in promoting expanded world trade and economic growth.

Thank you for your consideration of WGA's concerns on this matter. Please let me know if you have any questions or need addition information.

Sincerely,

David Moore

David Moore
President

Mr. RAMSTAD. Now we shift to Doreen Brown, president of Consumers for World Trade.

Ms. Brown.

**STATEMENT OF DOREEN BROWN, PRESIDENT, CONSUMERS FOR WORLD TRADE**

Ms. DOREEN BROWN. Thank you, Mr. Chairman, members of the subcommittee. I am Doreen Brown, the president of Consumers for World Trade, and as a point of reference, I have served on the President's Advisory Committee for Trade Policy, and Negotiations, and also for 15 years I've been a member of the U.S. Delegation to the North American/European Union Agriculture Conference; the delegation that Dean Kleckner chairs.

I'm accompanied today by Joan Schnittker, Senior Economist of Public Voice for Food and Health Policy; and Dale McNiel, a trade attorney at McLeod, Watkinson & Miller, who will assist us with technical information, if necessary.

Consumers for World Trade is a national, nonprofit, nonpartisan organization that was established in 1978, and is dedicated to promoting the consumer interest in international trade policy through advocacy of trade liberalization and through educational programs. Although my statement today—the full statement—is focused entirely on the Sugar Program, I would like to add that Consumers for World Trade believes very strongly in the need for renewal of fast track negotiating authority, and urges Congress, as it has in the past, and will continue to do as long as necessary, to enact clean fast track legislation as expeditiously as possible. Without fast track authority we have no doubt that the 1999 WTO Agricultural Round will not be very productive for the United States.

The last farm bill, the Freedom to Farm Act of 1996, phased out government price support, significantly reduced tariffs and export subsidies, and started agriculture on a journey toward a free and open world market; except for sugar and peanuts.

The Domestic Loan Program for sugar was continued at the same loan rate for raw sugar that has been in effect since 1985, and during the Uruguay Round of trade negotiations the U.S. Sugar Program was practically exempted. Sugar was singled out for a 4 percent tariff reduction while other commodities and products took cuts of 15 to 50 percent. Likewise, the provisions of the WTO Agreement on Agriculture had absolutely no impact on the U.S. Sugar Program. This most favorable treatment means that they have been clearly no market access liberalization for sugar.

The defenders of the current U.S. Sugar Program claim that they are in fact advocates of free trade, and that they are willing to give up their special privileges as soon as the other countries, particularly the member nations of the European Union, do so as well. Well, that's sort of a red herring, because first the U.S. antidumping and countervailing DoD duty laws protect domestic industries from dumping by foreign businesses and from export subsidies by foreign countries. Therefore there is very little danger of European subsidized sugar being dumped on the U.S. market. And a second, and equally important point is that the U.S. has not waited on the Europeans or any other nation to eliminate their subsidies

on other commodities, such as corn and wheat; we are not waiting for them to eliminate theirs before we eliminate ours.

The U.S. negotiators are ill-equipped to push for expanded market access to other countries as long as we maintain a very restrictive special interest program, such as the Sugar Program. The anomaly of the Sugar Program has already been pointed out by one of our trading partners. The NAFTA panel that decided the dairy, poultry, and egg case against Canada pointed to the U.S. sugar tariff-rate quota as helping to justify its decision in favor of Canada's protectionist policies.

This preferential treatment for sugar in trade agreements and foreign policy is detrimental to American interests. As president of Consumers for World Trade, I object to the fact that consumers ultimately pay the bill for the nearly $1.2 billion annual cost of the Sugar Program that benefits less than 1 percent of America's farmers. As a consumer, I can assure you that this hidden billion dollar consumer tax is unfair, and could even be added to Congress' tax relief agenda.

From an economic standpoint, the highly competitive U.S. food industry has to compete with foreign products made with world market sugar that is approximately half the price of our domestic price. This creates a powerful incentive to move plants and job opportunities to other countries. And from a trade point of view, I object to the maintenance of a special interest program, such as sugar, which benefits only a privileged few at a substantial cost to consumers, and which counteracts our country's efforts to liberalize agricultural trade.

There is a large amount of economic data and trade history on the U.S. program in my full testimony. I look forward to having this in-depth information printed in the hearing record for further reference by the subcommittee.

And in closing, Mr. Chairman, the U.S. Sugar Policy is a very damaging public policy that hurts American consumers, American business, American workers, American agriculture, and even our friends in developing countries. It is a policy that needs to be changed. The U.S. sugar quota system should be phased out to establish a free and open market for sugar.

Thank you.

[The prepared statement follows:]

# TESTIMONY

**DOREEN BROWN, PRESIDENT**
**CONSUMERS FOR WORLD TRADE**

Regarding

**The Status of Efforts to**
**Reduce Barriers to Trade in Agriculture**

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Before the Committee on Ways and Means
Subcommittee on Trade

U.S. House of Representatives

February 12, 1998

**Testimony of Doreen Brown**
**President of Consumers for World Trade**

**February 12, 1998**

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Mister Chairman and Members of the Subcommittee, I am Doreen Brown, President of Consumers for World Trade. As a point of reference, I have served on the National Advisory Committee for Trade Policy and Negotiations. I have also been a delegate to the annual U.S.-E.C. Agricultural Conference. I am accompanied by John Schnittker, Senior Economist, Public Voice for Food and Health Policy, and Dale McNiel, trade attorney with McLeod, Watkinson & Miller.

Consumers for World Trade (CWT) is a national, non-profit, non-partisan organization, established in 1978, and dedicated to promoting the consumer interest in international trade policy through advocacy of trade liberalization and through educational programs.

I am delighted that this subcommittee has chosen to conduct hearings on U.S. efforts to reduce barriers to trade in agriculture. There is no subject that is more timely, and more critical to the continued prosperity of the American agricultural and agribusiness sector and the welfare of the American consumer than the continued expansion of trade in agricultural products.

Although my statement today will focus entirely on the U.S. sugar program, I should like to add that Consumers for World Trade believes strongly in the need for renewal of fast-track negotiating authority and urges Congress to enact clean fast-track legislation as expeditiously as possible. Without fast-track authority, the 1999 WTO agriculture negotiations round may not be very productive for the United States.

Because agricultural production is an area where the United States enjoys a substantial competitive advantage, it is in our interest to continue to expand agricultural trade by reducing barriers to our exports. In fact, if one looks at the history of U.S. agriculture, it is clear that agriculture is a sector of the economy that has traditionally been in the position of surplus production in need of access to foreign markets. It is these surpluses and the resulting depressed prices in the 20th century that have given rise to all manner of government price support and supply management programs. However, Congress in 1996 took a historic step to remove agriculture's government shackles and encourage it to compete in the world market. This was done with the passage of the Federal Agricultural Improvement and Reform Act of 1996, known as the "Freedom to Farm" Act.

Unfortunately, there were some notable exceptions in this legislation to provide freedom to farm. Perhaps the most notable was the sugar price support program, which escaped any meaningful reform. The domestic loan program for sugar was continued at the same loan rate for raw sugar that had been in effect since 1985. Thus, the sugar price support program did not contribute to the freedom to farm transition process. This special treatment for sugar follows a long-term pattern of special treatment for the sugar industry. During the Uruguay round of trade negotiations, the U.S. sugar program was practically exempted. There was no real impact on the sugar program, despite significant reductions of tariffs and export subsidies for virtually all other agricultural commodities and products such as wheat, rice, and cotton.

The former U.S. absolute quota on imports of sugar, which had been severely restrictive since May 1982, was held to be inconsistent with the GATT by a dispute settlement panel in 1988. It was converted to a tariff-rate quota in September 1990. This tariff-quota had an over-quota duty rate of 16 cents per pound. During the Uruguay Round, the United States "re-tariffied" the original absolute quota that had been in effect during the base period for market access, despite the GATT ruling against it. The new tariff-rate quotas had higher over-quota tariff rates of 18.075 ¢ per pound for raw sugar and 19.074 ¢ per pound for refined sugar. The tariff-rates were agreed to be reduced only at the minimum of 15%, which for raw sugar will yield a final rate of 15.36 ¢ per pound rather than 13.6 ¢ per pound, if the existing rate had been used.

In effect, the real rate of reduction of the over-quota tariff will be only 4 percent, from 16 ¢, which existed prior to 1995, to 15.36 ¢ over the six-year transition period. This is the most favorable treatment that was provided for any agricultural crop or product produced in the United States. Sugar was singled out for a 4% tariff reduction while every other commodity took cuts of at least 15% and most crops had cuts of much more, some as high as 50%. A 4% reduction is very unlikely to lead to any increased imports of sugar even at the end of the transition period. This means there was no market access liberalization for sugar.

Likewise, the provisions of the WTO Agreement on Agriculture for internal support reductions had absolutely no impact on the sugar program. The reductions of internal support were based on an aggregate measure of support (AMS) which encompasses all support for agricultural commodities. The United States had a large "credit" for reductions of support for virtually all other farm crops in the 1985 and 1990 farm bills and did not need to make further reductions to reach the reduction requirements. Sugar made no contribution to this credit; the sugar price support loan rates were not reduced by either the Food Security Act of 1985 or the Food, Agriculture, Conservation and Trade Act of 1990.

This preferential treatment for sugar in trade agreements and farm policy is detrimental to American interests for several reasons. As President of Consumers for World Trade, I object to the fact that consumers ultimately pay the bill for the nearly $1.2 billion annual cost of the sugar program that benefits less than 1% of America's farmers. As a consumer, I can assure you that this hidden billion dollar "consumer tax" is unfair and could even be added to Congress' tax relief agenda. From an economic standpoint, I believe that it is highly injurious to the economy of the United States in several respects. The highly competitive U.S. food industry has to compete with foreign products made with world market sugar that is approximately half the price of our domestic price. This creates a powerful incentive to move plants and job opportunities to other countries. From a trade standpoint, I object to the maintenance of a special interest program such as sugar which benefits only a privileged few because it is very detrimental to the long-term best interest of the U.S. economy in general as well as the U.S. agricultural sector.

Clearly, the United States economy has the most to gain from continued liberalization of world trade in American agriculture. In fact, many agricultural leaders have pointed out that increased trade opportunities are not only desirable, but absolutely necessary to prevent another sharp decline in farm prices and the temptation to return to the discredited supply management policies of the past.

However, the United States negotiators are ill-equipped to push for expanded market access to other countries as long as we maintain a very restrictive special interest program such as the sugar program. We cannot effectively push for global free trade in agricultural policies if we do not come to the negotiating table with clean hands. The anomaly of the sugar program has already been pointed out by one of our trading partners. The NAFTA panel that decided the dairy, poultry and egg case against Canada pointed to the U.S. sugar tariff rate quota as helping to justify its decision in favor of Canada's protectionist policies.

The defenders of the current U.S. sugar program claim that they are in fact advocates of free trade. They say that they are willing to give up their special privileges if other countries such as the nations of the European Union will give up their sugar subsidies. This is a red herring for two reasons. First, U.S. antidumping and counterveiling duty laws protect domestic industries from dumping by foreign businesses and export subsidies by foreign countries. The United States currently has a countervailing duty of 10.45 ¢ per pound on imports of EU sugar, and as a result, there are no such imports. Therefore, there is no danger of European subsidized sugar being dumped on the U.S. market. A second and equally important point is that the United States has not waited on the Europeans or any other nation to eliminate their subsidies on other commodities such as corn and wheat before we have eliminated our subsidies on the same commodities. In fact, in those commodities, we have consciously chosen to pursue free market policies and to seek to open up world markets, despite the fact that the nations of the EU have substantial subsidies for those commodities.

We have pursued free trade in other agricultural commodities because it is in our national interest. It is in our national interest to also seek to compete in the world sugar market. We can

no longer operate on a two-track system, seeking to have a global market that is free of trade barriers on commodities in which we have determined to be competitive, while continuing to maintain a high protectionist wall for a few special interest commodities like sugar and peanuts.

In addition to the impact that the sugar program has on our own competitive stature, it has disadvantages for the economies of other nations which we seek to help. The U.S. sugar program harms the economies of the developing countries where there are natural advantages in growing sugar cane. The Commerce Department once reported that the reductions of the imports of raw sugar during the last half of the 1980s had virtually offset all of the benefits of the first 5 years of the Caribbean Basin Initiative. A USDA study in 1990 concluded that with the liberalization of market access for sugar, world prices would have been 10% to 30% higher than during the period from 1975-1989, and sugar production in developing countries would have been dramatically higher. Thus, the incomes of developing countries would be significantly enhanced if the United States liberalized its trade policies for sugar.

The tariff-rate quotas for imports of raw and refined sugars are provided for in additional U.S. note 5 to chapter 15 of the Harmonized Tariff Schedule of the United States. The HTS specifies minimum quota quantities but authorizes the Secretary of Agriculture to set the quotas higher in order to achieve adequate supplies at reasonable prices. For the past two years, the Secretary of Agriculture has established a tariff-rate quota for raw sugar that is automatically increased or reduced at various times during the year depending upon the sugar stocks-to-use ratio announced in the World Agricultural Supply and Demand Estimates (WASDE). The trigger level that has been used, 15.5 percent, has kept raw sugar prices far above the market price needed to avoid having sugarcane or sugar beet processors forfeit sugar under the loan program. In fact, Congress imposed a 1 cent per pound forfeiture penalty in the last farm bill which effectively lowered the risk of forfeiture by 1 cent, but the administration has not acted to lower market prices in response.

In summary, the U.S. sugar policy is a very damaging policy that hurts American consumers, American business, American workers, American agriculture, and even our friends in developing countries. It is a policy that needs to be changed. The U.S. sugar quota system should be phased out to establish a free and open market for sugar.

Mr. RAMSTAD. Thank you very much, Ms. Brown. I can assure you your testimony in full will be included in the record.

Ms. Gleason, please.

**STATEMENT OF CAROLYN GLEASON, COUNSEL, CHIQUITA BRAND INTERNATIONAL**

Ms. GLEASON. Good afternoon, Mr. Chairman, and members of the subcommittee and full committee. I'm Carolyn Gleason, here on behalf of Chiquita Brand, to share briefly some views on the WTO as it relates to agriculture, with a special emphasis on the lessons derived from a case that's been referred to several times this afternoon, the banana case.

Some of you may know that there isn't an agricultural policy anywhere on the globe that has been more heavily litigated in multilateral dispute settlements than the EU Banana Policy. It has now been exhaustively reviewed and condemned by four separate panels, and so has contributed quite a lot to our understanding of the WTO system, including as it relates to agriculture.

In the interest of brevity, I'm going to move to some lessons that I think are most germane to the subject of this hearing, and in particular to the lessons learned on the shortcomings, potential and present, as regards to dispute-settlement system.

One very serious potential shortcoming that I believe needs immediate attention is the EU's questionable commitment to that system. As the American Meat Institute mentioned, the banana case is the first successful WTO legal challenge against EU agricultural policy, and is very widely viewed as the first major test of EU willingness to abide by its WTO obligations, particularly in the area of agriculture. And as the AMI witness mentioned, the early signals coming out of Europe are not exactly encouraging.

The Commission has just issued a reform proposal that would in fact increase discrimination and restriction in the sector, this following exhaustive dispute-settlement. The Commission is even actively recruiting the Latin American complaining parties to the dispute to, in effect, buy into the opposed illegalities.

This is conduct reminiscent of pre-WTO days when the EU routinely blocked panel ruling. Its behavior threatened to destroy the system then, and I believe will threaten to destroy the system again unless we prevent it from happening.

As we learned in the GATT days, it doesn't matter how specific and how comprehensive the substantive disciplines are on agriculture, if our principle trading partners don't have the resolve to abide them. Before we can turn to the visionary goals for 1999, our most immediate priority has to be to reassure ourselves through dispute-settlement successes, actual successes, that the EU and our other major agricultural partners intend to honor existing WTO obligations.

Because the EU is showing a contrary intention on bananas, one of two things need to happen before we gain comfort that this system actually works. Either the EU member states have to replace the proposal with a new WTO consistent one, or the EU will need to be forced into full compliance through WTO procedures. Based on EU conduct thus far, the latter is the likeliest scenario, and almost certainly will need to include, not only compliance arbitration,

but also retaliation. If at the end of the reasonable period of time the EC is not in strict and perfect compliance on bananas, sanctions will have to be taken for the sake of the entire system.

If we relent on this first case in which EU resolve is being tested, it will bless EU noncompliance in all the other cases, beef hormones and others, right on down the line, and will have the same destabilizing effect on the system that EU noncompliance had pre-WTO.

After we gain confidence that the system is capable of delivering relief against our principle adversaries, attention is going to have to shift to the issue of how best to hasten the process of relief. You've heard reference to 18 months in beef hormones. That's without the reasonable period of time; add another 15 months for that. In very important ways, the process of getting relief now functions to the advantage of the offending parties, not the injured ones. The banana case is a good example.

WTO consultations in that case began in October 1995. Full WTO compliance, assuming it occurs, will not be in place until January 1999, at the earliest, or more than 3 years after the proceedings began. And throughout that period, damages to U.S. interests have naturally compounded greatly; conversely, unfair advantages for EU firms have skyrocketed. Both the injuries suffered and the advantages gained are irreversible. WTO delivers relief on a going-forward basis. It makes no allowances for back damages.

On the other hand, offending parties like the EU, know that by dragging procedures into overtime, pushing them into the slowest possible timetable—in our case 3 years—will suffer no adverse consequences. This is why, for example, the EU in the banana case felt comfortable appealing 19 findings of law, almost all of which were premised on well established legal findings.

Whatever the legal cost of the EU of that maneuver, and the other maneuvers associated with resisting compliance, those costs have been dwarfed by the multimillions of dollars in additional unfair commercial benefits accruing to EU interest.

This slow process of securing compliance isn't just a systemic inequity; it is also a disincentive for American agriculture to seek dispute-settlement relief in the first instance. In my written submission I've suggested ways in which this inequity and this disincentive might be improved in the 1999 exercise.

I'd just close by stating my full agreement with several of the other witnesses this afternoon that the WTO dispute settlement system is essentially the only remedial tool available to American agriculture for reducing foreign barriers. We have no choice but to make it work. The system is not going to have broad-based credibility unless we establish a visible model for strict WTO compliance in the banana case, and insist on that same standard in the other agricultural cases right behind us.

Thank you, Mr. Chairman, for this opportunity to testify.

[The prepared statement follows:]

**STATEMENT OF CAROLYN B. GLEASON**
**TRADE COUNSEL FOR CHIQUITA BRANDS INTERNATIONAL**

**BEFORE THE**
**COMMITTEE ON WAYS AND MEANS**
**SUBCOMMITTEE ON TRADE**

***Hearing on U.S. Efforts to Reduce Barriers to Trade in Agriculture***
***February 12, 1998***

Good afternoon, Mr. Chairman and members of the Subcommittee. My name is Carolyn Gleason. I am here today in my capacity as trade counsel for Chiquita Brands International to discuss the WTO and its role in U.S. efforts to reduce barriers to trade in agriculture, with particular emphasis on the lessons derived from the WTO *Banana Case*.

There is no agricultural policy anywhere in the globe that has been more heavily litigated in GATT and WTO dispute settlement than the EU banana policy. It has been exhaustively reviewed and condemned by two GATT panels, one WTO panel and the new Appellate Body. The legal violations found, numbering close to twenty, cover a wide spectrum of GATT and GATT disciplines and establish landmark principles in the area of agriculture and services.

So, while bananas may not represent a substantial U.S. farm sector, the WTO *Banana Case* has significantly contributed to our understanding of the WTO system, including as it relates to agriculture. The case is instructive not only as to the nature of agricultural restrictions now being practiced in Europe, but also as to EU conduct in the dispute settlement system, and to the efficacy and timeliness of that system for reducing barriers to trade in agriculture.

The EU banana policy itself is a lesson on, among other things, the imperfections of Uruguay Round agricultural "tariffication." So-called "tariffication" reform has far from guaranteed transparency or market expansion. To the contrary, in the case of bananas, it led to a licensing and quota regime considerably more discriminatory and non-transparent than many of the non-tariff barriers prohibited by the Uruguay Round. Even gauged against historical EU restrictions, the illegalities of the present banana policy go far beyond traditional EU protection for farmers to include protection as well for EU middlemen throughout the distribution chain. The banana policy is, thus, highly visible proof (within a growing body of evidence) that EU protectionism post-Uruguay Round has not shrunk, but rather broadened into new areas of illegal activity.

Beyond proving that EU agricultural restrictions are thriving in new ways under the new multilateral system, the *Banana Case* has perhaps more importantly helped to identify shortcomings in the WTO dispute settlement system. One serious potential shortcoming in need of immediate attention relates to the EU's questionable commitment to the dispute settlement system. Another shortcoming, this more suited for the 1999 exercise, concerns the system's timetable and structure for relief.

As regards the former -- that is, the EU's commitment to the process -- the *Banana Case* is the first successful WTO *legal* challenge against EU agricultural policy and, as such, will be the first decisive test of EU willingness to abide by its WTO obligations in the area of agriculture. Early indications out of Europe on this issue are far from promising.

Until recently, whenever European officials promised to abide by their WTO obligations in the *Banana Case*, the complaining parties were inclined to be hopeful. If there were ever an easy agricultural case in which the EU could come into WTO compliance, it would be this one. A substantial majority of EU member states favor banana reform. To USTR's great credit, all of the many WTO rulings rendered against the banana regime are clear and comprehensive. There are more WTO rulings against this policy than ever before rendered in the history of the GATT and WTO. Virtually all of the rulings have been thoroughly litigated, including before the Appellate Body, leaving no room for

misinterpretation. Moreover, there are several other WTO Members besides the United States pushing for reform. You might think that under these favorable circumstances -- particularly since the *Banana Case* represents the first instance in which the EU is being called upon to come into compliance -- the Community would feel bound to proceed in good faith to implement its WTO obligations.

Its recent conduct suggests that its intentions are otherwise. The EU Commission has responded to the WTO banana ruling by issuing a "reform proposal" that promises to *increase* discrimination and protectionism in the sector, not decrease it. A simple reading of the new proposal makes clear that every one of the many measures condemned by the WTO would be maintained and even expanded under the name of WTO "reform." The Commission has gone even further by actively recruiting the Latin American complaining countries to buy into the proposed illegalities.

This kind of EU response can only be considered reminiscent of the "bad old days," when the EU routinely ignored panel rulings in the area of agriculture, rendering the dispute settlement system ineffective. It was that obstructionist EU behavior that first led to the call for Uruguay Round reform and a promise at the conclusion of that Round that the problem of blocking panel reports would be cured. Today, as the EU Commission shows its old colors by working to obstruct the *Banana Case*, all of the old pre-WTO concerns regarding EU bad faith and inadequate multilateral commitment come rushing back. As the *Journal of Commerce* recently noted,

> "The U.S.-European Union spat over preferential banana imports to Europe has gone beyond a mere flagrant violation of international trading rules. The EU's refusal to obey a World Trade Organization order to scrap the banana policy is putting the entire trading system in peril."

Perhaps more than with any other issue, the question of whether rulings will be properly implemented by our key trading partners, in particular the EU, is central to an assessment of whether WTO will be effective in reducing barriers to trade in agriculture. As we learned in the GATT days, it matters little how specific and comprehensive the WTO substantive disciplines are in the area of agriculture if our principal trading partners do not have the requisite resolve in the first instance to abide by those disciplines. Thus, before we can turn to the visionary task of defining new substantive agricultural areas for negotiation in 1999, our most immediate priority must be to reassure ourselves through actual dispute settlement successes that the EU and our other major agricultural partners have a present intention to fully honor existing WTO obligations.

Because the EU Commission's defiance in the area of bananas shows no such intention, one of two things must happen to gain comfort that the system works. Either the EU Member States must overturn the proposal and replace it with one that ensures strict WTO-consistency, or the EU will need to be forced into full compliance through recourse to established WTO procedures. Based on EU conduct to date, the latter appears to be the likeliest scenario and almost certainly will need to include not only compliance arbitration, but also the exercise of WTO-authorized retaliation. As has been the case so often in the past, we may well find in this and other WTO cases that the EU's unwieldy system of government and unfailing inclination toward agricultural protectionism are only surmountable through recourse to sanctions.

That being the case, decisive WTO sanctions must be taken, not just for the sake of the *Banana Case*, but for the entire system. If we relent in this first case in which EU resolve is being tested, it will pave the way for EU non-compliance in all other cases down the line, once again threatening to destroy the system.

USTR well recognizes the larger systemic implications of the *Banana Case* and is actively taking steps to convey an appropriately serious message throughout Europe. The Trade Subcommittee is encouraged to lend its strongest possible support to these efforts. Until we can show a well-established track record of WTO dispute settlement successes against our

most frequent adversary in the area of agriculture, the EU, the U.S. agricultural community is not likely to view the WTO system as a viable, effective tool for removing barriers to trade.

Thereafter, once we gain confidence that the system is capable of delivering relief in actions involving our principal adversaries, attention will need to shift to the issue of how best to hasten that process of relief. In key ways, that process of relief now functions to the advantage of the offending parties, not the injured ones.

The *Banana Case* is again illustrative. WTO consultations in that case began in October of 1995. Dispute settlement procedures have actively been underway since then. Even with aggressive litigation on the part of USTR and the other complainant governments, full WTO compliance, assuming it occurs, will not be in place until January of 1999 -- more than three years after the dispute settlement proceedings first began. If retaliation procedures are necessary, that timetable may require further extensions.

Throughout this several-year dispute settlement period, damages to U.S. commercial interests have greatly compounded. Conversely, unfair commercial advantages for EU multinational banana firms have skyrocketed. Both the injuries suffered and advantages gained are irreversible. If WTO-compliance is achieved after several years of litigation, it will deliver relief solely on a going-forward basis. The system does not make allowances for restitution or back damages. The injured parties are never made whole. Hence, irrespective of how healthy those injured parties might be at the outset, once a foreign government subjects them to substantial market losses, and corrective action is not forthcoming for multiple years (such that all losses in the interim must be absorbed), those injured parties in virtually all instances will find it hard to survive.

On the other hand, certain offending parties(and in particular the EU) know well that by forcing the procedures into the slowest possible timetable (in our case, over three years), they will suffer no adverse multilateral or commercial consequences. To the contrary, they properly figure that their domestic interests will enjoy nothing but up-side commercial gains as the WTO timetable drags on. Thus, in our case, the EU knew that even if it lost on appeal, EU commercial interests would ultimately be served by the time delays associated with appealing *19 findings of law*, most of which appellate claims were frivolous and contrary to well-established GATT and WTO rulings. Whatever the legal costs to the EU of that and other delays associated with resisting compliance, those costs have been dwarfed by the multi-millions of dollars in additional unfair commercial benefits irreversibly accruing to EU interests.

This timetable and relief structure is not just a systemic inequity. It is a disincentive for American agriculture, most of which is comprised of relatively small sectors, to activate dispute settlement relief.

One partial solution may be to shorten the dispute settlement timetable, particularly as it relates to the "reasonable period of time." When you string end-to-end the stages involved in the new dispute settlement procedures, the process is substantially longer than most people realize. While three or more years may not be the norm in dispute settlement, it is nevertheless a timetable that falls within WTO rules and one that is entirely too long for U.S. farm sectors or others in need of timely corrective action.

The other component of the solution, requiring more in the way of innovative thought, would be to insert into the process improved disincentives for delay and obstruction. One option might be to impose additional relief obligations for undue delays associated with coming into compliance. Another option might be to clarify that retaliation can be taken on the basis of aggregate injury suffered from the moment the offending policy goes into effect, an approach that may improve the system's incentive to come into early compliance. Unless corrective measures of this or some other sort are taken to shorten the process and better encourage prompt compliance, agricultural sectors and firms suffering dire injury from unlawful foreign barriers may not survive long enough to receive the relief finally granted.

With the effective loss of Section 301, WTO dispute settlement is essentially the only remedial tool available to American agriculture (and other U.S. sectors of trade) for reducing foreign barriers to trade. We have no choice but to make the system work. By establishing a highly visible model for strict WTO-compliance in the *Banana Case*, and by insisting on that same standard in the *Beef Hormones Case* and other key agricultural cases to come, we will be giving the system the broad-based credibility it needs as we move into the 1999 exercise. Later, by introducing rules to accelerate the dispute settlement timetable for securing compliance, the system can be made more effective and accessible for all U.S. farm sectors, large and small, in need of trade remedy assistance.

Thank you for this opportunity to testify. We look forward to working closely with the Trade Subcommittee to ensure that the *Banana Case* is concluded in a way that delivers meaningful, WTO-consistent relief and validates the WTO dispute settlement system.

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Mr. RAMSTAD. Thank you, Ms. Gleason.

Mr. Frydenlund, please.

**STATEMENT OF JOHN FRYDENLUND, FOOD AND AGRICULTURAL POLICY FELLOW, COUNCIL FOR CITIZENS AGAINST GOVERNMENT WASTE, ON BEHALF OF THE AMERICAN PEANUT COALITION**

Mr. FRYDENLUND. Thank you, Mr. Chairman and members of the subcommittee. My name is John Frydenlund. I'm the Food and Agricultural Policy Fellow at the Council for Citizens Against Government Waste. I'm accompanied today by Dale McNeill, a trade attorney with McLeod, Watkinson & Miller.

I'm here to speak on behalf of the American Peanut Coalition, a coalition that believes that the U.S. can only take full advantage of tremendous opportunities to expand its agriculture exports if it pursues a progressive trade policy, and Congress moves forward and provides the administration with fast track negotiating authority.

The American Peanut Coalition is a coalition of associations, representing taxpayer, consumer, public interest, manufacturer, distributor, and wholesale retail organizations, who believe that U.S. agricultural growth and prosperity will only come from competitiveness in the international marketplace.

Our main objective is to bring about meaningful reform of the Federal Government's Peanut Program, by reducing and eventually eliminating excessive domestic support levels that are almost twice the world price, thus increasing imports and exports of peanuts. We are pro-farmer, pro-consumer, pro-growth, and pro-competition. We believe that the current restrictive Peanut Program is detrimental to the export opportunities of all American agriculture.

During previous GATT rounds, the United States agreed to tariff concessions on imports of virtually all industrial and agriculture products; however, in each negotiating round, peanuts were singled out for protection from international competition, and no tariff concessions were made on imports of peanuts and peanut products.

The Uruguay Round was intended to produce substantial reforms of agriculture policies by reducing domestic and export subsidies and expanding market access. Unfortunately, the Peanut Program also escaped reform in that round. Congress moved to decouple farm income support from production decisions in the Fair Act of 1996. It's Freedom to Farm Bill eliminated deficiency payments and marketing loans, and replaced them with transition payments for virtually all farm commodities.

As a result of the 1996 farm bill, farmers now have the freedom to farm almost everything, except peanuts. Only farmers who own or lease a production quota can legally grow peanuts to be sold for edible use. This means that the Peanut Program avoided meaningful reform in both the Uruguay Round and the 1996 farm bill. In fact, the Peanut Program continued to force consumers in this country to spend up to $500 million more each year, because of artificially higher prices.

When seeking fast track authority last year, President Clinton sent a letter to Congressman Charles Stenholm, suggesting that the administration would give preferential treatment to peanuts in

future trade agreements in return for support on fast-track. This is a further example of peanut quota holders receiving special protection at the expense of the remainder of American agriculture.

The U.S. Peanut Program is a glaring example of inconsistency with well-established agricultural trade policy and principles supporting fair and free trade. In a new era of U.S. agriculture, where almost every food commodity is produced and exported competitively in the world market, peanut and sugar stand out as completely contrary to the objectives of the rest of agriculture. Imports of foreign peanuts are strictly limited, as part of a scheme to keep domestic peanut prices well above the world market price. This gives other countries a basis to deny access to U.S. agricultural commodities. In fact, the U.S. will find it difficult to make a persuasive case for free trade in agriculture as long as it maintains a program as restrictive as the peanut program and severely limits imports. If the U.S. continues to unfairly deny access to its market for peanuts and peanut products, we can expect other countries to deny us access to their markets, with billions of dollars in U.S. agricultural exports.

The future of U.S. agriculture lies in exporting commodities where we have a competitive advantage. Maintenance of the Peanut Quota Program and severe import restrictions on peanuts are contrary to the interests of corn, wheat, and other commodity producers who need to take advantage of expanded export markets. We cannot afford to let bad trade policy on peanuts interfere with our need to reduce barriers and level the playing field in the $600 billion global agriculture market. If we are to continue to be a strong player in the world markets, and to expand our agricultural prosperity, we must push for further reductions in trade impediments.

For all these reasons, Mr. Chairman, Congress must make sure that peanuts are on the table in the next round of negotiations, and that peanuts do not get singled out again for special protection. We urge the subcommittee to seek more open trade in peanuts and to provide the same treatment for peanuts in future trade agreements that has been afforded to virtually every other agriculture commodity.

If trade in peanuts and peanut products is not significantly liberalized, you can expect the demise of the U.S. peanut industry, as well as the undermining of future trade opportunities for the rest of U.S. agriculture.

Thank you, Mr. Chairman and members of this subcommittee, for giving us this opportunity to present this testimony, and I request the entire statement be a part of the record.

Mr. RAMSTAD. So ordered.

[The prepared statement follows:]

Statement Before the

**Subcommittee on Trade**
**Committee on Ways and Means**
U.S. House of Representatives
Washington, D.C.

Hearing on

"The Status of U.S. Efforts to Reduce Barriers to Trade in Agriculture"

February 12, 1998

Testimony presented on behalf of the

**American Peanut Coalition**

by

John E. Frydenlund
Food and Agricultural Policy Fellow
Council for Citizens Against Government Waste
Washington, D.C.

Mr. Chairman and Members of the Subcommittee:

My name is John Frydenlund and I am the Food and Agricultural Policy Fellow at the Council for Citizens Against Government Waste. The Council for Citizens Against Government Waste, a non-profit, nonpartisan organization, grew out of President Reagan's Private Sector Survey on Cost Control, better known as the Grace Commission. The organization's mission is to work for the elimination of waste, mismanagement, and inefficiency in the federal government with the goal of creating a government that manages its programs with the same eye to innovation, productivity, and economy that is dictated by the private sector.

I am here to speak on behalf of the American Peanut Coalition (APC) about the results of the Uruguay Round negotiations and the NAFTA, the United States' efforts to reduce barriers to trade in agriculture, and the resumption of multilateral trade negotiations on agricultural policies under the World Trade Organization (WTO) in 1999. We believe that the U.S. can only take full advantage of tremendous opportunities to expand its agriculture exports if it pursues a progressive trade policy and Congress moves forward and provides the Administration with fast track negotiating authority.

The APC is a coalition of associations representing taxpayer, consumer, public interest, union, manufacturer, distributor, retail and wholesale organizations who believe that U.S. agricultural growth and prosperity will only come from competitiveness in the international marketplace. APC members include the American Bakers Association; American Frozen Food Institute; American Peanut Products Manufacturers, Inc.; American Wholesale Marketers Association; Americans For Tax Reform; Bakery, Confectionery, and Tobacco Workers International Union; Biscuit and Cracker Manufacturers' Association; Chocolate Manufacturers Association; Citizens For A Sound Economy; Competitive Enterprise Institute; Cookie and Snack Bakers Association; Consumers for World Trade; Council for Citizens Against Government Waste; Food Distributors International; Food Marketing Institute; Grocery Manufacturers of America; Independent Bakers Association; National Confectioners Association; National Food Processors Association; National Taxpayers Union; Peanut and Tree Nut Processors Association; Public Voice for Food and Health Policy; Retail Confectioners International; and Snack Food Association.

Our main objective is to bring about meaningful reform of the federal government's peanut program by reducing and eventually eliminating excessive domestic support levels that are almost twice the world price and further increasing imports and exports of peanuts. We are pro-farmer, pro-consumer, pro-growth, and pro-competition. We believe that the current restrictive peanut program is detrimental to the export opportunities of all of American agriculture.

**GATT Treatment of Peanuts**

Prior to the Uruguay Round, there had been seven rounds of multilateral trade negotiations under the auspices of the GATT, beginning in 1947. During those rounds, the United States agreed to tariff concessions for binding and/or reducing tariff rates on imports of virtually all industrial and agricultural products.

However, no tariff concessions were ever made on imports of peanuts, peanut butter and peanut paste. In each and every negotiating round these products were singled out for protection from international competition.

The Uruguay Round was intended to produce substantial reforms of agricultural policies by reducing domestic and export subsidies and expanding market access. However, the peanut price support program escaped any reform and ended up with greater border protection than provided before the round.

**Tariff-Rate Quota Placed on Peanut Imports**

The absolute quota on imports of peanuts was converted to a tariff-rate quota in a process known as tariffication. The over-quota tariff rates were supposed to have been limited to the price gap between the U.S. support price and the comparable world price, but so-called "dirty" tariffication resulted in much higher tariff rates for peanuts.

As a consequence, the over-quota tariff rate for shelled peanuts began at 155% ad valorem and will be reduced by only 15% over six years. This leaves a tariff rate of 131.8% ad valorem, which should assure a U.S. price of more than double the world price even after the so-called reforms are fully implemented. The over-quota tariff rate for peanuts in the shell started at 192.7% ad valorem and will end up being 163.8 % by the year 2000. Furthermore, the U.S. is entitled to supplement these tariff rates with special safeguards in case a few peanuts manage to get imported at such rates.

These astronomical tariff rates on peanut imports are at levels which would justly provoke U.S. complaints if they were maintained by other countries. Tariff rates on peanuts are well in excess of 100% and stand in stark contrast to the ad valorem tariffs on so-called "import sensitive" products, such as wheat tariffs at about 4%, steel tariffs ranging from 3 to 4%, and automobile tariffs at 2.5%. The U.S. receives constant complaints from its foreign competitors about the tariffs on these products being excessive even though such tariffs are no where near as high as the tariffs imposed on peanut imports.

**A New Quota on Peanut Butter**

The U.S. made a minor concession for peanuts in the form of granting "minimum access opportunities" of at least 3% of domestic consumption, or 33,770 metric tons, growing to 5% of consumption (56,283 metric tons) by the year 2000. But this was offset by establishing a tariff-rate quota for imports of peanut butter and peanut paste that previously had not been subject to any import restrictions. Clearly, the addition of a new tariff-rate quota on peanut butter and paste was a slap in the face to the peanut industry, when it already had the burden of an over-quota rate on shelled peanuts that greatly exceeded such tariffs on other commodities.

**WTO Commitments Failed to Force Peanut Program Reform**

The WTO's Agreement on Agriculture requirements for internal support reductions had no effect on the peanut program. Internal support reductions were based on an aggregate measure of support (AMS) encompassing all domestic subsidies and support for agricultural commodities.

The U.S. did not need to reduce internal support to meet the AMS reduction requirements because it had a large "credit" for reductions of support for agricultural commodities in the Food Security Act of 1985 and the Food, Agriculture, Conservation and Trade Act of 1990. The peanut program did not contribute to this credit since the support level was not reduced by either the 1985 or 1990 farm bills, but rather was increased by 20% between 1985 and 1995. Thus, the Uruguay Round yielded no significant reform of the peanut program in terms of trade liberalization nor reduction of domestic price support levels.

**No "Freedom-to-Farm" Peanuts in 1996 Farm Bill**

Congress moved to "decouple" farm income support from production decisions in the Federal Agriculture Improvement and Reform Act of 1996 (the "FAIR" Act). This "freedom-to-farm" bill eliminated deficiency payments and marketing loans and replaced them with transition payments for virtually all farm commodities. This was in keeping with the concept of "decoupled income support" in the "green box" of permitted policies that were exempt from reductions in the Uruguay Round.

As a result of the 1996 Farm Bill, farmers now have the freedom to farm almost everything, *except* peanuts. Only farmers who own or lease a production quota can legally grow peanuts to be sold for edible use.

The FAIR Act continued the peanut program without real reform. The only modest reform in the peanut program was a 10% reduction in the price support level. This means that the peanut program avoided meaningful reform in both the Uruguay Round and the 1996 Farm Bill. In fact, the peanut program continues to force consumers to spend up to an extra $500 million each year because of artificially higher prices.

Even though Americans have more freedoms than any other country in the world, our federal peanut program continues to be operated in a feudalistic fashion where some growers are granted privileges denied to others. To grow peanuts that can be sold for *edible* use in the U.S. market, a farmer must own or lease a production "quota." The peanut quota system clearly prohibits farmers from competing on a fair and open basis.

The jarring inequities between the current peanut program and other agricultural commodity programs cannot be justified or overlooked. We do not think Congress can continue to support the status quo for peanut quota holders, while other commodities have taken significant cuts in price supports that will be completely phased out by year 2002. The 1985 and 1990 farm bills lead to more than a 40% reduction in government price support for corn, wheat, sorghum and cotton, while peanut quota holders received guaranteed price increases of 20% in their support price. The preferential treatment of peanut quota holders is only further highlighted with passage of 1996 Farm Bill provisions that reduced price supports for most all commodities to zero, but continued the price support for quota peanuts at nearly twice the world price.

**Dual-Pricing Scheme to be Challenged as an Export Subsidy**

In spite of the peanut program, the U.S. is a significant exporter of peanuts, having a 25% share of the world market. This occurs as a result of the fact that U.S. peanuts grown outside of the peanut quota are required to be exported or put to non-edible uses. This proves that U.S. peanuts can be competitive in export markets, if given the opportunity.

It should be noted, however, that the U.S. and New Zealand have challenged the Canadian dairy policy of dual pricing as an export subsidy and will present such arguments to a WTO panel this year. As the U.S. challenges the dual-pricing systems of other countries, we should recognize that the peanut program is a prime example of a dual-pricing system that could be treated as an export subsidy. The dual-pricing scheme of the peanut program also compromises the U.S. ability to break down dual-pricing systems that inhibit the export of U.S. products.

**NAFTA May Help Reform the U.S. Peanut Program**

In the context of North American Free Trade Agreement (NAFTA) negotiations, there was a recognition of the need to liberalize import duties on peanuts and peanut butter from Mexico. Unless reforms are made in the U.S. peanut program, Mexico could increase its production of peanuts and ultimately have the opportunity to compete head-to-head with U.S. peanut producers. NAFTA does contain special rules of origin for peanut butter and peanut paste to prevent Mexican processors from using third country peanuts to make products for the U.S. market.

**Fast Track Side-Agreement on Peanuts is Unacceptable**

When seeking fast track authority last year, President Clinton sent a letter to Congressman Charles Stenholm suggesting that he would give preferential treatment to peanuts in future trade agreements in return for support on fast track. This letter serves as a further example of peanut quota holders receiving special protection at the expense of the remainder of American agriculture.

This is particularly troublesome because peanuts are the only food item still subject to the outdated policy of domestic supply control and import supply control. Peanut quota holders reap fantastic benefits from the federal program, even though the vast majority of them are not peanut farmers, and these benefits are concentrated in the hands of very few persons.

**U.S. Peanut Policy is Inconsistent with U.S. Agricultural Trade Policy**

The U.S. peanut program is a glaring example of inconsistency with well-established agricultural trade policy and principles supporting fair and free trade. In a new era of U.S. agriculture, where almost every food commodity is produced and exported competitively in the world market, peanuts and sugar stand out as completely contrary to the objectives of the rest of agriculture.

A 1996 NAFTA case involving dairy, poultry and eggs illustrates the problems the U.S. peanut program creates for other American commodities. In its pleadings before the NAFTA panel, the government of Canada pointed out how the U.S. unfairly protected its own domestic peanut market. Specifically, the Canadians took issue with the introduction of a tariff-rate quota on peanut butter. The Canadians even threatened retaliation in the form of a trade case against the peanut program, had there been an adverse panel decision against Canada in the dairy/poultry/egg case.

**Other Agricultural Exports are Jeopardized**

Imports of foreign peanuts are strictly limited as part of a scheme to keep domestic peanut prices well above the world market price. This gives other countries a basis to deny access to U.S. agricultural commodities.

In fact, the U.S. will find it difficult to make a persuasive case for free trade in agriculture as long as it maintains a program as restrictive as the peanut program and severely limits peanut imports. If the U.S. continues to unfairly deny access to its market for peanuts and peanut products, we can expect other countries to deny access to their markets, worth billions of dollars in U.S. agricultural exports.

With exports of U.S. agricultural commodities totaling nearly $60 billion annually, and many more billions of dollars of export potential (the total world agricultural market is estimated at $600 billion), it is difficult to understand why both policy-makers and growers of other commodities would jeopardize this export market in the interests of a relatively small group of peanut quota holders who refuse to compete in world markets. Almost all U.S. commodity programs stepped up to the plate during the 1996 Farm Bill and agreed to remove restrictions on production. At the same time, peanut quota holders clung to the past and ignored market realities.

The many sectors of agriculture that compete in world markets should no longer allow the peanut program to impair their export opportunities. The future of U.S. agriculture lies in exporting commodities where we have a competitive advantage. Maintenance of the peanut quota program and severe import restrictions on peanuts are contrary to the interests of corn, wheat and other commodity producers who need to take advantage of expanded export markets.

We cannot afford to let bad trade policy on peanuts interfere with our need to reduce barriers and level the playing field in the $600 billion global agriculture market. If we are to continue to be a strong player in world markets and to expand our agricultural prosperity, we must push for further reductions in trade impediments. Needless to say, it would be extremely ill-advised for us to allow peanuts to undercut our bargaining position for the rest of American agriculture. Insisting that peanuts receive special treatment in trade negotiations will certainly cause other countries to insist on receiving such special treatment for their politically sensitive crops. This will jeopardize U.S. efforts to get market access for corn, wheat, rice and many other commodities.

**Request for More Open Trade in Peanuts**

For all of these reasons, Mr. Chairman, Congress must make sure that peanuts are on the table in the next round of negotiations and that peanuts do not get singled out for special protection. We urge the Subcommittee to seek more open trade in peanuts and to provide the same treatment for peanuts in future trade agreements that has been afforded to virtually every other agricultural commodity. If trade in peanuts and peanut products is not significantly liberalized, you can expect the demise of the U.S. peanut industry as well as the undermining of future trade opportunities for the rest of U.S. agriculture.

Thank you, Mr. Chairman and Members of this Subcommittee, for giving us this opportunity to present this testimony on agricultural trade policy and peanuts. I will be happy to answer any questions that you may have.

Mr. RAMSTAD. Thank you, Mr. Frydenlund, for your testimony, and for all the important work that the Council for Citizens Against Government Waste does. I might add that as a co-sponsor of both the bills to reform the sugar and the peanut programs, I certainly appreciated your input here today.

I want to thank all the witnesses. Let me ask if there are any questions, Mr. Portman?

Mr. PORTMAN. As a free trader, I also want to echo those comments. I'm also the father of three young children who like peanut butter. So I agree, put peanuts on the table.

But honestly, on the sugar and peanut program we have to be consistent, if we're going to ask the Europeans to open their markets. These are glaring examples. I'm glad you were here today to talk a little about that, cause we ain't perfect, and we need to do more; but we're better at least than most countries around the world, which is why WTO makes so much sense.

Ms. Gleason, you made a number of points. You said that it's a litmus test, the banana case. And I just want to expand on that a little bit, and then ask you a question about it, but in three regards. One is in a legal sense, which I think is what you meant; that for other agriculture cases, whether it's beef hormones or any other number of ag cases, this is being looked to I understand by the international community as a true litmus test.

The second though is a domestic-political litmus test. Both Peter Scher and Dean Kleckner mentioned sort of this disconnect between our successes in international trade liberalization and the political sense out there in the country about trade. The disconnect is, that we're having success opening markets, and trade is for the most part going our way. I think the fact is we've won 16 out of 17 cases in the WTO, for instance, and yet we continue to have a hard time convincing people that WTO, and fast-track, and other trade liberalization measures make sense.

That disconnect is going to be also affected, and I think the disconnect will be broadened, and the gap will even grow if we cannot enforce these agreements, like the WTO case on bananas.

I've got 600 plus good-paying jobs with Chiquita in my district, and yet people here in Congress tell me, well, this isn't a U.S. issue. Well, it is for me, and it is for anybody who represents a port, it's people who represent distributors of the product; they have a lot of investment obviously from my district, and elsewhere around the country in Central America. It's a U.S. company, it's a U.S. issue, and it's a trade liberalization issue.

So I think if we're going to truly begin to close that disconnection, and begin to get people to think along the lines of trade being positive and not a negative force on employment and on U.S. opportunity, we've got to enforce these agreements.

The third way it's a litmus test is looking from the perspective of the developing countries. I had the Panamanian finance minister in my office last week, who came in to give me a lecture about the U.S. and our trade policies, and he was right. I mean, he's essentially saying, look, if the U.S. lets us down on this one, why should we move forward with trade liberalization.

They're new members of the GATT. We told them how great the GATT was. We told them that WTO makes so much sense, so they

went through the process. They've made sacrifices. They are doing the right thing, and yet they're not sure we're going to stand by them, because he comes up to Congress, and hears people saying, well, we need to give the Europeans a break on this and that.

The Panamanians are getting killed, as are the Costa Ricans, as are the Hondurans, as are these other developing countries that are trying to export something that they legitimately, on a level playing field—they don't want any deference; they just want to be able to engage in the trading system and enjoy the benefits that we keep telling them are out there. So I hope that we continue to stand by our cases, and continue to insist on compliance.

But I want to ask you a question, because you mentioned this litmus test from a legal sense, so to narrow it back down to that. Do you see similarities between the way the Europeans have handled this case, and the way they've handled other ag cases that might be following this one, or preceded it?

Ms. GLEASON. Well, thank you, Congressman. Before I get to the litmus test question, let me say apropos the disconnect. When we speak of WTO's successes, we need to differentiate between the jurisprudential successes and the practical, real successes in hand. In the area of agriculture and in particular in the area of litigation with the EU, the jury is very much still out, which is why the banana case is going to be decisive. The model we see playing out on bananas will undoubtedly be repeated on beef hormones, and some of the other cases to come.

Similarities. There are similarities. The EU—just to show you how the model is evolving, the EU is called upon, once it loses a report, to stand before the dispute-settlement body and declare its intentions as to whether or not it will fully implement the finding.

What it did on bananas, which was the first ruling against it, was to wiggle. It rose before the body and said, we intend to honor our international obligations; very crafty language, designed to evade the language, "we intend to honor our WTO obligations", or "we intend to fully implement the finding". They were looking for language to confer them some flexibility.

This week in Brussels the European 113 Committee met—and Len Condon might now know this—and determined to use that same obstreperous formulation for beef hormones, so we see it beginning to happen all over again.

On the law, you have lawyers working overtime in the Commission, parsing and mincing the WTO findings to look for some justification to claim that black does not equal white on bananas. They're doing the same thing, as I understand it, on beef hormones. That's why we need to take a stand on bananas, or you bless nonconformity on beef hormones.

Mr. PORTMAN. One other quick question. This is for any of the panelists. What can this subcommittee and committee do to help? Whether it's beef hormones, bananas, or other cases, what should we be doing to encourage or even require adherence to these cases when we're successful?

Mr. FRYDENLUND. Well, from our point of view with the American Peanut Coalition, I would reiterate the statement that we need to clean up our house too, so that we have a much better posi-

tion from which to argue that the rest of the world needs to come around.

Mr. PORTMAN. Ms. Brown

Ms. DOREEN BROWN. I agree thoroughly. You took the words out of my—the peanuts out of my mouth.

Yes, in order to make a case on anything, you've got to go in and not have the odds stacked against you because of your own actions. And I think it would be beneficial to clean up our act not only in order to advance the process, but because it would benefit us, the United States, to the greatest degree.

Mr. PORTMAN. Ms. Brown.

Ms. ANITA BROWN. I don't really have a comment, but I do agree with what Ms. Gleason had to say; that the banana case and the beef hormone case will probably be acted on in the same manner, that is, the EU will use the same tactics in the beef case.

WGA has not been involved in a fresh fruit and vegetable case before the WTO, so I cannot comment much further.

Mr. PORTMAN. But it would probably be fair to say that it would be a likely reaction to a fresh fruit and vegetable case as well.

Ms. Gleason.

Ms. GLEASON. I'd just encourage the subcommittee to lend its support to USTR as it conveys a message to Europe, which is now underway, that if there is not full conformity, that full recourse WTO procedures, including retaliation, will need to be taken.

Mr. PORTMAN. Thank you, Mr. Chairman.

Mr. RAMSTAD. Well, thank you, Mr. Portman. And again, I want to thank the members of this panel, as well as the previous witnesses today. I thought this has been an excellent hearing, thanks to all the expertise at this witness table that we received. Hope you'll continue to work with us in a collaborative way.

This now concludes the hearing of the Trade Subcommittee. The record will remain open until February 26, 1998. The meeting stands adjourned.

[Whereupon, at 5:00 p.m., the hearing was adjourned subject to the call of the Chair.]

[Submissions for the record follow:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Trade, Committee on Ways and Means
House of Representatives

For Release on Delivery
Expected at
2:00 p.m. EST
Thursday
February 12, 1998

# AGRICULTURE TRADE AGREEMENTS

## Selected Implementation Issues

Statement for the Record by JayEtta Z. Hecker, Associate Director International Relations and Trade National Security and International Affairs Division

GAO/T-NSIAD-98-106

STATEMENT FOR THE RECORD
BY JAYETTA Z. HECKER, ASSOCIATE DIRECTOR
INTERNATIONAL RELATIONS AND TRADE ISSUES
NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION

Mr. Chairman and Members of the Subcommittee:

We are pleased to have the opportunity to provide this statement for the record for your hearing on February 12, 1998. At your request, we are providing some observations on the implementation of certain agricultural provisions of the Uruguay Round and North American Free Trade Agreement (NAFTA). These observations, based on our past and ongoing work, focus on two areas that affect U.S. agricultural trade: impact of measures to protect human, animal or plant life or health--referred to as Sanitary and Phytosantiary (SPS) measures--and State Trading Enterprises (STEs).[1] Our intention to give Congress possible avenues of inquiry in its oversight of agricultural trade issues.

SUMMARY

Both the Uruguay Round of the General Agreement on Tariffs and Trade (GATT)[2] and NAFTA[3] included provisions for reducing agricultural trade barriers. If properly implemented, these provisions could help liberalize global agricultural trade and provide substantial benefits to the United States. However, several challenges exist, particularly in organizing an effective approach on the part of the federal government to monitor and strengthen compliance with SPS measures and to mitigate the effects

[1]STEs are generally considered to be governmental or nongovernmental enterprises that are authorized to engage in trade and are owned, sanctioned, or otherwise supported by the government.

[2]A conference in Punta del Este, Uruguay, in 1986 launched the most recent round of GATT negotiations--called the Uruguay Round. The Uruguay Round Agreement was concluded in 1993, went into force in January 1995, and resulted in the creation of the WTO.

[3]NAFTA negotiations were concluded in 1992 by Canada, Mexico, and the United States. The agreement became effective in January 1994, creating the world's largest free trade area.

of STEs on U.S. agricultural producers. After providing some background information on the agricultural market openings achieved by the Uruguay Round and NAFTA, I will discuss our specific observations on SPS measures and the use of STEs.

## SIGNIFICANT AGRICULTURAL MARKET OPENINGS GENERALLY ACHIEVED IN BOTH URUGUAY ROUND AND NAFTA

The Uruguay Round and NAFTA included significant provisions to liberalize agricultural trade. Generally, these agreements comprised commitments for reducing government support, improving market access, and establishing for the first time rules on various aspects of global agricultural trade. As the largest exporter of agricultural commodities in the world, the United States was expected to benefit substantially from implementation of the reforms embodied in these agreements.

### Uruguay Round

The Uruguay Round represented the first time that GATT member countries established disciplines concerning international agricultural trade. The Uruguay Round agreements, including those on agriculture and SPS, included several key measures to liberalize agricultural trade. First, generally over a 6-year period beginning in 1995, member countries were required to make specific reductions in three types of support to agricultural producers: (1) import restrictions, (2) export subsidies, and (3) internal support. Second, member countries concluded an Agreement on the Application of Sanitary and Phytosanitary Measures that established guidelines on the use of import regulations to protect human, animal, and plant life and health. Third, countries established a Committee on Agriculture that would oversee implementation of WTO member countries' commitments to reduce agricultural support and provide a forum for discussions on agricultural trade policies. Fourth, the Round provided a definition of STEs and implemented procedural measures designed to improve compliance with

GATT rules. Finally, member countries agreed to enter a second phase of negotiations to further liberalize agricultural trade beginning in 1999.

NAFTA

Under NAFTA, the three member countries--Canada, Mexico and the United States--agreed to eliminate all tariffs on agricultural trade. Some of these tariffs were to be eliminated immediately; others would be phased out over a 5-, 10- or 15-year period. NAFTA also required the immediate elimination of all nontariff trade barriers, such as import restrictions, generally through their conversion either to tariff-rate quotas[4] or tariffs. For example, Mexico's import licensing requirements for bulk commodities, such as wheat, were terminated under NAFTA. In addition, NAFTA's chapter on agriculture included provisions on SPS. NAFTA also established a joint committee on agricultural trade and a committee on SPS measures, providing a channel for discussion of member countries' on-going concerns, in an effort to head off disputes.

CHALLENGES IN IMPLEMENTING WTO AND NAFTA PROVISIONS ON SPS MEASURES AND STEs

While forecasters have estimated that increases in agricultural trade would account for a sizeable portion of the Uruguay Round and NAFTA agreements' projected benefits to the United States, challenges exist for ensuring their full implementation.[5] In particular, our work on foreign SPS measures and STEs illustrates the complexity of the implementation challenges, particularly in organizing U.S. government efforts to

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[4]NAFTA tariff-rate quotas allow a certain quantity of product to enter duty free, while anything over this amount will be subject to an over-quota tariff.

[5]In our 1994 review of the results of the Uruguay Round, we identified several areas of the Agreement on Agriculture that would require ongoing monitoring: changes in other countries' policies, changes in U.S. policies, use of the Committee on Agriculture, and preparation of a foundation for future agricultural negotiations. At the Singapore Ministerial meeting of the WTO in December 1996, U.S. officials expressed concern that not all countries were carrying out their commitments to open their agricultural markets or were implementing new, disguised, trade-distorting measures.

assure effective enforcement and monitoring of member nations' agricultural commitments under both agreements. For example, The U.S. Trade Representative (USTR) has found that as trade agreements begin to reduce tariffs on agricultural commodities, the United States must guard against the increasing use of SPS measures as the trade barrier of choice.

WTO and NAFTA SPS Provisions

The WTO Agreement on the Application of Sanitary and Phytosanitary Measures, and chapter 7 of NAFTA, established guidelines regarding the appropriate use of SPS measures in relation to trade.[6] While these agreements are not identical, they are consistent in their guiding principles and rules. Both agreements recognize the right of countries to maintain SPS measures but stipulate that such measures (1) must not be applied arbitrarily or constitute a disguised restriction on trade and (2) must be based on scientific principles and an assessment of risk. In addition, the WTO and NAFTA agreements provided dispute settlement procedures to help resolve disagreements between member countries on SPS measures, including consultations and review by a dispute settlement panel.

The WTO agreement also encourage progress toward achieving three objectives: (1) broad harmonization of SPS measures through greater use of international standards (harmonization), (2) recognition among members that their SPS measures may differ but still be considered "equivalent" provided they achieve the same level of protection (equivalency), and (3) adaptation of SPS to recognize pest- and disease-free regions (regionalization).[7]

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[6]The term "SPS measures" refers to various regulations governments may adopt to protect human, animal, and plant life or health. Although SPS measures may result in trade restrictions, governments generally agree that in certain cases they are necessary and appropriate. However, governments may disagree about the need for or appropriateness of particular SPS measures.

[7]According to USDA officials, SPS measures typically do not recognize that imports from part of a country may be safe even if imports from the entire country are not.

Our work suggests open issues in the following areas:

- lack of coordination of U.S. government efforts to address foreign SPS measures;
- the adequacy of the USDA's process for balancing its regulatory and trade facilitation roles and responsibilities; and
- the potential benefits from WTO member countries' progress toward achieving the longer-term objectives concerning harmonization, equivalency, and regionalization.

Strategy to Address Foreign SPS Measures

Although USTR has identified some foreign SPS measures as key barriers to U.S agricultural exports, our recent report to Congress[8] found several weaknesses in the federal government's approach to identifying and addressing such measures. Because of these weaknesses, the federal government cannot be assured that it is adequately monitoring other countries' compliance with the WTO or NAFTA SPS provisions and effectively protecting the interests of U.S. agricultural exporters.

Specifically, we found that the federal structure for addressing SPS measures is complex and involves multiple entities. USTR and USDA have primary responsibility for addressing agricultural trade issues, and they receive technical support from the Food and Drug Administration (FDA), the Environmental Protection Agency, and the Department of State (EPA). Our review demonstrated that the specific roles and responsibilities of individual agencies within this complex structure are unclear and that effective leadership of their efforts has been lacking. During our review, USTR and USDA implemented certain mechanisms to improve their handling of SPS issues, but the scope of these mechanisms did not encompass the overall federal effort. In

[8]See Agricultural Exports: U.S. Needs a More Integrated Approach to Address Sanitary/Phytosanitary Issues (GAO/NSIAD-98-32, Dec. 11, 1997).

addition, we found that the various agencies' efforts to address foreign SPS measures have been poorly coordinated and they have had difficulty determining priorities for federal efforts or developing unified strategies to address individual measures. Finally, we found that goals and objectives to guide the federal approach and measure its success had not been developed.

We believe that a more organized, integrated, strategic federal approach for addressing such measures would be beneficial. Therefore, we recommended that USTR, USDA, and the other concerned agencies, such as FDA and EPA, work together to develop coordinated goals, objectives, and performance measurements for federal efforts to address foreign SPS measures.

Outstanding questions derived from our work include:

-- What steps have USTR and USDA taken to address the weaknesses found by our study, such as the lack of a process to prioritize federal efforts to address foreign SPS measures?

-- How do USTR and USDA plan to improve coordination of their activities to address SPS measures?

-- How do USTR and USDA plan to work more closely with other relevant agencies, such as FDA and EPA, in determining which SPS measures to address and how to address them? Specifically, at the executive branch level how does the administration intend to balance its trade facilitation and regulatory roles and responsibilities?

USDA Agencies' Balancing of Regulatory and Trade Facilitation Roles

Absent a coordinated approach for addressing foreign SPS measures, the specific role of USDA regulatory and research agencies in resolving SPS has not been clearly defined. Some of these regulatory agencies, such as the Animal and Plant Health Inspection Service and the Food Safety Inspection Service, whose primary responsibilities are to safeguard human, animal, and plant life or health, have increasingly assumed a role in efforts to facilitate trade. Several trade authorities and industry officials have expressed frustration that these regulatory agencies seem to lack a sense of urgency regarding trade matters and are sometimes willing to engage in technical discussions regarding foreign SPS measures for many months and even years. These groups expressed concerns that regulatory authorities lack negotiating expertise, which sometimes undermined efforts to obtain the most advantageous result for U.S. industry regarding foreign SPS measures. U.S. regulatory officials, in turn, believe that at times trade authorities and industry groups fail to appreciate that deliberate, and at times lengthy, technical and scientific processes are necessary to adequately address foreign regulators' concerns about the safety of U.S. products.

Government and industry officials have stated that regulatory and research agencies' responsibilities for dealing with foreign SPS measures have not been clearly defined. The tension in balancing the regulatory and trade facilitation activities of some USDA agencies underlines the need to more clearly define their role in addressing SPS measures.

Questions resulting from our work include:

-- What measures has USDA taken to use its strategic planning process for integrating disparate agency efforts to address SPS measures?

-- What progress is USDA making in using the Working Group on Agricultural Trade Policy to strengthen USDA's SPS efforts? Has this initiative, or any other, begun to deal with the tensions that have arisen over the dual roles of some of USDA agencies as both regulatory and trade facilitation entities?

-- Has USDA provided guidance to regulatory agency officials to assist in promoting a more consistent effort to balance their competing goals and policies?

-- Is there outreach to producers to clarify the new roles that increased foreign trade has placed upon these regulatory agencies?

Potential Benefits of Long Term SPS Objectives Versus Immediate Resolution of Disputes over SPS Measures

WTO and USTR officials suggest that member countries appear to have focused on implementing provisions of the SPS agreement that enable them to resolve SPS disputes as they arise, such as the requirement that SPS measures be based on scientific evidence, but have paid less attention to other key provisions. Specifically, member countries have been less concerned with provisions regarding harmonization, equivalency, and regionalization of SPS measures. The practices these principles encourage are not currently widespread.

Progress in implementing harmonization, equivalency, and regionalization could be timeconsuming. For example, the United States and the European Union negotiated for 3 years before reaching a partial agreement about the equivalence of their respective inspection systems for animal products. Nevertheless, these provisions could help minimize trade disputes in the longrun by creating a more structured approach to SPS measures.

Our work raises the following questions regarding the SPS agreement's long-term objectives:

-- Is there a sufficient balance in efforts to implement the Uruguay Round SPS agreement so as to promote the goals of harmonization, equivalency, and regionalization as envisioned in the framework of the agreement?

-- What factors limit cooperation among WTO member countries in pursuit of these three long-term objectives?

-- How are USDA and USTR working to promote international harmonization of SPS measures based on U.S. standards that would facilitate U.S. industry access to foreign agricultural and agriculture-related markets?

WTO Provisions on STEs

The agricultural and SPS agreements of the Uruguay Round[9] were intended to move member nations toward establishing a market-oriented agricultural trading system by minimizing government involvement in regulating agricultural markets. Some member nations continue to use STEs[10] to regulate imports and/or exports of selected products. For example, STEs have long been important players in the international wheat and dairy trade.

As a result of the Uruguay Round, the WTO officially defined STEs and addressed procedural weaknesses of article XVII by improving the process for obtaining and reviewing information. In the past, GATT required that STEs (1) act in a manner

[9]Although NAFTA contains similar provisions on STEs to the GATT, it does not include certain provisions such as the STE reporting requirement.

[10]Since GATT was first drafted in 1947, STEs have been recognized as legitimate trading entities in world markets.

consistent with the principles of nondiscriminatory treatment,[11] (2) make purchases and/or sales in accordance with commercial considerations that allow foreign enterprises an opportunity to compete, and (3) notify the WTO secretariat about their STEs' activities (for example, WTO members who have STEs are required to report information on their operations). The Uruguay Round established an STE working party. In addition, STEs that engage in agricultural trade are also subject to the provisions in the Uruguay Round Agreement on Agriculture, on market access restrictions, export subsidies, and internal support.

Our work suggests open issues in two areas: (1) a lack of transparency in STE pricing practices and (2) the extent of U.S. efforts to address STEs.

Lack of Transparency in STE Pricing Practices

In the absence of complete and transparent information on the activities of STEs, member countries are hindered in determining whether STEs operate in accordance with GATT disciplines and whether they have a trade-distorting effect on the global market. In 1995, we reported[12] that compliance with the Uruguay Round STE reporting requirements or notifications had been poor.[13] Since then, STE notifications to the WTO have improved, including reporting by countries of most major agricultural STEs. However, because they are not required to do so, none of the notifying STE countries have reported transactional pricing practices--information that could provide greater transparency about their operations.

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[11]Under WTO, nondiscriminatory treatment generally encompasses most-favored nation and national treatments. (For further information, see also State Trading Enterprises: Compliance With the General Agreement on Tariffs and Trade [GAO/GGD-95-208, Aug. 30, 1995] p. 2, n. 6.)

[12]See State Trading Enterprises: Compliance with the General Agreement on Tariffs and Trade.

[13]While STEs encompass all types of trade, multilateral concerns historically have focused almost exclusively on agricultural STEs.

U.S. agricultural producers continue to express concern over the lack of transparency in STE pricing practices and their impact on global free trade. In 1996, we reported[14] that our effort to fully evaluate the potential trade-distorting activities of STEs, including pricing advantages, could not be conducted because of a lack of transaction-level data. Without this data and the more transparent system it would create, the United States finds it difficult to assess the trade-distorting effects of, and compliance with, WTO rules governing reporting on STE operations.

Our work on STEs raises the following questions with regard to the lack of transparency:

-- What progress has the WTO working party on state trading enterprises made in studying STEs and improving the information available about their activities?

-- What steps, if any, can be taken within the WTO framework, or otherwise, to increase the pricing transparency of import- and export-oriented STEs?

U.S. Efforts to Address STEs

U.S. agricultural interests have expressed concern regarding the potential of STEs to distort trade, and USDA officials have said that a focused U.S. effort to address STEs is vitally important. Although, under the WTO, STEs are recognized as legitimate trading entities subject to GATT rules, some U.S. agricultural producers and others are concerned that STEs, through their monopoly powers and government support, may have the ability to manipulate worldwide trade in their respective commodities. For example, some trade experts and some WTO member countries are concerned about STEs' potential to distort trade due to their role as both market regulator and market participant. Further, the U.S. agricultural sector competes with several prominent

[14]See GAO/NSIAD-96-94

export STEs in countries such as Canada, Australia, and New Zealand and import STEs in other countries such as Japan.

Questions from our work regarding the U.S. effort to address STEs include:

-- How are USTR and USDA monitoring STEs worldwide to ensure that member countries are meeting their WTO commitments?

-- Given the limited transparency resulting from STE notifications to the WTO, how can the United States be assured that STEs are not being operated in a way that circumvents other WTO agriculture commitments, such as the prohibition on export subsidies or import targets?

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Mr. Chairman and Member of the Subcommittee, this concludes my statement for the record. Thank you for permitting me to provide you with this information.

## RELATED GAO PRODUCTS

Agricultural Exports: U.S. Needs a More Integrated Approach to Address Sanitary/Phytosanitary Issues (GAO/NSIAD-98-32, Dec 11, 1997).

Assistance Available to U.S. Agricultural Producers Under U.S. Trade Law (GAO/NSIAD-98-49R, Oct. 20, 1997).

North American Free Trade Agreement: Impacts and Implementation (GAO/T-NSIAD-97-256, Sept. 11, 1997).

U.S. Agricultural Exports: Strong Growth Likely, but U.S. Export Assistance Programs' Contribution Uncertain (GAO/NSIAD-97-260, Sept. 30, 1997).

World Trade Organization: Observations on the Ministerial Meeting in Singapore (GAO/T-NSIAD-97-92, Feb. 26, 1997).

International Trade; The World Trade Organization's Ministerial Meeting in Singapore (GAO/T-NSIAD-96-243, Sept. 27, 1996).

Canada, Australia, and New Zealand: Potential Ability of Agricultural State Trading Enterprises to Distort Trade (GAO/NSIAD-96-94, June 24, 1996).

International Trade: Implementation Issues Concerning the World Trade Organization (GAO/T-NSIAD-96-122, Mar. 13, 1996).

State Trading Enterprises: Compliance With the General Agreement on Tariffs and Trade (GAO/GGD-95-208, Aug. 30, 1995).

Correspondence Regarding State Trading Enterprises (GAO/OGC-95-24, July 28, 1995).

The General Agreement on Tariffs and Trade: Uruguay Round Final Act Should Produce Overall U.S. Economic Gains (GAO/GGD-94-83A&B, July 29 1994).

General Agreement on Tariffs and Trade: Agriculture Department's Projected Benefits Are Subject to Some Uncertainty (GAO/GGD/RCED-94-272, July 22, 1994).

North American Free Trade Agreement: Assessment of Major Issues (GAO/GGD-93-137, Sept. 9, 1993) (two vols.).

CFTA/NAFTA: Agricultural Safeguards (GAO/GGD-93-14R, Mar. 18, 1993).

International Trade: Canada and Australia Rely Heavily on Wheat Boards to Market Grains (GAO/NSIAD-92-129, June 10, 1992).

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**WAYS AND MEANS COMMITTEE**
**SUBCOMMITTEE ON TRADE**
**U.S. HOUSE OF REPRESENTATIVES**
**WASHINGTON, D.C.**
**FEBRUARY 12, 1998**

**TESTIMONY OF JACK RONEY**
**DIRECTOR OF ECONOMICS AND TRADE POLICY**
**AMERICAN SUGAR ALLIANCE**
**WASHINGTON, D.C.**

Thank you, Mr. Chairman, for the opportunity to submit testimony for this important hearing. I am Jack Roney, Director of Economics and Policy Analysis for the American Sugar Alliance. The ASA is a national coalition of growers and processors of sugarbeets, sugarcane, and corn sweeteners. Prior to joining the ASA in 1996, I was the Washington Representative for the Hawaiian sugar industry for 8 years. I also served for 15 years at the Department of Agriculture, where I was an an economist and commodity analyst.

I would like to provide some background on the United States' role and standing in the world sugar economy and on U.S. sugar policy's effect on American consumers and taxpayers and discuss the U.S. sugar industry's goals, priorities, concerns, and suggested strategy for the next round of World Trade Organization multilateral negotiations.

## BACKGROUND ON U.S. SUGAR INDUSTRY, POLICY

**Size and Competitiveness.** Sugar is grown and processed in 17 states and 420,000 American jobs, in 40 states, are dependent, directly or indirectly, on the production of sugar and corn sweeteners. The United States is the world's fourth largest sugar producer, trailing only Brazil, India, and China. The European Union (EU), taken collectively, is by far the world's largest producing region. It benefits from a massive production and export subsidy program.

Despite some of the world's highest government-imposed costs for labor and environmental protections, U.S. sugar producers are among the world's most efficient. According to a study released in 1997 by LMC International, of Oxford, England, American sugar producers rank 19th lowest in cost among 96 producing countries, most of which are developing countries. According to LMC, fully two-thirds of the world's sugar is produced at a higher cost per pound than in the United States.

Because of our efficiency, American sugar farmers would welcome the opportunity to compete against foreign farmers on a level playing field, free of government subsidies. Unfortunately, the extreme distortion of the world sugar market makes any such free trade competition impossible today.

Roughly 100 countries produce sugar and the governments of all these countries intervene in their sugar markets in some way. The most egregious, and most trade distorting, example is the EU. The Europeans are higher cost sugar producers than we are but they enjoy price supports that are 40% higher -- high enough to generate huge surpluses that are dumped on the export sugar market, for whatever price they will bring, through an elaborate system of export subsidies.

World trade in sugar has always been riddled with unfair trading practices. These practices have led to the distortion in the so-called "world" sugar market. These distortions have led to a disconnect between the cost of production and prices on the world sugar market, more aptly called a "dump market". Indeed, for the period of 1984/85 through 1994/95, the most

recent period for which cost of production data are available, the world dump market prices averaged just a little more than 9 cents per pound raw value, barely *half* the world average production cost of production of over 18 cents. (See chart, Attachment A.)

As long as foreign subsidies drive prices on the world market well below the cost of production, the United States must retain some border control. The reformed sugar policy of the 1996 Farm Bill does retain the Secretary of Agriculture's ability to limit imports, and also provides a price support mechanism, though only when imports exceed 1.5 million short tons.

**Sugar Reforms.** The 1996 Farm Bill drastically changed U.S. sugar policy, as it did other commodity programs. Sugar farmers, like other farmers, now face a less certain future, with less government intervention, higher risk, and the prospect of lower prices.

There were six major reforms to U.S. sugar policy in the 1996 Farm Bill:

1. **Marketing allotments were eliminated.** With no production controls, we now have a domestic free market for sugar. Less efficient producers are more likely to go out of business; more efficient producers are free to expand. Just this month the only sugarbeet processing company in Texas announced it is closing, ending sugarbeet production in that state, because of low returns.

2. **A guaranteed minimum price was eliminated.** Sugar is the only commodity to have lost the guarantee of non-recourse loans and a minimum grower price. Sugar producers will have access to non-recourse loans only when imports exceed 1.5 million short tons.

3. **Minimum imports effectively raised.** Under the Uruguay Round of the GATT, the U.S. was required to import no less than 1.256 million tons of sugar per year. The non-recourse loan trigger of 1.5 million tons effectively raises our import minimum to that level, a unilateral increase of 20%.

4. **Marketing tax raised.** The special marketing assessment, or tax, sugar producers must pay to the government on every pound of sugar was raised by 25%, to 1.375% of the loan rate on every pound produced. This added burden on sugar farmers will generate nearly $40 million per year for the U.S. Treasury, with all this money earmarked for federal budget deficit reduction.

5. **Forfeiture penalty initiated.** To discourage forfeiture of loans to the government when non-recourse loans are in effect, and to raise even more money for the U.S. Treasury, a 1-cent per pound forfeiture penalty was initiated. This can have the effect of about 6% lower returns to producers than before the penalty went into effect.

6. **Commitment to further reductions.** A provision called "GATT Plus" requires that the U.S. will reduce its sugar supports further if, and when, countries surpass their Uruguay Round commitments, as the U.S. has done.

**Effect on Consumers.** American consumer and food and candy manufacturers benefit from high-quality, dependable, reasonably priced supply of sugar. Consumer prices in the United States are fully 32% below the developed-country average, according to a world survey by LMC International. Compared with consumers worldwide, and taking varying income levels into account, LMC found that *in terms of minutes worked to purchase one pound of sugar, American consumers are the second lowest in the world*, trailing only the tiny country of Singapore. (See charts, Attachments B and C.)

**Consumer Cost Myths.** The food manufacturer critics of U.S. sugar policy repeatedly point to a severely flawed 1993 General Accounting Office study that estimated a consumer cost of U.S. sugar policy at $1.4 billion per year. Experts at the U.S. Department of Agriculture have twice vilified this flawed report, as have noted academicians. More recently critics are citing a Public Voice "update," which mimicked the faulty methodology of the GAO report and dropped this supposed cost to $1.2 billion.

Both of these outrageous studies assumed that: 1) All U.S. sugar needs could be supplied from the world market at a price well below the world average cost of production; 2) We could take all our needs from this thinly traded world market without that price increasing at all; and 3) Every penny of the food manufacturers' and retailers' savings from the lower dump market sugar prices would be passed along to consumers.

To address just the third and most outrageous of these assumption, one need only examine price behavior of the past year, or the past decade. History shows absolutely no passthrough.

Since Farm Bill reforms went into effect in October 1996, both raw cane and wholesale refined beet sugar prices to producers have dropped dramatically, wholesale refined prices by a whopping 12%. But at the retail level, not even the price of sugar on the grocery shelf has dropped at all. And prices for sweetened products, such as candy, cereal, ice cream, cakes, and cookies have all risen by 2-4%. Looking back to price changes since 1990, the story remains the same: producer prices *down*, consumer prices for sugar and products *up*. (See charts, Attachments D and E.)

**Effect on Taxpayers.** Not only has U.S. sugar policy been run at no cost to the government since 1985, but since 1991 it has been a *revenue raiser*. The marketing assessment burden on sugar farmers will generate an estimated $288 million for federal budget deficit reduction over the seven years of the 1996 Farm Bill.

## SUGAR AND THE URUGUAY ROUND

**Little Effect on World Sugar Policies.** More than 100 countries produce sugar and all have some forms of government intervention. Unfortunately, these policies were not significantly changed in the Uruguay Round Agreement of the GATT (URA). Protectionist developed countries watered down the agreement to the extent that there was no reduction in the European Union's lavish price support level and only a tiny potential drop in their massive export subsidies. Developing countries, which dominate world sugar trade, were put on a much slower track for reductions, or were exempted altogether. Important players such as China and the former Soviet republics are *not* GATT members, and need to do nothing. State trading enterprises (STE's) that are prevalent in sugar-producing countries were ignored. Furthermore, many countries have not yet even complied with their URA commitments.

**U.S. Sugar Surpasses URA Requirements.** The United States is one of only 20 countries that guarantees a portion of its sugar market to foreign producers and can be proud that it has far surpassed is URA commitment on import access. The URA required a minimum access of 3-5% of domestic consumption. The U.S., unilaterally, accepted a minimum that amounts to about 12% of consumption. In practice, U.S. imports the past two years have averaged 24% -- *double* the promise we made in the GATT, and about six times the global GATT minimum.

All this sugar imported under the tariff-rate quota enters the United States at the U.S. price, and not at the world dump price. Virtually all this sugar enters duty free. Just four countries that lack Generalized Sytem of Preferences (GSP) status pay a duty, and that is quite small, about 0.6 cents per pound. The United States calculated its above-quota tariff rate in the manner dictated by the URA. These tariff levels are totally GATT consistent, and are dropping by 15%, as we promised they would in the Uruguay Round.

## U.S. SUGAR INDUSTRY'S FREE TRADE GOAL

**Because of our competitiveness, with costs of production well below the world average, the U.S. sugar industry supports the goal of genuine, global free trade in sugar.** We cannot compete with foreign governments, but we are perfectly willing to compete with foreign farmers in a truly free trade environment.

We were the first U.S. commodity group to endorse the goal of completely eliminating government barriers to trade at the outset of the Uruguay Round, in 1986. We understand we are the first group to endorse this same goal prior to the start of the 1999 multilateral trade round. We described our goals and concerns to the Administration in a letter last May to Trade Representative Barshefsky and Agriculture Secretary Glickman. A copy of that letter is attached to this testimony (Attachment F).

The U.S. sugar industry does ***not*** endorse the notion of free trade at any cost. The movement toward free trade must be made deliberately and rationally, to ensure fairness. To achieve a free trade transition process that is rational and fair, we provide the following priorities, concerns, and suggested strategy.

## PRIORITIES THE 1999 TRADE ROUND

**Export Subsidies**. The most distorting practice in world agricultural trade is export subsidies. In the world sugar market, subsidized exports by the EU alone amount to as much as a fourth of all the sugar traded each year.

Export subsidies provide countries the mechanism to dispose of surpluses generated by high internal production subsidies. In the absence of export subsidies as a surplus-removal vehicle, countries would have to reduce their production supports.

**State Trading Enterprises (STE's).** STE's are quasi-governmental, or government-tolerated organizations that support domestic producers through a variety of monopolistic buyer or seller arrangements, marketing quotas, dual-pricing arrangements, and other strategies. These practices were ignored in the Uruguay Round, but are, unfortunately, common in the world sugar industry.

Major producers such as Australia, Brazil, Cuba, and China have sugar STE's, but were not required to make any changes in the Uruguay Round. These practices must be addressed in the next trade round.

## CONCERNS REGARDING THE 1999 TRADE ROUND

**Hugely Varying Levels of Support.** Unilateral reforms to U.S. agriculture policy in the 1996 Farm Bill far exceeded U.S. commitments made the year before in the Uruguay Round. Furthermore, developing countries, which dominate world agricultural trade and particularly sugar trade, were subject to a slower pace of reductions, if any.

As a result, the United States is way out in front of the rest of the world in removing its government from agriculture and has placed its farmers in a domestic free market situation. This gap makes American farmers uniquely vulnerable to continued subsidies by foreign competitors.

In sugar, two examples come to mind: 1) The EU sugar support price is approximately 40% higher than the stand-by U.S. support price. The Uruguay Round's formula-driven percentage reductions in support levels do not reduce the gap between the EU and the U.S. at all. 2) Actual U.S. sugar imports the past two years have been ***nearly double*** the 1.26-

million-ton minimum import commitment made in the Uruguay Round.

It is key that American farmers not be penalized for attempting to lead the rest of the world toward free agricultural trade. American farmers must be given credit for the reforms they have endured.

**Other countries must reduce their supports to U.S. levels in the next trade round *before* American farmers are asked to do anything more.**

**Compliance with Past Agreements**. While the United States has far surpassed its Uruguay Round commitments, many other countries have yet to even minimally comply. Numerous examples exist where export subsidies, internal supports, and import tariffs for many crops are not in compliance with GATT. A key example in sugar is the Philippines' failure to lower its import tariffs.

In the NAFTA, Mexican sugar producers are casting doubts on the validity of the sugar provisions, three years after the agreement's inception, and have slammed the door on imports of U.S. corn sweeteners with duties as high as 100%.

**The United States should not reduce its supports any further until other countries have, at least, complied with their Uruguay Round commitments.**

**Labor and Environmental Standards**. The gap in government standards -- and resulting producer costs -- between developed and developing countries is well documented and immense. In sugar, the gap is particularly pronounced because, while the EU and the U.S. are major players, production and exports are highly dominated by developing-countries, especially in the cane sector.

For example, the LMC International survey of global production costs revealed labor costs -- per worker, per day -- in Malawi, ostensibly one of the world's lowest cost producers, to be a mere *one-hundredth* of the average wages paid to sugarcane workers in Hawaii.

Sugar producers in the United States comply with the world's highest standards for environmental protection -- at a price. For example, the Everglades Forever Act (EFA) mandates that Florida farmers pay at least $232 million in taxes for Everglades preservation activities. Extremely high environmental compliance costs have been a factor in driving two-thirds of the growers in Hawaii out of business. In many developing countries, by contrast, sugar mills face no restrictions, or no enforcement of restrictions, on the quality of water or air emissions.

American sugar farmers are proud to raise sugar with the highest possible regard for workers and the environment. But we should not be penalized in multilateral trade negotiations for providing these costly protections. And foreign countries that do not provide such protections should not be rewarded.

**The wide gap in labor and environmental standards between developed and developing countries must be taken into account in the next trade round, and addressed in a manner that ensures global standards rise to developed-country levels, rather than fall to developing-country levels.**

## NEGOTIATING STRATEGY FOR AGRICULTURE IN THE 1999 TRADE ROUND

For the many reasons I have outlined, the formula-driven, or "one-size-fits-all," approach for trade concessions does ***not*** work for agriculture in general, or for sugar in particular. Pursuing this approach would again give developing countries a free ride, and would further diminish our negotiating leverage, which was severely reduced through our unilateral concessions in the 1996 Farm Bill. To date, we have led the world in trade barrier reductions and we can only hope the rest of the world will follow our example.

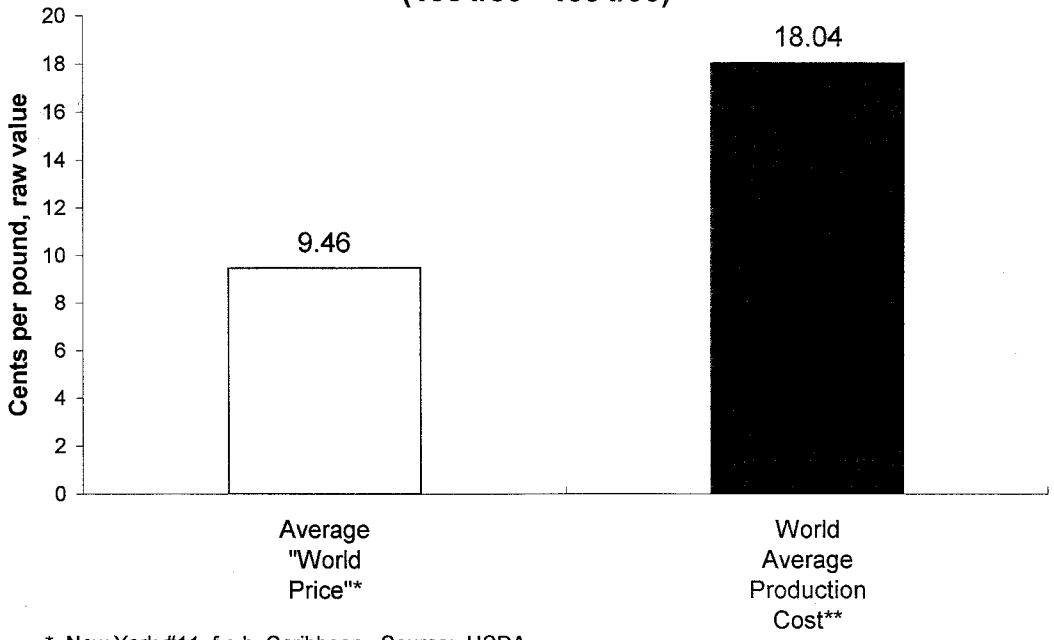
**We can turn our unilateral concessions to our advantage only if we follow a request/offer strategy**. Essentially, we provide foreign countries the incentive to reduce their government programs by promising to reduce ours further when, and only when, they have reduced their export subsidies, internal support, import tariffs, and STE or similar practices to our levels.

## CONCLUSION

In conclusion, Mr. Chairman, thank you for convening this timely and important hearing. U.S. agriculture is extremely vulnerable as we approach the next trade round. If we negotiate carefully and rationally, however, there is enormous potential for responsible producers such as ourselves to compete and prosper in a genuine free trade environment, free from the need for government intervention. Thank you for the opportunity to participate.

ATTACHMENT A

## "World Price" for Sugar: Only Half World Average Cost of Producing Sugar (1984/85 - 1994/95)




* New York #11, f.o.b. Caribbean. Source: USDA

** "A World Survey of Sugar and HFCS Field, Factory and Freight Production Costs: 1997 Report" LMC International Ltd., Oxford, England

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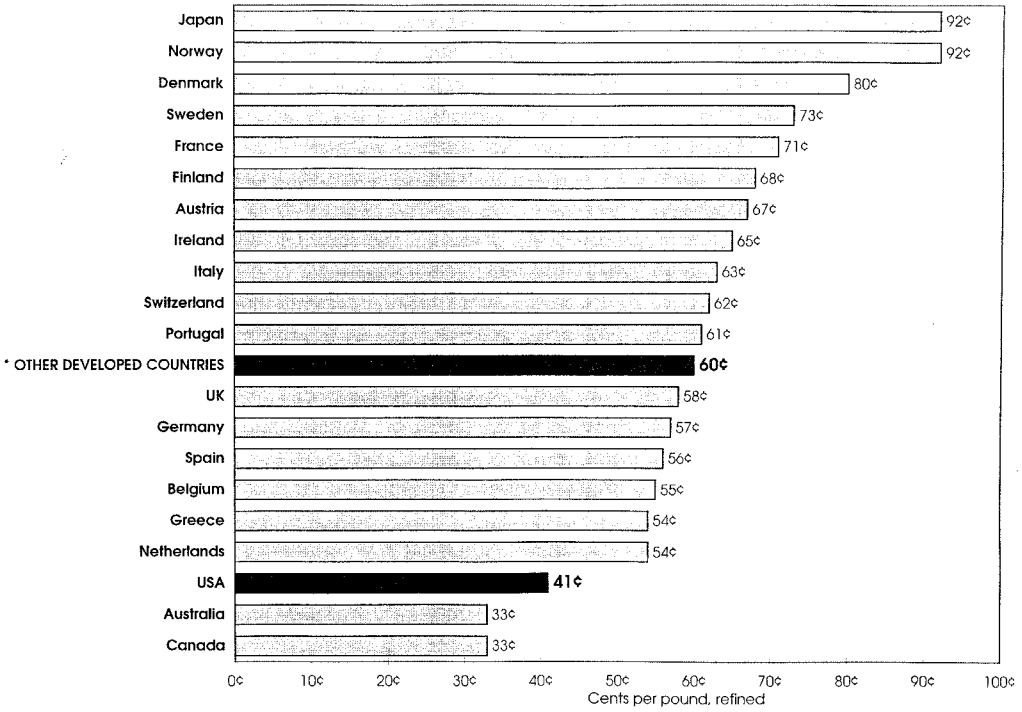
**ATTACHMENT B**

## Developed Countries' Retail Sugar Prices: USA 32% Below Average

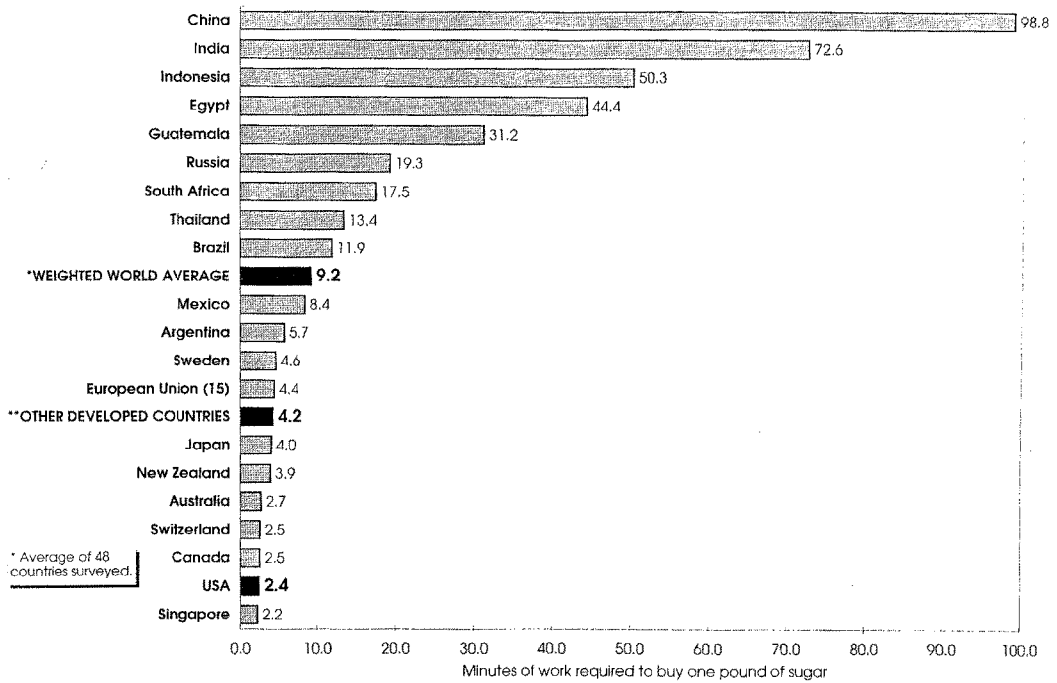



Source: LMC International Ltd., Oxford, England, June 1997.
Study of 48 countries, accounting for 76% of global sugar consumption: 1996 prices.
* "Other Developed Countries" is the average of the Organization for Economic Cooperation and Development (OECD) excluding the United States.

ASGA/ R0563

**ATTACHMENT C**

## Minutes of Work to Buy One Pound of Sugar: USA Second Lowest in World

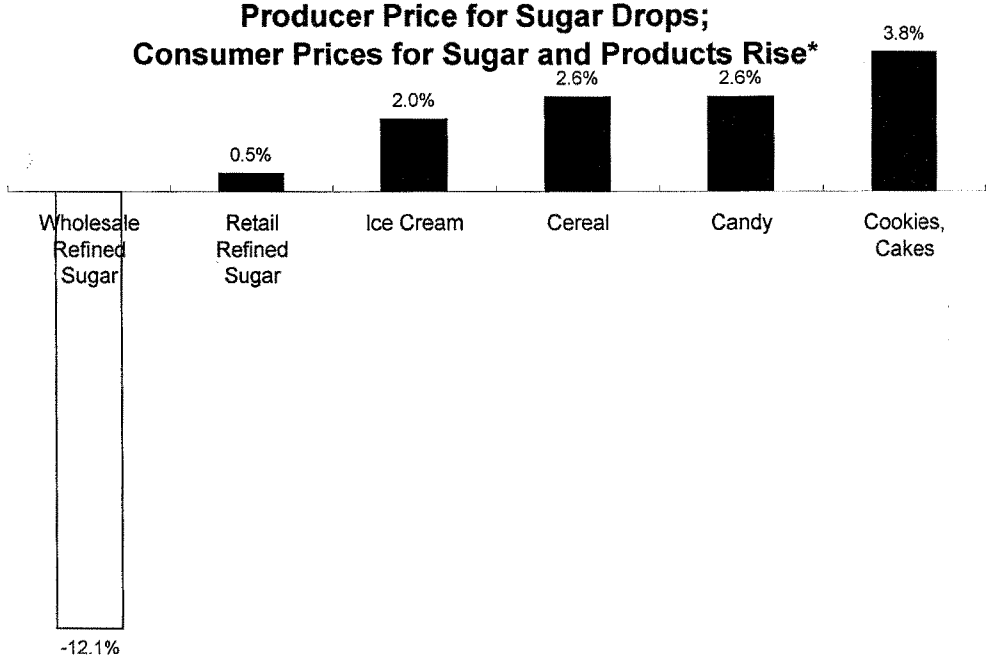



Source: LMC International Ltd., Oxford, England, June 1997. Study of 48 countries, accounting for 76% of global sugar consumption: 1996 prices.
NOTE: Calculations assume that the average person works for 2,500 hours per year and earns the average GNP per head. These calculations are based on 1994 World Bank population and per capita GNP data.
**"Other Developed Countries" is the average of the Organization for Economic Cooperation and Development (OECD) excluding the United States.

ASGA 6/97 0564

ATTACHMENT D

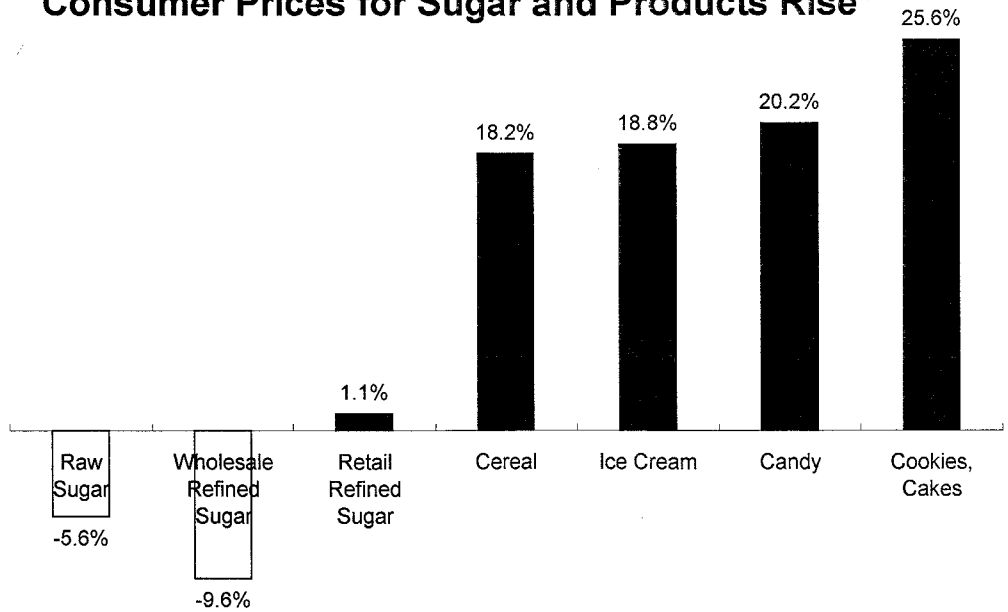
## Since Start of 1996 Farm Bill: Producer Price for Sugar Drops; Consumer Prices for Sugar and Products Rise*




* Monthly average price changes from September 1996 to December 1997. Raw cane sugar: #14 contract, New York. Wholesale refined beet sugar: Midwest markets. Retail prices: Bureau of Labor Statistics consumer price indices. Data source: USDA.

ATTACHMENT E

# Since 1990: Producer Prices for Sugar Drop, Consumer Prices for Sugar and Products Rise*




* Change in annual average prices from 1990 to 1997. Raw cane sugar: #14 contract, New York. Wholesale refined beet sugar: Midwest markets. Retail prices: Bureau of Labor Statistics consumer price indices. Data source: USDA. rawvsret5-2/98

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ATTACHMENT F

BACKING AMERICA'S BEET, CANE AND CORN FARMERS

**Jack Roney**
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Director of Public Affairs
(tel) 202/457-1438

May 21, 1997

The Honorable Charlene Barshefsky
U.S. Trade Representative
Office of United States Trade Representative
Winder Building, 600 17th Street N.W.
Washington, D.C. 20506

The Honorable Dan Glickman
Secretary of Agriculture
U.S. Department of Agriculture
Whitten Building, Room 200-A
Washington, D.C. 20250

Dear Ambassador, Dear Mr. Secretary:

With the start of the new round of multilateral agricultural negotiations growing closer, and with the beginning of the Geneva process of analysis and exchange of information, we thought this would be an appropriate time to share with you our views on U.S. objectives for this next round of negotiations.

The American Sugar Alliance is a coalition of U.S. growers and processors of sugarbeets, sugarcane, and corn for sweeteners. We are efficient, with costs of production below the world average. We have long supported the goal of genuine, multilateral elimination of all barriers to agricultural trade.

The world sugar market is one of the most highly distorted and most volatile markets in agricultural trade. All of the more than 100 countries that produce sugar exhibit some form of government intervention, including internal supports; import barriers; massive export subsidies, such as those by the European Union; state trading enterprises; and two-price systems.

These practices literally make the world sugar market a dumping ground, to the extent that the so-called "world price" has averaged only about half the world average cost of producing sugar over the past 15 years. It is only the continuation of tariff protection in the United States that prevents these enormous distortions from undermining the efforts of our efficient and non-subsidized producers.

We are fully committed to working toward an open trading system, but not at any price. As the Administration has said on many occasions regarding China's bid to accede to the World Trade Organization, trade must take place on a commercially viable basis. That is clearly not the case now in world sugar trade.

With this background in mind, we offer the following suggestions on objectives for the next round of negotiations:

* The United States should continue to insist on the elimination of all export subsidies. This objective should encompass appropriate disciplines on policies which essentially circumvent export subsidy commitments, such as pooling arrangements and dual pricing systems.

* State trading enterprises, which allow countries to control all facets of trade and extend monopolistic pricing practices to world markets, need strongly enhanced disciplines to provide price transparency and prevent predatory and discriminatory pricing.

* The passage of the FAIR Act has reduced U.S. agricultural support by far more than the Uruguay Round required. Other countries should match this reduction in terms of an aggregate measure of support before any additional reduction would be required in the United States.

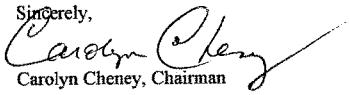
* Countries which have not fulfilled their Uruguay Round commitments, or which have used various means to avoid or diminish these commitments, must be brought into full compliance with their obligations. This effort should also include arbitrary and capricious sanitary and phytosanitary restrictions which are not based on sound scientific principles. We urge that you aggressively pursue countries that have not complied and that no further concessions be negotiated with these countries until full and complete compliance is achieved.

  We point out in this regard that sugar imports into the United States have far exceeded -- in fact, nearly doubled -- our Uruguay Round commitment. Very few, if any, other commodities in the world can make this statement, a fact that needs to be taken into account in the negotiations.

* On market access, the United States should pursue a request/offer strategy to maximize our negotiating leverage to achieve these objectives. Developing countries do not have to make any further concessions until after the year 2004. Therefore, a formula-driven approach, such as was followed in the Uruguay Round, would give developing countries a free ride and would minimize our negotiating strength.

We hope you will seriously consider these suggestions, as you begin your preparations for the next round of trade negotiations. We would be happy to meet with you, at your convenience, to discuss these objectives in more detail.

Sincerely,



Carolyn Cheney, Chairman

Statement of the Biotechnology Industry Organization to
the Ways and Means Subcommittee on Trade
for the Hearing Record on Reducing Barriers to Trade in Agriculture

Hearing Date: February 12, 1998

The Biotechnology Industry Organization represents over 760 companies and affiliated organizations. A significant number of BIO members are using biotechnology to improve the agronomic and nutritional properties of many tree, fruit, vegetable, and field crops. Our member companies have already developed genetically modified crop plants that are resistant to insects and tolerant to broad-spectrum environmentally-friendly herbicides. Expression of new pest resistance factors by the plant will enable farmers to control insects and lessen the application of chemical insecticides, reducing the farmers' input cost. Introduction of herbicide tolerance into soybeans, corn, and cotton are leading to more environmentally friendly approaches to weed control. Oil production pathways in both soybeans and canola have been modified to produce edible oils with improved food processing and nutritional properties. These advances offer farmers a new approach to improving crop yield and improving the sustainability of American agriculture. Biotechnology is playing an increasingly important role in conservation of global biodiversity and sustainable agricultural production.

The conclusion of the recent international trade agreements and the passage of the 1996 Farm Act are placing American farmers in an excellent position to markedly increase exports of agricultural products. The new farm legislation establishes policies that should make agricultural production more efficient. Liberalized trade policies should make foreign markets more readily available. Taken together, these two initiatives will have a continuing positive impact on the US balance of trade.

Because of a drop in Asian imports there was a decrease in export of certain grains over the last quarter of 1997. Despite this, exports continue to be strong with a net trade surplus of $19 billion. According to the most recent USDA statistics, high value product exports rose 7% last November with much of the gain coming from exports in vegetable oils. Improved oils from biotechnology-derived crops should only serve to increase such exports in the future. In addition to the direct benefit to the farmer, agricultural exports benefit the economy as a whole generating an additional $1.32 for every $1.00 of exported product ($60.4 billion of exports stimulated an additional $79.5 billion, based on 1996 USDA data). Thus it is imperative that the US assure that the evaluation of new biotechnology-derived plant varieties and their acceptability in foreign markets is science driven if future export gains are to be realized. Only in this way can our industry make the investments needed to seek additional ways to improve production and a more abundant, safe, nutritious sources of food and fiber.

In 1997 American farmers planted approximately 24 million acres of corn, cotton, canola, soybeans, tomatoes, and potatoes with new traits introduced using modern biotechnology

(see Table One for a breakdown by crop). In the case of corn, cotton, and soybeans, the acreage of biotechnology-derived crops was over 10% of the total US acreage in each crop. Grains and processed products derived from all of the listed crops are entering international commerce.

It took well over a decade to develop and field test these new varieties before they could be released to American farmers. Environmental and food safety issues were addressed and all necessary regulatory clearances obtained. Although these crops were engineered to express new traits, the US regulatory agencies have treated them as substantially equivalent to the parental crops. No special labeling or post-harvest handling is required. Unfortunately the same is not true in the European Union (EU).

Regulations proposed by the Commission of the European Community (Commission) state the conditions when labeling would be required. According to the proposal, the presence in foods and food ingredients of DNA resulting from genetic modification would render that food no longer equivalent to its conventional counterpart and thus require labeling. If the DNA is destroyed during processing, the food would be considered equivalent as long as there is no protein present as a result of genetic modification. If labeling is required under the proposed regulation, the words "produced from genetically modified soya or maize," in the case of soybeans or corn, would have to appear on the ingredient list or on the labeling of the food. If it is not definitively known if a food or food ingredient is produced from, or contains, genetically modified soybeans or corn, the words "may contain" or "may have been produced from" would be used.

The US has not required labeling for other methods of plant breeding such as chemical- or radiation-induced mutagenesis, somaclonal variation, or cell culture. Both sunflowers and safflowers have been altered through conventional mutagenesis to yield high levels of oleic acids. The oils from these varieties are labeled as "high oleic sunflower oil" or "high oleic safflower oil" respectively. The method by which the plants were developed is not required to be included on the label. Recently both canola and soy beans have been genetically engineered to express a different pattern of oil in the seeds. The method of development is not required to be disclosed on the label.

What is the impact of the this pending regulation on US farm exports to the EU? The grains and grain by-products that enter international commerce are used by the food processing industry for a variety of uses. The grain itself is almost never the end product. Corn is processed into meal, starch, and oil. Starch can be further refined and converted into high fructose corn syrup, a sweetener. Soy beans are crushed for oil and meal. Some of these processed derivatives will not contain any DNA or protein and thus may not have to be labeled depending on how the final regulation is written. Other ingredients may be subject to labeling requirements. The burden on American exporters would be to either insure that shipments are free of all genetically modified corn, or to label shipments as "may contain genetically modified "grain."

The vast majority of American grains are not specially segregated post-harvest. Corn, for example, is graded and stored according to the grade, e.g. #2 yellow dent. Only in the instance of specialty crops is there segregation as such crops command a higher price in the market place. Thus, herbicide tolerant soy beans or insect resistant corn would be co-mingled with their non-genetically modified counterparts. Although our expectation is that farmers will grow increasingly larger amounts of genetically modified crops because of their improved agronomic properties, these will still constitute minority of the total acreage until supply can catch up with the demands of farmers for the new varieties. Under present grain handling practices, shipments would have to be labeled "may contain genetically modified "grain."

Our Food and Drug Administration (FDA) which sets forth the regulations governing foods and food labeling does not believe that information based solely on the method of production would convey any meaningful information to consumers. BIO has submitted extensive comments to FDA on food labeling and will forward our comments to the subcommittee for inclusion in the hearing record. FDA does require labeling of foods produced through modern biotechnology if there is a significant change in a food with respect to composition (e.g., nutritional content), preparation or usage, and if there is a new allergen present. Industry is encouraged to disseminate information concerning genetically engineered foods, but does not believe that labeling is the most practical way to provide access to such information.

BIO along with other stakeholders have been discussing this matter with the US Trade Representative (USTR). We are pleased at the effort USTR has expended on behalf of American farmers.

However, much more needs to be done during the next several years as the US continues its efforts for harmonization of trade in agricultural products. There must be continued support for international bodies such as the World Health Organization (WHO) and the Food and Agriculture Organization (FAO) to bring the best science to bear on critical issues. There must be heightened involvement in the Codex Alementarius as the WTO uses Codex standards as a means of resolving technical disputes. A biotechnology initiative is underway, and we need a commitment from the US government for a strong involvement in this activity.

Table One: Approximate Acreage of Biotechnology-Derived Field Crops

| Crop | Acreage |
|---|---|
| CORN | 8.1 |
| SOYBEANS | 9.3 |
| COTTON | 2.8 |
| CANOLA | 3 (includes Canadian acreage) |
| POTATOES/ TOMATOES | .75 |

**Subcommittee on Trade of the**
**House Ways and Means Committee**

**U.S. Efforts to Reduce Barriers to Trade**
**In Agriculture**

**Supplemental Sheet**
**California Cling Peach Growers Advisory Board**

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**Outline of Comments:**

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II. The European Union Continues to Subsidize its Canned Peach Producers and Cause Significant Trade Distortions Despite the Explicit Terms of a GATT Panel Decision and Bilateral Canned Fruit Accord ..... 1

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B. The Excesses in EU Aid Have Led to Chronic EU Overproduction and Exports, Chronic EU Price Undercutting, and Global Displacement of U.S. Canned Peaches ..... 2

III. Bilateral and Multilateral Efforts to Correct the Problem Have Failed to Achieve Reforms ..... 3

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**BEFORE THE**
**SUBCOMMITTEE ON TRADE**
**OF THE**
**HOUSE COMMITTEE ON WAYS AND MEANS**

**HEARING ON**
**U.S. EFFORTS TO REDUCE BARRIERS TO TRADE**
**IN AGRICULTURE**

**WRITTEN SUBMISSION OF THE**
**CALIFORNIA CLING PEACH GROWERS ADVISORY BOARD**

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**Submitted: February 26, 1998**

**BEFORE THE**
**SUBCOMMITTEE ON TRADE**
**OF THE**
**HOUSE COMMITTEE ON WAYS AND MEANS**

**HEARING ON**
**U.S. EFFORTS TO REDUCE BARRIERS TO TRADE**
**IN AGRICULTURE**

**WRITTEN SUBMISSION OF THE**
**CALIFORNIA CLING PEACH GROWERS ADVISORY BOARD**

## I. Introduction

The following written statement is submitted on behalf of the California Cling Peach Growers Advisory Board and the industry's Trade Policy Task Force in connection with the Subcommittee on Trade's February 12, 1997, hearing on U.S. Efforts to Reduce Barriers to Trade in Agriculture.

The California Cling Peach Growers Advisory Board is a non-profit quasi-governmental association representing all 750 cling peach producers and 5 cling peach processors in the State of California. Virtually all of the United States' production of cling peaches is found in California. Over ninety-five percent of that production is used for processing, the primary product being canned peaches. California canned peaches are sold domestically, their largest single market, and to export markets in the Pacific Rim, Canada, and elsewhere. The Board's primary role is to assist the U.S. industry in the development of these domestic and export markets. The industry's Task Force has assumed the special role of assisting the Board in addressing the industry's long-standing dispute with Europe.

The California cling peach industry has the unfortunate distinction of having the longest-standing Section 301 case now pending before the U.S. government. The case concerns illegal EU canned peach subsidies. Despite nearly two decades of seeking relief from the EU's excessive and irrational canned peach regime in both formal and informal trade settings, California cling peach growers and processors have yet to receive relief. Not only has there been no relief, EU aid over this period to its canned peach industry has actually increased.

Because past bilateral and multilateral efforts, including a GATT action, have been unable to resolve this long-standing dispute with the EU, the California cling peach industry is skeptical that a new round of WTO multilateral trade negotiations in agriculture in 1999 will deliver to its producers and processors. Unless there is closure on current trade disputes, the United States may well be put in the compromising position of negotiating away U.S. tariffs in exchange for solutions to prior disputes that our trading partners were obliged to resolve long ago.

## II. The European Union Continues to Subsidize its Canned Peach Producers and Cause Significant Trade Distortions Despite the Explicit Terms of a GATT Panel Decision and Bilateral U.S.-EU Canned Fruit Accord.

Seventeen years ago, California canned peach producers and the United States government sought to stop the EU from disrupting the global market for canned peaches by challenging EU canned peach subsidies in GATT dispute settlement. The United States won the case. The GATT panel found that EU peach processing subsidies "nullified and impaired" tariff concessions granted by the EU on canned fruit products. Following that victory, a U.S.-EU

bilateral Canned Fruit Accord (CFA) was negotiated in 1985, under which the EU committed to discontinue subsidies to EU canned peach processors. U.S. canned peach producers believed that with the bilateral agreement in place, EU trade disruption would cease. This has not happened. To the contrary, EU trade disruption in the peach sector has become far worse. The California industry and U.S. government have now developed irrefutable evidence that the bilateral agreement has failed to discipline EU canned peach subsidies and that the EU regime is causing a significant erosion of the U.S. industry's competitive position.

### A. EU Subsidies to Its Canned Peach Sector Exceed on an Annual Basis the U.S. Industry's Total Farm-Gate Value.

Based on recently obtained data from The EU Commission, Europe is subsidizing its canned peach producers with between *$161 million and $213 million annually*, an annual funding level that greatly exceeds the total farm-gate value of California cling peaches and far exceeds the level of funding going to every single U.S. farm sector. Data compiled with the assistance of the U.S. Department of Agriculture show that the bilateral agreement has not reduced EU aid levels as intended. Despite specific EU aid commitments given to the United States under the CFA, EU aid levels have regularly exceeded those committed levels in violation of that agreement in each of the last five years for which data are available by an aggregate amount of $64 million.

In addition, the EU has circumvented the agreement by offering a new form of subsidy -- withdrawal aid -- which is not disciplined by the CFA. Withdrawal aid has been so substantial that EU peach growers have made money by growing for withdrawal, dumping their excess peaches in waste pits, and collecting the EU payment. In Greece, where the excesses have been the greatest, Greek growers have dumped up to 66% of their annual production, or between 300,000 to 600,000 metric tons of peaches annually, in withdrawal pits.

### B. The Excesses in EU Aid Have Led to Chronic EU Overproduction and Exports, Chronic EU Price Undercutting, and Global Displacement of U.S. Canned Peaches.

Numerous USDA-prepared charts, copies of which are attached, demonstrate that the U.S. industry has to a growing extent been seriously harmed and prejudiced by EU canned fruit subsidy excesses and violations. Data likewise show that the U.S. industry has suffered a deterioration of its competitive relationship with the EU, despite the recommendation of the 1984 Canned Fruit GATT panel that that relationship be restored to pre-subsidy conditions.

The EU data show that since the bilateral agreement was struck:

- EU canned peach production and exports are substantially up, consistent with the upward trend in increasing EU subsidy levels. Canned peach production in Greece, the biggest player, has nearly doubled in the last 10 years, from 198,000 metric tons in 1987 to 378,000 metric tons in 1996.

- EU cling peach fresh production has grown even more, from 170,000 metric tons in 1986 to 750,000 metric tons in 1996, a direct result of withdrawal aid. Greek growers now have so many peaches in the ground that they are dumping them in waste pits the size of football fields and are being paid market prices by the EU to do so.

- The world market share of Greece and other EU canned peach producers is also increasing. Today, the EU accounts for over 70% of total world canned peach exports.

- With excessive EU aid creating chronic overproduction, the Greeks have been able to significantly undercut California canned peach prices in all world markets by margins of 50% or more.

- As a result, both California canned peach exports to all export markets (most notably Japan and Canada) and California domestic sales have been displaced. In contrast, California exports to the EU market -- once our industry's largest export outlet -- are now nonexistent.

The evidence is unmistakably clear that as EU aid levels have risen, so too has Greece's export dominance, with corresponding harm to the U.S. industry.

## III. Bilateral and Multilateral Efforts to Correct the Problem Have Failed to Achieve Reforms.

The EU has resisted all efforts by the U.S. government and by other non-EU peach producing countries to correct its canned fruit practices. Numerous U.S. bilateral interventions, of which there have been dozens (many at very high levels), more formal trade remedy proceedings under Section 301, a "successful" GATT dispute settlement action, and several rounds of threatened Section 301 retaliation have yet to provide relief. An intervention in February 1997 involving six producing countries has likewise not moved the EU to address the problem.

The EU's long-awaited fruit and vegetable reforms of the Common Agricultural Policy (CAP) are also not the answer. Reform measures are being made slowly over a six year phase-in period, during which aid levels remain significant, and harm to the U.S. industry continues. CAP reform also covers only one part of the EU canned peach regime -- withdrawal aid -- and does not discipline the processor aid/ minimum grower price (MGP) scheme or sugar rebate program. Finally, CAP reform does not address the canned fruit regime's pervasive fraud and abuse, which the EU Commission itself has documented. EU Auditors' Reports in 1989 and again in 1995 document fraud and overpayments in both the processor aid and withdrawal subsidy premiums. Despite these admissions, the EU has ignored numerous U.S. government requests for evidence that steps are being taken to correct program abuses.

## IV. A High-Priority U.S. Government Strategy is Needed for Resolving the Trade Disruption Being Caused by EU Canned Peach Subsidies.

Almost every other non-EU canned peach producing country has taken successful import relief actions against the Greeks and other EU canned peach producing countries to protect their domestic industries.

Over the last year and a half, the industry has worked hard to make its case to USTR and others in the Administration that the EU regime is irrational and in violation of our bilateral agreement. Ambassador Barshefsy has personally acknowledged that the EU regime is an "inequity" and that

> "the Commission is again providing excessive financial aid to the point where the EU's share of the world market continues to increase while that of the market oriented producers continues to decrease."

USTR has pledged to our industry and to many in Congress that they will work hard to fix the problem. We are counting on that commitment to find a solution. We have explored with the U.S. government WTO dispute settlement, Section 301, and other remedial avenues, including other WTO venues before which to take our concerns. USDA has recently committed to pursue in combination with other non-EU peach producing countries a protest of the EU canned fruit regime using special procedures under the WTO Committee on Agriculture. We are hopeful that the good offices of the Chairman of the Committee on Agriculture will create the pressure and leverage needed to force EU reforms. If not, another more forceful strategy will need to be pursued.

At this juncture, before undue energies are applied to the 1999 exercise, we are in urgent need of a decisive U.S. government strategy for delivering relief in the context of the present. We ask the Subcommittee's help in encouraging this.

## V. U.S. Agriculture Sectors Need Assurances that Current Trade Agreements are Being Honored Before Attention is Turned to a New Multilateral Trade Round.

The direction the U.S.-EU canned fruit dispute takes will have important implications well beyond the canned fruit sector. Not only is the U.S.-EU canned fruit dispute instructive on how the multilateral trading system and our own U.S. trade laws have been unable to correct inequities between trading partners, it also helps demonstrate how the EU, the U.S. government's most frequent adversary on agricultural issues, continues to increase its protection for domestic industries despite Uruguay Round reform.

The United States should be able to secure relief for an aggrieved U.S. industry under compelling circumstances, like ours, that include --

- a favorable GATT ruling and a bilateral agreement,
- irrefutable evidence that an established agreement is not working and that the regime has led to destructive trade consequences for the California industry,
- acknowledgement by the Administration that the EU's regime is an "inequity" that needs to be corrected, and
- recognition even by the EU Commission that the system needs reform and is fraught with fraud and abuse,

If the present system will not deliver relief under these conditions, its effectiveness must be questioned. Moreover, if the present system is ineffectual at its foundation, refinements to that system in 1999 are of equally questionable value.

## VI. Conclusion

The California cling peach industry is seeking evidence that existing trade agreements work before it will endorse the U.S. government venturing forward in pursuit of new agreements for agriculture. As the EU dispute demonstrates, new agreements will be of dubious consequence if existing ones are not being honored.

We ask the Subcommittee for its help in sending this message and in urging that a high-priority U.S. government strategy be developed to reverse the ongoing harm being caused to our industry from EU canned peach subsidies before attention turns to a new multilateral round of negotiations in agriculture.

Attachments (charts)

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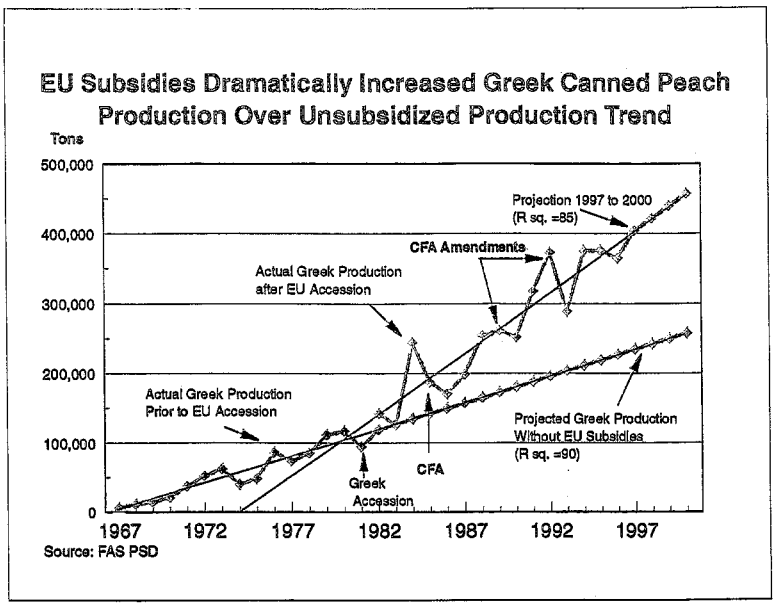
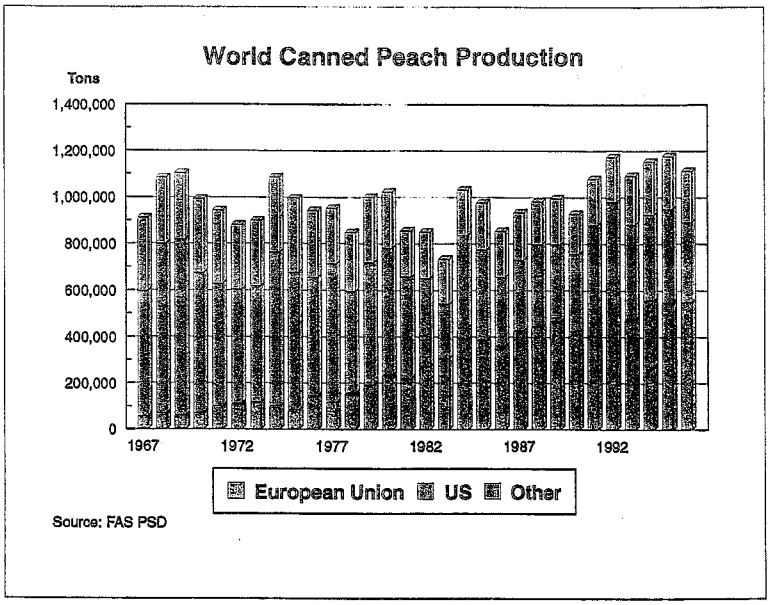
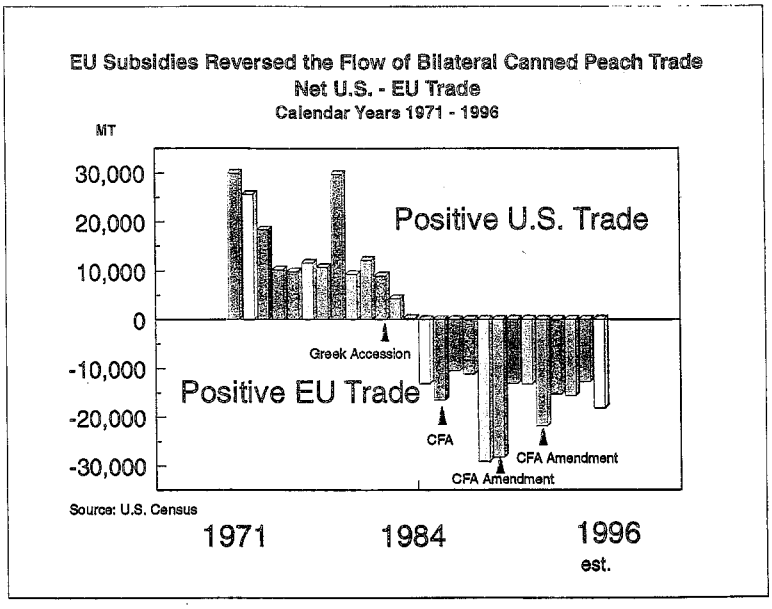


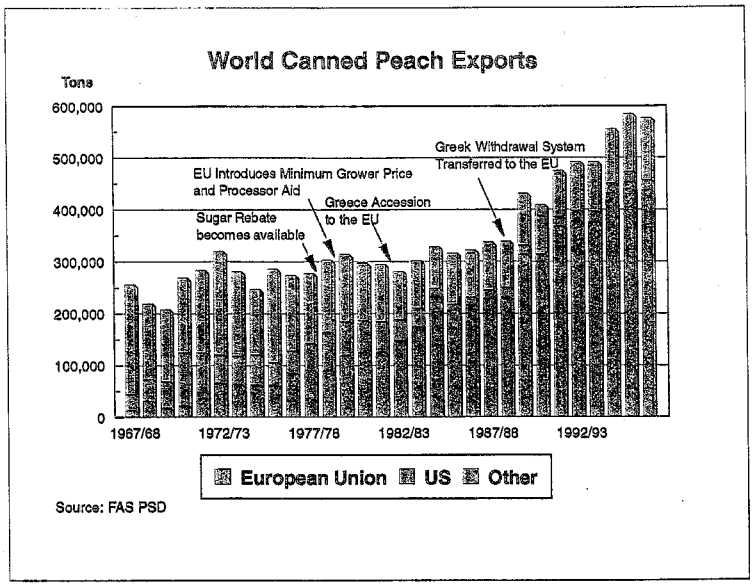

- Since accession to the EU, Greek cling peach producers and canners have received substantial subsidies.
- The average subsidy, for just the processing aid and withdrawal payments, for the years 1989 through 1994, was 320 ecu ($379) for each ton packed.
- In spite of the theoretical limitations imposed by the Canned Fruit Agreement (CFA), excessive subsidies have boosted production beyond market demand.



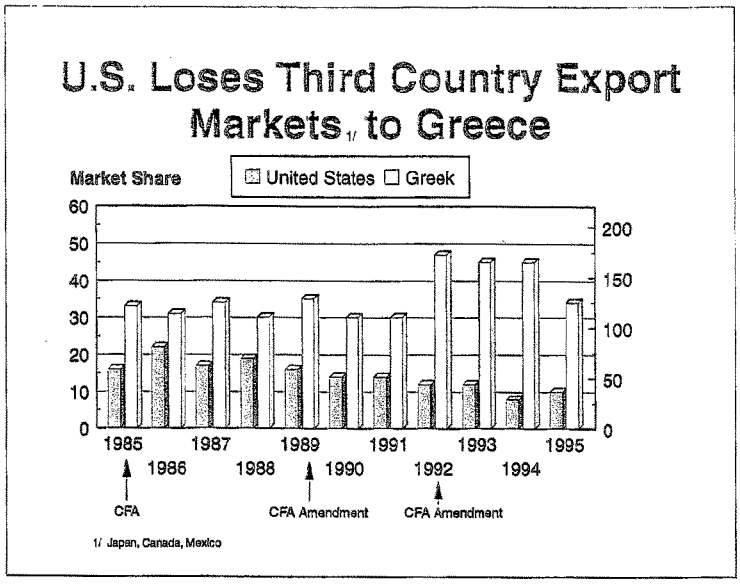

- Over the last 30 years world canned peach production has remained fairly constant. The average canned pack is around 936,000 tons, but has fluctuated as much as 25 percent from this figure due to weather affected fresh peach production.
- What is notable is the growth in the EU's share of production compared to the rest of the world's.
- From 1978 to 1983 the EU's share jumped from 12 to 42 percent and now accounts for almost 50 percent of world production.



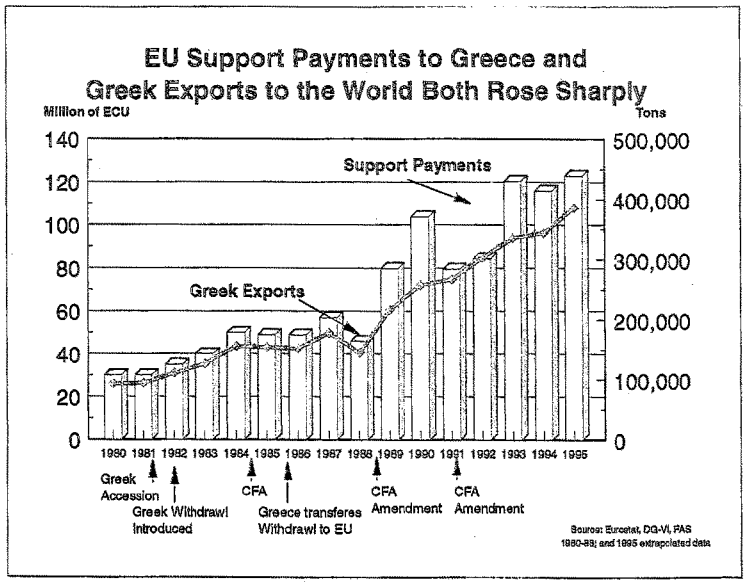

- Excessive EU expenditures to support peach production and processing have reversed the U.S. - EU trade position.
- Ever expanding Greek exports have eliminated the U.S. presence in the EU and have reduced U.S. domestic sales.



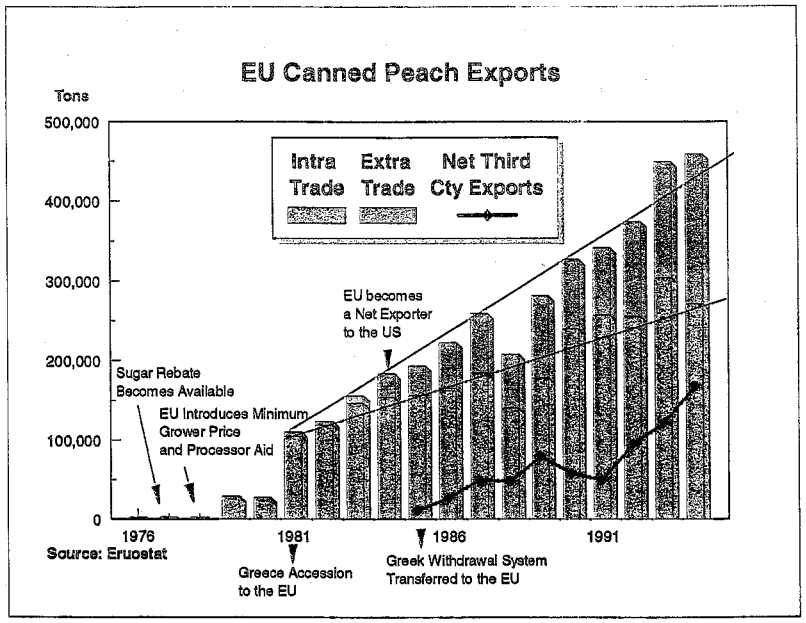

- In spite of relatively flat world production, world exports have increased well over 100 percent.
- World shipments have increased over 309,000 tons but the EU's shipments increased over 425,000 tons.
- U.S. and other suppliers, once competitive in world trade can not hope to capture third country markets and must stave off EU subsidized exports into their domestic markets through anti-dumping and countervailing duty actions.




- The excessive expenditures have led to rampant Greek exports harming U.S. market share in third country markets.
- Since 1984, canned peach imports, by leading countries, have increased over 180 percent. The U.S. market share has fallen while Greece's has increased.
- The canned fruit agreement has not corrected this situation.




- There is a direct correlation between the level of EU subsidies and the volume of Greek exports of canned peaches.
- Greece exports over 95% of its canned peach pack.
- Neither the canned fruit agreement (CFA) nor any of its subsequent amendments have controlled either excessive expenditure or unbridled, subsidized Greek exports.




- As the growth of intra EU trade declines as the EU reaches a level of full comsumption.
- Exports to third countries increase and become more important to EU producers.

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February 26, 1998

HAND DELIVERED

Mr. A.L. Singleton
Chief of Staff
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Submission and Statement for the Record regarding
United States Efforts to Reduce Barriers to
Trade in Agriculture

Dear Mr. Singleton:

In accordance with the January 26, 1998 Press Release of the Committee on Ways and Means Subcommittee on Trade (sometimes hereinafter referred to as the "Subcommittee"), we request that the enclosed statement regarding United States efforts to reduce barriers to trade in agriculture be made a part of the record of the Subcommittee's proceedings. Pursuant to the requirements set forth in Chairman Crane's Press Release of January 26, 1998, we have attached six copies, together with a computer diskette, of our submission to be included in the printed record of these hearings.

Thank you very much for your consideration.

Respectfully submitted,

Paul H. DeLaney, Jr.

Enclosures

BEFORE THE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE
UNITED STATES HOUSE OF REPRESENTATIVES
WASHINGTON, D.C

SUBMISSION AND STATEMENT FOR THE RECORD REGARDING UNITED STATES EFFORTS TO REDUCE BARRIERS TO TRADE IN AGRICULTURE

February 26, 1998

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House Ways and Means Committee Proceedings

On July 18, 1996, at a House Ways and Means Committee hearing on international competitiveness, Chairman Bill Archer stated that the subject of international competitiveness is critical to the economic, political, and social well-being of the United States. The Chairman noted that over the last decade, the world has developed and is continuing to develop into a truly global economy and that at no time during our nation's history has the United States economy been more dependent on the economies of other countries. The Chairman stated that our trade policies have been constantly changing to accommodate this globalization of the world's economies and that as the world's economies continue to become more interrelated, the need for a comprehensive policy that is compatible with our country's international trade, economic, and financial objectives is crucial.

In Chairman Crane's opening statement on February 12, 1998 at the House Ways and Means Committee Subcommittee on Trade hearing on the status of United States efforts to reduce barriers to trade in agriculture, he noted that looking at the trends facing United States farmers from a strategic perspective leads to only one conclusion: opening foreign markets is essential for the future health of United States agriculture.

He stated that the United States possesses the most efficient and most competitive agriculture sectors in the world. Our farmers capitalize on this country's rich natural resources, and on their extraordinary ability to develop and apply the latest managerial and technological innovations in the achievement of ever expanding crop yields. Because United States food consumption is projected to remain relatively stable in the future, the further elimination of trade barriers and the development of export opportunities is absolutely essential as we move into the 21st century. Currently, 96% of the world's population lives outside of the United States. The markets with the greatest potential for growth are abroad, not here at home.

The Chairman noted that United States agriculture exports have doubled since 1985, reaching almost $60 billion last year and that in his view, it is the responsibility and the duty of this Congress and the President to preserve and support the continuation of this success story.

In his testimony on February 12, 1998 before the House Ways and Means Committee Subcommittee on Trade, Chairman Robert F. Smith of the House Committee on Agriculture noted that in 1996, United States agricultural exports totaled $60 billion, that the agriculture trade surplus exceeded $26 billion, and that the future holds greater promise for agriculture exports as world income and economic growth expand.

He stated that in 1997 United States spending for direct payments to farmers and agriculture programs for export subsidies totaled $5.3 billion and that in that same year, the European Union's spending for similar programs totaled $46.8 billion. Chairman Smith concluded that he wants to see improved access for United States agricultural exports, that he wants to see non-tariff trade barriers eliminated, and that he wants growth and expansion of our agriculture trade because it is good for United States farmers and ranchers and all who contribute to providing food for people of our country and the world.

In the testimony of Ambassador Peter L. Scher, United States Trade Representative Special Trade Negotiator for Agriculture, before the House Ways and Means Committee Subcommittee on Trade on February 12, 1998, he stated that trade and United States agriculture are virtually indistinguishable and that during the last five years, United States agricultural exports have nearly doubled, that there is no other sector of the economy where the link between trade and today's prosperity is clearer than in agriculture, and that exports mean farm income, jobs, and reduced risk for American agriculture.

Ambassador Scher noted that the contributions of agricultural exports to the United States economy are impressive

with near-record farm exports of just over $57 billion in fiscal year 1997 resulting in a positive trade balance of $22 billion, among the largest of any economic sector. He stated that agricultural sales abroad account for nearly 10 percent of total merchandise exports.

Ambassador Scher noted that significant hurdles remain for United States farm exports and that nowhere does the rush to expand trade agreements affect United States agriculture more than in Latin America. The region is home to two major competitors for American agricultural exports, Argentina and Brazil.

The Ambassador stated that United States agriculture must stay involved in world trade, that American agriculture simply does not have the option of closing our borders and ignoring the rest of the world, and that there is nothing that our competitors would like more than for this country to retreat and engage in an endless debate on trade.

Ambassador Scher concluded by stating that United States leadership in the global training system is essential to opening markets and that for United States leadership to be effective it must have the visible support of United States agriculture.He stressed that the livelihood of American farm and ranch families depends, in large part, on our ability to sustain and to build a global presence for United States agriculture, the most competitive, productive, and efficient agriculture market in the world.

Views of American Agriculture

On May 8, 1997, Dean R. Kleckner, President of the American Farm Bureau Federation, testified before the House Agriculture Committee Subcommittee on Livestock, Dairy and Poultry regarding the current status and future prospects of trade between the United States and the European Union.

President Kleckner stated that the American Farm Bureau Federation ("AFB") is the nation's largest general farm organization representing more than 4.7 million member families. He noted that the AFB is a strong supporter of free and open trade and that the AFB strongly supports further opening international markets for American agriculture.

The AFB has emphasized that trade agreements must be monitored and enforced and that the AFB has been concerned for some time about the level of attention and commitment by USTR on international agricultural issues. With this in mind, the AFB has called for a Deputy Ambassador for Agriculture (Deputy USTR for Agriculture). In this regard, the AFB is pleased that USTR Ambassador Charlene Barshefsky's has designated an Ambassador for Agriculture, but the AFB still believes that this is only a granting of the use of a title by the State Department and not the needed permanent position of USTR. Such a permanent position of Deputy USTR for Agriculture would not be at the mercy of personnel changes or changes in Administrations. The AFB has stated that a Deputy USTR for Agriculture and continued close coordination with USDA are critical for successful long-term United States international agriculture trade and expanding market opportunities.

On May 15, 1997 Jack Laurie, President of the Michigan Farm Bureau, testified before the Senate Finance Committee Subcommittee on International Trade regarding market access issues for United States Agricultural exporters.

Mr. Laurie noted that the AFB is a strong supporter of free and open trade and that the AFB worked hard to secure passage of the Uruguay Round of the General Agreement on Tariffs and Trade ("GATT") as well as the North American Free Trade Agreement ("NAFTA") and that the AFB also strongly supports initiatives to expand American agricultural exports.

The AFB has noted that American farmers can compete in any market in the world if they are given the tools and free market access. The AFB recognizes the United States faces very strong competitors around the world, but the AFB suggests that United

States agricultural and food products have always enjoyed an enviable reputation with international consumers.

In testimony before Congressional Committees, the AFB has stated that in 1996 the United States exported $60 billion (United States dollars) of agricultural goods to our trading partners and imported $30 billion worth of agricultural goods, thus giving the United States a positive international agricultural trade surplus of $30 billion. In order to continue this excellent record, the United States needs to remain committed to lowering barriers and creating more open trading systems with all countries.

The agriculture community is particularly interested in the tremendous potential of future food and fiber sales to new markets, and the AFB understands that the continuation of efforts to further open international markets is crucial if we are to expand agriculture's generally favorable trade balance.

In his testimony on October 23, 1997 before the House Ways and Means Committee Subcommittee on Trade Hearing on the use and effect of unilateral trade sanctions, Mr. Matthew Massaua, on behalf of the USA Rice Federation, stated that trade has historically been, and will continue to be, critical to the United States rice industry, that the United States exports approximately half of the rice it produces, and that it consistently ranks as the second or third leading rice exporter in the world. He noted that the United States share of world rice trade has ranged from 12 percent to 28 percent and that the United States industry's largest global competitor is Thailand, which maintains an average market share of about 30 percent.

Mr. Massaua noted that of all grains exported by the United States, rice has been hit particularly hard by unilateral trade sanctions. Regarding United States and Cuba rice trade, he stated that in 1960 Cuba was the largest single importer of United States rice, preferring to buy the United States product on a commercial basis because of quality, proximity, and reliable supply. Mr. Massaua noted that in 1951 Cuba imported a peak volume of approximately 250,000 metric tons of United States rice which represented about half of total United States exports at the time.

Cuba's share of total United States exports varied considerably from year-to-year, ranging from 17 to 51 percent in the ten-year-period prior to the embargo. Since the embargo, Cuba's annual imports have averaged around 300,000 metric tons, with primary import origins of Thailand, China and Vietnam. The United States rice industry believes that once the United States government has lifted the embargo, Cuba will again become a significant market for United States rice. The United States rice industry views the Cuban market as one of great potential.

In testimony on February 12, 1998 before the House Ways and Means Committee Subcommittee on Trade hearing regarding United States efforts to reduce barriers to trade in agriculture, Dean R. Kleckner, President of the AFB thanked the Committee for holding this hearing and providing an opportunity to review the scope of trade barriers to agriculture, and he stressed that market opportunities we will be denied unless every means is utilized to remove these barriers.

He noted that our producers are the most productive and efficient in the world and that we have created our own barriers to trade. President Kleckner stated that the United States continues to put economic sanctions on our trading partners which only have the effect of cutting ourselves out of their markets and that history has shown that economic sanctions are an ineffective means of resolving political differences. He noted that our trading partners are not going to wait for us and that we are currently losing market share in Latin America because our negotiators do not have fast track authority. He stated that during the last decade, agriculture in the United States has become increasingly dependent on international trade. United States agriculture is now four times more dependent on foreign trade than the United States economy as a whole.

In 1985, agricultural exports accounted for 20 percent of

United States farm cash receipts. By 1997, this share had risen to 30 percent and is still rising. United States agricultural trade has grown steadily during the last decade. Our agricultural exports have more than doubled from $29 billion in 1985 to just under $60 billion today. Much of this growth has been attributed to efforts to open markets through trade agreements and multilateral trade negotiations that reduced trade barriers. Since 1990, the value of the agricultural trade surplus has grown from $17 billion to a peak of about $30 billion in 1996. With declining government support to United States agriculture, increased access to international markets is crucial to the future growth and prosperity of the United States agricultural economy. President Kleckner concluded that we must look to expanding existing market access and opening new markets and that the stakes are too high to allow for inaction on the part of the United States government.

In his February 24, 1998 statement on behalf of the AFB to the House Ways and Means Subcommittee on Trade regarding Asia trade issues, President David Waide of the Mississippi Farm Bureau Federation noted that the financial crisis in Asia is of paramount concern to Farm Bureau members, that America's farmers and ranchers depend on international markets for over 30 percent of their income, that the Asian market accounts for over 40 percent of our agricultural exports worldwide, and that this totaled over $23 billion in export sales in 1997.

President Waide stated that the events in Asia are already affecting sales of agricultural goods in the 10 Asian markets that have seen their currencies devalued over the past six months that current USDA estimates show a reduction of $500 million in sales to Asia so far this year, and that the total impact may exceed $1.5 to $2 billion before the crisis is over.

Based on these trends, he stressed that inaction by the United States government on this matter is not acceptable. He stated that ours is now truly a global economy and that when our strongest customers face grave fiscal and financial crisis, as those now occurring in Asia, agriculture is the first to feel the effect as our customers lose purchasing power. In conclusion, President Waide stated that although America's farmers and ranchers are the most efficient and productive in the world, they are not positioned to make production decisions to protect themselves from drastic currency fluctuations in major markets.

Importance of American Agricultural Exports

Although United States agricultural exports continue to be a bright spot in America's trade picture, last year, United States agricultural exports declined by $3.5 billion from $60.6 billion, to $57.1 billion (See Attachment A). The United States is the world's leading exporter of agricultural products, and the agricultural sector is very much dependant on international markets.

While American agricultural export performance has been outstanding until recently, foreign trade barriers and other factors continue to prevent American farmers and ranchers from realizing their potential in international markets. The failure to allow American agriculture access to the Cuban market is a major problem for American agriculture.

Cuba is clearly a significant market for American agriculture. If the United States government would finally allow American agricultural products into the Cuban marketplace, this would help to reduce the United States merchandise trade deficit which hit a record $181.8 billion for 1997 (See Attachment B).

It is with these considerations in mind that various American agricultural groups have urged Congress to permit American agriculture an opportunity to compete for the Cuban market at a time when further opening international markets to American agricultural products is extremely important.

American Agricultural Export Losses to Our Competitors

It is important to recognize that Cuba presently imports approximately $600 million (United States dollars) in agricultural products each year. In this regard, it is anticipated that over a period of three to five years, the Cuban market for agricultural products could expand to an amount approaching $1 billion (United States dollars) per year, provided there is an ongoing opening and liberalization of the Cuban economy.

Realizing that American farmers and ranchers are now shut out of the Cuban market as a direct consequence of unilateral United States economic sanctions on Cuba, it should be understood that Canada, Argentina, the European Union, and Vietnam are the primary beneficiaries of this United States unilateral action. As noted above, it is particularly difficult to justify the United States ceding this market to our competitors at a time when American agricultural exports are declining and the United States has just run a record merchandise trade deficit of $181.8 billion (United States dollars) for 1997.

History and Background including Chronology of the
United States Embargo against Cuba Relating to Food and Medicine

The initial United States sanctions imposed on Cuba following the revolution led by Fidel Castro were taken under Executive Authority and did not include restrictions on the sale of food and medicine.

March 1960: President Dwight D. Eisenhower approves covert action and economic sanctions against Cuba. The United States opposed loans and credits for Cuba.

July 1960: President Eisenhower cancels the unfulfilled balance of Cuba's 1960 sugar quota.

August 1960: Cuba expropriates the assets of twenty-six of the largest United States companies operating in Cuba.

October 1960: The Eisenhower Administrations imposes a "quarantine" of Cuba, banning United States exports-except foodstuffs, medicines, and medical and hospital supplies. Sales of food and medicines are placed under "general" license. Imports from Cuba continue to be permitted.

January 1961: The United States terminates diplomatic relations with Cuba.

April 1961: The Bay of Pigs invasion is launched.

September 1961: The Foreign Assistance Act of 1961 authorizes the President to impose and maintain "a total embargo upon all trade between Cuba and the United States."

February 1962: The Kennedy Administration prohibits Cuban imports to the United States.

March 1962: The United States Government prohibits imports into the United States goods from third countries made from or containing Cuban materials.

August 1962: Congress amends the Foreign Assistance Act of 1961 to prohibit United States assistance to countries assisting the government of Cuba.

July 1963: The United States Treasury Department publishes regulations which formalize the implementation of the embargo. Known as the Cuban Assets Control Regulations, administered by the Office of Foreign Assets Control ("OFAC"), they include a freeze on all Cuban Government-owned assets in the United States and impose a license requirement on all commercial and financial transactions between the United States and Cuba. Food sales

continue under general license.

May 1964: The Commerce Department revokes the general license for United States exports of food, medicines and medical supplies: humanitarian donations are permitted.

July 1964: The Organization of American States ("OAS") enforces a collective trade embargo against Cuba. However, the resolution expressly excludes the sales of foodstuffs, medicine and medical equipment from the embargo.

July 1974: The Treasury Department during the Ford Administration liberalizes embargo regulations to allow travel to Cuba by OFAC-licensed scholars and journalists.

July 1975: The OAS repeals its earlier regional trade embargo against Cuba. The Ford Administration ends the ban on third-country subsidiary trade with Cuba, requiring only that United States companies obtain licenses for transactions by their overseas subsidiaries to sell to Cuba.

March 1977: The Carter Administration removes some restrictions on travel by United States citizens to Cuba.

April 1982: The Reagan Administration reinstates restriction on travel by United States citizens to Cuba.

October 1992: President Bush signs the Cuban Democracy Act ("CDA") which prohibits trade with Cuba by United States foreign subsidiaries, adds restriction on foreign ships that visit Cuba before calling at United States ports, and adds civil penalties of up to $50,000 for violations of the embargo.

March 1996: The Helms-Burton Act (The Cuban Liberty and Democratic Solidarity Act) is signed by President Clinton. The Act imposes penalties under United States law on foreign investors involved in transactions with United States-expropriated property in Cuba. The Act "codifies" all previous regulations dealing with the embargo of Cuba therefore requiring an act of Congress to modify any aspect of the embargo.

Recent Legislation Developments
Involving American Agricultural Exports

On November 6, 1997, Senators Dodd, Warner, Bennett, Bingaman, Grams, Jeffords, and Leahy introduced S.1391, the Cuban Women and Children Humanitarian Relief Act. This bill authorizes the President to permit the sale of food, medicine and medical equipment to the Cuban people. The purpose of this legislation is humanitarian, to provide a measure of relief to innocent people suffering from inadequate supplies of food, medicine, and medical supplies.

The bill relates the impact that the United States embargo on food and medicine has had on public health in Cuba. The bill includes a statement of United States policy with respect to the sale of food and medicine and provides authority for the President to permit the sale of food, medicine and medical supplies to Cuba subject to Congressional notification requirements and a report to Congress assessing the impact of the bill two years after enactment.

The legislation is intended to clear away the legal implements that impede the President's ability to permit American exports of food, medicines, and medical supplies to Cuba. As a matter of policy, the supporters of this legislation do not believe that United States sanctions should include prohibitions on the sale of what are essentially humanitarian items, products that are critical to the health and well being of the more than ten million people who inhabit the island of Cuba.

The prohibition on the sale of United States food to Cuba has had serious consequences on the nutritional standards in

Cuba, particularly for pregnant women. These nutritional deficiencies have led to an increased incidence of low birth-weight babies.

Recognizing that United States medical and pharmaceutical companies are at the forefront of the development and production of the vast majority of all new drugs and medical equipment that enter world markets, current United States restrictions on the sale of medicines virtually preclude the Cuban medical system from utilizing current advances in medicines and medical treatments in caring for the Cuban people.

The co-sponsors of this legislation have stated unequivocally that their support for this legislation is in no way an endorsement of the current regime in Cuba. The existing policies of the Castro government are clearly responsible for the serious economic crisis confronting that country. United States policy should be focused on promoting a peaceful transition to democracy in Cuba. The supporters do not believe that the current policy of restricting the sale of food and medicine is in keeping with that approach.

The time has come for the Congress to take the initiative in altering United States policy with respect to Cuba in order to mitigate the harmful impact of the current policy on the health of the Cuban people, particularly with respect to children, the elderly, and the infirm, by permitting United States exporters to sell food and medicine to Cuba.

Supporters of this legislation have noted that the unilateral embargo on providing food and medicines to the people of Cuba is the only such embargo presently existing and that it runs counter to our historic tradition. First-hand documentation by medical, religious, humanitarian and Cuban-American leaders confirms that ordinary Cubans are paying a severe price for the ban on United States food and the most severe restrictions on the sale of United States medical products.

Supporters believe that although the United States has pursued a policy of containment and isolation toward Cuba for nearly 40 years, this outdated policy currently serves only to bolster a struggling regime and isolate the Cuban people form American influence.

For our country to continue to deny this group of people the food and medicines that are needed to sustain life achieves nothing. Forty years of the strongest embargo in our history has only resulted in increased misery for the people of Cuba, while leading to no change whatsoever in the political makeup of the Cuban government. We can no longer support a policy carried out in our name which causes suffering to the most vulnerable, people, women, children and the elderly.

It suggested that in the context of Pope John Paul II's historic trip to Cuba, the United States now has an opportunity to demonstrate leadership by carefully beginning a period of engagement with Cuba. The time is right to explore new initiatives to promote freedom in Cuba, and as a first step, the United States should end the ban on the export of United States food and lift the restrictions on the sale of medical products.

Accordingly, there is growing support for the President and the United States Congress to lift the restrictions on the sale of food, medicines and medical supplies to Cuba.

ATTACHMENT A

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February 19, 1998

Comparative Analysis and Trends concerning United States Agricultural Exports (Values in Billions of United States Dollars) for Calendar Years 1975 into 1997 (including Monthly Data for 1996 and 1997)

| | Exports | Increase or Decrease |
|---|---|---|
| 1975 | 22.1 | --- |
| 1976 | 23.3 | 1.2 |
| 1977 | 24.2 | 0.9 |
| 1978 | 29.8 | 5.6 |
| 1979 | 35.2 | 5.4 |
| 1980 | 41.8 | 6.6 |
| 1981 | 43.8 | 2.0 |
| 1982 | 37.0 | (6.8) |
| 1983 | 36.5 | (0.5) |
| 1984 | 38.2 | 1.7 |
| 1985 | 29.6 | (8.6) |
| 1986 | 26.6 | (3.0) |
| 1987 | 29.1 | 2.5 |
| 1988 | 37.6 | 8.5 |
| 1989 | 41.6 | 4.0 |
| 1990 | 39.4 | (2.2) |
| 1991 | 39.3 | (0.1) |
| 1992 | 43.0 | 3.7 |
| 1993 | 42.8 | (0.2) |
| 1994 | 46.0 | 3.2 |
| 1995 | 56.1 | 10.1 |
| 1996 | 60.6 | 4.5 |
| 1997 | 57.1 | (3.5) |

| | | | | |
|---|---|---|---|---|
| January 1996 | 5.45 | January 1997 | 4.90 | (.55) |
| February 1996 | 5.21 | February 1997 | 4.83 | (.38) |
| March 1996 | 5.38 | March 1997 | 4.82 | (.56) |
| April 1996 | 5.02 | April 1997 | 4.52 | (.50) |
| May 1996 | 4.72 | May 1997 | 4.25 | (.47) |
| June 1996 | 4.28 | June 1997 | 4.00 | (.28) |
| July 1996 | 4.36 | July 1997 | 3.85 | (.51) |
| August 1996 | 4.54 | August 1997 | 4.27 | (.27) |
| September 1996 | 4.29 | September 1997 | 4.30 | .01 |
| October 1996 | 5.14 | October 1997 | 5.39 | .25 |
| November 1996 | 5.78 | November 1997 | 5.38 | (.40) |
| December 1996 | 5.16 | December 1997 | 5.15 | (.01) |
| Re-exports | 1.25* | | 1.44* | |
| Totals | 60.58* | | 57.10* | (3.48) |

* Including 12 month cumulative 1997 agricultural re-exports.

Source: See United States Foreign Trade Annual 1974-1980, United States Department of Commerce, Bureau of the Census; and FT 990, Highlights of United States Export and Import Trade, United States Department of Commerce, Bureau of the Census.

ATTACHMENT B

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February 19, 1998

Comparative Analysis and Trends concerning United States International Merchandise Trade Statistics (in Billions of United States Dollars) for Calendar Years 1975 into 1997 (including Monthly Data for 1996 and 1997)

| | United States Exports | United States Imports | United States Trade Balance | Cumulative Surplus or Deficit Position |
|---|---|---|---|---|
| 1975 | 107.2 | 103.4 | 3.8 | 3.8 |
| 1976 | 114.8 | 129.6 | (14.8) | (11.0) |
| 1977 | 120.1 | 156.7 | (36.6) | (47.6) |
| 1978 | 143.6 | 183.1 | (39.5) | (87.1) |
| 1979 | 181.6 | 218.9 | (37.3) | (124.4) |
| 1980 | 220.6 | 257.0 | (36.4) | (160.8) |
| 1981 | 233.7 | 273.4 | (39.7) | (200.5) |
| 1982 | 212.2 | 254.9 | (42.7) | (243.2) |
| 1983 | 200.5 | 269.9 | (69.4) | (312.6) |
| 1984 | 217.9 | 341.2 | (123.3) | (435.9) |
| 1985 | 213.1 | 361.6 | (148.5) | (584.4) |
| 1986 | 226.8 | 383.0 | (156.2)* | (740.6) |
| 1986** | 227.2 | 382.3 | (155.1)* | (739.5) |
| 1987 | 252.9 | 424.1 | (171.2) | (910.7) |
| 1987** | 254.1 | 424.4 | (170.3) | (909.8) |
| 1988 | 322.2 | 459.6 | (137.4) | (1,047.2) |
| 1988*** | 321.8 | 441.6 | (119.8) | (1,029.6) |
| 1988**** | 322.4 | 441.0 | (118.6) | (1,028.4) |
| 1989 | 364.3 | 472.9 | (108.6) | (1,137.0) |
| 1989**** | 363.8 | 473.2 | (109.4) | (1,137.8) |
| 1990 | 394.0 | 495.0 | (101.7) | (1,239.5) |
| 1991 | 421.7 | 487.1 | (65.4) | (1,304.9) |
| 1992 | 448.2 | 532.5 | (84.3) | (1,389.2) |
| 1993 | 465.1 | 580.7 | (115.6) | (1,504.8) |
| 1994 | 512.5 | 663.8 | (150.6) | (1,655.4) |
| 1995 | 583.9 | 743.4 | (159.7) | (1,815.0) |
| 1996 | 625.1 | 795.3 | (170.2) | (1,985.2) |
| 1997 | 688.9 | 870.7 | (181.8) | (2,167.0) |

Monthly Surpluses and Deficits

| | | | |
|---|---|---|---|
| January 1996 | (14.54) | January 1997 | (17.35) |
| February 1996 | (11.90) | February 1997 | (15.66) |
| March 1996 | (12.22) | March 1997 | (12.43) |
| April 1996 | (13.44) | April 1997 | (13.81) |
| May 1996 | (14.45) | May 1997 | (14.47) |
| June 1996 | (13.08) | June 1997 | (13.50) |
| July 1996 | (15.89) | July 1997 | (15.59) |
| August 1996 | (14.64) | August 1997 | (15.27) |
| September 1996 | (16.36) | September 1997 | (17.15) |
| October 1996 | (13.94) | October 1997 | (15.20) |
| November 1996 | (13.61) | November 1997 | (14.83) |
| December 1996 | (16.14) | December 1997 | (16.35) |
| Totals | (170.21) | | (181.83) |

This figure was initially adjusted to 166.1 after year end from a previous estimated figure of 169.8. Moreover, based on recent changes in the United States accounting system for international trade statistics (which make adjustments for undocumented exports to Canada), this number has been further revised downward to 156.2.

**The United States Department of Commerce, Bureau of the Census reintroduced seasonal adjustment of monthly trade data with the release of the April 1988 trade statistics. The monthly data were last adjusted for December 1985.

***Pursuant to the provisions of the Omnibus Trade and Competitiveness Act of 1988, in an effort to present United States trade data in a manner more comparable to that of other trading nations, the United States Department of Commerce, Bureau of the Census is now calculating the trade deficit on a customs value basis (which does not include the costs of shipping and insurance with respect to United States imports).

****Import, export and trade balance data shown in this release for 1988, 1989, and the first 4 months of 1990 were revised effective July 10, 1990. For 1989, import and export data were adjusted for the following reasons: 1. To eliminate "carry-over"; 2. To include errata; 3. To distribute "undocumented" exports to Canada; and 4. To redistribute reexports. Once these adjustments were completed, factors for seasonal and working-day adjustment were recomputed based on the revised 1989 unadjusted data and the seasonally adjusted data were revised for all 3 years.

Source: See FT 990, Highlights of United States Export and Import Trade, United States Department of Commerce, Bureau of the Census.

SUPPLEMENTAL INFORMATION AND SUMMARY STATEMENT
AS REQUIRED BY THE PROCEDURES OF THE COMMITTEE
ON WAYS AND MEANS SUBCOMMITTEE ON TRADE
OF THE UNITED STATES HOUSE OF REPRESENTATIVES
FEBRUARY 26, 1998

Name, address and telephone number of the designated representative:

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Topical outline of contents and recommendations contained in the full statement:

1. House Ways and Means Committee Proceedings
2. Views of American Agriculture
3. Importance of American Agricultural Exports
4. History and Background including Chronology of the United States Embargo against Cuba Relating to Food and Medicine
5. Recent Legislation Developments Involving American Agricultural Exports

**Subcommittee on Trade of the**
**House Ways and Means Committee**

**U.S. Efforts to Reduce Barriers to Trade**
**In Agriculture**

**Supplemental Sheet**
**Florida Fruit & Vegetable Association**

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**Outline of Comments:**

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III. Conclusion

BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE
U.S. HOUSE OF REPRESENTATIVES

# U.S. EFFORTS TO REDUCE BARRIERS TO TRADE IN AGRICULTURE

COMMENTS OF THE
FLORIDA FRUIT & VEGETABLE ASSOCIATION

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February 26, 1998

**BEFORE THE**
**COMMITTEE ON WAYS AND MEANS**
**SUBCOMMITTEE ON TRADE**
**U.S. HOUSE OF REPRESENTATIVES**

**U.S. EFFORTS TO REDUCE BARRIERS TO TRADE IN AGRICULTURE**

**COMMENTS OF THE**
**FLORIDA FRUIT & VEGETABLE ASSOCIATION**

The following comments on U.S. efforts to reduce barriers to trade in agriculture are submitted on behalf of the Florida Fruit & Vegetable Association (FFVA). FFVA is an organization comprised of growers of vegetables, citrus, sugarcane, tropical fruit and other agricultural commodities in Florida. Florida's unique geographical location in the United States affords growers an opportunity to provide American consumers and export markets with fruits, vegetables and seasonal crops during the months of the year when other domestic producers cannot grow and harvest these crops. Historically, competition for Florida's fruit and vegetable industry in the U.S. marketplace has come from Mexico and other areas that have farmland suitable for winter production in the northern hemisphere. In export markets, Florida's crops compete against low-cost, often subsidized producers from Europe, Latin America and elsewhere.

Under recent trade agreements, Florida's fruit and vegetable specialty crops have lost, rather than gained, competitive ground. Special provisions negotiated in both the North American Free Trade Agreement (NAFTA) and the Uruguay Round Agreement that were intended to protect Florida agriculture and offer expanded export opportunities have not had their intended effect. Before a new round of multilateral trade negotiations in the area of agriculture begins, the inadequacies of those agreements should be better understood and, wherever possible, corrected through legislative or executive branch action so that Florida specialty crops can move forward in the trade arena from a position of strength.

## I. Florida's Specialty Fruit And Vegetable Industries Have Not Fared Well In The Post-NAFTA, Post-Uruguay Round Period.

### A. In The U.S. Market, Florida's Industries Have Faced Increased Competition From Their Principal Competitor, Mexico.

Since the NAFTA Agreement took effect, Florida's fruit and vegetable industries have experienced substantially increased competitive pressure from Mexican imports. Statistical data show that in many specialty crops, Florida growers have lost significant ground in the domestic marketplace. NAFTA has contributed to this increased competition in two ways: first, by reducing U.S. tariffs, making low-priced Mexican imports even more price competitive; and, second, by spurring investment in Mexico's agricultural industries from non-traditional sources. Increased investment in the export-oriented agricultural sectors in Mexico has dramatically advanced Mexico's technology, increased Mexico's production in those sectors, and reduced the per-unit costs of those commodities. Those advantages, combined with the cost advantages Mexican industries derived from the devaluation of the peso in 1994, have substantially enhanced the competitive position of Mexican agricultural exports in the U.S. marketplace. The result has been material increases of Mexican fruits and vegetables into the United States since 1994.

The impact on the Florida tomato industry has been the most dramatic. Since the 1992-93 season (the last complete season prior to NAFTA's implementation), Florida's tomato acreage, shipments, crop value, and market share all have declined. In the 1992-93 season, Florida enjoyed a 56.4 percent market share. In the most recent full season for which statistics are available, market share had declined to 35.1 percent. Meanwhile, Mexico's share of the

U.S. market has increased. It was 28 percent in the 1992-93 season, and increased to a 49.5 percent share in 1995-96.[1] Mexico's sales of tomatoes below fair market value during that period had a serious impact on Florida's position in the marketplace.

The increase in Mexican exports of tomatoes to the United States post-NAFTA and the Mexican industry's predatory marketing practices prompted the filing of an antidumping petition by the domestic tomato industry in March, 1996. The Department of Commerce's investigation found sales at below fair value during the period of the investigation and established preliminary dumping margins at a weighted average of 17.56 percent, with individual exporter rates as high as 188 percent.[2] A suspension agreement establishing a floor price for Mexican tomatoes was reached between the Department of Commerce and the Mexican industry in October, 1996, and is currently in place.

Other Florida commodities have suffered similar pressures. Mexican shipments of bell peppers, cucumbers, squash, eggplant, beans and sweet corn increased substantially during the period, particularly in the 1995-96 season.[3]

### B. In Export Markets, The Uruguay Round Did Not Achieve The Market Access Gains For Florida's Specialty Crops That Were Promised By That Round.

The Uruguay Round was widely billed as a major win for U.S. agriculture. U.S. growers and industries, because of their superior quality and technical advances, were expected to benefit more than most foreign producers from increased global market access. For Florida, the reality has been otherwise.

While Florida's import-sensitive commodities have faced increased import competition in the U.S. market from global suppliers as U.S. MFN tariff rates are lowered, access for Florida's specialty crops into Asia, Latin America, Europe and elsewhere remains for the most part restricted. As discussed more fully in Section II. B. below, in many markets, tariffication of non-tariff barriers on citrus and other specialty crops resulting from the Uruguay Round has increased, not decreased, border protections. Increased border restrictions combined with onerous, non-transparent procedures adopted to administer the new tariff rate quotas in Europe and elsewhere have meant that old market access barriers have been replaced by new, often less transparent ones.

## II. The Inadequacies Of NAFTA And The Uruguay Round Agreement Have Left Florida Growers Skeptical About The Benefits Of A New Round Of Multilateral Negotiations.

During the negotiations leading up to NAFTA and the Uruguay Round agreements, Florida fruit and vegetable growers sought special accommodation in three areas to protect the import-sensitivity of their crops.

One area related to tariff treatment. With the precedents set by previous trade agreements (*i.e.*, U.S./Israel Free Trade Agreement and U.S./Canada Free Trade Agreement), Florida requested in both NAFTA and the Uruguay Round that its highly sensitive winter vegetable and citrus industries be afforded maximum protection, meaning exemption from tariff reductions or, at a minimum, maximum possible phase-out periods. In the Uruguay Round, it also expected that if U.S. tariffs were reduced on a most-favored-nation basis, market access barriers in other countries would be reduced accordingly, affording greater opportunities for Florida fruit and vegetable exports.

Second, to counter the effects of tariff reductions, Florida's fruit and vegetable industries sought a special safeguard mechanism based on price for sensitive products. The request for a price-driven safeguard was also made by virtually every fruit and vegetable producer organization in the United States.

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[1] Competitive Growing Season Shipments, Annual Change and U.S. Market Share, Florida Department of Agriculture and Consumer Services, November 5, 1996.
[2] Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Fresh Tomatoes From Mexico, Federal Register, Department of Commerce, November 1, 1996.
[3] Competitive Growing Season Shipments, Annual Change and U.S. Market Share, Florida Department of Agriculture and Consumer Services, November 5, 1996.

The third request made by FFVA and other fruit and vegetable organizations throughout the country was that a strong sanitary and phytosanitary agreement be negotiated as part of the agreements. The industry argued that scientifically unjustified plant quarantine barriers should not be tolerated and that an effective dispute settlement mechanism should be put in place to resolve disagreements in this area.

For the most part, FFVA's requests were inadequately addressed. Florida's growers are more vulnerable today to import increases and export competition than before those agreements were reached. Insufficient NAFTA and Uruguay Round treatment in the area of U.S. tariffs, safeguards, foreign market access, and sanitary and phytosanitary restrictions have contributed to these pressures.

### A. NAFTA's Provisions Have Failed To Provide The Necessary Safeguards For Florida's Fruit and Vegetable Sector.

To secure Florida's support for the NAFTA agreement, the Clinton Administration made several commitments to Florida growers to accommodate Florida's unique competitive position relative to Mexico. Among them were long tariff phase-out periods for import-sensitive products and a promise to ensure that the volume-based safeguard provision of NAFTA, coupled with the automatic price monitoring measures for tomatoes and bell peppers and the expedited import relief procedures of Section 201/202, would protect against unfair pricing by Mexican importers.[4]

#### 1. NAFTA Tariff Phase-Out Periods Have Generally Not Provided A Sufficient Transition Period For Florida Agriculture.

Despite the extreme import-sensitivity of Florida fruit and vegetable products, most of those sectors did not receive the maximum tariff phase-out period of 15 years provided for under NAFTA. Of Florida's major fruit and vegetable commodities, only frozen concentrated orange juice and, for part of the year, cucumbers received that treatment, with most of the other products falling into the 5- or 10-year phase-out category.

Although the tariff phase-out periods have offered some protection in limited areas, Mexican exports to the U.S. market in many Florida product areas have enjoyed immediate and substantial increases as U.S. tariffs have been reduced. Even in product areas for which U.S. tariffs are being eliminated over ten years, such as fresh tomatoes, peppers, and cucumbers, Mexico has already been able to increase imports and improve its competitive position in the U.S. marketplace. This is due not only to insufficient transition periods, but also to currency devaluation, which was not taken into account in structuring the NAFTA "protections."

#### 2. The Special Safeguard Measures Have Not Worked For Florida's Growers.

As noted, Florida's growers argued for a price-based safeguard mechanism that would react quickly when import surges occurred. NAFTA's special safeguard, because it is volume-based and not price-based, has been wholly inadequate as a safeguard measure. The volume-based trigger mechanism does not allow higher tariffs to be imposed in a timely manner. Section 201/202 and the special monitoring procedures in the implementing legislation for tomatoes and bell peppers have similarly provided no relief to the domestic industry, largely because the law does not adjust for the unique seasonal and perishable nature of fresh agricultural production in determining injury to a U.S. industry. Florida's vegetable industry has twice made extremely expensive attempts at seeking relief under these provisions to no avail.

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[4] Correspondence from President Bill Clinton to Representative Tom Lewis, November 16, 1993.

### 3. NAFTA's Sanitary and Phytosanitary Disciplines Have Not Lived Up To Expectations.

Although NAFTA's sanitary and phytosanitary (SPS) rules were designed to eliminate the unjustified use of plant quarantine and other similar barriers to trade, the SPS package for the most part has not lived up to expectations. On some issues, including access to Mexico for Florida citrus, progress has been painstakingly slow since enactment. For many other fruit and vegetable access issues, Mexico has successfully stalled access by simply refusing to adopt scientific standards or to develop work plans necessary for access. SPS restrictions are now the barrier of choice by governments like Mexico that want to keep U.S. products out of their countries.

## B. The Uruguay Round Did Nothing To Improve On The Inadequacies Of The NAFTA Agreement.

### 1. The Uruguay Round Did Not In All Cases Lead To Greater Market Access.

Although in theory the Uruguay Round negotiations were to reduce tariffs for all agricultural products in all countries by a minimum of 15% (10% for developing countries), this exercise did not in many important cases produce access parity for a variety of Florida specialty fruit and vegetable commodities that were already subject to low tariffs. This is because the EU and other countries interested in protecting their domestic industries used "dirty tariffication" to increase, rather than decrease, border protection. Their distorted tariffication exercise replaced numerous non-tariff barriers with prohibitive tariffs that made access impossible, even with the mandated 15% reductions.

In other cases, pre-WTO tariff rates on fruit and vegetable products were bound at very high rates during the Uruguay Round, essentially legitimizing closed-market conditions. This was the story in many important Asian markets that were considered developing countries in the Uruguay Round (*i.e.*, Thailand, Philippines). These countries will have bound tariffs of 50% or higher even after Uruguay Round tariff reductions are fully taken. Because the pre-Uruguay Round rates in these countries were so high and in some cases unbound, and many of those rates were increased even more through the tariffication exercise, the Uruguay Round reductions have had no effect at all on the applied rates, which remain at 30% and higher.

In still other cases, countries including the EU, have adopted onerous licensing requirements and other non-transparent procedures to administer their new tariff rate quotas (TRQs). This has made access for those product areas more restrictive and distortive than conditions existing prior to the WTO.

### 2. The Safeguard Measures Contemplated By The Uruguay Round Have Not Been Effective.

To avoid the inadequacies of the safeguard measures of the NAFTA Agreement, FFVA argued during the Uruguay Round for an effective price-based safeguard measure for sensitive, perishable crops. The priced-based mechanism contained in the Uruguay Round agreement, however, covers only products that had non-tariff border measures in place prior to the implementation date of the agreement. Since no U.S. fruit or vegetable had any such measure in place, Uruguay Round safeguard relief does not protect Florida's fruit and vegetable industries. The Uruguay Round safeguard measures, however, apply to certain fruit- and vegetable-producing competitors, particularly in the EU. This inequity means that, at key times of the year, our competitors can keep U.S. fruit and vegetable exports out of their markets, but no such protection against surges of imports exists for our domestic producers.

### 3. The WTO May Not Have Created Sufficient Disciplines Governing Sanitary And Phytosanitary Restrictions.

As with NAFTA, it remains highly uncertain whether the WTO SPS agreement will be an effective tool in resolving sanitary and phytosanitary disputes. The Appellate Body decision in the U.S.-EU *Beef Hormone Case* has raised questions as to the interpretation and enforceability of that agreement. If the *Hormone* ruling is interpreted as the EU is arguing, it would give a country broad leeway to define the scope of a risk assessment analysis to justify its sanitary and phytosanitary restrictions that are stricter than recognized international standards and would shift the burden of proof to the complaining country to show that the standard is not scientifically

justified. Such an interpretation, if it prevails, would make it more difficult for countries to succeed in challenging sanitary measures that are stricter than international standards.

### 4. It Remains To Be Seen Whether Key Signatory Countries Will Even Comply With WTO Rulings.

During the Uruguay Round, the United States gave up its authority to act unilaterally against unfair trading partners (*i.e.*, Section 301) in favor of a new "fool-proof" WTO dispute settlement system. It remains unclear whether WTO rulings are, in fact, foolproof. The EU, one of the major signatories to the WTO, is now making it known that it may not be willing to come into full compliance with recent rulings against it. WTO procedural and substantive disciplines are of no value if countries refuse to abide by them.

## III. Conclusion.

Because previous trade negotiations have not been favorable for Florida fruits and vegetables, Florida's growers have serious doubts about the value of a new round of multilateral negotiations. It is FFVA's belief that a good number of the problems created by NAFTA and the Uruguay Round Agreement can, and should, be corrected by the U.S. legislative and executive branches before ambitious new negotiations are undertaken that may only compound the trade pressures and inequities described above.

International Dairy Foods Association
Milk Industry Foundation
National Cheese Institute
International Ice Cream Association

**Written Statement of the**

**International Dairy Foods Association**

**On U.S. Efforts to Reduce Barriers to Trade in Agriculture**

**Before the**

**U.S. House of Representatives Committee on Ways and Means Subcommittee on Trade**

**February 12, 1998**

1250 H St., NW, Suite 900, Washington, DC 20005 202•737•4332 FAX 202•331•7820

**Statement of the International Dairy Foods Association**
**On U.S. Efforts to Reduce Barriers to Trade in Agriculture**
**Hearing before the**
**U.S. House of Representatives**
**Committee on Ways and Means**
**Subcommittee on Trade**
**February 12, 1998**

This statement is submitted on behalf of the International Dairy Foods Association (IDFA), the Washington, D.C.-based trade association representing the interests of processors, manufacturers, marketers and distributors of dairy products. Our members account for approximately 85% of the $70 billion of fluid milk, yogurt, cheese, ice cream, and other milk-based products consumed in the United States. IDFA is comprised of three associations -- the Milk Industry Foundation, National Cheese Institute and the International Ice Cream Association. Our more than 650 member companies operate 735 facilities in the United States. We also have members with operations in 18 foreign countries.

IDFA commends the Subcommittee for its leadership and support for trade policies which promote expanded trade. International trade stimulates economic growth and job creation, expands consumer choice and helps keep inflation in check. The United States is fortunate to enjoy a wealth of natural, technological, and human resources that together enable us to have a flourishing agricultural sector. The high productivity and low costs of our agricultural sector have allowed the United States to share our bounty with many consumers outside of our borders. With 96% of the world's consumers living outside the United States, our agricultural and food industries have an enormous stake in more open global markets through sound trade policies and effective trade agreements.

Much progress has been made in the past five years in reducing trade barriers and expanding opportunities for U.S. agricultural exports. The World Trade Organization (WTO) was established with a new, binding dispute settlement system to enforce its rules. The WTO Agreement on Agriculture provides for the reduction of export subsidies, domestic subsidies, and improvement in market access during the period 1995-2001. The WTO Agreement on Sanitary and Phytosanitary Measures requires that health and safety standards be based on sound science. The North American Free Trade Agreement (NAFTA) opened up a large and growing market on our southern border. The U.S. dairy industry has benefited from all of these developments. Nevertheless, many barriers -- tariff and nontariff alike -- still remain. As the U.S. dairy industry increases its focus on exports and foreign markets, it is critical that these remaining barriers and unfair trading practices be eliminated.

For that reason, IDFA urges the Congress to enact fast track negotiating authority. Many of our foreign competitors are moving ahead forging their own trade agreements giving them improved access to key markets. We cannot afford to be bringing up the rear. U.S. commercial interests in an increasingly competitive marketplace will be best protected by swift enactment of fast track authority on a bipartisan basis.

Remaining barriers under NAFTA

In 1993, the United States concluded negotiation of the North American Free Trade Agreement (NAFTA). As we testified before this Subcommittee last September, the benefits to the U.S. dairy industry as a result of NAFTA are mixed. With respect to Mexico, NAFTA is providing for improved access to a market that is already our number one export market. As a result of the phase-in of tariff reductions on U.S. dairy exports to Mexico and an improved climate of openness towards U.S. products, U.S. exports of unsubsidized dairy products, such as fluid milk and ice cream, are increasing at significant rates. Mexico's imports of milk powder, however, are still controlled by CONASUPO, a state trading entity.[1]

Unfortunately, however, our so-called "free trade agreement" with Canada does not provide for free trade, even on a gradual basis, in dairy products. Canadian dairy policy is based on a supply-management regime, which controls the supply of milk from both domestic and foreign sources. In order to protect its artificially high internal milk price, Canada controls milk and dairy imports through highly restrictive tariff-rate quotas, with some tariff rates reaching as high as 360%. The only FTA "benefit" granted to U.S. dairy exports is duty-free treatment on a small volume of in-quota quantities permitted under Canada's tariff schedules. Because of the highly restrictive nature of the tariff-rate quota levels, however, this "benefit" is of nominal value.

The United States challenged Canada's restrictive tariff-rate quotas through a NAFTA dispute settlement panel. Unfortunately, the NAFTA panel decided in 1996 that Canada was not required by the NAFTA to eliminate its import barriers on dairy and poultry imports. Consequently, there is no free trade in dairy under the U.S.-Canada "free trade" agreement.

We must change this situation. There is no sound reason why huge tariff walls should separate the U.S. and Canadian dairy markets. There is already significant cross-border investment in the dairy sector. A number of IDFA member companies own and operate processing and manufacturing facilities in both the United States and Canada. The realities of globalization and

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[1] As the legal monopoly buyer of imported milk powder, CONASUPO buys product at the prevailing world market price (thus requiring U.S. suppliers to match foreign subsidies with DEIP -- Dairy Export Incentive Program -- bonuses) and then sells the powder to its Mexican users at marked up prices.

of shared borders dictate that U.S. trade policymakers complete the unfinished agenda on U.S.-Canada dairy trade.

As a step in that direction, IDFA proposes the negotiation and implementation of a U.S.-Canada dairy re-export program. This proposal would provide for duty-free (with no tariff-rate quotas) trade between the United States and Canada in milk and dairy ingredients which are imported, processed and re-exported to the other country's market. For example, if a U.S. ice cream manufacturer used Canadian-origin cream in the manufacture of its ice cream, it could export ice cream to Canada containing an equivalent amount of milkfat and nonfat solids, free of any Canadian duty and outside of any tariff-rate quota restriction. The same rules would apply to Canadian dairy-containing products manufactured from U.S.-origin dairy ingredients. This program is a variation of the U.S. sugar re-export program, but on a reciprocal, bilateral basis.

By providing for reciprocal duty-free access for processed dairy products containing milk and dairy ingredients from the other country, we would be allowing U.S. and Canadian dairy products to compete in each other's markets without adverse effect on either country's dairy pricing programs. Moreover, this additional market access would enable dairy processors and manufacturers who operate facilities on both sides of the border to restructure duplicative operations and devote particular plants to particular product lines, to service both U.S. and Canadian customers. Although this would only provide for partial free trade between the U.S. and Canada in dairy, it would be a step towards a more integrated market.

WTO Rules on Agricultural Trade

The Uruguay Round Agreements were an important achievement for bringing agricultural trade under multilateral disciplines. Agricultural export subsidies distort competition and unfairly rob efficient producers of market share. In the dairy sector, export subsidies and high tariff walls are the primary reason why the European Union (EU) dominates export trade. The EU accounts for 32% of world dairy production, but 45 % of world trade. The United States, on the other hand, accounts for nearly 19% of world dairy production but only 3% of its trade. (See Appendix 1 for a table showing major countries' shares of world dairy trade by four dairy commodity groups.) If export subsidies were eliminated and markets opened, the U.S. dairy industry would enjoy a substantially larger share of world trade in dairy products. For this reason, elimination of export subsidies and of tariffs in dairy products worldwide is a high priority for our industry.

As a result of U.S. leadership, the Uruguay Agreement on Agriculture provides for multilateral reduction of export subsidies, on a budgetary and volume basis, during the period 1995-2001. The agreement also provides for reductions in domestic support and for increases in import access during this time period. The mere fact that these provisions exist is significant, but they do not provide for the elimination of trade barriers and distortions. Indeed, more than two-thirds of the export subsidies will still be allowed at the end of the Uruguay Round implementation

period -- the EU will be permitted to subsidize over 12% of it milk production into export markets; Canada will be permitted to subsidize 8%; and the United States will be permitted to subsidize under 1%.

The distortions caused by remaining trade barriers and subsidized competition are holding the U.S. dairy industry back from significant market opportunities internationally. Without such subsidies, the U.S. will be a significant marketer of dairy products internationally, along with Australia and New Zealand. World market prices will be much higher and access will greatly improve because countries won't have as great a need to protect their domestic markets from highly subsidized exports.

The Uruguay Round negotiators recognized the need to continue the process of long-term reform through another round of trade negotiations. Article 20 of the Agriculture Agreement includes a mandate to begin the next round of agricultural negotiations in 1999. The primary negotiating objective for the U.S. dairy industry will be the elimination of export subsidies and tariffs by a date certain. The negotiators should focus in particular on accelerated reduction of tariff peaks, and attempt to reduce the disparities among different tariff levels for dairy products. The scheduled phase-out of export subsidies and tariffs should also be in equal increments, to facilitate an orderly transition.

It is critical that the United States be a strong force at the upcoming negotiations, and lead them to an expeditious conclusion. Congressional approval of fast track negotiating authority would send a strong message to subsidizing countries that the United States is serious about opening agricultural markets and eliminating barriers and distortions to trade.

In the meantime, the WTO must be vigilant over the implementation of all countries' commitments and take prompt action to enforce the existing rules. The provisions embodied in the WTO Agreement on Agriculture were hard-fought victories, and we should insist that all WTO members implement their commitments fully and in good faith. Countries must not be allowed to ignore or circumvent their obligations.

IDFA is particularly concerned about Canada's failure to implement both its import access commitment and export subsidy commitment with respect to dairy. Canada is refusing to allow any commercial shipments of fluid milk into its market, and claims that tourists crossing the border into the United States and returning to Canada "fill up" the Canadian tariff-rate quota of 64,500 metric tons for fluid milk and cream. This makes a mockery of the minimum import access commitment Canada entered into, and should not be permitted.

Moreover, Canada is circumventing its export subsidy commitments through the unrestricted use of a two-tiered pricing policy implemented after the WTO Agreement went into effect. Although the Agriculture Agreement sets caps and annual reductions on export subsidies, whether or not

they are financed on the public account, Canada is administering its new "special milk classes" export subsidy scheme without any regard for the limits and disciplines of the WTO Agreement.

Last fall, IDFA filed a petition under Section 301 of the Trade Act of 1974, along with the National Milk Producers Federation and the U.S. Dairy Export Council, challenging the Canadian export scheme. We are pleased that U.S. Trade Representative Barshefsky agrees with our view, accepted our petition and initiated WTO dispute settlement proceedings against Canada. Canada must not be allowed to disregard the international rules and disciplines. We are firmly committed to help the Administration in whatever manner necessary for the United States to prevail in winning this case.

In addition, the European Union appears to be circumventing its export subsidy limits on cheese exports, by cleverly charging subsidies for its processed cheese exports to the subsidy allocations for milk powder and butterfat. It is doing so through the administration of an inward processing program which is similar to foreign trade zones under U.S. law. This maneuver on the part of the EU is nothing more than an attempt to exceed the limits which apply to its cheese export subsidies, and must be stopped. In response to this practice, Ambassador Barshefsky has invoked the dispute settlement process in the WTO with our full support. Both the EU and Canadian practices undermine the integrity of the WTO disciplines on agricultural subsidies and must not be allowed to stand as a precedent for others to follow.

Dispute Settlement Understanding and
Agreement on Sanitary and Phytosanitary Measures

Two of the Uruguay Round Agreements are scheduled for review this year -- the Dispute Settlement Understanding (DSU), and the Agreement on Sanitary and Phytosanitary (SPS) Measures. We will reserve judgment on the DSU pending the outcome of the two dispute settlement proceedings now underway with Canada and the EU on dairy issues. We do note, however, that the process, though much improved over the old GATT system, is still slow and time-consuming. Even if you "win," corrective action comes almost three years after initiating the consultation process, and no compensation is provided for the three years (or more) of lost sales and market share suffered by the aggrieved industry. In the upcoming review of the DSU, we urge serious consideration of rules which provide for more expeditious implementation of panel rulings, especially in cases where serious commercial harm has already occurred.

The SPS agreement was a very important achievement for U.S. agriculture, including the dairy industry. During the upcoming review of the SPS Agreement, we urge the Administration to stand fast to the Agreement's requirement that SPS measures be based on sound science and risk assessment. We are troubled by recent comments by EU officials and special interest groups which indicate a desire to reopen the SPS agreement and revisit the issue, rejected during the Uruguay Round negotiations, of allowing SPS measures to be shaped by consumer preference or other subjective criteria.

Fear, no less than greed, fosters protectionism. Governments have a responsibility to protect the health and safety of its citizens through sound, objective analysis and criteria. The introduction of new technologies and products which improve the quality, quantity or consistency of production should not be deterred as long as they do not threaten health or safety. As tariffs and traditional nontariff barriers are reduced or eliminated, sanitary and phytosanitary measures will become more visible and attractive barriers to trade. Vigorous enforcement of the SPS agreement will be increasingly important to assure foreign market access for U.S. dairy exports.

Regional trade negotiations

IDFA strongly supports efforts to supplement multilateral reforms with regional trade agreements that open markets on a comprehensive basis. The most rapidly growing markets are those in Latin America and the Asia-Pacific region. We should utilize all tools available -- including APEC, the FTAA process, as well as bilateral negotiations -- to improve access to those growing markets for U.S. dairy exports. We cannot afford to rely on multilateral reforms in the WTO as the only avenue to open markets.

It is imperative, however, that these regional agreements be comprehensive in scope, and not exclude coverage of highly protected, and therefore politically sensitive, sectors. We must not allow so-called free trade agreements to leave dairy, sugar or other important segments of U.S. agriculture "off the table." Any free trade agreement must be truly comprehensive, include agriculture, and within agriculture include all sectors of agricultural production. The example set by Canada in excluding dairy and poultry from its so-called free trade agreements with the United States, Mexico, and more recently Chile, must be not be allowed to continue.

On behalf of the many IDFA members in the ice cream industry, IDFA also supports liberalization of the U.S. sugar trade regime. This program, which sustains high domestic sugar prices through very restrictive tariff-rate quotas on imports, is often cited by our foreign trading partners as a trade barrier and unfairly protectionist program. As a member of the Coalition for Sugar Reform, we support the statement in this hearing expressed by Doreen Brown of Consumers for World Trade, in her role representing the Coalition.

The Need for Fast Track

The enforcement of existing trade rules and trade agreements is a critical priority for the U.S. dairy industry. Equally important, however, is the forging of new trade rules, and new or expanded trade agreements, that will further enhance international opportunities for U.S. dairy products. The ability of U.S. trade negotiators to do so, however, will be hampered unless Congress acts quickly to renew fast-track trade negotiating authority.

Fast-track negotiating authority has been provided to every U.S. President — Democrat and Republican alike — in office since 1974. Although the current lack of fast-track authority does not prevent U.S. trade officials from exploratory discussions, it seriously impairs their credibility

and influence at the international negotiating table. With the next multilateral round of agricultural negotiations to begin next year in the WTO, and the rapidly growing markets of Latin America being the focus of new or expanded regional trading arrangements, the United States cannot afford to be backbenched. We have much at stake in the expanding global marketplace. We should be leading, not trailing, the international embrace of market-oriented policies.

Exports are a vital part of the U.S. agriculture, and will only become more so as we implement the more market-oriented farm policies mandated by Congress in the 1996 Farm Bill (the Federal Agricultural Improvement and Reform Act, or FAIR). The FAIR Act reforms will be more meaningful and successful, however, if conditions in international markets also improve and become more open and free from government interference. To make progress on the international front, we must have fast track authority.

We appreciate this Committee's efforts last session to move fast track legislation forward, and urge you to continue to press for its enactment this year. Thank you for the opportunity to express our views.

**APPENDIX I**

## World Trade Country Market Shares

**Butter**

| | Exports (000 mt) | Market share |
|---|---|---|
| U.S. | 23 | 3% |
| Australia | 108 | 14% |
| New Zealand | 315 | 40% |
| E.U. | 225 | 29% |
| Other | 109 | 14% |
| TOTAL | 780 | 100% |

**Cheese**

| | Exports (000 mt) | Market share |
|---|---|---|
| U.S. | 35 | 4% |
| Australia | 113 | 12% |
| New Zealand | 236 | 24% |
| E.U. | 471 | 48% |
| Other | 121 | 12% |
| TOTAL | 976 | 100% |

**Nonfat Dry Milk**

| | Exports (000 mt) | Market share |
|---|---|---|
| U.S. | 125 | 12% |
| Australia | 206 | 20% |
| New Zealand | 215 | 22% |
| E.U. | 282 | 28% |
| Other | 177 | 18% |
| TOTAL | 1005 | 100% |

**Whole Milk Powder**

| | Exports (000 mt) | Market share |
|---|---|---|
| U.S. | 6 | 1% |
| Australia | 109 | 10% |
| New Zealand | 346 | 32% |
| E.U. | 541 | 50% |
| Other | 75 | 7% |
| TOTAL | 1077 | 100% |

(Based on preliminary 1997 data: *Dairy: World Markets and Trade*, U.S. Department of Agriculture)

*HEARING BEFORE THE COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON TRADE CONCERNING RESTRICTIONS ON TRADE IN AGRICULTURAL PRODUCTS: BACKGROUND AND QUESTIONS FOR AMBASSADOR PETER SCHER*
*REGARDING THE U.S.-CANADA SOFTWOOD LUMBER AGREEMENT*

***Introduction:*** *These materials are submitted on behalf of the National Lumber and Building Material Dealers' Association ("NLBMDA") and relate to the 1996 Softwood Lumber Agreement between the United States and Canada.[1] The Softwood Lumber Agreement is germane to the above-referenced hearing, because the term "agriculture" historically has been understood in trade law to include timber,[2] and because the Coalition for Fair Lumber Imports ("the Coalition") is currently lobbying the Office of the United States Trade Representative ("USTR") to take action to enforce the Softwood Lumber Agreement pursuant to, among other things, Section 204 of the Agricultural Act of 1956, 7 U.S.C. § 1854. The Softwood Lumber Agreement is also worthy of consideration because of the impact it has had on the American consumer. In the year the Softwood Lumber Agreement was executed, 1996, the price of lumber in the United States skyrocketed from a low of approximately $325.00 per thousand board feet to nearly $500.00.[3] The average price of lumber for all of 1997 was the highest it has ever been.[4] The increase in lumber prices has resulted in an increase of roughly $2,000.00 in the price of the average single family home by some estimates.*

***Questions***

- *Is USTR seriously considering the Coalition's request for action under Section 204 of the Agricultural Act of 1956 or Sections 301-305 of the Trade Act of 1974 to "enforce" the Softwood Lumber Agreement?*

- *Assuming, for the sake of argument, that USTR has authority to act without going through dispute resolution under the Softwood Lumber Agreement, and that USTR has further authority to order the U.S. Customs Service ("Customs") to treat predrilled studs as covered by the Agreement regardless of how Customs classifies such merchandise, does USTR accept the Coalition's representation that predrilled studs were covered by the Agreement's predecessor, the 1986 Memorandum of Understanding ("MOU") on softwood lumber, and therefore were "intended" to be included in the Agreement?*

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[1] *35 I.L.M. 1195.*

[2] *See, e.g., United States v. Norman G. Jensen, Inc., 550 F.2d 662, 666-67 (C.C.P.A. 1977).*

[3] *See Exh. 1.*

[4] *See Exh. 2.*

*Are U.S. log export restrictions legitimate "conservation" measures allowed by Article 1201 of the NAFTA and Article XX(g) of the General Agreement on Tariffs and Trade, and, if so, how do U.S. log export restrictions differ from log export restrictions in British Columbia, which the U.S. regards as objectionable "subsidies" that must be offset by the export tax contained in the Softwood Lumber Agreement?*

***Background***

***Question 1:*** *A Freedom of Information Act request has revealed that Coalition lawyers have been lobbying USTR to order Customs to count predrilled studs toward the quota imposed by the Softwood Lumber Agreement despite Customs' classification of predrilled studs under a heading of the Harmonized Tariff Schedules of the United States ("HTSUS") not covered by the Softwood Lumber Agreement.*[5] *Predrilled studs are 2x4s with one-inch holes drilled 16 inches from the end to allow electrical wiring to be run through wall frames without having to pay carpenters, electricians, or their assistants to drill such holes on the job site.*

*This appears to be a fall back measure should the Coalition fail in its on-going effort to have Customs change its interpretation of the HTSUS with respect to predrilled studs through, among other things, unenacted language in the FY 1998 Treasury appropriations conference report.*[6] *Such tactics caused a number of Members of Congress with jurisdictional claims superior to the authors of the conference report to express concern about the effect of such tactics on the "integrity" of the administrative process.*[7]

*On the merits of the classification issue (i.e., whether predrilled studs are in heading 4418 or 4407, HTSUS), these Members also expressed the view that Customs' interpretation appeared to be correct and that predrilled studs thus do not fall within the scope of the Softwood Lumber Agreement (because it only applies to imports under headings 4407 and 4409, HTSUS*[8]*).*

*In support of their request for "enforcement" action by USTR with respect to predrilled studs, Coalition lawyers presented a memorandum of law arguing that USTR "has separate authority to take actions necessary to enforce a trade agreement entered into as a culmination of a Section*

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[5] *See Exh. 3.*

[6] *See Exh. 4.*

[7] *See Exh. 5; see also, e.g., Exhs. 6 & 7 (letters from Reps. Crane & Rangel); Exhs. 8 & 9 (letters from Sen. Grassley). Additional letters registering opposition to the Coalition's attempt to have predrilled studs reclassified so they are covered by the Softwood Lumber Agreement are reprinted as Exhibit 10.*

[8] *See Article IX of the Softwood Lumber Agreement, supra note 1.*

*301 investigation," of which the Softwood Lumber Agreement is one.*[9] *While that may be true as a general proposition, what the Coalition neglects to mention is that the United States is expressly precluded in this particular trade agreement not to exercise any authority conferred by the Section 204 of the Agricultural Act of 1956 or Sections 301-305 of the Trade Act of 1974. Specifically, Article I of the Softwood Lumber Agreement provides:*

> *4. The United States shall not take action under section 204 of the Agricultural Act of 1956, as amended, . . . with respect to imports of softwood lumber from Canada, except as required for the collection of permit numbers under Article VI(1)(l).*
>
> *5. The United States shall not initiate an investigation or take any action under sections 301-305 of the Trade Act of 1974, as amended, . . . with respect to imports of softwood lumber from Canada.*

*It is only if a dispute resolution panel convened under Article V of the Softwood Lumber Agreement*[10] *finds that Canada has breached in some respect that the United States is relieved of its contractual duty under Article I not to take any action under the above-referenced statutes.*

*In sum, the Softwood Lumber Agreement provides its own exclusive enforcement mechanism, which must be invoked successfully before that United States can, without itself breaching the Softwood Lumber Agreement, take actions relating to imports of softwood lumber pursuant to Section 204 of the Agricultural Act of 1956 or Sections 301-305 of the Trade Act of 1974.*[11]

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[9] *See Exh. 3, at 4.*

[10] *Supra note 1.*

[11] *The Coalition's argument that predrilled studs are covered by the Softwood Lumber Agreement, whether or not classified by Customs under heading 4418, logically precludes them from simultaneously arguing that the prohibition in Article I of the Softwood Lumber Agreement against "initiat[ing] . . . or tak[ing] any action" under Section 204 of the Agricultural Act of 1956 or Sections 301-305 of the Trade Act of 1974 "relating to imports of softwood lumber" does not apply here on the ground that predrilled studs are not "softwood lumber" within the meaning of the Agreement because they are not properly classified under headings 4407 or 4409 of the HTSUS. To argue that would be to admit that "enforcement" action under the cited statutes is inappropriate because the imports to be acted upon are not subject to an existing trade agreement.*

*The Coalition is free, of course, to make such an admission, but they cannot have it both ways: Either (1) predrilled studs are covered by the Softwood Lumber Agreement and therefore action under Section 204 of the Agricultural Act of 1956 or Sections 301-305 of the Trade Act of 1974 is prohibited without first establishing a breach of the Agreement by the Government of Canada,*

(continued...)

***Question 2:*** *Coalition lawyers have misrepresented the procedural history of the softwood lumber dispute to USTR and Customs to make it appear (1) that the product scope of the Softwood Lumber Agreement is, or was intended to be, coextensive that of its predecessor, the 1986 MOU, and (2) that predrilled studs were clearly included within the scope of the 1986 MOU. Neither of these contentions is true.*

*The merchandise subject to the 1986 MOU included items 202.52 and 202.54 of the Tariff Schedules of the United States ("TSUS"), which covered "Lumber and wood siding, drilled or treated; and edge-glued or end-glued wood not over 6 feet in length, whether or not drilled or treated."*[12] *The Coalition has seized upon the word "drilled" in the foregoing provisions as evidence that predrilled studs were covered by the 1986 MOU. However, a closer examination of the TSUS, which was replaced in 1989 by the HTSUS,*[13] *reveals that the words "drilled or treated" had a specially-defined meaning that would not have included predrilled studs. Specifically, "drilled or treated" meant "Drilled at intervals for nails, screw, or bolts, sanded or otherwise surface processed in lieu of, or in addition to planing or working."*[14]

*The holes in predrilled studs, by contrast, are not "drilled at intervals." Nor are they used "for nails, screw, or bolts," or any other sort of fastener for that matter. Therefore, predrilled studs cannot be considered "drilled" lumber within the meaning of items 202.52 and 202.54, TSUS, and thus were not covered by the 1986 MOU.*

*Second, even if predrilled studs had been, or properly could have been, classified under items 202.52 and 202.64, TSUS, it does not follow that they were included in the Softwood Lumber Agreement, because the scope of the Softwood Lumber Agreement was not coextensive with the scope of the 1986 MOU.*

*This can be seen in the treatment of edge-glued lumber. Unlike predrilled studs, "edge-glued lumber" was expressly and specifically covered by item 202.54 of the TSUS and, thus, the 1986 MOU. In 1987, the scope of the MOU was redefined in terms of HTSUS numbers in preparation to the United States' accession to the Convention on the Harmonized Commodity Description and Coding System.*

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*(...continued)*
*or (2) predrilled studs are not subject to the quota and USTR has no authority to restrict trade in that commodity under the guise of "enforcing" the Softwood Lumber Agreement.*

[12] *See Exh. 11 (copy of 1987 TSUS, Schedule 2).*

[13] *See International Convention on the Harmonized Commodity Description and Coding System, State Dept. No. 89-45 (U.S. entry into force Jan. 1, 1989).*

[14] *See id. Note 2(d), Subpart B, Part 1 (emphasis added).*

*Under the HTSUS, "edge-glued lumber" is classified under heading 4418 ("Builder's joinery and carpentry of wood: Other), where it is grouped along with such products as roof trusses, roof truss components, parquet flooring, doors and their frames and thresholds, shingles, shakes, and laminated beams and arches. Accordingly, when redefining the scope of the 1986 MOU in terms of HTSUS numbers, the Department of Commerce ("DOC"), at the Coalition's behest, included the edge-glued lumber provision of heading 4418.90 -- namely, item 4418.90.20.*[15]

*Nothing under heading 4418 was included within the scope of the Softwood Lumber Agreement, however.*[16] *Therefore, the Framers of the Softwood Lumber Agreement cannot be said to have intended the scope of that agreement to be coextensive with its predecessor, the 1986 MOU. Moreover, since a series of rulings in 1989,*[17] *it was clear to anyone who researched the issue that Customs would classify lumber that had been drilled for structural uses under heading 4418, HTSUS. Thus, even if it were unclear whether predrilled studs would have been classified under items 202.52 and 202.54 of the TSUS, the Coalition's argument still fails, since the Coalition knew or should have known at the time the Softwood Lumber Agreement was being negotiated that predrilled studs would be -- or at least might be -- classified under heading 4418, HTSUS, and thus would not be subject to the Softwood Lumber Agreement.*

*In sum, contrary to the Coalition's representations to USTR and Customs, predrilled studs were not covered by the 1986 MOU; the Framers of the Softwood Lumber Agreement did not intend the coverage of that agreement to be the same as the coverage of the 1986 MOU; and, in any event, the Coalition knew or should have known at the time the Softwood Lumber Agreement was being negotiated that, under the 1989 rulings on drilled softwood lumber, Customs would classify sawn wood that had been processed beyond planing, sanding, or end-jointing (the only processes enumerated in heading 4407, HTSUS) for use in structural applications in item 4418.90.4040, HTSUS.*

*The fact that the Coalition either failed to grasp the potential significance of predrilled studs, which have been known in the trade for decades,*[18] *in view of the 1989 Customs rulings, cannot*

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[15] *See Exh. 12 (memorandum from the Coalition to DOC concerning the conversion of the 1986 MOU to HTSUS nomenclature); Exh. 13 (reply memorandum from DOC to the Coalition concerning the conversion of the 1986 MOU to HTSUS nomenclature).*

[16] *See Article IX of the Softwood Lumber Agreement, supra note 1.*

[17] *Customs Service Ruling 083731 (May 12, 1989) (classifying lumber drilled at intervals to accomodate fasteners, which was formerly classified under items 202.52 and 202.54, TSUS, under item 4418.90.4040, HTSUS ("fabricated structural wood members")); accord Customs Service Ruling 083732 (May 1, 1989); Customs Service Ruling 083732 (May 1, 1989).*

[18] *See Exh. 14 (1978 National Association of Home Builders study on predrilled studs and questionnaire response from NLBMDA member queried in response to Customs' request for*

(continued...)

*justify their attempt to unilaterally expand the product scope of the Softwood Lumber Agreement under the guise of reinterpreting the HTSUS or taking the above-described "enforcement" action (leaving aside the fact that taking such "enforcement" action, as explained above, would itself place the United States in breach of the Softwood Lumber Agreement).*

***Question 3:*** *In 1990, Congress enacted a statute entitled the Forest Resources Conservation and Shortage Relief Act, 16 U.S.C. §§ 620-620j ("the Act"). The purpose of the Act is "to conserve timber and increase the supply of timber to domestic lumber mills."*[19] *The enactment had two major elements. The first "continue[d] the federal government's longstanding policy of restricting the export of timber harvested from federal land"*[20] *by banning the export of any timber from west of the 100th parallel except for timber "'the Secretary has determined to be surplus to domestic manufacturing needs.'"*[21] *The second element of the Act imposes a similar restriction on the export of timber from state-owned lands in the same area.*[22] *As its title suggests, the U.S. has justified the Act as a conservation measure allowed under Article XX(g) of the GATT and Article 1201 of the NAFTA and, thus, not objectionable under international trade law despite its "subsidy"-like effect on prices domestic mill operators pay for timber.*[23]

*The Act is thus essentially the same as British Columbia's Forest Practices Act, which likewise bans the export of logs from public lands unless surplus to domestic manufacturing demand. Many other countries have imposed similar bans and offered similar, conservationist justifications therefor.*[24] *While such restrictions obviously favor the domestic timber processing industry, they are nonetheless conservationist, because they allow the country to reduce the number of trees cut without reducing hard currency earnings (because processing adds value to*

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*(...continued)*
*comments on predrilled studs).*

[19] *Board of Natural Resources v. Brown, 992 F.2d 937, 941 (9th Cir. 1993) (citing 16 U.S.C. § 620(b)).*

[20] *Id. (citing 16 U.S.C. § 620a(b)(4)).*

[21] *Id. (quoting 16 U.S.C. § 620a(b)(1)).*

[22] *Id. (citing 16 U.S.C. § 620c).*

[23] *See Administration Supports State Log Export Ban as Part of Spotted Owl Economic Package, 7 Int'l Trade Rep. 948 (June 27, 1990); Senate Trade Bill Conferees Reach Agreement on Log Export Restrictions, Packwood Says,*
*7 Int'l Trade Rep. 758 (May 30, 1990); Thomas J. Schoenbaum, International Trade and Protection of the Environment: The Continuing Search for Reconciliation, 91 Am. J. Int'l L. 268, 303 (1991).*

[24] *See Shades of Green, The Economist, Apr. 18, 1992 (reporting on Indonesia's log export ban); A Dam Shame, The Economist, Apr. 11, 1992 (Laos).*

*the wood exported),[25] and it allows more wilderness to be reserved by reducing the amount of job loss associated therewith (by creating mill jobs for displaced timber workers).[26]*

*In sum, there is no material difference between British Columbia's log export restrictions and our own. Yet the United States regards British Columbia's log export restrictions as violative of international trade norms and, on that basis, has acted through the Softwood Lumber Agreement to impose a tax on imports of Canadian lumber into the United States. Because this tax penalizes or burdens British Columbia's log export restrictions, it is not only contrary to sound international environmental policy, but represents a double standard on trade under which the United States is allowed to impose restrictions to which the United States objects when imposed by other countries. Such hypocrisy tends to diminish U.S. credibility in its important, leadership role in the field of international trade.*

*[Exhibits are being retained in the Committee files.]*

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[25] *Id.*

[26] *See Administration Supports State Log Export Ban as Part of Spotted Owl Economic Package, 7 Int'l Trade Rep. 948 (June 27, 1990) (stating this as the justification for U.S. log export restrictions).*

**STATEMENT OF THE NATIONAL PORK PRODUCERS COUNCIL REGARDING U.S. EFFORTS TO REDUCE BARRIERS TO TRADE IN AGRICULTURE**

**before the**

**U.S. HOUSE COMMITTEE ON WAYS AND MEANS**
**SUBCOMMITTEE ON TRADE**
**FEBRUARY 12, 1998**

This statement is submitted on behalf of the National Pork Producers Council ("NPPC"). NPPC applauds Chairman Crane and the Committee for their interest in agricultural trade issues. For NPPC and the U.S. pork industry, there is one major issue at the forefront of the agricultural trade agenda: Congress must approve fast track negotiating authority so that valuable U.S. exports such as pork can capitalize on opportunities for growth in foreign markets.

***Pork production is important to the domestic economy.***

NPPC is a national association representing 44 affiliated states that annually generate approximately $11 billion in farm gate sales. The importance of the pork industry to the U.S. economy and the U.S. export base is apparent from the following statistics:

- According to a recent Iowa State University study conducted by Otto and Lawrence, the U.S. pork industry supports an estimated 600,000 domestic jobs and generates more than $64 billion annually in total economic activity.
- U.S. pork producers consume 1.065 billion bushels of corn annually, valued at $2.558 billion.
- Feed supplements and additives represent another $2.522 billion of purchased inputs from U.S. suppliers that help support U.S. soybean prices, the U.S. soybean industry, local elevators and transportation services based in rural areas.

In short, pork helps maintain a strong U.S. agricultural economy.

***U.S pork is export-dependent and has a successful export track record.***

If the pork industry has a favorable impact on the domestic economy generally, its impact vis-a-vis U.S. exports is staggering. Pork is the world's meat of choice. It represents approximately 44 percent of daily meat protein intake in the world, in contrast to beef and poultry, which represent less than 30 percent of daily global intake. It is thus no surprise that exports of pork generate considerable economic benefits.

For example, the Economic Research Service of the U.S. Department of Agriculture calculates that each dollar of value-added agricultural exports such as pork generates $1.63 in additional U.S. economic activity. Moreover, according to ERS, every billion dollars in pork exports creates an additional 23,000 jobs in the U.S. economy. NPPC estimates that pork exports added $10 per head to cash hog prices in 1997.

Like the U.S. agricultural sector in general, export growth is critical to the continued success of the U.S. pork industry, and domestic pork producers are uniquely positioned to expand exports. The United States is the lowest-cost producer of the safest, highest quality pork in the world. As stated by a recent report issued by the Food and Agricultural Policy Research Institute ("FAPRI"), "The U.S. becomes the number one pork exporter because it is able to expand production without placing strong pressure on domestic prices." In contrast, Denmark, which currently is the world's largest pork exporter, traditionally has had higher costs than U.S. producers and the gap is increasing.

Importantly, the U.S. pork industry has a proven track record of capitalizing on export growth opportunities. Since 1995, when the Uruguay Round Agreement was implemented, worldwide U.S. pork exports increased by approximately 45 percent in volume terms and 75

percent in value terms from 1994 levels. Measured over the period 1990 to 1996, the export value of U.S. pork increased by more than 210 percent. These increases were especially notable in Japan and Mexico, two nations with whom the United States successfully negotiated greater market access under the Uruguay Round and NAFTA, respectively. Even in the face of this export growth, however, a combination of foreign market trade barriers and highly subsidized competitors has kept a lid on U.S. pork exports. It is for this reason that NPPC urges the Congress to adopt fast track authority.

***Asian nations must open their markets to U.S. pork.***

In Asian markets, market access for U.S. goods is severely constrained. These markets hold tremendous potential for U.S. pork exports. For example, FAPRI projects that pork consumption in China -- which already equals per capita pork consumption in the United States -- will increase by over 23 percent (or approximately 8 million metric tons) in the next ten years. To put this number in perspective, during 1996, U.S. pork exports were less than 500,000 metric tons. Similarly, Taiwan has the highest per capita pork consumption level in Asia, consuming more pork than the United States on a per capita basis. In South Korea, per capita consumption of pork is double the consumption of beef, and is higher than per capita pork consumption in Japan, the largest U.S. pork export market. Clearly, there are tremendous opportunities for U.S. pork in these markets. Unless the United States has the authority to negotiate trade agreements that work towards eliminating these trade barriers, however, the U.S. pork industry will be unable to capitalize on the export potential of Asian markets.

***China.*** With respect to China, U.S. pork exports, perhaps more than any other sector of U.S. agriculture, have been disadvantaged because of China's de facto ban on pork imports. This

ban results from high tariff rates and a discriminatory value-added tax that put imported pork at a competitive disadvantage. These tariff measures are supplanted by non-tariff barriers such as non-transparent licensing and inspection requirements. While China has attempted temporarily to expand access for pork imports by allocating quota to certain producers based on an ad hoc plant certification process, absent the lowering of tariffs and implementation of a system-wide certification process, U.S. exports to China will continue to face significant hurdles in penetrating the Chinese market.

***Taiwan.*** Similar problems exist in Taiwan. The Taiwanese government maintains a ban on pork variety meats and selectively restricts other cuts of pork. Although Taiwan has made several offers on pork in conjunction with its application for WTO membership, in each instance, these offers have fallen short of U.S. demands, and will not result in meaningful market access for U.S. pork exports.

***The Philippines.*** Likewise, the Philippines has hindered market access for U.S. pork by failing to implement its pork TRQs consistent with its Uruguay Round obligations. Rather than making quota available to importers of U.S. pork, the Philippine government has instead distributed the vast majority of the quota to Philippine hog producers, who admittedly have only a limited demand for imports. This pattern of conduct is part of a broader history of the Philippines to sidestep its Uruguay Round commitments, and is especially egregious in light of the Philippines' eligibility for preferential tariff benefits under the U.S. Generalized System of Preferences program. As a result of recent bilateral negotiations, however, the Philippines has tabled a settlement proposal which -- finally -- might lead to the provision of quota to bona fide Philippine importers.

***South Korea.*** In the Uruguay Round, South Korea agreed to liberalize access to its domestic pork market by eliminating all quantitative restrictions on frozen pork imports and replacing its quota with a tariff of 33.4 percent to be reduced to 25 percent by 2004. Similarly, tariffs are to be reduced to 22.5 percent for fresh or chilled pork, and to 18 percent for pork sausage. Notably, since implementation of South Korea's Uruguay Round commitments, U.S. exports to the South Korean market have exploded, and the potential for continued growth is strong, notwithstanding the recent financial crisis.[1/] Nevertheless, tariffs -- even after the Uruguay Round reductions are fully implemented -- remain excessively high. Absent further lowering of these tariffs, U.S. pork exports will not be able to capitalize fully on the growth potential in the South Korean market.

***Thailand.*** Like other countries in Asia, Thailand is a huge pork-consuming nation, but extremely high tariffs (53 percent ad valorem) on pork imports have precluded the importation of pork from the United States. The effect of the tariffs is exacerbated by a "license fee" applied to pork on a per kilogram basis as well as an 11 percent value-added tax. These conditions leave little room for progress in Thailand vis-a-vis U.S. pork exports.

***Vietnam.*** Vietnam, with pork tariffs ranging from 15 to 40 percent, also maintains practices that virtually preclude the importation of pork. For example, state trading enterprises operate against importing interests, and the required pork import licenses are near impossible to obtain. The Vietnamese market is potentially significant as pork represents between 75-80

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1/ To date, USDA has made only $100 million in GSM-102 export credit guarantees for U.S. pork and beef exports to South Korea. At least $400 million in additional GSM-102 export credit guarantees must be made available immediately for U.S. pork exports to South Korea. Otherwise, the hardfought market share for U.S. meat exports, garnered both through the Uruguay Round and the section 301 case on Korean shelf-life standards, might be lost irrevocably.

percent of the animal protein in the average diet and Vietnam, which is the second most populous country in Asia, is experiencing strong economic growth.

***Japan.*** Japan is the largest export market for the U.S. pork industry, generating sales of over $750 million in 1996. As the Japanese pork import market continues to expand, however, problems associated with the Japanese import safeguard are growing. Although the safeguard was enacted to protect the Japanese market from import surges and associated price swings, it is causing great uncertainty in the market, and hence, serving as a disincentive to import. Thus, the gains in the Japanese market are being threatened by the very mechanism intended to stabilize it. This problem must be corrected to maintain U.S. pork's position in Japan. Further, U.S. pork exports to Japan will not begin to realize their full potential until Japan's complex gate price system is replaced with low flat tariffs.

While fantastic progress was made in the Uruguay Round in beginning to open the pork markets of Japan, South Korea, and the Philippines, much more needs to be done. Although some of the measures identified above can be attacked now, the renewal of fast track trade negotiating authority is a pre-requisite for addressing many of these barriers. Regardless, the U.S. pork industry urges the United States to pursue the following measures in Asia to ensure the success of pork exports in this region:

- With respect to China, (1) tariffs should be lowered to single digit levels, (2) the value-added tax applied against pork imports should be abolished, (3) a system-wide plant certification process should be established, and (4) transparent import regulations and licensing requirements should be implemented.

- The United States should negotiate a bilateral agreement with Taiwan that would lift the country's ban on U.S. pork exports and immediately open that country for U.S. pork sales.
- The Philippines should be required to honor its Uruguay Round pork TRQ commitments. Absent compliance with these obligations, the United States should reduce the Philippines' GSP eligibility.
- Single-digit tariff levels for pork should be negotiated for all Asian countries, including South Korea, Thailand, and Vietnam.
- Congress should reject efforts to waive Jackson-Vanick and grant Vietnam most favored nation treatment until that country opens its markets to U.S. pork exports.

***Latin American countries must provide improved market access for U.S. pork exports.***

The barriers that hinder the expansion of U.S. pork exports are not limited to Asia. Several South American markets also maintain restrictive practices that must be incorporated in the U.S. agricultural trade agenda. These markets, while not as large as Asian markets, are important sources of growth for U.S. pork exports, and U.S. producers have the potential to gain a significant share of these markets. Indeed, since the implementation of NAFTA, U.S. pork has increased its share of Mexico's pork market to over 95 percent, demonstrating the ability of U.S. pork exports to successfully penetrate markets south of the United States.

Below are some examples of the market access issues facing U.S. pork exports in Latin America.

***Argentina.*** According to industry sources, the annual market for imported pork in Argentina is 40,000 to 60,000 metric tons, valued at approximately 80 to 120 million dollars.

While Brazilian producers are accorded certain trade preferences in Argentina by virtue of Brazil's MERCOSUR membership, and while U.S. imports face competition from Canada, U.S. exports nonetheless are expected to garner a significant share of the import market. Argentina, however, claims that U.S. pork imports will introduce Porcine Reproductive and Respiratory Syndrome ("PRRS") into Argentina even though a risk assessment conducted by USDA's Animal & Plant Health Inspection Service ("APHIS") demonstrates that the risk of transmission of PRRS is negligible. Argentina, therefore, has no scientific basis for denying U.S. pork imports access to its market.

***Colombia.*** Colombia maintains a variable import tariff "price band" system that establishes floor and ceiling prices effective for one year based on international prices. This system results in tremendous fluctuations in the applicable import duty. Demand for imported pork in Colombia is primarily from the processing sector. Many Colombian processors have told U.S. pork industry representatives that the risk posed by duty fluctuations precludes them from importing significant volumes of U.S. pork. The "price band" system therefore discriminates against imports and must be addressed in order to allow U.S. pork exports to participate in the Colombian market.

***Venezuela.*** Up until 1997, Venezuela maintained a de jure ban on pork imports ostensibly to guard against the transmission of PRRS by imported pork. Although risk assessment studies eventually established that the issue of transmissibility was moot, as a practical matter, the Venezuelan government continues to restrict the importation of pork by declining to issue import certifications. Notably, prior to the imposition of the de jure ban, Venezuela sourced most of its imported pork from the United States, and industry sources estimate that U.S. exports would

likely capture 80 percent of the market for imported pork if Venezuela removed its de facto ban. Stated otherwise, if Venezuela imported 20 percent of the pork that it requires for processing, the United States would export approximately $35 million of pork to Venezuela.

Notably, however, U.S. competitors are gaining a strategic advantage over U.S. pork producers by negotiating trade agreements with Latin American countries independently of the United States. Most notable among these is Chile, which has signed bilateral trade agreements with many of its Latin American neighbors, and, most recently, Canada, as well as MERCOSUR. The United States, however, is party to only NAFTA. As a result, exports to Chile from countries operating under preferential trade agreements will have a delivered price advantage of 11 percent over U.S products. Fast track negotiating authority is needed to put U.S. pork producers back in the game.

***U.S. pork exports face barriers to access in other important export markets.***

While Asia and Latin America represent compelling examples of market access problems that exist within trading blocs as a whole, other important export markets maintain the same trade-restrictive practices, and in turn, cause the same level of harm to U.S. pork exports. Two noteworthy examples are Russia and the European Union.

The unreasonable and unjustified practices of the European Union with respect to U.S. pork exports are well-known to the U.S. government, and unfortunately, to U.S. pork producers. After years of negotiating an agreement on plant inspection equivalency and regionalization, and after significant concessions by the United States on this latter issue, the EU once again has failed to adhere to its commitment to practice equivalency by repeatedly delaying implementation of the equivalency agreement. This agreement, which is based on a bilateral understanding reached

last Spring, was due to be implemented on October 1, 1997. Moreover, at the same time, the EU is attempting to further restrict pork imports by "gerrymandering" the definition of TRQ-eligible pork, and thereby circumventing its Uruguay Round obligations.

The EU's dilatory and evasive tactics with respect to U.S. meat exports have not subsided despite exhaustive negotiating efforts by the United States. The unfortunate result is that meat trade across the Atlantic continues to be a one-way street. Moreover, U.S. pork producers hold out little hope of forcing the EU into compliance through the negotiating process. The United States must ensure that strong measures remain available to secure the EU's commitments on meat trade. If the United States is successful on this front, the gains to U.S. pork exports could be significant, as exports are expected to soar to over $100 million once the EU appropriately implements the veterinary equivalency agreement.

Likewise, with respect to Russia, which was the second biggest export market for U.S. pork in 1995 (behind Japan), the potential gains to the U.S. pork industry are staggering. The former Soviet Union was the largest meat importing nation in the world, and pork production has continually been on the decline in that country. Despite these trends, Russia continues to preclude almost all U.S. pork plants from exporting into the retail market. As a testament to the importance of the Russian market to U.S. pork exports, U.S. producers have agreed to fund the review and inspection of U.S. plants by Russian veterinarians. Once again, the United States must address and eliminate these problems so that U.S. pork exports can achieve their full potential in this critically important market.

* * * * * * * * *

These examples of market access issues in Asia, Latin America, the EU, and Russia demonstrate that U.S. pork exports are being held hostage to a host of import barriers by U.S. trading partners. The barriers to U.S. pork exports, however, are not limited to these examples, as the attached "Inventory of Pork Market Access Barriers" demonstrates. Absent renewed fast track negotiating authority, many of these barriers will continue to stifle the growth of U.S. pork exports, and ultimately, the U.S. pork industry itself. Congress must take action now to ensure that the President is given fast track authority to negotiate trade agreements so that pork -- and the United States -- can remain at the forefront of world trade.

## INVENTORY OF PORK MARKET ACCESS ISSUES

| COUNTRY | OFFENDING PRACTICE |
|---|---|
| Argentina | Bans pork imports due to alleged risk of transmission of certain animal diseases through imported meat notwithstanding absence of confirming scientific evidence |
| Australia | Maintains de facto ban on U.S. pork exports due to alleged risk of certain animal diseases through imported meat notwithstanding absence of confirming scientific evidence |
| Canada | Has failed to implement S&P regionalization obligation with respect to imports of slaughter swine from PRV-free states |
| China | • Maintains high tariffs and discriminatory value-added tax on pork imports<br>• Imposes non-transparent import regulations and licensing requirements<br>• Conducts cumbersome plant review and certification process on an ad hoc rather than system-wide basis |
| Colombia | Operates "price band" tariff system that results in duty fluctuation that subsequently creates disincentive to import |
| European Union | Maintains non-equivalent plant review and certification process under EU's Third Country Meat Directive that ignores principles of equivalence |
| Jamaica | Maintains de facto ban on U.S. pork exports due to alleged risk of transmission of certain animal diseases through imported meat notwithstanding absence of confirming scientific evidence |
| Japan | Applies import safeguard in a manner that causes uncertainty in the market and creates disincentive to import |

## INVENTORY OF PORK MARKET ACCESS ISSUES

| COUNTRY | OFFENDING PRACTICE |
|---|---|
| Mexico | Imposes ban on importation of live hogs for slaughter due to alleged risk of transmission of certain animal diseases notwithstanding absence of confirming scientific evidence |
| Philippines | Administers pork TRQs in discriminatory manner |
| Russia | • Maintains non-transparent and cumbersome plant review and certification process<br>• Restricts access of U.S. pork into the retail sector |
| South Africa | Imposes discriminatory "time and temperature" requirements to control for spread of disease that are inconsistent with sound science |
| South Korea | Assesses excessively high post-Uruguay Round tariffs |
| Taiwan | Bans importation of pork variety meats and selected muscle meats |
| Thailand | Maintains excessively high pork tariffs, "licensing fee," and value-added tax that operate to prohibit imports |
| Venezuela | • Previously maintained de jure ban on pork imports due to alleged risk of transmission of certain animal diseases<br>• Replaced de jure ban with de facto ban in the form of strict and non-transparent import certification system |
| Vietnam | • Maintains discriminatory import licensing system<br>• Imposes high tariffs on pork imports |

THE HONORABLE ROBERT F. (BOB) SMITH

CHAIRMAN
COMMITTEE ON AGRICULTURE

BEFORE THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS

FEBRUARY 12, 1998

Thank you Mr. Chairman.

For American farmers and ranchers, trade is an essential part of their livelihood. Currently exports account for 30% of U.S. farm cash receipts. We produce much more than we consume in the United States; therefore exports are vital to the prosperity and success of U.S. farmers and ranchers. In 1996, U.S. agricultural exports totaled $60 billion and the agriculture trade surplus exceeded $26 billion.

The future holds greater promise for agriculture exports as world income and economic growth expand. Higher incomes for consumers mean improved and diverse diets, which, in turn, result in a greater demand for fruits and vegetables and other high value products.

In 1996, significant reforms were made to U.S. farm programs. These reforms returned control of the farming operation to the producers in exchange for sharp restrictions on the level of government support to the farmer. To date, U.S. producers are expressing their satisfaction with their new, more distant relationship with the government.

The goal was to provide U.S. farmers with the flexibility to plant for the market. Farmer's income will come from the marketplace and not from the government. For this plan to be successful, the U.S. government must ensure that our farmers and ranchers can compete against other exporters, and not against foreign governments.

United States farmers and ranchers are the most productive in the world and have been successful because of this productivity and because of trade agreements such as the Uruguay Round and the North American Free Trade Agreement (NAFTA). This success has been tempered due to significant barriers to trade, such as import restrictions, non-tariff trade barriers, and outrageously high export subsidies in some exporting countries.

For example, in 1997, United States spending for direct payments to farmers and agriculture programs for export subsidies totaled $5.3 billion. In that same year, the European Union's spending for similar programs totaled $46.8 billion.

As a part of the Committee on Agriculture trade agenda several Members of the Committee and I have traveled to Argentina, Chile, Mexico,

Canada, Thailand, the Philippines, New Zealand, and Australia. These trade delegations will serve the Committee well in preparation for further trade negotiations, especially the 1999 WTO agriculture negotiations. By meeting with government officials and others interested in expanded worldwide trade, the Committee has been successful in breaking down barriers to trade and fostering and encouraging discussions between the U.S. and these other governments.

Our Committee has worked closely with the Administration on all matters related to agriculture trade. I intend that we will speak with one voice to foreign governments on matters related to agriculture trade.

**Fast Track Negotiating Authority**

Agriculture is an extremely important and essential segment of the economy and must be considered in all trade negotiations. Agriculture must be a top priority with the Administration when it discusses trade matters with other countries and in multilateral negotiations. Historically, U.S. agriculture has been a leader in free trade principles. It has also been one of the exports most harmed by the policies of foreign governments. In order to secure trade agreements, especially a multilateral trade agreement affecting agriculture, fast track authority must be provided to the Administration.

I support broad fast track legislation and believe it is imperative that we move forward. Our trading partners look to the United States to lead on global trade matters.

I support free and fair trade agreements. U.S. agriculture can succeed under those agreements. I also expect this Administration, and any Administration, to be vigilant about the monitoring of the implementation of trade agreements by other countries. The goal should be to secure fair treatment for American commodities through trade agreements.

**1999 WTO Negotiations**

The 1999 WTO negotiations offer a platform for further reduction in barriers to trade and further expansion of agricultural trade opportunities. The Agriculture Committee will be working closely with the Administration, both the U.S. Department of Agriculture and the U.S. Trade Representative, to achieve these goals.

I do not believe that the 1999 WTO negotiations should be a forum to re-negotiate the gains achieved in the 1994 Uruguay Round Agreement. Instead, we want to move forward with liberalization of worldwide agriculture trade.

The 1999 WTO negotiations can provide a unique opportunity for United States agriculture to further reduce tariffs, open new markets, and address unfair trade practices around the world. Specifically, among the issues likely to be on the 1999 WTO negotiating agenda are several that were not addressed effectively, or at all, during the Uruguay Round. These

include trade in biotechnology products, the operations of state trading enterprises, and commodity preferences. Other items on the agenda for the 1999 WTO agriculture negotiations could be the administration of tariff rate quotas and the use of safeguards for specific commodities.

**Coordination Among Present and Future Trade Agreements**

Bi-partisanship is how the United States is able to secure trade agreements and ensure that the rules are followed. The Uruguay Round Agreement and NAFTA are in place because of the work begun by the Reagan Administration; the negotiations that took place during the Bush Administration; and the negotiations that were concluded and the agreements signed during the Clinton Administration.

The goals of the Uruguay Round Agreement and NAFTA were to open markets, reduce tariffs, eliminate barriers to trade and increase the economic strength of the countries participating in the agreements, including the United States. These agreements have been good for U.S. agricultural trade. They are not perfect, there are problems with access and barriers that must be resolved. Additionally, while the U.S. has been successful in WTO dispute settlement cases, U.S. agriculture has yet to see the fruits of these successes. Implementation of WTO panel decisions should be reviewed.

One good example of the value of agriculture trade agreements, in this case NAFTA, is that our agriculture exports to Mexico rebounded to a record level the year following Mexico's economic crisis. It was, in part, because of NAFTA that the immediate impact on U.S. exports to Mexico was lessened and it was because of NAFTA that one year later record levels of U.S. agriculture exports went to Mexico. Because of preferential access for U.S. products under NAFTA, the initial blow of the economic crisis fell on other countries that compete in the Mexican market.

Problems do exist with our trading partners. Canadian wheat and barley exports to the U.S. are being closely monitored by the U.S. Department of Agriculture (USDA) to insure that the U.S. is not a dumping ground for Canadian grain. The decision by the NAFTA dispute settlement panel regarding Canadian tariffs, some as high as 300%, on U.S. exports of dairy, poultry, and eggs was very disappointing and appears to be in conflict with the commitments made in the Uruguay Round. The U.S. must look to the 1999 World Trade Organization (WTO) negotiations to seek relief from such exorbitant tariffs.

Most of these problems are not a result of the Uruguay Round or NAFTA. They, and others similar to them, exist despite those agreements. There is one important issue that should be corrected in future trade agreements. The 1989 Canadian Free Trade Agreement, which became a part of the NAFTA, allowed Canada to continue its protection of its dairy and poultry industry from imports. An exclusion of a part of an important sector, in this case agriculture, from trade agreements should not be allowed to continue, as was the case in the Canadian Free Trade Agreement. In fact, I believe that agriculture should be a part of all trade agreements, whether

worldwide agreements or among various countries. Agriculture must always be part of the discussions and negotiations.

We continue to experience problems with other countries' sanitary and phytosanitary barriers, many of which have little or no scientific basis. Japan sets phytosanitary protocols for several fruits, such as apples, cherries and nectarines. However these protocols are for specific varieties and exclude varieties that are almost identical. The U.S. has presented scientific evidence that treatments for one variety can be extended to other varieties. However, Japan requires costly and time consuming additional scientific research before entry is allowed. This is a non-tariff trade barrier.

There is a need to coordinate the U.S. actions regarding sanitary and phytosanitary measures. A recent General Accounting Office (GAO) report illustrates the barriers faced by U.S. agriculture. According to this report, the USDA identified a list of 315 technical barriers to agriculture trade in 63 countries, over 90% of which are sanitary and phytosanitary measures, affecting $5 billion of U.S. agricultural exports. While USDA says that some of these measures may not be non-tariff trade barriers, they are unable to determine the extent of those inconsistent with the WTO rules. GAO says that there are at least 12 federal entities with some responsibility to identifying and evaluating sanitary and phytosanitary measures and that no single entity directs these efforts. GAO concludes that the federal government lacks comprehensive data on which sanitary and phytosanitary measures are being addressed; there is no process to jointly evaluate these measures; and, once a decision has been reached to challenge a measure, multiple government entities with conflicting views make it difficult to develop a unified approach.

This is a matter of serious concern and must be looked into further.

**Trade Agreements and Prosperous U.S. Agriculture**

I want to see improved access for U.S. agricultural exports; I want to see non-tariff trade barriers eliminated; and, I want growth and expansion of our agriculture trade because it is good for United States farmers and ranchers, and all who contribute to providing food for people of our country and the world.

Thank you Mr. Chairman for the opportunity to present my views to the Trade Subcommittee.

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Comments

Status of U.S. Efforts to Reduce
Barriers to Trade in Agriculture

Subcommittee on Trade
Committee on Ways and Means
House of Representatives

February 12, 1998

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The Congress has consistently called for market-opening opportunities for U.S. wine exports. Yet, the history of U.S. wine trade policy is a series of one-sided agreements that have tilted the international playing field sharply against U.S. winegrowers. Today, the U.S. has the most open market for wine imports and the lowest tariffs of any major wine-producing country, while U.S. winegrowers face high tariff and non-tariff trade barriers around the world.

Congress became concerned about inequities in the market for wine after the Tokyo Round of multilateral trade negotiations was concluded in 1979. In the Trade Agreements Act of 1979, which implemented the Tokyo Round accords, Congress instructed U.S. negotiators to examine the trade barriers facing U.S. wine exports in an effort to construct a strategy for opening overseas markets to U.S. products. The U.S. industry voiced its concern then over the "disparity between U.S. tariff and non-tariff measures regarding wine, and those maintained by other countries" which placed the U.S. industry in serious jeopardy.

In responding to Congress's request, the President conceded the U.S. wine industry's point. The President's Report detailed the structural imbalance in tariffs and other trade barriers facing the U.S. wine industry as a result of the Tokyo Round negotiations, the first negotiations completed under the so-called "fast track" procedures for Congressional approval. The 1981 Report revealed that the United States had much lower tariffs than almost all other major wine-producing countries and markets for U.S. wine. It also cataloged a wide array of non-tariff barriers hindering U.S. exports, including monopoly practices, required price mark-ups, restrictive labelling rules, certification requirements, and restrictions on winemaking practices.

Moreover, the President concluded that the U.S. had already lost any leverage they might have had in future negotiations. He confirmed that --

> [s]ubstantial reductions were made in U.S. tariff and non-tariff measures governing imported alcoholic beverages during the [Tokyo Round], therefore it is unlikely that the U.S. could offer equivalent concessions in the alcoholic beverage sector in exchange for a reduction in trade barriers by other countries.

In other words, the President acknowledged that, having traded away much of the United States' negotiating leverage, the U.S. had few tools, other than "concessions by the United States in other product sectors," to restore any balance to U.S. wine trade.

That led Congress to enact the Wine Equity and Export Expansion Act in 1984 urging the Executive to rectify the damage to the U.S. wine industry's interests. The Act recognized that --

> there is a substantial imbalance in international wine trade resulting . . . from the relative accessibility enjoyed by foreign wines to the United States market while the United States wine industry faces restrictive tariff and non-tariff barriers in virtually every existing or potential foreign market.

To redress that competitive imbalance, Congress directed the U.S. Trade Representative ("USTR") --

> to enter into consultations with each major wine trading country to seek a reduction or limitation of that country's tariff barriers and non-tariff barriers to (or distortions of) trade in United States wine.

Congress required the negotiators to report back on their progress.

In late 1985, President Reagan responded with a report that summarized the results of consultations conducted under the Wine Equity and Export Expansion Act requirements. The report of discussions with various countries details the limited progress made; the consistent theme that runs through the report was the pledge that the remaining barriers would be addressed in the next round of multilateral trade negotiations within the framework of the General Agreement on Tariffs and Trade ("GATT").

The lack of progress achieved in the initial round of discussions led Congress, in the Omnibus Trade and Competitiveness Act of 1988, to renew the provisions of the Wine Equity and Export Expansion Act. By then Congress had renewed the President's negotiating authority, President Reagan had concluded a free trade agreement with Canada, and the Uruguay Round of multilateral trade negotiations had begun. President Bush responded to the 1988 Act's requirements by forwarding a report prepared by the USTR. It reported the progress made in the U.S.-Canadian Free Trade Agreement, but acknowledged that the agreement had done little to deter the Canadian provinces from discriminating against U.S. exports. The remainder of the USTR's submission echoed the same themes of the 1985 report to Congress -- little progress, an intent to consult further, and deferral of remaining issues to the Uruguay Round of GATT talks.

Despite nearly two decades of effort, Congress has yet to see any dramatic results. Rather than heed Congress's calls for equity, the U.S. has concluded a series of trade agreements that have compounded the U.S. industry's problems.

Instead of closing the gap between lower U.S. tariffs and higher foreign tariffs, the gap has grown. Our foreign trading partners have maintained their non-tariff barriers to imports of U.S. wines.

The U.S.-Canada Free Trade Agreement ("FTA") was supposed to create a preferential trading relationship between the U.S. and Canada. In the case of wine, however, U.S. products continued to face discriminatory barriers to trade.

Wine sales in Canada are conducted by the provincial governments. The provinces mark up the price of U.S. wines to account for the incremental costs of importing the products. Key provinces -- Ontario and British Columbia -- utilized highly inflated "cost of service" markups that bore no relationship to the actual incremental costs associated with importing. The inflated markups, coupled with preferences the provinces maintained for European and South American wines, placed U.S. products at a disadvantage in the local market until industry-led negotiations with the individual Liquor Control Boards in Ontario and British Columbia resulted in cost-of-service reductions to levels comparable to the charges imposed on other countries exporting wine to Canada.

The industry has yet to receive any positive results from the NAFTA. Coincident with NAFTA, Mexico gave Chilean wines an immediate tariff reduction from 20 to 8 percent, and a guarantee of duty-free status in four years. Today, Chile exports wine to Mexico duty free. By contrast, U.S. wines were scheduled to receive a 10-year phase out, leaving U.S. wines at a significant competitive disadvantage in the Mexican market.

When NAFTA ratification was uncertain, the Clinton Administration gained support from the California congressional delegation by pledging to correct the inequities of the U.S. wine and brandy industries' treatment under NAFTA within 120 days of the agreement's entry into force. This has not been done. When the

Administration was designing its Mexican bailout program, it did not respond to suggestions by Members of Congress to use the bailout to correct the NAFTA situation.

Today, as a result of a corn broom dispute, Mexico has increased its tariffs on wine and brandy to the pre-NAFTA 20% level.

The most dramatic example of the failure to heed Congress's instructions, however, lies in the results of the Uruguay Round. When the Uruguay Round talks began, the U.S. had the lowest tariffs of any major wine producing country. The U.S., nonetheless, agreed to a 36 percent reduction in the U.S. wine tariff to take effect the day the agreement entered into force -- January 1, 1995.

The European Union, by contrast, agreed to reduce their applied wine tariffs by a mere 10 percent, with no actual reduction in European tariffs for the first 3 years of the agreement. Other countries agreed to reduce their tariffs by 10-20 percent, but, in many instances, those figures were based on reductions in "bound" rates, not the tariff rates actually applied to U.S. exports, which diminished any benefit to U.S. producers. The remaining countries declined to reduce wine tariffs at all.

Another way to measure the success in implementing the strategy called for by Congress in the Wine Equity and Export Expansion Act is to examine the barriers to U.S. exports that remain in place.

The European Union is both the largest wine producing and consuming entity in the world. The United States has opened its market to European wine exports. We are Europe's largest export market.

Under pressure from pending legislation to enact the Wine Equity and Export Expansion Act, the European Community in 1983 entered an agreement with the United States to liberalize trade in wine by amending restrictive rules on winemaking practices and import certifications. This agreement, known in the industry as the "Wine Accords", has failed to secure consistent and complete access to the European market.

Despite the Wine Accords, the European Union continues to impose restrictions on production methods based on spurious health concerns. For example, European Union rules prohibit wine makers in E.U. member countries from using the ion-exchange process, which is widely used in the United States. E.U. officials have publicly conceded that this process does not raise any health concerns; it simply improves the taste of wine. The prohibition on the use of ion-exchange was originally designed to protect the Bordeaux and Burgundies from competition from wines originating in the less prestigious growing areas in Europe. The tactic has since been translated into international trade.

In addition, many wines freely sold in the U.S. are prohibited entry to the EU, such as wines below 9% alcohol or non-fortified wines which exceed 15% total potential alcohol. This, despite the fact that European wines in both categories face no restrictions.

In the Wine Accords, the U.S. agreed to grant protection of various appellations of origin that had not become "semi-generic" in exchange for permission to use ion-exchange and certain other wine making practices on products exported to Europe. While the U.S. has honored its commitments, the European Union has failed to fulfill its part of the bargain, limiting entry to temporary exemptions from the rules on a six-month or yearly basis. By

placing market access in constant jeopardy, the Europeans raise the risk for and cost of U.S. companies attempting to build brand recognition in Europe.

Likewise, the European Union continues to impose restrictive import certification requirements. In marked contrast to the ease with which foreign wines enter the United States, U.S. wines must undergo an arduous process to enter the European Market, with each wine shipment requiring production and shipping information and eight costly chemical tests.

The Uruguay Round agreement on standards, like the Wine Accords, is also supposed to prevent the use of false health claims as trade barriers. Thus far, it has had no impact on E.U. policy.

The failure of the Wine Accords, however, is only part of the problem. The EU heavily subsidizes its wine industry, close to $2 billion annually. Although certain subsidies are scheduled to be phased out, it is over a long period of time. The U.S. wine industry receives no production nor price subsidies. What follows is a brief catalog of the tariff and non-tariff measures U.S. wine exports continue to face in Europe in addition to those noted above.

Tariffs: Although European tariffs were already 3 times higher than U.S. tariffs on an *ad valorem* basis, the U.S. agreed in the Uruguay Round to reduce our tariffs by 36 percent while the European Union reduced its applied tariff rates by only 10 percent.

Labelling Issues: By heavily regulating "quality" terms on labels and by retaining exclusive rights to the term "table wine," the European Union inhibits U.S. exporters from effectively marketing their wines.

Trademarks: The European Union permits a new appellation of origin to nullify or, in some circumstances, co-exist with an older established trademark, thereby raising the risks and costs for U.S. companies, particularly those that bear the names of families that originally emigrated from Europe.

E.U. Enlargement: The European Union raised tariffs on U.S. wine exports to Sweden, Finland, and Austria when they joined the European Union and imposed the E.U.'s array of non-tariff barriers; the USTR has sought "compensation" without success.

U.S. wine producers continue to face significant trade barriers in Taiwan, notwithstanding the limited accomplishments of the USTR in negotiating access to the Taiwanese alcoholic beverages market. U.S. wines face a staggering 275 percent markup due to the combined effect of import tariffs and excise taxes not paid by domestic producers in Taiwan. In addition, Taiwan bars anything more than a minimal markup at the retail level, thus inhibiting Taiwanese retailers from stocking U.S. wines.

The USTR has recognized a number of significant trade barriers confronting U.S. wine in Japan. These include a 21% tariff, restrictive additive labelling regulations, additive standards, and testing systems, as well as groundless challenges to some U.S. winemaking practices.

In the People's Republic of China, U.S. wine faces a 70% tariff. In addition, the USTR has acknowledged that American companies face difficulties in getting the sole official distributor to handle their products.

What the history of trade negotiations and the partial catalog of foreign trade barriers set out above illustrates is that, despite the admonition of Congress and the opportunity to succeed, the U.S. has not achieved a level playing field for U.S. winegrowers. It is important to note that recently, USTR has been more consultative on many of the issues discussed above. We are pleased with this development.