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TO REVIEW THE STATUS OF THE WORLD TRADE ORGANIZATION NEGOTIATIONS ON AGRICULTURE

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

SEPTEMBER 21, 2005

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TO REVIEW THE STATUS OF THE WORLD TRADE ORGANIZATION NEGOTIATIONS ON AGRICULTURE

WEDNESDAY, SEPTEMBER 21, 2005

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:12 a.m., in room SR–328A, Russell Senate Office Building, Hon. Saxby Chambliss, [Chairman of the Committee], presiding.

Present or submitting a statement: Senators Chambliss, Lugar, Roberts, Talent, Thomas, Coleman, Crapo, Grassley, Harkin, Baucus, Lincoln, and Salazar.

STATEMENT OF HON. SAXBY CHAMBLISS, A U.S. SENATOR FROM GEORGIA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

The CHAIRMAN. This hearing will come to order. I welcome you to this hearing to review the ongoing agriculture negotiations in the World Trade Organization. I appreciate our witnesses and members of the public being here to review this very important topic as well as those who are listening through our website.

With less than 85 days until the Hong Kong Ministerial Conference, I am eager to hear from Secretary Johanns and Ambassador Portman on the status of negotiations and what will need to happen in the coming days and weeks to reach a successful outcome.

As the world's largest exporter of agricultural products, the United States has much to gain and lose in the negotiations. In some ways, the negotiations will define the future of U.S. agriculture and the balance sheet for millions of farmers and ranchers in the United States.

Most U.S. commodities and agricultural products depend on export markets and agriculture remains one of the few sectors in the U.S. economy that has a net trade surplus. In 2004, the value of agricultural exports was $61 billion versus almost $54 billion of imports. In addition, exports count for one-fourth of foreign cash receipts and more than one out of every three acres of U.S. agriculture land is cultivated for exports. Thirty-six percent of exports are bulk products—grains, oil seeds, cotton, and tobacco. Sixteen percent are livestock products, horticulture at 21 percent, and the remainder in processed foods.

The importance of the current WTO negotiations is heightened by the fact that 95 percent of the world's population lives outside the United States and growth in developing countries will increase at a higher rate than in developed countries.

While it is important to diversify the farm economy through new uses domestically, farmers and ranchers will be impacted by future demand and competition from customers and competitors abroad. Key to future success will be the extent to which countries provide new market access by lowering tariffs, eliminate export subsidies, and reducing barriers to trade, namely sanitary and phytosanitary requirements.

China has 20 percent of the world's population, and agricultural exports to that country have grown from $1.7 billion to $6.l billion since China entered the WTO. The Department of Agriculture projects an agriculture export surplus of $2 billion in 2005. The assumption underlying support for the WTO negotiations is the expectation that farm income will continue to grow as more developed and developing countries open their doors to our high-quality food and fiber products. In return, the United States will have to commit to reform our domestic programs.

While the President's statement at the United Nations last week called for the elimination of, quote, "all tariffs, subsidies, and other barriers to the free flow of goods and services as other nations do the same," close quote, by 2010, we must be careful to do so while also providing a stable and secure safety net for America's farmers and ranchers.

I believe it is possible to promote trade liberalization and reform of our domestic support programs at the same time, but we must do so very carefully while being mindful of what future programs will replace the ones we are eliminating. The administration must make sure farmers and ranchers at the grassroots support its trade agenda.

As recent trade debates have illustrated, producers are more skeptical of the promises and predictions of future market access than in years past. Problems with Mexico, Russia, China, Canada, and Europe, among others, are often used by the opponents of trade to make the case for suspending future bilateral and multilateral negotiations. In order to quell this sentiment, farmers and ranchers will need to se for themselves the benefits of trade at the farm gate level. This is the greatest challenge that confronts us.

This committee will be traveling to Hong Kong to view firsthand the ministerial. It is my hope that the talks leading up to Hong Kong accomplishes most of the work and the events at the conference are ceremonial and capped by celebration. We will be watching closely the Ambassador's trip to Paris this week and are interested in the feedback from our witnesses regarding the visit last week of their European counterparts.

In closing, while I believe the negotiations are extremely important, my advice and counsel to the administration is that the United States should not accept a deal in Hong Kong unless it provides tangible and real rewards for our agricultural sector. No deal is better than a bad deal.

Before we proceed, I would ask that other Senators hold their comments until they have the opportunity to ask questions. Sen-

ator Harkin is obviously not here at this point in time, but when he does arrive, he will have the opportunity to make any opening statement that he wishes to make.

And speaking of that, I have a statement from Senator Grassley that I would ask unanimous consent be inserted into the record.

[The prepared statement of Senator Grassley can be found in the appendix on page 120.]

The CHAIRMAN. We have as panel one today the Honorable Mike Johanns, Secretary of the United States Department of Agriculture, and the Honorable Robert Portman, United States Trade Representative.

Let me just publicly state one more time how much I appreciate both of you gentlemen. Mr. Secretary, I now have had the privilege, I guess, of serving under four different Secretaries of Agriculture. No Secretary of Agriculture has been more cooperative with members of the House and members of the Senate than have you. You have been very open to discussion, even on difficult and sensitive issues when we maybe didn't always see eye to eye. You have never hesitated to come to the Hill when we asked you and we appreciate that very much. The way you solve problems is to face them head-on and you have done that.

Mr. Ambassador, I would say the same thing for you. Everybody on this committee obviously has a very good personal relationship with you. You and I go way back to both of our days in the House when you were such a strong leader in that body and you have brought the same kind of leadership qualities that you exhibited in the House to your position as Ambassador for the United States with issues relative to trade. You have been very open, very forthcoming, and once again, when it comes to tough issues, you have never backed down from coming up to visit with us and working out the differences that we have and making sure that the answers to the United States, and in particular farmers and ranchers, is well lookayed after.

So to both of you, I appreciate very much your great service to our country and to farmers and ranchers all across America.

I note, too, Mr. Ambassador, one of your staff members who is with you today, Allen Johnson. I think it is his last week as a member of your staff and organization. Allen, of course, is a holdover from the previous Ambassador and he is an individual who has worked very hard for farmers and ranchers in his capacity as a member of the trade staff. Allen, we just want to tell you how much we appreciate your service to America and we will miss you. I have an idea that we will continue to see you from time to time. We certainly hope that is the case. But thank you for all you have done and for all your hard work and efforts.

Mr. Secretary, we will turn to you for any opening comments you have to make and we lookay forward to hearing that.

STATEMENT OF HON. MIKE JOHANNS, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Secretary JOHANNS. Thank you, Mr. Chairman and members of the committee. It is a pleasure to be here today. I do appreciate the compliment. Likewise, it has been a pleasure working with the members of this committee, each and every one.

I am pleased to be here today along with Rob Portman to discuss the WTO negotiations. If I might just briefly, though, I would like to make mention of a few statistics relative to the farm economy, mention very quickly some of the work that we have done on Katrina, Hurricane Katrina, and then offer a perspective on the negotiations.

It is important to recognize that net farm income has been at record levels, actually, for the past few years and it is expected to be at a near record this year. Our farm sector has been robust. It has been enjoying a period of unparalleled prosperity in recent years.

We note that commodity prices have moved lower this year and that fuel prices and interest rates have moved higher, and, of course, that impacts agriculture. And we have seen adverse weather conditions affecting several areas of the country.

But cash-flow continues at record or near-record levels. The first was set in 2003. A new record at a substantially higher level was actually set in 2004 and we are projecting a level close to that this year.

Similarly, our agriculture exports are at record levels. Sales worth $62.4 billion last year were at an all-time record, to be followed by an estimated $62 billion this year. That will be the second-highest ever. And in 2006, we are forecasting a new record of $63.5 billion. When we succeed at opening major beef markets, I expect that these numbers will be even better.

The composition of our sales has evolved, as well. Consumer food and intermediate product sales are growing steadily. These are value added. They generate jobs and economic activity for each dollar of product sales.

In reference to Hurricane Katrina, the destruction and the social disruption of this hurricane, it just defies comprehension. I am proud to say that the USDA has been playing a major role in doing all we can to improve human conditions in the area that was hit by the hurricane.

Prior to the hurricane's landfall, the USDA through the Food and Nutrition Service placed food in warehouses in Louisiana and Texas so we could move that food into the affected areas very quickly. Since then, we have delivered over 15 million pounds of food. Working with our State partners, we have provided food stamps to over 400,000 households totaling more than $100 million worth of benefits. Our Rural Development Agency has identified 30,000 housing units across the country in the event that there is a need for this housing. The Forest Service has been operating instant management centers and the Farm Service Agency is providing emergency farm assistance.

Our preliminary estimates which we released this week, and I emphasize preliminary, related to the hurricane and crop loss are $900 million, and again, I would emphasize that is our first lookay at that. With that said, there is a long road ahead for producers who face infrastructure and long-term losses not accounted for in the assessment.

On the port area, I do want to indicate to you that we have also been working on those issues and done a number of things to try

to get grain moving again because it is such an important thoroughfare for our grain into the export markets.

I cannot emphasize enough that the future strength of American agriculture hinges on our success in the international marketplace. Historically, we have been the world's largest agriculture exporter. We derive 27 percent of gross farm receipts from foreign customers. Large portions of our production of many crops go into the export market. Export markets are vital to the economic prosperity of our farmers and ranchers.

As the chairman indicated, and we all can cite these statistics from memory, 95 percent of our customers or potential customers live abroad. Only 5 percent of the world's population is in the United States. The major growth opportunity for our farmers and ranchers is going to be urban areas in developing countries, such as China and India, and gaining access is the key.

This is a critical time to make progress in the WTO negotiations. You well understand the disparities we face. The European Union utilizes the vast majority of export subsidies. The average world tariff is 60 percent, while the U.S. average is 12 percent. You can see why we talk about market access all the time when we talk about trade. The EU can use domestic subsidies at a level four times what we are permitted, even though our agriculture economies are roughly the same.

We face the Hong Kong Ministerial literally weeks away.

We have made it very clear that it is absolutely essential to gain real market access for our farm products around the world. Our objective is to achieve a balanced package, one that levels the playing field on domestic supports and levels the playing field for market access.

The President has challenged his counterparts to eliminate tariffs and trade distorting subsidies. He strongly believes that the American agriculture community can be a global competitor if we have a fair chance to compete.

The Doha Development Agenda negotiations now provide an opportunity to move closer to a fairer trade environment. Last week at the United Nations, the President said, and I am quoting, he said, world leaders, to achieve a successful Doha Round, quote, "will reduce and eliminate tariffs and other barriers on farm and industrial goods that will end unfair agricultural subsidies," unquote.

We want fair trade. If others would join us and make proportional cuts in domestic supports and harmonize and substantially reduce tariffs, we are prepared to do as well.

We are ready to negotiate a strong, balanced package. Let me reiterate our objectives. Export competition—we want to see the end, and very soon, of export subsidies. Market access—we must have significant reductions in barriers to our products. In domestic support, we have said all along that we are amenable to significant reductions if others do likewise.

Ambassador Portman will address the specifics of negotiations in his remarks. He and I are doing our utmost to move these talks forward and we have an excellent working relationship. We did meet last week with our counterparts from the European Commission and we are leaving later today to continue those talks.

This is an opportunity we cannot bypass. We need to reach agreement on agricultural reform. President Bush reiterated our ambition last week with a vision that will provide greater opportunities for our farmers and our ranchers to prosper in the global marketplace. We will now work tirelessly in the time until Hong Kong to achieve that goal.

Thank you, Mr. Chairman and members of the committee.

The Chairman Thank you, Mr. Secretary.

[The prepared statement of Secretary Johanns can be found in the appendix on page 50.]

The CHAIRMAN. Ambassador Portman?

STATEMENT OF HON. ROBERT PORTMAN, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador Portman. Thank you, Mr. Chairman. I am pleased to be here with Mike Johanns, and Secretary Johanns has just laid out much of the presentation on the general situation in agriculture and then touched on the trade issues. I will try to get a little deeper into the trade issues.

I would like to have my written statement be accepted into the record, and then instead have a more informal dialog based on the handout that I have provided.

The CHAIRMAN. Certainly. Without objection, it will be included.

Ambassador Portman. It is supposed to be a Power Point presentation, but we don't have a Power Point, so we will just walk through it, if that is okay.

I want to start by thanking you for your earlier comments and telling you that in my four and a half months here at USTR, I have thoroughly enjoyed working with you, Mr. Chairman and other members of this committee. It has been a great working relationship and I appreciate the fact that we are able to have the kind of candid and constructive relationship that we have had so far. I know that will continue.

You mentioned the fact that Al Johnson has joined me today. When I first was going through the confirmation process, Ambassador Johnson told me after four and a half years at USTR, he was ready to move to the private sector. I have been trying to twist his arm ever since to get him to change his mind. We have held him on this long and he has worked his heart out for America's farmers and ranchers and I want to add to the chairman's comments about him. His public service has been extraordinary. He has also been a great friend of this committee. I know that, as the chairman said, we are going to continue to hear from Al. I certainly expect to continue to get his advice and counsel, so I thank him for his service and for being here today. I am also joined by Jason Hafemeister. Some of you know Jason already, but Jason is our WTO negotiator who is also behind me.

This presentation is an opportunity for us to get into some of the trade issues, not just Doha, but what this committee is interested in in terms of expanding markets. I divide it into three areas: First is our bilateral and regional agreements, second is the global trade talks, and third is enforcement and compliance.

With regard to the bilateral agreements, we won't spend any time on CAFTA-DR, just to say there are some very specific bene-

fits for agriculture here and I am eager to get that agreement in place. We hope to do so at the first of the year for the six countries that have already ratified it. We expect one more will before the first of the year, and then I think we should go ahead and have that put in place because it really does help our agriculture exports.

We are also lookaying at a number of other free trade agreements. I would love to get more advice and counsel from you all as we move forward on these, but each of them has some benefits for agriculture. In Panama, the average allowed tariff now is 27 percent, for instance, and we have the opportunity here to expand the same kind of exports that we saw with regard to the other Central American countries—corn, soybeans, and so on. This is an agreement where I think we can perhaps work more on a bipartisan basis in the House and Senate to get it done.

Oman, the same thing, average allowed tariff of 35 percent there, Mr. Chairman, so we have an opportunity here to expand our exports. We are hoping that we can move those two agreements, Oman and Panama, fairly soon, and I will talk about Bahrain in a second.

There are others that we are lookaying for in 2006, Thailand, the Andean countries, United Arab Emirates. We can talk more about those if you have some interest, but again, in every one of these countries, we have relatively high tariffs now. As an example, in the Andean countries, the Colombian allowed tariff is 93 percent, Peru, 31, and Ecuador, 25 percent.

Bahrain will be the next agreement that we hope to bring up to the Hill and this agreement was actually signed about a year ago. It is important for foreign policy, as I say. The 9/11 Report actually talks about this idea of the Middle East Free Trade Agreement. This would be another one of hopefully several agreements we can do in that part of the world to help with our foreign policy goals as well as our commercial interests. Eighty-one percent of agriculture exports to Bahrain would be immediately duty-free, for example, and would help, again, to increase some of those export opportunities that Secretary Johanns talked about.

We also have some interesting potential new partners. For some of these, you may be seeing these countries for the first time. They have all come to us, expressed interest in joining with us in a Free Trade Agreement. I think when a country does that, particularly of the size of some of these economies, like South Korea, we should lookay at it very seriously.

We have had serious talks with them. We have not launched a Free Trade Agreement yet. We have not launched those talks yet because, frankly, we are going through the process of letting them know what we require in our Free Trade Agreements, which is extensive. As you know, we have the most comprehensive Free Trade Agreement requirements in the world. We particularly focus on market access and we need to be sure that these partners know what they are getting into if they want to negotiate with us.

But South Korea, as an example, is our fifth-largest agriculture market. This would be the largest Free Trade Agreement we would have done in over a decade, so this could be a substantial benefit

to U.S. agriculture. We had a $2.3 billion agriculture surplus with Korea last year.

Egypt, again, interesting from a lot of different perspectives, including foreign policy, but also on the commercial side. As you can see, it is a big agriculture market for us already, could be much bigger. We had a $900 million agriculture surplus in 2004 with Egypt.

Malaysia and Switzerland are also interesting opportunities for us. In both those cases, we have a deficit right now in agriculture, but I think you have the opportunity to do much more in terms of exports. In Malaysia, the deficit is now around $200 million. Switzerland, as you know, is one of the more closed markets to agriculture right now. Getting into a Free Trade Agreement with us is not something I thought they would be interested in for that reason, but they are, so we are talking. There, we have a deficit of around $77 million.

On the global side, the global trade talks have already been addressed briefly by the chairman and then by the Secretary There is a great opportunity here, obviously, for agriculture, for us to do what we can only do in a global trade talk, which is have an impact in every country in the world in terms of our market access.

The timing here has been the end of 2006, but this has been going on for 4 years and, frankly, for the last year and a half, the talks haven't made much progress. So we are stalled, in a sense, and we are really stalled going into this Hong Kong Ministerial which is coming up at the end of this year and we need to figure out a way to break the deadlock and move the talks forward because it is going to be great for farmers and ranchers if we can get a good deal.

The three main pillars of this Doha Round are manufactured goods, services, and agriculture. I won't go into any detail, but just briefly, on the next chart, you can see why the manufactured goods area is important to us. On the left, you see America's tariffs for manufactured goods in red, all goods in blue. Anything that reduces barriers to trade in manufactured products is going to be good for us. We are still the world's largest exporter of manufactured products, and frankly, we are relatively open here, so this could be very beneficial to our workers and to our economy.

On services, same story. We have a comparative advantage in services. We actually have a surplus of about $48 billion in services in 2004. Our services are expanding dramatically, but we do have still a lot of very high barriers to our global trade in services, and in the interest of the United States, but also in the interest of the world economy, it would be very beneficial for us to make progress in the services front.

So these are two important areas that, frankly, are being held back at this point because of the focus on agriculture. This round, as you recall, was to be the development round and agriculture was to be a centerpiece and it really is, in a sense, the engine that drives the round.

With regard to agriculture, I won't go over all these figures because the chairman has done a good job of that, as has Secretary Johanns, but I like what the chairman pointed out early on in his statement, saying we are the world's largest exporter. We have a

lot to gain from knocking down barriers to our trade, as we will see in a second on our charts. Currently, one out of every three acres planted in Ohio, where I am from, and around the country are planted for export. So our agriculture economy, as the Secretary has outlined well, is dependent at this point on us providing that additional market access.

Where are we on negotiations? We are building on the July 2004 framework. About a year ago, we set out a framework. Again, we haven't made a whole lot of progress on it since, but it has three basic elements. One is to expand market access. For us, that is particularly important in some of these larger developed countries, like the EU and Japan, but also the emerging developing countries, and I would identify Brazil, some of the ASEAN countries where there are huge opportunities and, frankly, very large tariffs in place right now.

Second was to eliminate all export subsidies. We can talk about that in a second, but this was an agreement that was made a year ago and the question is, can we get a date certain and move forward on that?

And third is to substantially reduce trade distorting agriculture subsidies around the world. As the Secretary has said, that would be only done in concert with these other important elements, including market access.

I throw in this next slide because you hear a lot of talk, and some of you have been very involved in this over the years, others have not been as involved, about what does the WTO framework lookay like for agriculture. The WTO puts all subsidy programs into one of three boxes, the amber box, the blue box, and the green box, and you hear these words kicked around.

What they mean, basically, the amber box is the highly trade distorting subsidy programs, something that would encourage production or depress prices. Our commodity loan program, market loan program, would be an example of that.

Second is the blue box, and this is something that would be less trade distorting. Right now, there are no limits on that. The set-aside programs would be an example there. We think our countercyclical programs could fit well into the blue box, although at this point, it is defined in a way that may make that difficult, so we are working on that.

And then third is the green box, and the green box is unlimited at this point and these would be minimal or non-trade distorting payments, for instance, our food stamp program or research or direct payments, environmental programs.

The idea is, of course, with the amber box programs, you are more concerned about their distorting impact on trade, so you have reductions there that would be more than in the blue box, and then in the green box, there would not be limits. So that is just generally how the WTO takes agriculture programs all around the world and puts them into categories.

With regard to agriculture, you have seen these charts before, and before Senator Conrad has a chance to do it, I thought I would put them up here. But this gets into—since he is not here, I can say that, I guess.

[Laughter.]

Ambassador Portman. This gets into what we all know, and the reason these talks could be so good for us. I mean, first, on market access, lookay at that top bar. The U.S. average allowed agriculture tariff is 12 percent, and we just about use that. The EU is 31 percent. So it is not just the SPS issues, which I would like to talk to you about, but it is also tariffs. They have higher tariffs than we do and they use them. Now, some of these countries, like India don't use the full 114 percent, but it is allowed. Their tariffs may be more in the area of 30, 40 percent, but we will always benefit when we are talking about reducing tariffs because ours are relatively low.

Second are these export subsidies I talked about, and again, the 2004 framework said these export subsidies are to be eliminated, not just reduced, but eliminated, and there, you see the EU has about 90 percent of them, 87 percent. So that is in our interest. We need to get a time certain for that.

And the third area is domestic support. Here, I have put into red what is allowed and yellow what is actually used, and as you can see, the EU is allowed to use about four, four-and-a-half times what we are allowed to use under the current WTO rules, and they use about three times what we do. Japan, with much smaller production, also has a larger allowance than we do. So it is in our interest, again, to deal with this issue in the way of reducing those who have higher subsidies more through harmonization.

The next chart is important because it is kind of the reality of where we are in terms of the reduction of these trade distorting supports, and the reason the Europeans and others say, gee, it is time for the U.S. to take a step forward. The fact is that since the Uruguay Round, they have made progress and we have to acknowledge that. Under the CAP reforms, as you can see by the black bars there, European trade distorting support has gone down since 1995. What they are allowed is that top black line that runs across the chart, so they are well below what they are allowed. The next line down is the Japanese limit, and Japan is in red. You can see what the Japanese have done since 1995. They have reduced their trade distorting supports. The yellow is us, and the final line is us, so we are pushing up close to our limit, and since 1995, we have seen an increase in our support.

So this is where, again, Mr. Chairman, you talk about the fact that we make sure this negotiation is fair and that nothing we agree to is anything other than a good deal for our farmers and ranchers. "Needs to have tangible results for America's farmers and ranchers", was your exact statement. I couldn't agree with you more and we need to be darn sure that we get the market access, the export competition, and other things for our farmers and ranchers, and that with regard to subsidies, those who subsidize more reduce more. But this is just the situation that we face currently in Doha.

The next page, I mention briefly where we are in terms of the negotiations themselves. We are stalled, as I said, on these agriculture subsidies and tariff issues. We are actively consulting with the Hill and key farm groups here, as we are doing today. We are coalition building with other countries, frankly, to put pressure on those key developing markets. We have got to have more access

and we are getting a lot of support, actually, in the other 147 members of the WTO. But, as I said, other countries are lookaying for moves on our part in terms of the trade distorting subsidies per that 2004 framework that I talked about.

So what is the dynamic now? We are building on the framework. There is no final deal that is going to be reached at Hong Kong in December, although I do think we can and should make progress leading up to that ministerial to be able to reach some agreement for Doha that avoids some of the problems some of us saw when we were in Seattle, or we saw in Cancun. We need to be sure that the meeting is successful in Hong Kong.

I know a number of you are planning to come to Hong Kong. I want to be sure that you are getting the briefings you need moving up to that date and also in Hong Kong, that you are part of the process. I think one thing that has not been done adequately in the past is to use members of Congress more effectively on behalf of U.S. interests. I plan to do that,—so be expected to be put to work. I am going to need you.

We are making progress in all areas of Doha, I believe it is fair to say, not just in services and manufactured products, as I talked about earlier, but also in agriculture. We had good meetings as the chairman alluded to last week with the EU in the sense that they were very candid. We were starting to put our cards on the table for the first time, as I say, in quite a while and getting closer to figuring out how to make Hong Kong a success.

The critical path issues are pretty straightforward. In market access, we need to know what the shape of the tariff formula might be to begin to reduce these tariffs, as I talked about earlier, what is the depth of the cut, how are we going to deal with sensitive products, special products and safeguards. With export subsidies, again, we need a time certain. And on domestic support, we need to work within this context of the blue box, what is the depth of the cut in the AMS, or the amber box, and what is the overall subsidy cut.

Here is a little time frame in terms of where we are. Again, the framework was a year or so ago. We have got Hong Kong coming up. And then by the end of 2006, we would hope to complete this. Why? Because in mid–2007, the Trade Promotion Authority expires, and we also have a little something called a farm bill apparently that comes up for renewal in 2007.

So we have got some dates we are pushing up against, and particularly the TPA extension. Last time, it tookay us nine years to renew TPA. I will say I was pleased a couple months ago when we renewed it for another 2 years, until July, but we all know in July 2007, that is going to be tough. So my goal is to be sure that by the beginning of 2007, we can send up a package to the Hill that really makes sense, that is a good deal for America's farmers and ranchers, and we can get that moving within the context of TPA.

The final part I want to just touch on, and my time is about expired here, but I just want to touch on the issue of enforcement and compliance because I think this is one area where we don't spend enough time and effort. Is my time already up?

The CHAIRMAN. YOU ARE DOING JUST FINE, MR. AMBASSADOR.

Ambassador Portman. I will try not to filibuster, though.

The CHAIRMAN. If you were still a House member, you would have been called a long time ago.

Ambassador Portman. Yes, all right.

[Laughter.]

The CHAIRMAN. Now that you have ascended——

Ambassador Portman. Let me just leave this, then, for the questions, but just to say that we have made progress on the enforcement side. Even this summer, there are a number of cases. Some of you have been very involved in these—the high-fructose corn syrup case, the Japan apples case, even on beef hormones. We have made some progress.

My goal in this job is to focus more on enforcement and compliance and follow-up, even on these FTAs. When we make a commitment, we have got to be sure that we have the kinds of enforcement and follow-up that is expected by our farmers and ranchers to be sure they do get a good deal.

So thank you, Mr. Chairman. I appreciate the opportunity to present where we are in terms of these trade negotiations and lookay forward to your questions.

The CHAIRMAN. Thank you, Mr.

Ambassador.

[The prepared statement of Ambassador Portman can be found in the appendix on page 58.]

The CHAIRMAN. That is an excellent primer for those of us going to Hong Kong. A very good presentation by both of you.

Mr. Ambassador, before we get into questions relative to this, today is the day in which we are supposed to correct the serious prejudice charge in the WTO patent case. Since there will be questions asked about that, maybe statements in the press, I want to give you an opportunity to make any comments you wanted to make initially in reference to that case.

Ambassador Portman. Well, thank you, Mr. Chairman. It is timely that we are meeting today because tomorrow is the date that we set for implementation of the recommendations of that WTO case.

As you know, and you have worked with us, we have taken significant steps to implement the decision, both with respect to the findings regarding the prohibited subsidies, but also regarding the subsidies found to be causing serious prejudice. On July 5, we proposed legislation that would repeal the Step 2 program. This would be an important development with respect to both sets of those findings. We think the repeal of Step 2 significantly reduces any price effects these programs might have. Separately, reductions in payments under other domestic support programs, including those that were discussed in the case, are being considered as part of the deficit reduction efforts by the administration.

Although the legislative process has been delayed, in part because of the crisis with Hurricane Katrina, we are continuing to work actively with Congress on this issue. We have been able to work well with Brazil so far to manage this dispute settlement process and we plan to continue that dialog with Brazil in our upcoming meetings. I am meeting with the trade minister of Brazil tomorrow in Europe, in fact, on this very issue, as well as WTO issues.

But we are committed to abiding by our WTO obligations by implementing the cotton decision. We stress that we believe negotiation, not litigation, is the way to go. We think that is the key to a meaningful reform and we believe it is in the mutual interests of the United States and Brazil to focus our reform efforts on the Doha negotiating process.

So, Mr. Chairman, I thank you for giving me the opportunity to address this issue and I hope the constructive relationship we have had with Brazil so far can help us both in future discussions and negotiations. We need to continue the dialog.

The CHAIRMAN. Thank you very much.

We are now joined by Senator Harkin. We welcome any comment, Senator you wish to make at this time.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA, RANKING MEMBER, COMMITTEE ON AGRICULTURE, NUTRITION , AND FORESTRY

Senator HARKIN. Well, thank you very much, Mr. Chairman. First, I apologize to you and members of the committee for being a little late, and also to you, Mr.

Secretary I am sorry I missed your statement, but I just wanted to compliment Ambassador Portman on an excellent statement and to thank him for his great leadership in this area, and to also thank you for always being open and willing to meet with us and discuss with us these issues of trade. So again, that was a great primer, as you said, Mr. Chairman, on just where we kind of find ourselves right now.

Just a couple things I just want to say before we get into questions, and that is that, first, I am on record as supporting our objectives in the Doha Round. I think it would be better for everyone concerned if we could agree multilaterally to open markets more broadly and eliminate export subsidies and reduce the use of trade distorting support for farmers. So I am committed to that and hopefully we can move this ahead. I am a little disappointed that in the last year, not much has happened and we have reached some stalemates in that regard.

There are a couple of issues that I will go over with you in questions. I met with Fischer Boel, the new EU Commissioner. I think some of the rest of you probably met with her last week when she was here regarding the issue of our Food for Peace Program, and to the extent that the European Union is going to push to convert that from food to cash is going to be a sore point, I think, for many of us on this committee and for a lot of us perhaps even not on the committee. I think in both the Senate and the House and I think bipartisanly, this has been a wonderful program for 51 or more years. It has done a lot of good in feeding the world's poor.

In my discussions with Fischer Boel, they want us to convert it all to cash and I said, we have got reams and stacks of reports and investigations about how some of the money that goes to countries for food always gets siphoned off for something else. Most of these underdeveloped countries have dictatorships or whatever. The money very rarely gets down to help people. But when it goes to NGO's and other organizations like that and it is food, nine times out of ten, the food actually gets to people and helps them. So I

let her know that that was going to be a big sticking point if they were going to fight for that, and I am going to be asking you, Mr. Portman, about your views on that.

Last, while we all support—well, I don't know if we all, but at least I know I can speak for myself—support the Doha Round and the goals of it and where we want to get, it is clear that in doing so, we are going to have to pretty drastically change our support system under the amber box, maybe somewhat under the blue box, too. That is why I fought so hard in the last farm bill for what is known as the Conservation SecurityProgram, to begin to shift payments to farmers that would come under the green box that would be non-trade distorting, that would be acceptable by the WTO. In traveling around Europe, I had seen how they had done that and I thought, well, maybe that is how we have got to be lookaying at it, too.

It is much to my dismay that in the last couple of years, that in our appropriations bills that have passed the House and the Senate, this program has been severely curtailed and distorted in a way that was not intended under the farm bill. Now, when we passed the farm bill here, you know, there are a lot of different streams that come together and a lot of agreements are made and maybe some of the things that were in the farm bill that some people didn't like, and some were there that some people liked, but we hammer it out, and that is what we hammered out in this farm bill.

We made agreements on a variety of different things, and one of those was to have a conservation program like the Conservation Security Program that did not take land out of production, that paid framers not so much on how much they grew but on how they grew it. That would be green box and that would be treated—conservation would be treated like a commodity, that once you were in the program, once you met the requirements, you got compensation or you got paid.

Now again, I am not saying about the Department, but I am just saying that it is to my great dismay that in the last couple of years, this Congress has distorted the program and put caps on it and severely curtailed it, and to my fellow members of the committee, I just say, you know, we are going into the next farm bill and that is cutting our baseline down. So whatever we might want to do in the green box in the next farm bill is going to be severely curtailed unless we lift the caps that were put on that program.

Now, I say that because I believe that in thisWTO, if we are successful in the Doha Round, which I hope we are, Mr. Secretary and Mr. Ambassador, we are going to have to make some pretty severe changes, and that is going to have to be in the next farm bill. If it is in the next farm bill, we are going to need the baseline in order to do that. That baseline was set in the last farm bill with the Conservation Security Program and it is being curtailed. We may find ourselves in a very bad situation, Mr. Chairman, coming up if, in fact, we succeed in the Doha Round and we have the farm bill coming up in 2007, and how we are going to support our farmers and ranchers in the future without it being put in the amber or blue box.

Having said that, I thank you, Mr. Chairman, for giving me this time. Again, I want to thank the Secretary and especially Ambassador Portman for his great leadership in this area.

Senator BAUCUS. Mr. Chairman, I am low man on the totem pole here, so I won't take time, but I would like to submit a statement for the record, please.

The CHAIRMAN. Without objection.

Senator BAUCUS. I would just say to the Ambassador, I appreciate what you are doing, but my main point is just consult with us earlier and more aggressively on all this than your predecessors have so that you avoid Doha problems, get TPA extended, and for all the reasons we have discussed. You have got to go the extra mile in working with us. I know you will, I know you want to, but I am urging you to go even farther.

The CHAIRMAN. SenatorBaucus, I would say that that same sentiment has been expressed by a number of us to theAmbassador and he understands that fully and that is one of the reasons he has been back and forth to the Hill as often as he has since he came to his new position.

Senator BAUCUS. Allen, I wish you the very best. Thanks.

The CHAIRMAN. Mr. Secretary, there is something else I just need to say. It is not a question because it doesn't have reference to this, but we have another very critical issue that I know your office is considering and it is going to have a direct effect on everybody on this committee, and with you leaving town today, we won't have an opportunity to discuss it with you in the short term, but there has already been some publicity out there about the FSA Tomorrow Program and Under Secretary Penn was gracious enough to come over and have a discussion with me and I know some other folks in the last several days and we lookay forward to working with you on this.

But I will have to tell you that I have not had a chance to discuss this with the members of this committee and my intention is that once we get all of the information, particularly relative to the criteria that is going to be determinative of which FSA offices stay open and which close, that we will dialog with your office to make sure that we both have a thorough understanding about the direction in which you wish to proceed. I hope we can do that in the short term. I think the goal is a very admirable goal, to provide better service to our farmers and ranchers all across America through the FSA, which is so critically important.

But I want to make sure that your office understands that we have not—Tom and I have not even had a chance to talk about this, much less with members of the committee, but we will be doing so in the short term.

Gentlemen, last week, President Bush stated at the United Nations that the United States is ready to eliminate all tariffs, subsidies, and other barriers to the free flow of goods and services as other nations do the same. While this has been a longstanding United States policy and repeated by previous administrations, in 2002, theUnited States Trade Representative presented a proposal to our negotiating partners that would reduce trade distorting support of 5 percent of a country's total value of agriculture production

over a 5–year period. That is commonly referred to as the 5 percent rule.

Subsequent discussions among the various actors in the agriculture negotiating groups have discussed reducing trade distorting domestic support by levels up to 50 percent. The President's statements admittedly are ambitious, and while I hope we can achieve the success in the outcome of those negotiations, I am concerned that statements do not reflect what is necessarily possible, both domestically as well as in the current round.

Mr. Ambassador, do you believe the current state of negotiations can produce equally ambitious proposals on market access from theEuropean Union and the G–20 group of developing countries?

Ambassador Portman. Mr. Chairman I do, and I agree with you, the President's statements set out a vision that is bold and, I think, one that is very constructive toward us making progress. However, the negotiations inGeneva are focused on simply reduction of these trade distorting supports in exchange for real market access gains.

You talked about tangible gains, and I believe there is an opportunity to do that if we work together. We have to make it clear that we are not going to move unilaterally on anything. We will work with the European Union and the other 147 members of the WTO on coming up with something that is consistent with the 2004 framework, consistent with what has been expressed by this committee, which is real market access gains for our farmers and ranchers, which is an elimination altogether of the export competition we talked about earlier and which gets at reforming trade distorting subsidies. But we need to move together, in parallel.

My frustration, I have only been on the job four and a half months, but is we are just now getting around to talking about these issues in real ways. We had a good meeting last week, as I said. We are continuing to talk to trading partners, not just in Europe, but around the world, and to answer your question, I am hopeful that we can still come together, not with a final product in Hong Kong—that will not happen and we ought not to have those expectations—but with the kind of formulas and the kind of modalities, as they way in the WTO, that enable us to make progress in 2006.

The CHAIRMAN. Mr. Secretary, the President's statements were made while the Department is hosting a series of listening sessions on the current farm bill, and for that, I particularly commend you for traveling to all parts of the country to listen to farmers and ranchers. Feedback from those events conveys that, generally, producers are favorable and happy with the 2002 legislation. In fact, Congress Daily reported yesterday that farmers in nearly every region of the country want the 2002 law extended and are disappointed with recent trade agreements.

Do you believe the administration has sufficient grassroots support to radically transform current farm safety nets?

Secretary JOHANNS. Let me offer a thought first on theCongress Daily article. I could not disagree more, to just be very blunt and direct about it. In fact, we pulled out from our farm bill listening session quote after quote after quote from producers, from farmers, and I have now done, I think, 15 of these—14 or 15—in the Department, that that 14 or 15 is now over 20—where farmers are ex-

pressing concern about the 2002 farm bill. Every place we go, we hear about the capitalization of farm payments and higher land costs, higher cash rent costs, the inability of young people to get into farming, and I could go on and on. Like I said, we pulled those criticisms and comments and we have provided them to CongressDaily and hopefully, they will offer the thoughts of many farmers across the country in terms of their concern about the farm bill.

But in reference to your question, the other part of your question, I really appreciate the comments of Senator Harkin in how we approach farm policy as we think about 2007, and that is the whole idea of the listening sessions. We want to get around and hear what is on the mind of the producers.

If there were two points I would make today in reference to the President's comments, it would be this. The 2007 farm bill can find approaches, I think very positive, forward-leaning approaches to supporting agriculture. Our bill is to build good farm policy. That is where we are starting. Our goal is to identify the best farm policy for the United States, not only for today but for the future, and that is where we are headed with this. Now, we also recognize that 27 percent of the gross receipts do come from the export market. We need to be mindful about that.

The other thing I would mention in reference to the President's comments is that I worry that the status quo is very high risk for American farmers. Why do I say that? You know what we are dealing with with the cotton case. It is there, and we have got the WTO ruling. As you know, we are trying to work with Congress to get through that.

You have been reading the articles, as I have, that some other countries are now lookaying at the rice program. Up in Canada, they just opened up a study or investigation, whatever you call it, relative to the corn program. These things are there and they are real, and again, 27 percent of our marketplace is in that foreign market.

But our goal is going to be to work with the House and the Senate through the farm bill listening sessions, through the input that we get from farmers and ranchers and agriculture groups to try to develop farm policy that recognizes we can be supportive of America's farmers and ranchers. We need to be forward-thinking about that and forward-leaning, but I believe we can do it.

Here are some of the ideas that have been mentioned. Working lands conservation—I have heard about it in just about every farm bill. We have had people say, Senator, exactly what you said. It would be nice if we could figure out a way to build that into the next farm bill.

Crop insurance—disaster brings out discussion about crop insurance, but we have heard an idea that has been here before about maybe a more revenue-based approach to this.

Direct payments—we know that you can make direct payments without running afoul of any trade rules or WTO rules.

Risk management tools—you know, we had a young guy in Kansas get up and his testimony was fairly straightforward. He said, "I worry I will probably make every farmer in the room mad at me,

but," he said, "there is a way to work with risk management tools that are available."

Here is my thought just to sum up my response. This farm bill dates back—this farm bill—this approach to farm policy, by and large, dates back 70 years to the time of the Depression and the need to try to figure out how to save agriculture in the United States, and some of the same tools that we used 70 years ago, we are trying to fit into today's world and it is a different world today.

But again, if there are two points I would make, we can support American agriculture, but we need to be creative in how we approach that and we can do that.

And the second point I would make is that the status quo, just saying, lookay, I am happy with everything, has real risk to it and we may not like that result, either. So I think we have to put everything in the mix, work together to try to figure out how this develops good farm policy for 2007.

The CHAIRMAN. Thank you.

Senator Harkin?

Senator HARKIN. Thank you, Mr. Chairman.

Ambassador Portman, again, let me just focus on the question, the issue that I raised in kind of my opening statement that I had raised with Fischer Boel last week. The European Union is after us to cut back on our Food for Peace Program, convert the food to cash. They did that themselves a few years ago, but if you track what they did, they converted it to cash, then they cut it down. I am really concerned that the EU is pushing this. I told her so.

I guess my question to you is, is there any way we can get a lot of the other countries in the developing world where they have really benefited from our Food for Peace Program to support us in this effort, and where do you see this headed?

Ambassador Portman. Well, first of all, I couldn't agree more with what you were saying earlier about the importance of the program and why we need to fight for it. I will also tell you it is not just the EU, as you know. There are others who are also after our food aid program.

Senator HARKIN. Who is that, beside the EU?

Ambassador Portman. Well, Switzerland, Brazil, Australia, pretty much anybody who is in the export business and some of those who, as you say, have converted to cash only.

But what I have found is in talking to some of the African nations, some of their leadership, in talking to some other trade ministers from countries that understand the importance of food aid, that we can counter this with a coalition of our own and we are working hard at that. We are also working with the NGO's. As you know, the NGO's are——

Senator HARKIN. I am sorry, Rob. Did you say we can or we can't?

Ambassador Portman. We can.

Senator HARKIN. We can?

Ambassador Portman. I believe we can, Senator. I just—getting back to your comments about the fact that this money sometimes gets siphoned off, I think there is plenty of evidence of that and there is still a significant concern on our part of corruption and the need to get this food to people who need it quickly.

You know, one of my points that I made with the Europeans last week is that there is not enough food aid out there right now and the last thing we want to do is to cut back on emergency food aid as it is needed. There has been, as you know, by the Europeans and others, a reasonable concern, in my view, raised, and that is that we not displace commercial sales. In my view, we do not and we do not intend to do that. In fact, our same exporters who are providing food aid would object to us displacing their commercial sales.

So I think we can address that concern, Senator, in a way—since we share that concern—in a way that continues to give people the comfort to know that our food aid is not wasted shipments that aren't needed, they are desperately needed, and that we are not asking our exporters to compete with food aid programs. We need to oppose the European position strongly. We need to be sure that the most vulnerable people who are short of food aid right now, when global food aid shipments are not even meeting current requests, are getting what they need.

So I agree with you, it is important for us to build a coalition of other countries, also to work with NGO's, some of whom, as you know, are very supportive of our food aid program. Others have some questions and I think we can address some of those questions in terms of, as I said earlier, the commercial displacement issue.

Senator HARKIN. Thank you very much.

Ambassador Portman. I lookay forward to working with you on it.

Senator HARKIN. Thank you, Ambassador. I appreciate that and——

Ambassador Portman. Thank you for raising it with her.

Senator HARKIN.

Whatever we can do to be helpful, let us know, and I am sure——

Ambassador Portman. You were helpful. I spokaye to her after your meeting and I appreciate your raising it.

Senator HARKIN. Thank you. Mr. Secretary, just my final question, and I thank you for your observations and all the hearing posts, listening things that you did around. I thought they were very good, that you did that to get that input, and I lookay forward to working with you on some of those things in terms of the nontrade distorting aspects of support.

This question I have has to do with the WTO and with our moving ahead on the Doha Round. The essence of the U.S. agricultural proposal is that the U.S. is willing to reduce its use of trade distorting domestic support in exchange for significant reforms by other countries in their use of export subsidies and tariffs so as to provide our farmers with greater export opportunities in foreign markets.

Now, I am not going to get into the whole thing between applied and bound tariffs, but the issue is in having a good analysis done as to what the net benefits to us, our farmers and our exports would be, depending upon what they are doing with their bound and their applied tariffs. And so the question is this. Will USDA be able to provide U.S. negotiators, and hopefully us, also, with rapid quantitative analysis of the implications of proposed deals so

that they and we will know before the agreements are made if the deals are likely to generate a net benefit for U.S. agriculture? It is my understanding that such a capacity was in place during the Uruguay Round and I think it is important that our negotiators and those of us here in the Congress have such analysis at our disposal in the Doha Round.

In other words, getting a quick quantitative analysis right away—when they come up with a proposal, that your people are in place, maybe under your shop, too, I don't know, Rob, but that we get a quick quantitative analysis done right away so that when we go to Hong Kong, we will have that analysis at our fingertips.

Secretary JOHANNS. We will. We will work with you to make sure that you are comfortable with the information that we are lookaying at, and I suspect, Senator, that you will probably have some of our agriculture groups out there that will be pretty geared up to offer their thoughts, too, and their analysis. But from USDA's standpoint, we will, and we will endeavor to work with you folks to make sure that you get what you need and also that the Ambassador has at his disposal what he needs to make the negotiation successful.

In this area, I will tell you, just to summarize, the working relationship between the USDA and USTR is completely seamless. Our staff works with USTR as if there is no boundaries between our Departments.

Senator HARKIN. Thank you, Mr. Chairman.

Ambassador Portman. Senator, may I just add to that quickly, the partnership we have, I think, is unprecedented. Certainly, I appreciate the fact thatSecretary Johanns has an interest in this area and I am fully utilizing him and his incredible resources. As you say, they can come up with data very quickly. They have a much larger staff than we do.

In the negotiations, we have a USDA official that Secretary Johanns has kindly lent us at the table, literally there, hearing everything and providing the data. I have even dragged Secretary Johanns to some trade meetings that he might otherwise not have chosen to be at, including this week in Europe. He is going over, canceling some other important meetings, because it is critical that we work seamlessly. We have, and this partnership has been terrific.

I appreciate the committee supporting USDA to be able to do that, because frankly, we need that support. These are going to be delicate, tough negotiations. We are going to have to work seamlessly not just with USDA, but with you all to be sure that we are giving you the full brief, you know exactly what we are doing, and at the end of the day, as SenatorBaucus said, we have an agreement that people can support.

Senator HARKIN. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. As I turn to Senator Crapo, Mr. Ambassador, let me say, as you know, Senator Crapo has been a leader on this issue relative to the Canadian softwood lumber issue and he is leading a delegation of us to an interparliamentary group meeting next weekend. I want to thank you for your strong support of the lumber industry in our country and these negotiations, which have

been very difficult. Senator Crapo has done a good job, but you have also done a very good job. Senator Crapo?

Senator CRAPO. Thank you very much, Mr. Chairman. I appreciate you bringing up the softwood lumber. Although I won't raise that as one of my questions, the Ambassador and I have talked about that. I, too, want to express my appreciation for the support that we have in this effort.

Ambassador, given the significant challenges that face American agriculture and manufacturing today, I think it is critical that we have the maximum effectiveness for our trade remedy laws, and I think you probably didn't get a chance to go into that as much as you might have liked in your presentation. It seems to me that the United States should not sign an agreement that would lessen in any way the ability of the United States to enforce its trade laws and to decrease the effectiveness of the domestic international disciplines on unfair trade or safeguard provisions. In fact, one of the concerns that we are seeing in a number of arenas is that many of us perceive that we don't now have the ability to effectively pursue trade remedies. Could you give me your thoughts on this?

Ambassador Portman. Yes, and I appreciate your raising it. As you indicate, at the end of the presentation, I was hoping to talk a little more about enforcement, including our trade remedies. The countervailing and antidumping laws, as you know, are administered by theDepartment of Commerce, not by USTR, but I think they are an incredibly important part of our arsenal and we use them and we use them appropriately.

We are a relatively free and open country to trade. Our trade deficit numbers indicate that, as do our low tariffs, as do our low non-tariff barriers. Yet we want to be sure trade is fair and we do this through our trade remedy laws that are transparent, and that provide due process. We are under some pressure, as you know, around the world on this issue and I think, frankly, we haven't made our case as well as we could have.

So we are undertaking to do that and also build some coalitions. SenatorHarkin talked about building coalitions on food aid. We also need to build coalitions around the world to understand what our trade remedy laws actually do and don't do, and lookay at other countries that are using trade remedy laws aggressively and be sure that they understand that their potential use of those could also be at risk if the WTO goes the wrong way.

I will say that we believe there could be some improvement globally in trade remedy laws, particularly in the area of transparency, as I mentioned, and due process. So I think we have nothing to be ashamed of. In fact, we have laws that are working and that do provide the kind of rights to both the petitioners, but also the importers and we will vigorously defend those.

Senator CRAPO. Well, thank you. Because of the brief time that we have, I am going to move on to another topic, but I want to say to you that I think this is an incredibly important arena in the entire negotiation process and I hope that the United States can work aggressively, not only to enforce and to be effective at enforcement under our current system, but to help improve it, because a lot of us are concerned about whether there truly is fairness in the process.

The other area that I wanted to go into is geographic indications, and I would like to discuss the current effort of the EuropeanUnion in the Doha Round negotiations to extend to foods the geographic indication protections that were established for wines and spirits in the Uruguay Round agreement. This issue is of importance to producers and processors in Idaho, and I am sure you are aware of the competing interests on this issue. What is the view of the administration on extension of geographic indications to food?

Ambassador Portman. Well, again, as you know, this is an issue where we differ from our trading partners in the EU and also some other countries that are not part of the EU, but have a similar concern. We will continue to strongly promote the enforcement of intellectual property laws, including patents, trademarks, copyrights, and in the area of agriculture products, we think that is the appropriate course to take.

This is an issue that has come up in every one of my meetings with the EU and in some of the mini-ministerial meetings, and the U.S. position is clear. I think, again, this is an issue where we need to perhaps explain our position a little more forthrightly and perhaps work with other countries who would share our concern. Australia has been a real leader on this, for example. They understand the consequences. But we will continue to hold firm to our position.

Senator CRAPO. All right. I appreciate that very much. And again, let me say to both of you, we thank you very much for the ability that you have shown to work closely together and your commitment to work closely with us. I lookay forward to working with you. Thanks.

[The prepared statement of Senator Harkin can be found in the appendix on page 84.]

The CHAIRMAN. Senator Salazar?

STATEMENT OF HON. KEN SALAZAR, A U.S. SENATOR FROM COLORADO

Senator SALAZAR. Thank you very much, Chairman Chambliss and SenatorHarkin, for scheduling these very important hearings, and to you, Secretary Johanns andAmbassador Portman, thank you for the service to our country and thank you, as well, for your advocacy for agriculture.

Mr. Chairman, I have a longer statement for the record and I would ask unanimous consent that that be included in the record.

The CHAIRMAN. Without objection.

[The prepared statement of Senator Salazar can be found in the appendix on page 88.]

Senator SALAZAR. Let me just say that from my point of view, these are very important negotiations and deadlines that are not too far off in our future, and I, from my point of view, believe that a successfully negotiatedDoha Round could level the playing field for U.S. producers and provide incredible market access for U.S. products, as you have said in your testimony today. So it is the right thing that you are doing, Ambassador Portman and Secretary Johanns, and I just want to encourage you to continue to be great advocates for agriculture, as you have said in your comments.

At the same time, I just want to let you know that I had a very moving meeting with Catholic bishops from all across the hemi-

sphere in Latin America and it included some bishops from the UnitedStates, such as Cardinal McCarrick from here in Washington. It included Cardinal Rodriguez from Washington, D.C. Many of these people were leaders in my church or people who are not protectionists. They understand the importance of the global economy and the importance of what we are doing with respect to trade.

But they obviously are also leaders in what is probably one of the oldest multinational institutions that we know, and one of the concerns that they expressed to me in terms of the trade negotiations that are underway is that there are always winners and there are losers. One of the major concerns that they have with respect to CentralAmerica and Latin America as we move forward with some of these trade agreements is what happens with respect to some of the small farmers and ranchers that are displaced economically within a system that has been around for centuries and how we are dealing with that particular issue.

So I would like you just to comment briefly on that concern that the Catholic bishops have raised with me.

And then second, with respect to the listening conferences that you are having around the country, Secretary Johanns, could you explain a little more in detail about what it is that you are doing to try to get the input from the family farmer and the family rancher? At the end of the day in Hong Kong, when you are there in December, the farmers and ranchers from my State more than likely are not going to be able to be there. There may be a few that actually go, but they will be participating in those world trade negotiations through your voice and through your mind as well as Ambassador Portman's, and so I am wondering if you could give us a little more explanation with respect to what you are doing on outreach efforts to get their input.

Ambassador Portman. Just briefly, Senator, first of all, I agree with you about the level playing field, that Doha offers an opportunity that we should not miss, which is to help level that playing field, because we are relatively open here and our tariffs are relatively low and our subsidies are relatively low. So this is an opportunity for us and our farmers and ranchers need to be sure that we have not squandered it.

With regard to the statement from the bishops or your meeting with them, we certainly understand that concern. With regard to the DohaRound, as you know, there is an opportunity here to really assist on development around the world that is, again, unprecedented and one we should not miss. The World Bank studies show that if you were to reduce all the barriers to trade, which is the ultimate goal, you could pull 300 million people out of poverty. There is a recent study here by an institute, the NationalInstitute of Economics, saying 500 million people would be lifted out of poverty by reduction of barriers. So there are tremendous opportunities here.

In the case of CentralAmerica and Latin America, as you know, in the CAFTA context, we did things that were unprecedented in terms of trade aid, in other words, capacity building to be sure that these countries can take advantage of the new trade agreements. That includes infrastructure, that includes being sure that the

rural communities are assisted to be able to handle the new trade agreements in beneficial ways.

Trade is a matter of some displacement, but huge net benefit, and I think we have shown some sensitivity to that and will continue to. Part of this round, the Doha Development Agenda, as it is called, is to be sure that we are providing trade capacity building at the same time that we are reducing these barriers to trade that ultimately hurt the poor and hurt the developing world. But I appreciate your comments on it and lookay forward to working with you on that, both in the bilateral context but also with regard toDoha.

Senator SALAZAR. Thank you, Ambassador.

Secretary JOHANNS. In reference to your question about the farm bill forums, Senator Roberts was with me in Kansas, so he can kind of give you an idea of what we do in these, as was Congressman Moran. But that has not been an unusual phenomena. We have actually had participation from university people, government people at the State level, people in the House and in the Senate.

What we always do is we work with broadcasters, some farm broadcasters, but broadcasters in general, too, and they promote the forum. We have tried to adopt a model of joining the forum with an agriculture event. It might be a State fair, as it was in Kansas. It was a State fair in Kansas. It was HuskerHarvest Days in Nebraska a few days after that, because you have kind of a ready-made crowd of producers.

We identified six questions that we wanted their thoughts on, everything from how do we develop policy that allows for young people to be involved in agriculture in the future to do you think the distribution of the farm program benefits is a fair distribution. We ask a question about, are we getting the job done from an environmental standpoint, conservation programs? Are we getting the job done in our rural development programs?

But having said that, it is pretty much an open mike. We encourage people, if they have a specific problem—my loan application is not getting processed—to come and see us. We are very interested in solving that problem, but we are there more to address the policy issues of the next farm bill, the 2007 farm bill.

And it has been a wide-ranging discussion. It has been for me very, very helpful just in terms of thinking about farm policy. We get everything from very specific suggestions about what people would like to see in farm bill policy to just more global thinking about what farm policy has done, and we have had arguments all over the spectrum.

I could show you a quote from one gentleman who said, "Throw it out and start over," to others who say this has worked pretty well and I hope you keep that in mind as you think about 2007, and everything in between.

If I might just offer one other quick thought on the question you asked of theAmbassador, I had the opportunity to go to AGOA this year, the AGOA forum in Senegal. African nations were there. I had a number of bilateral meetings. But one agriculture minister came to me in a bilateral meeting and he sat down and he said, "Mr. Secretary, I am here today not to ask you for more aid, al-

though we appreciate the aid." He said, "I am here to ask you for opportunities for trade."

They just overwhelmingly, the people at that forum, which by and large was African nations, were saying to us, we need help here, and the reasons, I think, are obvious. We come from a very, very progressive nation when it comes to agriculture, very progressive. Our farmers and ranchers produce at remarkable levels. That isn't the case all over the world. And so we had conversations about how do we get fertilizer? How do we get seeds? How do we literally lay the platform for our agriculture to be successful?

You see, I believe it is good to raise the standard of living and create consumers around the world for our products. I just think that is where we should be headed. That is what we should be thinking about. But other nations just are not as fortunate, and if we can reform agriculture in a way that is a good deal for American farmers and ranchers but also provides the world access for agriculture products, I think that is very definitely what they were reflecting to me in their statements when I was at the AGOA forum.

Senator SALAZAR. I appreciate the comments very much, andSecretary Johanns, I am sure that probably every member of this committee is going to make a request of you to do this, but I very much would love to have you, as well as AmbassadorPortman, come to Colorado and engage in one of these forums with agriculture in our State. We would make sure that it was a bipartisan forum that was widely attended by the people in myState. The eyes of the world are on you, and Colorado is a part of that world, so I hope you can come to Colorado.

The CHAIRMAN. Senator, the longer you serve here, the more you will realize agriculture has always been bipartisan. It has to be.

Senator Thomas?

Senator THOMAS. Thank you, Mr. Chairman. Thank you, gentlemen, for being here. I had an opportunity to work you quite a little bit in the previous year, as I recall.

I am, of course, very much interested in agriculture. I am also, as you know, chairman of the Subcommittee on Trade and Finance, so I am lookaying at it also from a broader standpoint.

I do want to strengthen the notion, and you have already committed to do that, is to have a little more conversations with theSenators prior to bringing up the treaties, and I think we can have more input and I appreciate both of you doing some of that.

I also just want to suggest that we were down in Cancun, and I must confess that I didn't think there was much talk about trade there. All we talked about was other countries' needs and these kinds of things. These are supposed to be trade agreements, andI think we ought to be willing to pursue trade and we ought to do that, and quite frankly, I think we have a large deficit in trade. We are buying more than anyone else and we ought to utilize that strength a little bit to be able to strengthen our processes, particularly in agriculture, and I hope we do that.

With regard to this—I guess I was, frankly, concerned that sometimes there is more interest in foreign policy development than there is in trade, and I realize the two go together to some extent,

but these are trade agreements, not foreign policy relationships, and so I hope that we emphasize that.

With respect to what is coming up, of course, no question that the beef industry has been hurt a lot by global bans on U.S. beef and so on. These were put in place when the bans were first enacted. Where are we today with regard to beef trade and the various bans, health bans and so on around the world, from either or both of you?

Secretary JOHANNS. Your observation is correct. The industry was hurt significantly by the bans relative toBSE and we have diligently worked country-by-country to reopen markets. We can give you the exact statistics on where we are at, but we have recaptured a fair amount of that market. What is left, the majority of what is left by a lot is Japan and Korea, and, of course, we have been engaged with Japan for many, many months now, and we are also engaged with Korea. China has committed to sending a technical team to our country in October, and so we are also working with China. That was one of the things we were able to accomplish when we were last there.

Here is an observation I will offer relative to Japan. I visited with Senator Nelson about the amendment that he proposed yesterday, and as you know, it did get a lot of support in the Senate. Just speaking candidly, I warned Japan this was coming. I said to them over and over again, there is a point at which folks on the Hill are just going to lose patience with this very, very slow process. There is no scientific or world justification for the continued closure of this border to our beef.

I will be very honest. I am not excited about the action yesterday, butI understand it. I understand the frustration. My hope is that we can continue to move forward to get this border reopened.

I do believe—I sat down with the new agriculture minister. They have a new minister over there, and we literally went through their chart of the process to reopen the border, and quite simply, they are running out of process. I mean, they are at the end of the process chart here. So it appears to me that the end is in sight, but it has been so painfully slow and so painfully deliberate.

We aren't going to give up. We are going to continue our efforts to get those markets open.

Senator THOMAS. Ambassador, are there things in the trade agreement that we can do to avoid having these subsequent kinds of enforcements that really weren't part of the trade agreement?

Ambassador Portman. Well, there are, and that is to be sure that we have a good sanitary and phytosanitary agreement as part of the WTO, that we protect what we got in Uruguay and that we build on it. You and I have talked about this a lot in terms of these trade agreements, focusing on market access and not getting sidetracked on other issues, like the foreign policy issues you talked about. We have also talked about not just BSE, but other access issues that are SPS issues, such as beef hormones in Europe, poultry processing, the issue of biotech, and all these issues, I just want you to know that we are raising them.

I met with the trade minister of Japan last week and the trade minister of Korea this week and, of course, this issue is at the top

of my agenda, as well. Mike Johanns and I are working in concert on this.

I do think that Secretary Johanns is right. As we push them on process and walk through all the science-based reasoning on our side, I think we are lookaying at the end of a process rather than their ability to continue to delay. I do think it is helpful, Chairman Thomas, that we have got some positive signs from other countries that have smaller markets. As you know, the President met with the Prime Minister of Thailand this week and had some good conversations about this, a small market, but you begin to get a little domino effect. Taiwan is another one we would like to see reopened. We have a strong trading relationship there with that economy.

So we have the opportunity here, I hope, before getting into Hong Kong, to make some progress on this, but we need to see more, particularly with regard to SPS issues and theEuropean Union.

Senator THOMAS. I appreciate what both of you are doing. I just think we ought to utilize the strength we have on some of these things.

Thank you, Mr. Chairman

The Chairman. Thank you.

Mr. Secretary, let me say that with reference to that vote yesterday, you are exactly right. It was frustration. It has been 6 months ago that 20 members of the Senate sat around this table with the Japanese Ambassador and discussed this issue and we walked away with the feeling that we were probably very close to getting this issue resolved and nothing has happened. It is very frustrating to us and we hope you will be able to use that to exhibit the frustration here in your future discussions with the Japanese.

Senator Roberts?

Senator ROBERTS. Thank you, Mr. Chairman. Thank you for holding the hearing. I would suggest we need a bigger room and maybe another hearing. There are a lot of people in the hall that are interested in this.

I am going to start off to thank the Secretary andAmbassador for coming. I want to thank the Secretary for coming to Kansas. Has Ken left? I was going to tell him that I think the opportunity for Secretary Johanns to come to Colorado really depends a lot on the Colorado-Nebraska football game, but I will let that go.

[Laughter.]

Secretary JOHANNS. You figured me out.

[Laughter.]

Senator ROBERTS. The Secretary came to Kansas, there must have been 250 farmers in the room. He sat on the wagon tongue and he listened to them all and he tookay copious notes. I left to go watch a ballgame about halfway through, but—no, I had a plane to catch, and I do thank you for coming.

I just would say that there is a yellow light warning not only on the time that I talk, but in farm country, and I think we are suffering from trade fatigue. That is to say that many times, I think we oversell and overestimate the goals of the trade agreements. I understand that. Many times, certainly we over-criticize them, but that is on the tube and in the media and all of the detractors. I

know all of that. As a result, I think in farm country, they are a little weary, a little suspect of this animal we call free trade.

Sitting behind the Secretary is his Chief ofStaff, Dale Moore, who is an old rodeo rider, and so at the Doha rodeo, I am concerned when chute No. 1 opens up and the WTO critter comes out of the chute. I hope agriculture is on board and it just isn't a bucking bull out there.

You can see that with the Nelson amendment. You can see the frustration, and the Allard amendment prior to the Nelson amendment in terms of a strong message.

So I hope, Mr. Secretary, that you will be able to continue your work. You have gone to 15 counties now, and I am keeping score because I suggested that originally when you came in in regards to you confirmation, that would be my best advice, is to go out to farm country and to listen.

But in your role as Secretary of Agriculture, you are the voice of all farmers and ranchers. I hope that we can get some support and some real cooperation between the various farm groups and commodity groups in trying to work toward increased market access as opposed to demanding special treatment. That is going to be a tough thing to do.

My question really is to Rob Portman, who is a good friend and a former colleague and I am delighted. He is the right man in the right time in the right place. So Mr. Ambassador, I met with the EU Agriculture Commissioner Mariann Fischer Boel as of, what was it, last week, and she has met with you and with the Secretary and with other members of this committee and the distinguished chairman. She was wanting to know what was going on in Kansas, how did I feel in regards to the WTO round, and I told her that basically in Kansas, our farmers were sitting down and writing checks, $50 and $100 to Katrina victims, and then turning around and wondering how on earth we are going to survive because of the increased gasoline, diesel, access to fertilizer, so on and so forth, and that right now, the WTO was not on their minds, although they knew it was coming and they knew that it was a threat, and I will use that word, to our farm programs as we see them. So I think that is where we are.

The one question I want to askRob is that I am concerned about your comments not only with our farm programs and the case by Brazil, and I don't have any illusions about that, more especially with the cotton program, but our food aid programs. Now, Senator Frank Carlson and Cliff Holt from Kansas started thePL–480 program and I am concerned with the perception, including the EU, that we use our food aid programs as a haphazard tool for simply distributing our excess commodities, sort of a dumping ground.

Now, this is not the case. This food is often the difference between somebody going to an extremist military wahabi school and then sitting on the top of a building with an AK–47 in an area that we do not want this young man to sit in and an education. It is the difference between a young woman having access to school in many countries and the empowerment of women, which I think is one of the things that we can use, and I am speaking as the Chairman of the Intelligence Committee, as one of the best anti-terrorism tools that we have.

So I would like to ask you, how would you characterize these negotiations in regard to food aid? I know they would rather go to cash as opposed to commodities. We are not going down that road and we are not going to lessen our food aid programs in the war on terror, more especially with the world food program and other programs like that. I know they are also after the export programs. I don't know what we would have done during the 1980's and the very tough times without the 416 program so we could move our product. So I have a lot of concern about that, if you could respond more especially in regards to the food aid programs and where we are.

Ambassador Portman. Well, thank you, Chairman Roberts. I had an opportunity to talk about this a little bit with Senator Harkin, so I won't repeat myself too much, but I will say that it is very important to me that you had that meeting with her and that you made the statement today. I know you will continue because in your heart, you understand that this is about providing emergency aid to people who need it and there is not enough out there. The idea that we would go to cash and that some of that food, therefore, would not make its way to the people who need it is outrageous. Why would we do that?

So I agree with you. This is one where I think there is also, as I said earlier, some misunderstanding about commercial displacement. As I said earlier, the very exporters who are sending food aid out through what Senator Harkin called the Food for Peace Program are people who also export on a commercial basis. They don't want commercial displacement either, and we don't believe that is occurring.

So it is a little strange to me that this has become such a big issue. I think we need to better explain what we do, why we do it. I think we need to get more of these governments that are sometimes, unfortunately, dependent on emergency food aid to stand up and be counted. I think we need to have some of these nongovernmental organizations, as you talked about, including the United Nations, to understand what is at stake here. We are making some progress in that regard by being able to build this coalition a little bit and communicate better what we do and why it is so important.

So thank you for standing up for it. I do think that the kind of radical rules changes that the European Union and others are talking about would be not just damaging to our farmers and ranchers, but would be terribly detrimental to the developing world.

Senator THOMAS. Thank you for your response. Thank you, Mr. Chairman.

The CHAIRMAN. SenatorLincoln?

Senator LINCOLN. I guess I am the last man standing over here. Mr. Chairman, I just want to thank you for your tremendous leadership on what I think is such an incredibly important issue and I appreciate you holding the hearing today and your steadfast involvement and interest in this.

Welcome, Secretary Johanns. We are delighted to have you back with the committee. You have definitely been very busy over these past 6 months and I want to tell you how grateful we are that you visited Arkansas.

Secretary JOHANNS. Thank you.

Senator LINCOLN. I think, without a doubt, you saw that we in Arkansas take our agriculture very passionately. We had a tremendous turnout and a lot of very passionate feelings at that meeting and I am grateful to you for coming.

We want to welcome Ambassador Portman to the Agriculture Committee. We have worked closely in the Finance Committee and I know that you certainly understand the importance of our trade policies to our American farm families. With that in mind, I hope you feel as comfortable talking about trade here in the Agriculture Committee as I do, because it is absolutely a critical issue for agriculture.

There is—certainly, agriculture is one of the nearest and dearest issues to my heart, as a farmer's daughter, and certainly it is one of the things I take the greatest pride in in terms of advocating on behalf of Arkansas farm families. They are hardworking people who do something pretty incredible absolutely every day. Against all odds, they provide us with the safest, most abundant, and affordable food supply in the world, and they do so against tremendous odds.

One of those odds is an increasingly competitive world market that is not always free and not always fair. Our U.S. farmers survey the world and what they see, and what I think contributes to some of the frustration that the chairman mentioned and others, is that an average bound tariff of 62 percent against their products compared to 12 percent that our foreign competition sees when they want to send something to our borders. I think that is why our negotiators' work in Geneva and ultimately in Hong Kong this December is so vital. It is of vital importance to the future of U.S. agriculture and it is something that is very important and it is truly on the minds of producers all across this country.

Our farmers recognize the importance of trade, but they are becoming increasingly frustrated with the actions of the WTO members who have chosen to litigate rather than negotiate and who have focused their attacks on our U.S. commodity support programs. And while the Doha talks drag on and the WTO continues to rule against our commodity support programs, programs that under the Uruguay agreement were considered fully compliant with WTO principles.

Our farmers want to meet our WTO obligations. They definitely know how important it is to be good neighbors, to negotiate and come up with good agreements, but they also need the assurance that the U.S. Government is going to stand by programs contemplated and authorized in an upcoming multi-year farm bill. To be undercut by policies from our own government when they see the, I guess the fragile nature of the international marketplace is just absolutely not just frustrating, but disappointing, I think, to American farmers.

Farmers have been frustrated—well, they are always frustrated, I suppose. It is either too hot or too cold, too wet or too dry. I certainly experienced that growing up. But continued demands by the Europeans that we unilaterally accept the drastic cuts in our farm programs without their expressed commitment to provide meaningful market access to our producers in return. That is all they are lookaying for.

I grew up on a farm. I grew up with a farmer as a father and in a community that recognized that fairness is important, being a good neighbor is important. All of those things are critical, but it is a two-way street and that is very important to them.

We know that you all were able to meet with European officials in Washington earlier this month and we lookay forward certainly to continuing the dialog of what your assessment and any progress both here today in the committee and also coming forward.

Just a couple of questions. Ambassador Portman, we are just hoping, I think, here today and in the days moving forward you can provide assurances to us and to our constituency that moving forward in the WTO will not require the U.S. to trade away the farm. I mean, that is it. Our farmers are meeting tremendous obligations with the price of fertilizer, the price of fuel, the kind of drought that we are seeing. Just the assurance that those who remain in production agriculture, who really are the most efficient and effective in today's world under our circumstances in the U.S., that we won't trade away that farm, and the specific steps that the administration will take to ensure that the market access benefits will be achieved that are at least equal to the cuts in the trade distorting domestic supports that our negotiators have already agreed to.

So I hope that in the days to come, you will share that with us, you will be very vocal and encouraging to our constituency in what you will be doing, what you can do. I know that some of the reports that you have discussed scenarios or tradeoffs with theEuropeans in terms of domestic support and market access. I hope that you will elaborate on some of those with us so that we will have a clear view of what it is that you are lookaying to do and how you intend to achieve that.

Our USTR continually assures our Arkansas rice producers that trade agreements will result in higher sales and prices, and ours is an export-oriented industry. Arkansas rice producers and millers have joined with their colleagues in the South and California in strong support of trade agreements like NAFTA, the UruguayRound, most recently CAFTA. I have been there. I have worked with my producers. They want to be supportive. But these promises that they continually get are quickly tarnished when our trading partners fail to live up to their obligations.

Our rice industry has spent close to three-quarters of a million dollars to defend against anti-dumping charges by Mexico, some of which were completely unwarranted. Access for U.S. brown rice in the EU was reduced when the EU withdrew the margin of preference concession last year, and I also understand that Korea has yet to implement its commitment to increased market access for rice, while at the same timeKorea is asking for free trade agreement with the U.S.

I think that what our producers want to see is not only that we know how to be good neighbors, but that we also understand that it requires demanding respect. When agreements are made and that we are willing to meet our end of those agreements, we want to make sure that our neighbors and our trading partners are willing to do that, as well.

So I hope that we can see some reassurances from you and from the administration to ensure compliance and enforcement and hope

that you will share with us how that can be achieved, particularly with the Doha Round agreement.

I know that you have mentioned transparency and I am pleased, and I hope that there will be further opportunities to talk about expediting some of the rules that we do have. Our trade laws are important to us, but if we can't use them and we don't have the time, if it drags on too long, it does us no good. I testified before the ITC just last Friday on a steel issue. They are great to talk about, but unless we make them usable and something enforceable, they really don't help us.

So I hope that you can share any or all of that with us. Certainly, the trade safeguards, any progress being made by our U.S. Government tradeofficials in the WTO rules and negotiations, specifically what actions are going to be taken to ensure that we can vigorously enforce our trade laws, I think that is going to be important, as you well know, and I hope at some point I get an opportunity to visit with you about some of the efforts that we have been trying to make here to expedite some of those trade rules in order to be able to do that.

So those are a lot of things. I would also be remiss if I did not just take the opportunity to shift gears and—because I am not sure when I will ever have the opportunity again, but to express my disappointment with the administration moving forward to support Saudi Arabia's accession to the WTO. I guess, again, so much of what I do goes back to many of the other hats I wear in my life, and it is really hard to imagine that we really do want to enforce poor behavior, bad behavior.

I know that Senator Thomas brought up the issue of not wanting to include some of those types of issues, that these are trade agreements and that we have to be careful about that, and I don't think people mind that if it is consistent. But we know that there are many countries out there that we continue to trade with and we continue to ask enormous requirements of, former Communist countries and others, in order to be able to have the kind of free trade and open trade. But to see the kind of record on human rights, women's rights, religious freedoms, I know there have been some advancements on the boycott issue, but quite frankly, our hope is that we could use those opportunities to really encourage a nation likeSaudi Arabia to move further in a direction that is so important to many of us.

Thank you both for your hard work and I lookay forward to working with you as we move forward. I appreciate the leadership of our chairman here and hope there will be opportunities where I can help and work with you.

Thank you, Mr. Chairman.

The CHAIRMAN. SenatorTalent?

Senator TALENT. Thank you, Mr. Chairman. I appreciate your holding the hearing, too. I know a lot of the issues that I was concerned about have been raised. I may have some questions for the record for you all.

Let me just ask a general question and then I, too, want to switch subjects and bring up another issue to get your comment, Mr. Secretary, on something you and I discussed.

I know these negotiations are always very complicated, and at the same time, there are basic principles that apply to any negotiations. I remember an old State Senator friend of mine said to me about 20 years ago, he said, "If you want to get somebody to do what you want, find out what they want and find out how bad they want it."

Talk a little bit about what our trading partners want and how bad they want it, and maybe what they don't want and how bad they don't want it. I am not asking you to give away your negotiation strategy, but I am presuming you are thinking going in, and maybe, Mr. Ambassador, you could do the same, what are some of the leverage points we have got? I know a lot of the frustration our people feel is that we go into these negotiations and we are committed to this both in terms of our economy, but also in terms of our principles, and sometimes I am concerned other people feel like, well, they want this so bad that we can play that game with them. So discuss that general subject, the leverage points.

And then the second point, Mr. Secretary, and it is a different subject, although it certainly relates to trade, I indicated to you before the hearing my concern about what is happening with the river and the fact that we have a lot of our product, particularly our corn, tied up in elevators and on barges upstream and we are unable to offload it and we have got the soybean harvest coming. Discuss some of the things you are doing, if you would, and if you have any suggestions about what we might do to help you with that, I would appreciate it, because that is an immediate concern I have.

Secretary JOHANNS. Yes, it is a very important concern, and maybe I will jump in here ahead of the Ambassador and the Ambassador can handle the trade question that you posed.

As I indicated to you before the hearing started, we have been working on this transportation of grain issue literally from the moment Katrina struck and the aftermath. The USDA is assisting the movement of barges of damaged corn from New Orleans. USDA is providing incentives for alternative grain storage. We are encouraging alternative shipping patterns to help relieve some of the pressure. We are allowing producers to storeUSDA-owned corn on the farm with the option to purchase.

USDA is providing a temporary incentive to assist immediate movement of some 140 barges of damaged corn, and that would be about seven million bushels, out of New Orleans to up-river locations. Once unloaded, the empty barges will continue up the river, then, to begin moving the new crop commodities, the 2005 commodities. USDA will pay incentives for alternative storage up to 50 million bushels of grain. We think all of these actions will help to relieve the pressure.

To reduce stress on theCentral Gulf transportation and handling system, USDA will provide a transportation differential to cover the costs of moving grain to other river transportation modes and handling locations. And to further alleviate grain movement into the Mississippi River, USDA will allow producers forfeiting commodities to USDA actually the opportunity to buy back the grain when the farm stored loan matures in September and October.

So we have done a lot of things that we had the power to do. Fortunately, the House and the Senate has given the USDA very broad power to deal with emergencies and we have just encouraged everybody at the USDA to be as creative as they possibly can in dealing with this. We will be happy to offer a briefing to your or your staff or to anyone else. It is a significant issue. I have said publicly, if there was one of the good news pieces of the recovery relative to Katrina, it is how aggressively everybody worked on the port issues, the Mississippi River issues. The Corps of Engineers has been great. The shippers have really gone overtime to try to deal with this issue.

If anyone ever doubts the importance of exports, boy, lookay at this circumstance, because really all we did was stall exports for a while and it just backs up right into the middle of the country immediately.

Senator TALENT. That is exactly right, and so are you satisfied, then, that this has a high enough priority within the administration's overall efforts. I mean, I know you are paying a lot of attention to it, which that is very appropriate, but are those outside of the Department within the administration's efforts aware of this? Is it a priority with them, as well?

Secretary JOHANNS. Absolutely. It is a priority not only for me, but it is a priority for the President and the folks in the White House. We have engaged them in our thinking on this and in where we are headed. So we understand the problem and the issue and we are going to do everything we can to facilitate moving this product, because really what happened here is it just backed up. There was all of a sudden a glut in the system because the system was not operating for a while, and now that it has come back up, it is operating, I think, 12 hours a day. So those people are working very hard to get this system operating around the clock, but we have to deal with a glut of grain that was out there. We are going to be just as aggressive as we can in trying to help with that.

So it is very much a priority issue for us. I have probably spent as much time on this issue as any other issue relative to Katrina recovery.

Senator TALENT. Thank you.

Ambassador Portman. Just one further comment with regard to Katrina. I was able to go down to the region on Friday, and I went down specifically because of the export and import interest, the trade interest. Sixty-two percent of our agricultural exports, as you know, and the Secretary knows well, goes out of those ports, primarily the Port of South Louisiana, and I was able to tour the Port of New Orleans and also get a briefing on that port, South Louisiana and Baton Rouge.

The traffic is moving, more slowly than we would like, but it is moving and all I can say is my sense is this is not just a very high priority of the administration, and certainly it is of mine from a trade perspective and the Secretary's, as you heard, but we are also relatively fortunate. With all the devastation ofKatrina and all the human tragedy involved, it is amazing these ports weren't more damaged.

Most of the wharfs are in good shape. As you know, electricity is back, I think, to all but one terminal now. We have the ability

to be able to move barges up and down the river. There was a lot of concern about silt early on. The soundings were taken. That has not been a problem. There were, I think, 200 ships or boats that were potentially in the channel at one point. We have been assured that that is not an issue.

So compared to what it could have been, we are relatively lucky, but boy, this is critical to our exports and imports as——

Senator TALENT. Is the key remaining issue personnel, getting enough people there?

Ambassador Portman. That is what I was going to mention. I think one of the challenges that the administration has focused on particularly in the last week is temporary housing for the ports themselves. You know, these three ports, we are told, support about 100,000 people, so it is critical to the economic development and the maritime services in that area are critical to the economic development of that region and bringing it back. But you have got to have workers to move this product, soMerit has provided some ships, as you know, and they have provided some housing, but it is focusing on some of this temporary housing, and I know the Secretary has been involved in that. The Secretary of HUD, Alfonso Jackson, and I have talked about it. He was actually in the region with me.

So the administration is very focused on this, Jim, as a way to be sure we are both dealing with the economic dislocation in that area, but also with regard to the importance of trade, and the message to our trading partners needs to be the harvest is moving. We will be able to provide your needs and we will do everything in our power to be sure these exports go out.

Secretary JOHANNS. If I could underscore that point, our international friends have been great in responding to this emergency in a lot of different ways. It is just very, very important that I assure them when it comes to the shipment of products they need, we are going to do that. Everybody is absolutely focused on responding to the purchases and needs of the international marketplace. It has just been a great effort by everybody involved to accomplish that.

And then the last thing I failed to mention that Dale reminded me of is that navigation on theMississippi is done with navigational aids. They literally site these aids in the river. Some of those aids were pushed aside by the storm or pushed up onshore, whatever, and that is kind of the last piece here to get this system back to 24 hours.

But my last briefing with the Corps ofEngineers, which was just within the last few days, is that everybody is working diligently to get that accomplished. Once those aids are back in place, then you will see the system come back up online around the clock and that will be yet another positive step to move that grain harvest that has already started in the Southern corn belt. I mean, we are seeing that harvest already and it will definitely be in full swing across the corn belt here pretty quickly. States like Illinois that had drought, their corn is going to cure fast, as will the soybeans. So it would not surprise me if you are seeing combines out in the field already in those areas.

Senator TALENT. Do you have comments on my broad——

Ambassador Portman. Well, I thought your question was very astute and I also thought that Senator Lincoln's analysis was right on in terms of what we face. I mean, it is a challenge to determine how you can better understand the other person's point of view in any negotiation. In this one, the importance to the farm community, as we have talked about all during this hearing, cannot be overstated. We absolutely depend on exports in our farm economy. My whole job in this negotiation as I see it is to make sure those Arkansas families that you talked about have a better situation as a result of this agreement.

So Missouri farmers and Arkansas farmers should know that we are doing our best to determine what is not just in the interests of other parties, therefore, getting them to agree with negotiation that is sensible for our farmers, but we are also working very hard with some allies who are exporters, as we are. This would include some of the countries even in the G–20 which we mentioned earlier, some of the developing countries that have an export interest, certainly the Australias andCanadas and New Zealands of the world who share a lot of our interests.

As I said earlier, I am hopeful that we will have a result that provides meaningful market access, that eliminates export subsidies altogether, where about 87 percent of that use is currently by the EU, and where we have in the trade distorting domestic support a situation where those who have higher supports, and this chart we pulled out earlier, that those countries reduce more. That is what the framework provides for. And if we end up with an agreement along those lines, it will be very beneficial to our exporters, manufacturers, service providers, but also to our farmers.

So that is the goal of these negotiations. It is sometimes difficult to know, Senator Talent, in response to your specific question, what other people really care about as compared to maybe what they are saying publicly——

Senator TALENT. Perhaps I shouldn't ask you to muse on that, because you maybe give away the game, but maybe we can talk a little bit later, because my sense of it is they do a pretty good job of acting like, well, you know, if this thing busts up and we don't get an agreement, that is okay with us, and to the extent that they are putting that idea across, it seems to me they have more leverage at the table. Maybe we will talk later about how you counter that with them.

I think I am sharing some of the frustrations Senator Lincoln mentioned. They act like, well, we will disrupt the system and you guys will be disadvantaged and that is okay with us, whereas we always come back and everybody knows we are committed to it. I just wonder whether that puts us sort of behind the eight-ball going in.

Ambassador Portman. We are committed to a good agreement and only a good agreement.

Senator TALENT. okay. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Talent.

Mr. Chairman, I am going to do a floor statement a little later on today where we talk about some of the successes ofNew Orleans after Katrina and the thing I am going to highlight, a situation relative to the port. That is a classic example of how the private sec-

tor and the public sector working together can get something positive done in a hurry. USDA, the Corps of Engineers, as well as the lessees from the port authority, like Cargill and ADM, have really worked very closely together to make sure that farmers are well served by getting that port reopened.

It is kind of interesting that the major issue we have, Senator Lincoln, is getting enough workers back and being able to house those workers so that they can go to work and start getting paychecks again.

Senator LINCOLN. We have got about 60,000 evacuees in Arkansas, so we are well aware of the need to get people back home.

The CHAIRMAN. Gentlemen, thank you very much for taking the time to be with us today. I think this has been an extremely informative hearing. We lookay forward to continuing to dialog with you as we move toward Hong Kong. Obviously, we send our best wishes with you as you leave today to go to Paris. We lookay forward to visiting with both of you when you return to see the results of what I know will be a very productive meeting, so thank you very much.

The CHAIRMAN. We will now call our second panel. Our second panel today consists of Ms. Audrae Erickson, who is President of the National Corn Refiners. She is here today in her capacity as Co-Chair of AgTrade, based here in Washington. We also have Mr. Allen Helms, theVice Chairman of the National Cotton Council from Clarkedale, Arkansas; Mr. Leonard Condon, Director, International Business Relations, Altria Corporate Services based here in Washington; and Mr. Mark Viso, Vice President of Operations, International Program Group, World Vision, based here in Washington.

Welcome to each of you. We are very pleased to have you here. We lookay forward to your testimony, and Ms. Erickson, we will start with you.

Senator LINCOLN. Mr. Chairman, may I just add a welcome to one of my constituents, Mr. Helms, who is testifying today on behalf of the National Cotton Council. He is a cotton producer, as you mentioned, from Clarkedale, Arkansas, and a member of the Arkansas Agriculture AdvisoryCouncil, but he is also a great friend of Southern agriculture and I just want to commend Allen's leadership and all of the hard work. I appreciate you taking the time to offer your insight in the direction of our trade negotiations. I know I hear it at home. I am glad to hear it up here.

Thanks, The Chairman.

The CHAIRMAN. I met Mr. Helms previously and any cotton farmer has got to be a great American, the way I figure it.

Again, I thank all of you for being here. Ms. Erickson, we will start with you. We lookay forward to your comments.

STATEMENT OF AUDRAE ERICKSON, CO-CHAIR, AGTRADE COALITION, WASHINGTON, DC

Ms. ERICKSON. Thank you, Mr. Chairman, SenatorLincoln. Thank you for this opportunity to testify today on behalf of the AgTrade Coalition, which is a coalition that was formed in 1999 and has over 100 organizations, associations, and firms in it that supports further trade liberalization in agriculture. I am interested

in submitting a copy for the record of the principles that our coalition has recently revised for the WTO negotiations.

The CHAIRMAN. Sure.

Ms. ERICKSON. I should note that each member of theAgTrade Coalition has its own set of negotiating priorities, and in some cases, those priorities may be even more ambitious than what I will present today, and some may be noted as we begin.

The WTO negotiations represent the most important element of the trade agenda from the President for our coalition, and key among that, really, is substantial improvement in market access. An ambitious market access package must include a harmonizing formula that reduces the high tariffs more than the low ones and results in substantial and commercially meaningful—and that is important—market access in all products to all markets.

All tariffs should be capped and complex tariffs, of which there are many, as you know, must be converted to ad valorem or specific tariffs.

Only a limited number of sensitive products ought to be allowed, and for those, market access should still be improved through reductions in tariffs or expansion of tariff rate quotas.

Regarding tariff rate quotas, all end duties, end quota duties for TRQs ought to be eliminated, and the administration of those TRQs should be improved.

Sectorial negotiations should be pursued for those commodities and food products that are seeking a more ambitious market access outcome.

And balance in the level of the ambition in all three pillars is a central objective of the AgTrade Coalition. Reductions in total trade distorting domestic support and other U.S. concessions must be balanced with our goals for what we hope to achieve in market access and export competition.

On domestic supports, a formula that harmonizes total levels of trade distorting support is needed.

On the blue box, our coalition continues to support the July 2004 framework agreement. On the green box, there should be no caps on or excessively restrictive criteria defining eligibility for nontrade distorting domestic support.

Now, for the export competition pillar, the elimination of export subsidies by a date certain is key and must remain. Export subsidy rules should be tightened and should be applied equally to developed and developing countries.

The monopoly powers of state trading enterprises, they must be eliminated, as should the government subsidies, the financing, the underwriting of losses on their export activities. STE disciplines should result in transparency and the end of discriminatory pricing practices.

Regarding export credits, a topic that the coalition and even the Export Credit Working Group here in the United States has worked diligently on, official export credit and credit-related programs should be applied to allWTO member countries, and reductions in the subsidy component of existing programs that do not comply with any disciplines that are established should be implemented in a parallel manner with the phase-out of export subsidies

and the elimination of monopoly powers of state trading enterprises.

And there are many programs throughout the world, as you can imagine, that assist exports. Disciplines should be developed on other export measures that have equivalent trade distorting effects, including the elimination of differential export taxes.

On food aid, I will touch on it briefly. I know it is a topic that will be discussed in more detail. Disciplines on food aid should be imposed only to the extent necessary to prevent such aid from distorting commercial markets. Our coalition opposes prohibitions on government-to-government food aid or any requirement that food aid be in the form of cash only.

The WTO negotiations on agriculture must be concluded as a single undertaking that encompasses all sectors. Cotton is as part of the coalition, as well.

Regarding developing countries, certain more advanced developing countries, particularly exporting developing countries, must assume obligations similar to developed countries in all three pillars, and WTO rules for developing countries to graduate them to the developed country status ought to be developed using objective economic criteria.

Geographical indications is an important topic that will be touched on momentarily, but we oppose any extension of geographical indications beyond wines and spirits.

And finally, ensuring market access for products of biotechnology and that the regulation of those products is based solely on science is an important principle that must be upheld.

Mr. Chairman Senator Lincoln, thank you for this opportunity to testify. We lookay forward to working with you to ensure that the final deal represents a balanced approach and one that will ensure the future viability of America's farmers and ranchers, processors, and agribusinesses. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Ms. Erickson can be found in the appendix on page 90.]

The CHAIRMAN. Mr. Helms?

STATEMENT OF ALLEN HELMS, VICE CHAIRMAN, NATIONAL COTTON COUNCIL, CLARKEDALE, ARKANSAS

Mr. Helms. Mr. Chairman and members of the committee, I am Allen Helms, a cotton producer fromClarkedale, Arkansas. I currently serve as Vice Chairman of the National Cotton Council. Thank you for the opportunity to present the views of the cotton industry concerning the WTO issues confronting cotton.

The U.S. cotton industry believes that a beneficial agricultural agreement in the Doha Round negotiations must provide meaningful benefits to farmers and agribusinesses in return for any concessions. While significant attention is rightly paid to theEU, we believe China, India, and Pakistan must also be full participants in these negotiations.

We also firmly believe that agriculture negotiations must be part of a single undertaking, comprehensive negotiation. Efforts to single cotton out for special treatment have been misguided, have un-

dermined support by cotton farmers, and threatened the overall DohaRound.

In order to facilitate development of a framework agreement, the cotton industry did not object to the establishment of a special Cotton Committee. We were assured that the subcommittee would not become another forum for negotiations. Unfortunately, many participants in that committee ignored its original mandate, which was to monitor and coordinate developmental efforts with the trade policy negotiations.

In his outgoing assessment of the agricultural negotiations, former Chairman Grosser made it clear that the progress of cotton trade issues was fully dependent on overall progress within the agricultural negotiations.

The U.S. cotton industry is fully prepared to work toward the beneficial agricultural agreement. We are prepared to make an equitable contribution toward that positive result, but we will oppose any agreement that singles out cotton for unfair treatment.

Much of the call for special treatment for cotton has come from several African countries that depend on cotton for a significant portion of their export earnings. Since early 2004, the National Cotton Council has engaged in a number of outreach activities with the West Africans. These efforts are detailed in my written testimony. They underscore the commitment of the U.S. cotton industry and the U.S. Government, but I must add that the U.S. cotton industry cannot correct the legacy of European colonialism. African leaders must take the initiative to privatize their industry and join the world's mainstream cotton trade.

Mr. Chairman, the National Cotton Council's specific priorities for the DohaRound are also detailed in my written testimony. I would like to make a few additional points.

First, it is critical that we obtain real increases in market access in the Doha negotiations. For example, China is applying a new sliding-scale tariff to imports of cotton. It is designed to favor domestically produced cotton and synthetic fibers. It limits our ability to sell product there and encourages the use of manmade fibers by textile mills.

Second, we believe that special and differential treatment must be provided to truly less developed countries. Under current practice, Brazil can insist on the same benefits as Mali.

Third, our experience in theBrazil case proved to us that we must do a better job of ensuring the language in the final agreement accurately reflects the intent of the parties. The United States never agreed that theExport Credit Guarantee Program was an export subsidy, but the dispute settlement panel read the Uruguay Round agricultural agreement differently. We cannot be blindsided again.

Fourth, WTO agreements can have significant impact on our ability to construct effective domestic agricultural policy. As a result of the panel decision in the cotton case, the administration has recommended that a 15–year-old component of the cotton program be eliminated in the middle of a marketing year. I doubt a mandate to change loan rates or direct payment rates in the middle of a marketing year would be favorably received. This committee would probably find a less disruptive means to achieve this objective.

Finally, the DohaRound agreement must appropriate protect countries that comply with the agricultural agreement from unexpected challenges under the subsidies code. Domestic farm programs that are structured to comply with a new agricultural agreement should not be undermined by subsidies code challenges that cannot be anticipated by Congress.

Mr. Chairman, the cotton industry is committed to continue to work with Congress and the administration to find solutions and to support agreements that are balanced and fair for U.S. agriculture. This concludes my testimony. I will be happy to take any questions.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Helms can be found in the appendix on page 94.]

The CHAIRMAN. Mr. Condon?

STATEMENT OF LEONARD W. CONDON, DIRECTOR, INTERNATIONAL BUSINESS RELATIONS, ALTRIA CORPORATE SERVICES, INC., WASHINGTON, DC, ON BEHALF OF THE GROCERY MANUFACTURERS ASSOCIATION

Mr. CONDON. Thank you, Mr. Chairman and Mrs. Lincoln. I appreciate the opportunity to share the views of the Grocery ManufacturersAssociation on the status of the WTO negotiations. GMA strongly supports the talks. We believe the Doha Development Agenda offers huge potential for expanding U.S. processed food exports.

Processed food remains a significant and increasingly important component of U.S. agriculture. Global processed food sales now total $3.2 trillion, about three-fourths of total world food sales. Annual U.S. processed food exports exceed $19 billion and now account for one-third of total U.S. agricultural exports.

With 95 percent of the world's consumers living outside the U.S., future growth of the U.S. food and agriculture complex will be closely tied to our ability to expand exports. Emerging markets offer enormous potential. The annual growth rate for processed food sales in developing countries range from 7 percent in upper-middle-income countries to 28 percent in lower-middle-income countries, versus a two- to three-percent growth for developed countries.

Processed foods provide an important export gateway for many bulk commodities. My company, Kraft Foods, for example, purchased $3.6 billion worth of farm commodities for use in our U.S. processing plants last year. This included $1.3 billion worth of dairy products, nearly half-a-billion dollars worth of pork, and almost a quarter-of-a-billion dollars worth of sugar. Worldwide, Kraft buys $7 billion worth of farm commodities annually.

U.S. processed food exports grew rapidly in the 1970's and 1980's. By the 1990's, processed foods represented a greater share of agricultural exports than bulk commodities. Since the late 1990's, however, growth in exports has leveled off. Despite progress in the Uruguay Round, significant trade barriers remain.

Tariffs on agriculture products are excessive, 62 percent compared with a global average of only 4 percent for industrial products. Tariffs on processed products tend to be even higher than the

average. The UruguayRound also created tariff rate quotas for sensitive products, like sugar and dairy, that are key ingredients in many processed food products. U.S. TRQs restrict access to key commodity markets and keep our raw material prices higher than they would be otherwise. This impairs our ability to be globally competitive. Unjustifiable labeling requirements, burdensome certification rules, and unique packaging standards also restrict processed food exports.

In the ongoingWTO agriculture negotiations, GMA wants to achieve new commercially meaningful access for food products. We are pleased that negotiators have agreed in principle to a formula that will cut high tariffs more than low ones. We urge as ambitious a formula as possible to reduce tariff peaks, address tariff escalation, and most importantly, achieve substantial reductions in both bound and applied tariff rates.

The concept of, quote, "substantial improvements in market access," should be applied to all products, even those considered sensitive. The U.S. has far more to gain by pursuing an ambitious tariff-cutting formula for all products than an agenda centered on protecting our sensitive commodities.

We also support a tariff cap in order to allow meaningful market access for all products. Increased market access for sensitive products must come from tariff cuts, substantial increases in TRQs, or a combination of the two.

On domestic support, amber box payments must be reduced and capped on a product-specific basis to achieve equitable reductions. To ensure that domestic support policies are minimally trade distorting, new disciplines should be developed for the expanded blue box and there should be a commitment to reduce blue box support over time.

Agricultural export subsidies are reprehensible trade policy instruments. They should be terminated within 5 years.

GMA remains extremely concerned about the EU's aggressive push for new protections for geographical indications, especially its proposal to claw back rights to names that the U.S. considers generic, like parmesan and feta. In many cases, Kraft and other U.S. companies have built brands around these generic names. The EU demands to rescind the rights to these and other names should be flatly rejected.

Finally, trade is the engine of global economic growth. A successful conclusion to the Doha Development Agenda will boost world economic activity, lift millions of suffering people out of poverty, resolve a number of festering trade frictions, and restore confidence in the global trading system. However, a deal is not possible without an acceptable outcome on agriculture. With our abundant natural resources, highly efficient agriculture production system, and superior marketing capabilities, we are convinced that U.S. food and agriculture producers can only gain from new WTO rules that will role back government intervention in the agriculture production and trading system.

Thank you very much.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Condon can be found in the appendix on page 105.]

The CHAIRMAN. Mr. Viso, I understand I mispronounced your name earlier. For that, I apologize. We lookay forward to your comments.

STATEMENT OF MARK VISO, VICE PRESIDENT OF OPERATIONS, INTERNATIONAL PROGRAM GROUP, WORLD VISION, WASHINGTON, DC

Mr. VISO. Thank you. Mr. Chairman, good morning and thank you for inviting World Vision to testify today.

World Vision recognizes the staunch support this committee has shown over past decades for ensuring that hungry people around the world are fed and provided a helping hand. Your track record reflects a genuine concern and empathy for the world' spoor. I am sure this will continue and we thank you.

We would also like to recognize and thank Senator Johanns and Ambassador Portman for their support of food aid as well as thank Senators Harkin and Roberts for their comments here today.

My testimony will focus on food aid in the WTO Doha Round trade negotiations. It reflects the views of the 16 American private voluntary organizations and cooperatives, jointly called PVO's, that are members of the Coalition for Food Aid. In partnership with the communities we serve, we use food aid to improve the well-being and food security of poor and vulnerable people.

Coalition members have a long history with Food for Peace and USDA, providing food to millions of hungry men, women, and children who are in desperate need of assistance. Rather than just providing a meal today, we link food aid to long-term development programs so people can build a better tomorrow.

Today, however, the future availability of food aid is in jeopardy due to proposals made during the Doha Round negotiations. At the USDA Kansas City Food Aid Conference in May of this year, Agriculture Secretary Mike Johanns outlined three critical issues that we believe could form a solid basis for a U.S. position in the DohaRound.

First, the Secretary stated, we understand the important, often lifesaving role of food aid. Unfortunately, others in some countries take a dim view of the way in which U.S. food aid is delivered, characterizing it as a subsidy for our producers. We hear, no, this is not the case.

Mr. Chairman, we agree. Food aid is humanitarian in essence and nature and should not be treated as an agricultural subsidy program. The driving force behind U.S. food aid is not negotiational subsidies to producers, but rather the assessed humanitarian needs in recipient countries. As recipient countries themselves have commented during the Doha negotiations, the needs of recipients should come first and food aid must remain available for both chronic and emergency needs.

Second, Secretary Johanns said, what the world needs is more food aid commodities, more cash, and more donors, not new and impractical rules that require everyone to contribute in exactly the same way. We agree. What we absolutely concur is that more food aid and cash is indeed needed, as important a point as the need to maintain the various ways food aid is contributed.

Several exporting countries claim that in-kind food aid creates unfair competition for their commercial agricultural exports and have put forth proposals to restrict or eliminate food aid. The most extreme suggestion is to phaseout in-kind food aid, defined as food procured in the donor country, and then only permit food in times of crisis.

Based on our decades of work in partnership with those who receive aid, we believe that a variety of options for providing food aid are needed, including in-kind commodities for targeted distribution as well as cash available for local purchase and program support so that a program can be tailored to meet the specific context and needs of the recipients.

Other proposals would require all food aid to go through international organizations and would eliminate non-emergency food aid. This would, for example, no longer allow World Vision and other U.S. PVO's to directly partner with the U.S. Government to provide food aid for mother-child health care, food for education, and other agricultural development projects. We urge the committee to work to maintain a variety of food aid delivery options as well as the role of American PVO's in food aid programming.

Third, Secretary Johanns said we also believe that any new disciplines applied to food aid should be discussed by international food aid experts, not just trade experts negotiating the trade agreement. We agree with Secretary Johanns once again. TheWTO's objective is to provide ground rules for international commercial trade, not international aid. While only governments participate in negotiations, much of the expertise in food aid lies with PVO's and other organizations that implement programs in recipient countries. These groups approach food aid as a humanitarian program rather an agricultural trade program and work in partnership with local communities to save lives.

What is not discussed enough at the Doha negotiations by those who would criticize U.S. food aid programs are the many benefits these programs provide. Millions are benefiting as food aid provides the nutrition needed to complement the use of anti-retroviral drugs in HIV-AIDS programs. Food for Work supports the construction of sanitation and clean water infrastructure in poor communities. And school meals and maternal-child health programs care for hungry children and improve their chances for a healthy, productive, enriching life.

We urge you to continue keeping the poor and hungry at the center of decisions regarding the Doha discussions on food aid. If we don't make the right decisions at Doha today, the plight of the world's poor will be alarmingly worse tomorrow. We ask that the world's poor do not become the unfortunate and unintended victims of negotiations of international trade agreements.

Mr. Chairman, thank you again. I would be happy to try and answer any questions you have if time permits.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Viso can be found in the appendix on page 113.]

The CHAIRMAN. Ms. Erickson, in your testimony, you note that the best means for ensuring the continued positive impact of our sector on the U.S. economy is to achieve commercial and meaning-

ful results in the WTO negotiations on agriculture. In your opinion, what is the most important objective that must be maintained in order to conclude the WTO negotiations on agriculture and what political hurdles need to be overcome in order to reach the critical mass for a consensus to be developed?

Ms. Erickson. Well, the balance amongst the pillars is truly one of the more important ones, and clearly, the United States is willing to show its flexibility, but what we are seeing is that other countries, developing countries and clearly the European Union, are perhaps not as interested in the true market access improvements that are going to be needed to create the delicate balance and the political sign-on around the world.

And when it comes to market access, the cuts, as you know, are being taken from the bound rates, and if they are not significant enough, substantial enough, they may end up being above the applied rates today. So we need to see that when each of the members of the AgTrade Coalition hit the "total" button on the calculator, once they see what the deal lookays like, it has got to result in a net improvement in their economic situation.

The CHAIRMAN. Mr. Helms, like you, I am concerned about the relative impact regarding proposals to significantly reduce domestic support levels. Even if the United States agrees to more reasonable proposals offered in the agriculture negotiations, Congress will not be able to model the next farm bill after the 2002 legislation. Your testimony highlights the impacts of the various proposals. What would be the likely impacts at the farm gate level, and how many farmers would we lose and what would be the impact on per capita farm income in the cotton belt?

Mr. HELMS. I think some of the proposed models that would advocate as much as a 50 percent cut in our aggregate measurement, and that would probably equate to about a five to ten percent cut in our loan levels, which to the average cotton farmer could mean as much as a five percent—five cent reduction in his loan. The average cotton farmer probably would be a 1,000–acre farmer, so you are talking $50,000, probably average per producer. That is a good number, I think, for us to use for an example. Of course, this would equate, then, into, I think a half-billion dollars over the entire cotton industry within the United States. There would definitely be a lot of producers who couldn't stand to have those type of reductions in their income. We have not developed any numbers yet as to how many we think there would be, but we know it is significant.

The CHAIRMAN. Mr. Condon, you state the emerging economies hold the most potential for increased exports of processed food products. To which countries in particular are you most interested in securing additional market access and what would the cost be to the food industry of the EU's proposals on geographical indications?

Mr. CONDON. With respect to the emerging economies, the ones we are most interested in are the ones with large populations and rising incomes and they would be countries like China, of course, India, Brazil, Russia. Most of those countries—three of those countries are currently members of the WTO. Russia is in the process of acceding to the WTO. All of them have relatively high tariffs. To the extent we can get those tariffs down and get more processed

foods into those countries, that is a big gain for the processed food industry and for the bulk commodities that supply us.

With regard to your question on geographic indications, the real answer there is we don't know what it will cost us, but it is likely to cost us a lot, and I will use, for example, our green can of parmesan cheese that Kraft sells. We are one of the biggest manufacturers of parmesan cheese in the world. We can't sell parmesan cheese under that name in the EU. In the EU, we sell it as parmacello, because we can't use the name parmesan.

In the U.S. market, for example, if we had to repackage our product, relabel our product, there would be considerable costs involved in doing that, but the big problem for us would be then convincing the consumers that it is the same product, it just has to have a different name. We just don't know what it would cost us to conduct a new marketing campaign to maintain confidence in our product, but there would be considerable cost to us and considerable cost to other members of the U.S. food processing industry.

The CHAIRMAN. Mr. Viso, you mentioned in your testimony that proposals to eliminate the direct role of private voluntary organizations to eliminate developmental food aid, to eliminate monetization, and to move to a cash-only system were problematic, and I think that was highlighted in Senator Harkin's comments. Would you briefly explain from your position why each of these four proposals would be problematic?

Mr. VISO. Yes. Thank you for the question. I will try and go over as many as I can. We consider these proposals problematic and perhaps even dangerous for several reasons.

One, it would eliminate the ability for the U.S. Government to partner directly with American private voluntary organizations and we would think that that adds another layer of bureaucracy and cost and reduces the level of accountability and transparency vis-a-vis the U.S. Government's programming and policy intentions, for one.

We think that the proposals would eliminate our ability to choose the most appropriate food aid delivery mechanism, cash or in-kind or monetization, and allow us to make the best possible program to fit the context and needs of the foreign hungry recipients.

Third, it would eliminate our ability to address non-emergency situations, longstanding chronically poor, chronically food deficit situations like much of Africa is facing today.

So those are just, very briefly, three main reasons why we think the current proposals are ill advised.

The CHAIRMAN. Let me thank each one of you for taking time to be here today. Let me also say that your full statements will be entered into the record, as well as full statements of Secretary Johanns andAmbassador Portman. We will leave the record open until Friday of this week for any member wishing to submit a statement for the record.

Again, as we move toward WTO, we are going to be calling on you folks to use you as resources to make sure that we are negotiating the right kind of agreements for farmers, ranchers, and the American public, and we thank you for your continued willingness to work with us.

With that, this hearing will be concluded.

[Whereupon, at 11:42 a.m., the committee was adjourned.]

APPENDIX

SEPTEMBER 21, 2005

Testimony of Mike Johanns
Secretary of Agriculture
Before the Senate Committee on Agriculture
September 21, 2005

Thank you, Mr. Chairman, for this opportunity to meet with you and members of the Senate Agriculture Committee to discuss the status of the World Trade Organization (WTO) negotiations on agriculture. I also want to thank USTR Ambassador Portman for joining me today. As you know, agricultural policy and trade policy are intrinsically linked. Our joint appearance today reflects that close relationship as well as the one that exists between USDA and the Office of the USTR.

This is a very timely hearing. We are but weeks away from the Hong Kong ministerial meeting at which time we must reach agreement on the reforms to agricultural trading rules. I strongly believe this is a critical opportunity for us to spur economic growth that will benefit America's farmers and ranchers, as well as those around the world.

It is urgent that progress be made in the near future. Discussions were begun in 2001 and the framework of an agricultural agreement was reached

in July of 2004. It is time for leaders to determine the specifics of what can be accomplished.

The United States has made clear what we are seeking. We simply want to level the playing field for our farmers and ranchers. We want substantial progress in all three pillars of the negotiations: market access, trade-distorting domestic support, and export competition.

President Bush has challenged other leaders to make the same commitment we have made. He strongly believes that America's agricultural community can be a global competitor --- if we have a fair chance to compete. The Doha Development Agenda negotiations now provide the opportunity to move us closer to a fair trade environment.

Last week at the United Nations, the President repeated his challenge to use the negotiations to eliminate agricultural subsidies that distort trade, and to reduce and eliminate tariffs and other barriers in order to open markets.

We are ready to negotiate a strong, balanced package. Let me reiterate our objectives.

- Export Competition—we want to see the end, and very soon, of all export subsidies.

- Market Access—we must have significant reductions in barriers to our products.

- Domestic Support—we have said all along that we are amenable to significant reductions if others will do likewise.

This is the time to make substantial progress in leveling the playing field. Our agricultural tariffs average 12 percent; the EU's average 31 percent; Japan 51 percent; the world average is over 60 percent, and for countries such as India 114 percent and others, it is even higher. The level of trade-distorting domestic support permitted also needs to be reduced and harmonized. It's not acceptable for Europe to have four times the permitted support we have when our agricultural economies are of equivalent size.

The stage is set for serious negotiating—but we must seize the moment ***now*** because another such opportunity will likely not present itself for a long time to come. It's also important to have a good sense of the outlines of an agreement after Hong Kong as we begin consideration of a new farm bill.

As you know, I have been holding "listening sessions" around the country to encourage some thoughtful commentary on the direction of future farm policy. These have been a great opportunity to get a sense of farmers' concerns and their good ideas. There is a lot of interest in how our programs can be directed to improve conservation, help rural development, support renewable fuels, and at the same time not artificially inflate land prices, making it harder for our children to keep the family farm.

Importance of Exports to U.S. Agriculture

I cannot emphasize enough that the future strength of American agriculture hinges on our success in the international marketplace.

Historically, we have been the world's largest agricultural exporter. We already derive 27 percent of our gross receipts from foreign customers. A substantial percent of crop production is exported – around 70 percent for certain items. And, increasingly, we are exporting more livestock products, processed foods, and other higher value items.

U.S. agriculture's long-term average annual productivity growth is 2 percent. Our annual population growth rate is 0.8 percent. Over 10 years, this translates into a production capacity that is nearly 22 percent greater, while our aggregate food consumption is only 8 percent greater. Clearly our agricultural sector demands access to foreign markets, particularly those with growing economies. Without them U.S. farm income and equity will stagnate or decline.

And, the benefits of agricultural exports extend far beyond the farmgate. They benefit the entire U.S. economy. Last year's export total of $62.4 billion generated $162 billion in economic activity. U.S. agricultural exports support additional services to harvest, process, package, store, transport, and market products. High-value products generate more additional economic activity than bulk goods.

Agricultural exports mean jobs. USDA research shows that each billion dollars in agricultural exports supported over 15,000 jobs, including jobs in trade, transportation, services, food processing, and other manufacturing sectors. Over a third of those jobs – 35 percent – are estimated to be in rural communities, both on and off the farm. Agricultural exports generate a greater share of total employment benefits to rural communities than other export industries.

The reality is that the world marketplace is becoming smaller and American agriculture must continue to adapt to compete. There was a time when farmers and ranchers provided their products to the nearest village or town, but today we recognize that more than 95 percent of the world's consumers are outside our borders. And, the greatest opportunities for new customers will be in the expanding urban centers of the growing developing counties – it is estimated that the middle class in these nations will increase by 160 percent by 2020. For example, by then, China will have 229 million middle class households, up from 49 million in 2000.

The solution to keeping our farmers and ranchers competitive in an increasingly global economy is not to withdraw from it. It is to do what Americans have always done – adapt, innovate, and lead. That is why the President and I believe that trade liberalization can only benefit American agriculture, and is critical to the future of agriculture in this country.

It is also important to note that U.S. in-kind food aid, which is a tiny proportion of US agricultural exports, is threatened in the negotiations. These donations make up the largest contributions to humanitarian emergencies worldwide. We will work to be sure such donations will continue to be allowed, particularly when targeted to the food insecure. We also intend to explore with Congress a broader U.S. response capacity to meet food aid needs.

Conclusion

Let me conclude by noting that from the very outset of this trade round, we have sought an ambitious, comprehensive result. From the time we tabled our proposal – in July 2002 – we have had the support of virtually all of our agricultural community for such an outcome –that is still true

today. President Bush reiterated our ambition last week, with a vision that will provide greater opportunities for our farmers and ranchers to prosper in the global marketplace. We will now work tirelessly in the time until Hong Kong to achieve this goal.

Agriculture and the WTO Negotiations

Statement of Ambassador Rob Portman
United States Trade Representative
before the
Committee on Agriculture, Nutrition, and Forestry

United States Senate
Washington, D.C.

September 21, 2005

I am pleased to be here today with my former colleague, Chairman Chambliss, Senator Harkin and other distinguished members of the Committee. Our trade agenda is vitally important to America's agricultural community. Secretary Johanns' statement underlined the importance of trade for the farm economy – export markets are critical today and will be even more important in the future. Income and consumption growth among nearly 6 billion potential international customers provides the best opportunity for American farmers and ranchers to succeed. We have made significant progress reaching these customers through our Free Trade Agreements. The WTO Doha Development Agenda negotiations is the opportunity to significantly improve market access for our products all around the globe.

Last week, at the United Nations General Assembly meeting, the President challenged the world to end barriers to trade, explaining "the United States is ready to eliminate all tariffs, subsidies and other barriers to free flow of goods and

services as other nations do the same." The U.S. is already the most open developed country, and we will benefit the most from bold trade liberalization reforms. However, we will not consider changes to our own programs unless the other WTO Members commit to open their markets to our goods and agree to further reduce their own subsidy and trade-distorting programs. I will not sign on to any agreement that does not provide a more level playing field.

The agriculture negotiations are a major focus of Doha but also must be considered along with the other major areas: manufacturing and services, as well as trade rules. Failure to reach an agreement would squander a worthy opportunity for American farmers, and would plunge the world trading system into further uncertainty.

Agriculture and Trade

Already one in every three acres of American farmland is planted for export. In 2004, we had a $9.7 billion trade surplus in agriculture. Exports are critical for a healthy farm sector in the United States. Our farmers are so efficient, and our land so productive, that we produce far more than we can consume at home. With 95 percent of our potential customers overseas, and the U.S. market itself mature, we must secure access to the customers of the world to maintain growing profits. Today we export $62.4 billion a year in agriculture products, and for some crops

exports exceed 50 percent of our total production. Our farmers have the most to gain from a successful Doha Round agreement.

Trade should be a nonpartisan issue. I've already met with many Senators and Members – from both sides of the aisle – and I look forward to our continued conversations. I can assure you I am committed to rebuilding the bipartisan consensus on trade so together we can knock down global trade barriers for our farmers and ranchers. I also believe it is in the interest of your constituents who will benefit from higher paying jobs, lower cost consumer products, better protection of their intellectual property, or increasing market access for their corn, pork, vegetables and other agricultural products.

The United States has called for elimination of export subsidies and substantial reductions in tariffs and trade-distorting domestic support as soon as possible, and the eventual elimination of all remaining tariff and trade-distorting domestic support. Any agreement the United States will support must, as a precondition, reduce the disparities that exist between the United States and our major competitors. These goals are echoed in Trade Promotion Authority, which calls for substantial reductions or elimination of trade-distorting measures and greater harmonization of allowed levels of protection and support with other WTO members.

The Benefits of Trade

Trade, both imports and exports, contribute to a higher standard of living for American families. A recent report by the Institute for International Economics estimates that international trade added $1 trillion to our annual income, or $9,000 for the average American household, due to increased trade liberalization since 1945. Research done by the University of Michigan demonstrates that lowering remaining global trade barriers by just one-third would boost average annual U.S. family purchasing power by an additional $2,500. If all barriers were removed, every American household would gain an additional $7,500 of annual income. Further, a World Bank study states that eliminating trade barriers could lift 300 to 500 million people out of poverty over the next 15 years.

The Doha Round: Agriculture

The Doha Round negotiations have the potential to substantially reduce market access barriers to goods and services throughout the world. One way to open markets is through free trade agreements, such as the recent free trade agreements with Australia, Singapore, Chile, Morocco, Jordan, and the CAFTA countries of Honduras, Guatemala, Nicaragua, Costa Rica, El Salvador and the Dominican Republic. These agreements build momentum for broader and more comprehensive talks at the multilateral level. Our goal in the Doha negotiations is to help level the playing field for our agriculture producers by opening new

markets and facilitating the most efficient movement of goods across borders. There will be no other single opportunity to achieve such comprehensive gains for American farmers. Our challenge now is to communicate to our farmers that the end product of these negotiations will put them in a better position tomorrow than they would be without an agreement, and we ask for your help in delivering that message.

The promise of the WTO negotiations for U.S. farmers and ranchers is considerable. The expansion of global income through the adoption of market-oriented policies will open markets throughout the world, to the great benefit of the U.S. farm community. As people's wealth increases, they consume more and move up the value-added food chain to high value U.S. agricultural products such as meats, processed foods, and fruits and vegetables.

Under the Doha Development Agenda, WTO Members agreed in a July 2004 Framework Agreement to reduce trade-distorting domestic support, deliver substantial improvements in market access, and phase out export subsidies. According to the USDA's Economic Research Service, the average allowed tariff on agricultural products for WTO Members is 62 percent, and some of these tariffs can be up to and above 1,000 percent. By contrast, the average U.S. agricultural tariff is just 12 percent.

Status of the Agriculture Negotiations

The negotiations are now at a critical juncture. Tangible progress must be achieved to reach an agreement by the end of 2006, so a final agreement can be completed while Trade Promotion Authority remains in place. First, without a good deal for our farmers and ranchers in agriculture, there will be no final Doha agreement. Countries which have blocked U.S. access to their markets, specifically through high tariffs, need to show they are serious about opening markets in the negotiations. Second, we need to ensure that negotiations substantially reduce the disparity that exists between the United States and the European Union on allowed levels of trade-distorting domestic support. Under the WTO rules the EU is allowed over four times the most trade distorting subsidies as the U.S., and they provide about three times as much. All countries, and the EU in particular, should reduce the trade-distorting effects of support programs to create a more level playing field, even as WTO rules preserve room for non-trade distorting farm programs. Finally, we are looking for the speedy elimination of export subsidies and tough rules to guard against circumvention of export subsidy rules through other export programs. Direct export subsidies are predominantly used by the European Union, which accounts for approximately 90 percent of the world total in this area.

July 2004 Agriculture Framework

The Doha negotiations, including agriculture, have moved very slowly for more than a year, but in the last weeks we've had constructive and frank conversations to try to move the process forward. We've agreed to build upon the agreed upon July 2004 agriculture framework. Key provisions include: the elimination of agricultural export subsidies by a date certain; tighter disciplines on export state trading enterprises and export credit programs; substantial reductions in tariffs with higher tariffs getting deeper cuts; substantial reductions in trade-distorting domestic support with countries that have higher allowed levels making deeper cuts; a new cap on the "blue box"; and room to expand the definition of "blue box policies" to accommodate other programs. A number of other concepts were identified to address import sensitive products.

Food aid is another area where we want to work closely with the Committee. Some WTO Members have suggested that the provision of in kind food aid be prohibited, moving to a "cash only" rule. That is not our view. Instead, we have worked with the poorer countries and the private voluntary organizations to ensure that the appropriate range of tools is available to address requests for food assistance but subject to rules that guard against displacement of commercial sales.

Conclusion

Today, as asked by the Committee, I have focused my remarks on the WTO Agriculture negotiations. But the promise of Doha goes beyond just agriculture. Our farmers and ranchers are the most competitive and productive producers in the world. Part of the reason is because they have access to the necessary infrastructure -- whether it is telecommunications and distribution networks or other services to get their products to market. Doha is about opening markets in these areas as well, and expanding the rule of law among WTO Members. Agriculture is fundamental to moving Doha ahead, particularly as we look to Hong Kong Ministerial meeting in December, but our strategy will continue to embrace our broad objectives of strengthening the trading system so all will benefit.

I again want to thank the Committee for their interest in this very important topic, one that holds much promise but also many challenges. I look forward to working closely with you in the coming weeks and months as we intensify our work on the WTO negotiations. To succeed we must consult closely together to ensure that we achieve the best possible result for the Doha Round. Working together, I am confident that we will be able to craft a trade agreement that advances the interests of U.S. farmers and ranchers, grows our economy, and expands economic and political freedom across the globe.

U.S. Trade Agenda and WTO Update

AGRICULTURE

Presentation of United States Trade Representative
Ambassador Rob Portman

Senate Committee on Agriculture, Nutrition, and Forestry
U.S. House of Representatives

September 21, 2005

2005/2006 TRADE AGENDA

Benefits for Agriculture on All Fronts

1) Bilateral and Regional Agreements

2) Global Trade Talks
   - WTO Doha Development Agenda

3) Enforcement and Compliance

CAFTA-DR: Benefits for U.S. Agriculture

- ***Population of over 40 million people***

- ***Current agricultural trade is large -- $1.7 billion in U.S. exports (2004)***

- ***Top U.S. exports in 2004:***

Corn	*$290 million*	***Tobacco***	*$80 million*
Wheat	*$218 million*	***Dairy products***	*$67 million*
Rice	*$184 million*	***Cotton***	*$67 million*
Soybean meal	*$137 million*	***Poultry meat***	*$55 million*

- ***Current average allowed tariffs under their WTO commitments***

Costa Rica	*42%*	***Guatemala***	*49%*
El Salvador	*41%*	***Honduras***	*35%*
Dominican Republic	*40%*	***Nicaragua***	*60%*

- ***CAFTA-DR will eliminate these high tariffs and give U.S. exporters preferences over third country suppliers, including those in Canada, Europe, and South America.***

Ongoing FTA Negotiations Will Benefit Ag Exports

NEAR COMPLETION:	**Top U.S. Exports (2004):**
1) Panama	Corn ($31 million), Snack Foods/Other Consumer Prods ($27 million), and Soybean Meal ($18 million) **Total: $162 million**
2) Oman	Vegetable oils ($5 million), Soft drink mixes ($4 million), and Corn ($2.8 million). **Total: $20 million**
2006 CONCLUSION?:	
1) Thailand	Cotton ($188 million), Wheat ($98 million), Soybeans and Meal ($93 million) **Total: $685 million**
2) Andean (Colombia, Ecuador Peru, and Bolivia*)	Wheat ($281 million), Coarse grains, ($270 million), Cotton ($127 million), **Total: $1 billion**
3) UAE	Horses ($86 million), Almonds ($60 million), and Soybeans ($42 million) **Total: $350 million**

CONTINUING: ***SACU*** *and* ***FTAA***

* Observer

Bahrain FTA

- Agreement Signed September 14, 2004 – Next step: Congressional consideration.
- Important for foreign policy – 9/11 report
- Immediate duty free access for 98% of US tariff lines to Bahrain, or 81% of all ag exports to Bahrain
- Cotton, Poultry, Beef, Processed Fruit & Vegetables, Dairy, Grains, Snack Foods

Potential New FTA Partners

South Korea:

- 5th largest agriculture market; U.S. ag exports to Korea totaled $2.5 billion in 2004; Leading categories of U.S. agricultural exports: corn ($540 million), hides and skins ($385 million), soybeans ($285 million), and wheat ($231 million).

Egypt:

- 11th largest agriculture market ($935 million); among the top five markets in the world for U.S. wheat ($425 million) and an important customer for U.S. corn ($350 million), soybeans and meal ($53 million), animal feed ($18 million), vegetable oils ($14 million) and dairy products ($12 million).

Malaysia:

- Leading categories of U.S. agricultural exports to Malaysia include fresh fruit ($93 million), soybeans and products ($61 million), animal feeds ($29 million), and processed fruit and vegetables ($27 million)

Switzerland:

- Agricultural exports to Switzerland in 2004 were $152 million – leading categories include: tobacco ($31 million), cotton ($25 million), red meats ($15 million), and wine and beer ($14 million)

GLOBAL TRADE TALKS:
WTO Doha Development Round

Timing: End of 2006

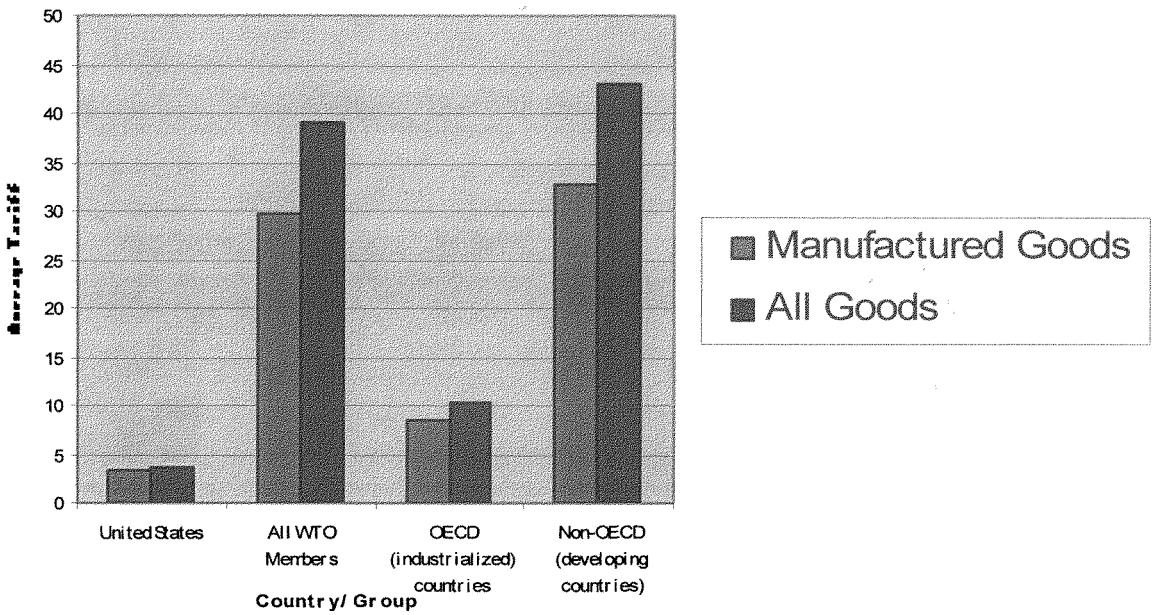
Ministerial: Hong Kong, December 2005

Three Main Pillars:

- Manufactured Goods
- Services
- Agriculture

Doha Negotiations: Manufactured Goods

- **Tariffs: US average 3%; WTO average 30%**



2004 Average Bound Tariffs (as compiled by WTO Secretariat)

Doha Negotiations: Services

- US $48 billion surplus in 2004 on exports of $340 billion
- US exports of services have doubled over past 10 years
- Need new market opportunities in key developing country markets for financial, telecom, computer services, express delivery, distribution and energy services
- Total elimination of global barriers to trade in services could raise US annual income gain by over $450 billion or $6,830 per family of four
  - Financial services barriers include:
    - Equity limitations in major markets such as India, Malaysia, and Thailand
    - Economic needs tests are required by the Philippines and Egypt
    - Cross-border limitations by India, Brazil and South Africa.

Doha Negotiations: Agriculture

- **Record $62.4 billion in U.S. agriculture exports in 2004**
- **One of every three U.S. acres destined for export**
- **Exports account for 27% of cash receipts**
- **95% of world's food consumers live outside the United States**

Doha Agriculture Agenda:

- **Building on July 2004 Framework**
- **Expand market access for U.S. exports** - especially in larger protected developed countries (EU, Japan, Korea) and emerging developing countries (Brazil, ASEAN)
- **Eliminate all export subsidies**
- **Substantially reduce trade-distorting agriculture subsidies around the world**.

WTO Subsidy Categories

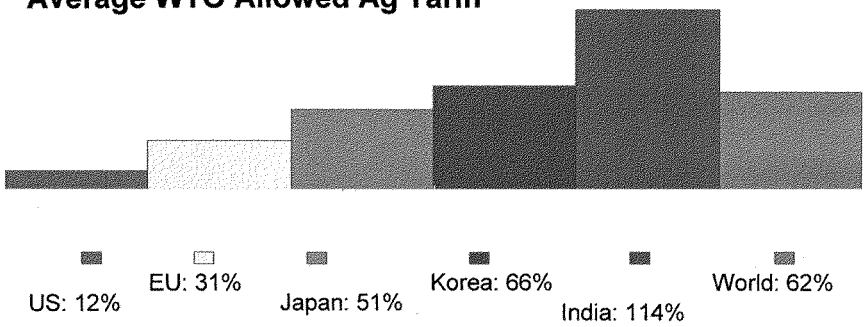
- Amber Box
  - highly trade distorting (encourage production, price depressing)
  - Example: U.S. commodity loan program
- **Blue Box**
  - Less trade distorting (production-limiting programs)
  - Example: Acreage set-aside programs
- **Green Box**
  - Minimal or non-trade distorting
  - Example: Direct payments, environmental, research, food stamps

➢ **Amber and Blue Box Amounts could be further Limited Under Doha**

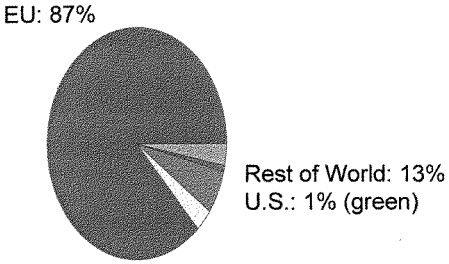
➢ **Green Box Unlimited Under Doha**

Agriculture: WTO Indicators

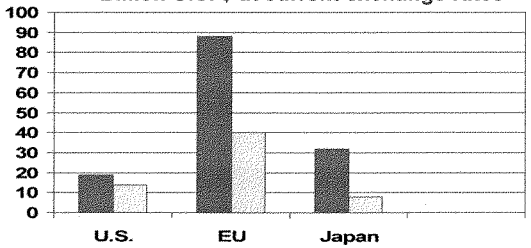
Average WTO Allowed Ag Tariff



Direct Export Subsidies



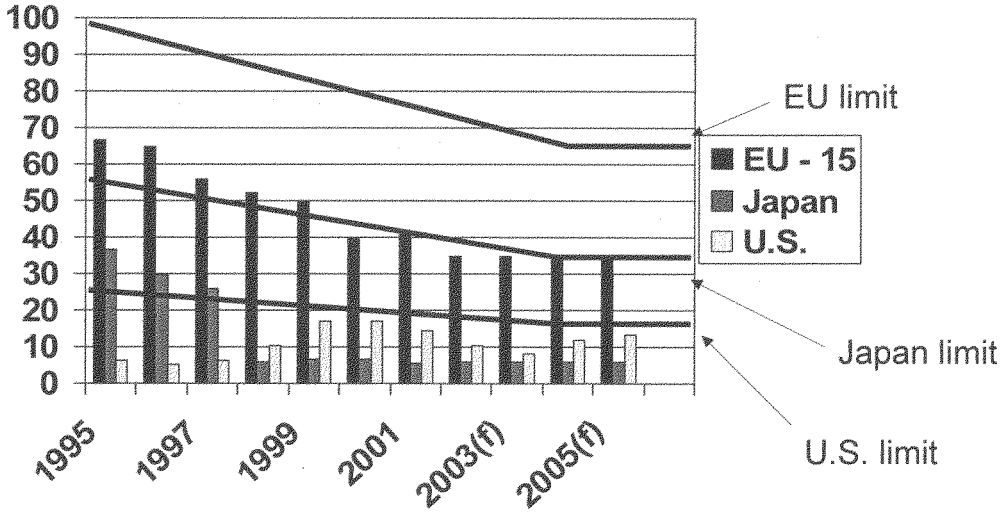
Domestic Support: Allowed (red) and 2001 Actual Aggregate Measurement of Support (AMS) Levels (yellow)
Billion U.S. $ at current exchange rates



Amber Box Support

(*Most Trade-Distorting Subsidies)*

U.S., EU, and Japan Amber Box Support: WTO Limits and Actual



Billion U.S. Dollars – 2001 Exchange Rate

Doha Agriculture Negotiations

- ***Stalled on issues of Ag subsidies and tariffs***

- ***Domestic consultations***
  - Ongoing with Hill and key Farm groups.

- ***Coalition building with other countries***
  - Need to put pressure on EU, Japan, key developing countries to open markets.

- ***Other countries looking for serious U.S. moves on agricultural subsidies per July 2004 Framework Agreement***

Agriculture Negotiating Dynamic

- Build on July 2004 Framework.
- Making Progress in all areas of Doha round contingent upon movement in Agriculture
- Critical Path Issues on Agriculture:
  - Market Access
  - Export Subsidies
  - Domestic Support

Doha Agriculture Negotiations: Timeline and Key Events

- 2004 – July framework agreement
- **2005 – December - Hong Kong Ministerial**
- 2006 – Countries table offers based on Hong Kong guidance
- 2006 – December – negotiations conclude
- 2007 – Submit implementing legislation to Congress
- 2007 – July - TPA Expires
- 2007 – Fall - Farm Bill Renewal

Enforcement and Compliance: Agriculture is a High Priority

- WTO Dispute Settlement
- Focus on China
- FTA Compliance
- Using FTA negotiations to improve implementation
  - Chile/CAFTA: Meat Inspection System
  - Australia: Open market for pork, grapes

Enforcement and Compliance: Recent Gains for U.S. Agriculture

- Beef Hormones
- Japan Apples
- Mexico High Fructose Corn Syrup Tax
- EU Geographical Indications
- Canada Dairy
- Mexico Rice Anti-Dumping Duties
- EU Biotechnology

Opening statement for Senator Tom Harkin

Hearing of the Senate Agriculture Committee

Sept. 21, 2005

Mr. Chairman, I would like to thank you for calling this very timely hearing on the important issue of the agricultural negotiations in the Doha Round of the WTO.

I welcome the two top U.S. officials who are entrusted by the President with these negotiations. I would particularly like to thank the Chairman for making sure that we have a chance to hear about the potential problems facing U.S. food aid programs in the negotiations from Mr.Viso from World Vision on the second panel.

I am on record in support of U.S. objectives in the agricultural negotiations of the Doha Round, because it would be better for everyone concerned if we could agree multilaterally to open markets more broadly, eliminate export subsidies, and reduce the use of trade-distorting support for farmers. At the G-8 summit in July and again last week in New York, President Bush spoke of eliminating all forms of agricultural subsidies. I would ask the U.S. Trade Representative or the

Agriculture Secretary to clarify what the President meant, because by the definition of some international bodies, his comments would mean giving up every dollar spent to support food and agriculture, including agricultural research and extension, rural development activities, and food stamps. I believe we should reserve the right to assist agriculture and rural America in non-trade-distorting ways, such as through conservation programs like the Conservation Security Program and rural economic initiatives.

In July 2004, WTO members reached an agreement that set the broad outlines of what needs to be done to reform agricultural policy worldwide. However, the document contained few concrete numbers that specified the scope of reform. Countries intended to hammer out a consensus over the numbers in the months that followed. In reality, there is a tremendous amount of work to be done, and WTO officials and countries' trade negotiators are now scrambling to find some common ground.

We need to know what the Administration plans to do to break this deadlock. Will the Administration give up countercyclical payments, or will they fight for language in the final agreement that would allow us to report those payments in the blue box under an expanded definition? What does the

Administration plan to give up?

As I said earlier, U.S. agriculture has an enormous stake in a successful outcome in the Doha Round, which could offer significant opportunity to expand trade in the markets of the other 147 members of the WTO. According to the UN's Food and Agriculture Organization, world agricultural trade was valued at more than $520 billion in 2003. However, we need to be aware of the fact that the outcome is likely to be much less far-reaching than we would have seen with the adoption of the original U.S. proposal offered in 2002.

There is one specific issue that I would like to raise in this hearing, a matter I also raised in my meeting last week with EU Agriculture Commissioner Fischer Boel. I believe that we need to strongly resist EU proposals in the WTO to convert all U.S. food aid to cash, except in emergency situations. The U.S. government has helped more than 3.4 billion people with its food aid programs over the last half century, and part of the success of U.S. food aid programs stem from the broad support they enjoy here in the United States. While I agree that there may be some room for disciplines on food aid, the EU's proposal is unnecessarily draconian. We do not want to harm people in developing countries in the name of trade policy reform.

This Round has seen the emergence of developing countries as important players in the negotiations. We are no longer in a situation where a handful of big countries like the U.S., EU, and Japan can decide the terms of the agriculture agreement, which clearly has complicated matters. I acknowledge that the EU has made big strides in reforming its agricultural policies, and believe that there may be more common ground between us on key issues than it currently appears. Improving market access continues to be a hang-up in the negotiations, however, for both developing countries and developed countries like the EU and Japan.

While expanding trade is not an antidote for all that ails U.S. agriculture, it is important that we continue to fight for freer and fairer trade. I want to work with my colleagues on the Senate Agriculture Committee to do all we can to help the Doha process regain its momentum and reach a favorable conclusion.

Senator Ken Salazar
Regarding the Status of the World Trade Organization (WTO) Negotiations on Agriculture
Statement
September 21, 2005

Chairman Chambliss and Ranking Member Harkin, thank you for holding this very important hearing. I also want to thank Secretary Johanns and Ambassador Portman for being here to brief the committee on this timely and important issue.

And, thank you to the distinguished panel of witnesses that are here today as well. You all represent important sectors of the agricultural industry and I thank you for your hard work to promote the interests of rural communities and industries across this country and abroad.

I have said in this committee before that as I travel across Colorado, I repeatedly hear from farmers and ranchers about the need to increase export opportunities for their products. Whether it be reopening the Japanese beef market or selling products to China, producers are well aware of sophisticated and growing markets across the world and are extremely interested in promoting these exports opportunities.

In my state of Colorado, in 2004, we exported almost $7 billion worth of goods around the world, and over $843 million of those goods were agricultural exports – making Colorado 22nd in agricultural exports.

Such export opportunities are part of the way we can breathe life back into the forgotten America – rural America. We can keep U.S. farmers and ranchers in our rural communities by opening new markets and promoting opportunities for agricultural products in Colorado and across the country.

However, I am concerned about the process and values by which we negotiate these potential community saving opportunities.

We all know that we are reaching an important deadline in these multilateral talks on export subsidies, domestic supports and market access. A successfully negotiated Doha Round could level the playing field for U.S. producers and could provide incredible market access for U.S. products oversees.

That is the right thing, and Ambassador Portman, you are right to advocate so strongly for it, as I suspect you will in your opening statement.

At the same time, however, I recently had a very moving meeting with Catholic Bishops from all across this Hemisphere. I had breakfast with Cardinal George of Chicago and Cardinal McCarrick of Washington and Cardinal Rodriguez of Honduras. These are not a collection of protectionists; in fact, they may all work for one of the largest and oldest multinational institutions we know.

They asked a simple question when it comes to our trade policy:

- What do we do for those who lose out in trade deals?

Let's be clear. I support trade deals – and as I said before, opening new markets will is a prerequisite to our breathing new life into a forgotten America. But we fool ourselves if we think there are not losers in trade deals.

To their question, I add my own:

- Ambassador Portman and Secretary Johanns, who at the negotiating table is thinking of our small, family farmers and ranchers? And how are you communicating to those farmers and ranchers what is happening at the negotiating table.

I can assure you that my friend in Kit Carson County who at the moment is wondering whether he can afford – with the price of gas so high – to harvest his crop this fall will not be going to Hong Kong for the next round of talks. But no one needs to be kept informed as much – because perhaps no one has quite as much at stake.

The President has continued to urge these talks forward with recent comments promising to end all American subsidies and tariffs if other nations did so as well.

Specifically, the President has stated, "I broaden the challenge by making this pledge: The United States is ready to eliminate tariffs, subsidies and other barriers to free flow of goods and services as other nations do the same."

These policies will have a direct impact on current U.S. agriculture policy and will directly affect some *commodities* and *communities* differently than others.

As we make these important decisions and continue these negotiations in Hong Kong – I urge our negotiators to remember the small, family farmers and the rural communities struggling to stay afloat and make sure that we negotiate agriculture policies that will lift up and enhance our rural communities – not contribute to their decline.

TESTIMONY
By
AUDRAE ERICKSON
CO-CHAIR AGTRADE COALITION

Before the
SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE

Regarding the
WTO NEGOTIATIONS ON AGRICULTURE
September 21, 2005

Mr. Chairman, members of the Committee, thank you for this opportunity to testify regarding the WTO Negotiations on Agriculture. I am Audrae Erickson, President of the Corn Refiners Association and Co-Chair and founder of AgTrade, a coalition to promote trade. I am testifying today on behalf of the AgTrade coalition and specifically the principles on which our coalition collectively agrees are important for the WTO negotiations on agriculture. Each member organization of AgTrade has its own set of negotiating priorities – and some have even more ambitious objectives than those adopted by the coalition.

AgTrade is a coalition of more than 100 food and agricultural associations, organizations and firms that support further trade liberalization in agriculture in the World Trade Organization. Our member organizations collectively represent approximately 96% of U.S. food and agricultural exports.

AgTrade was formed in 1999 to provide input to the U.S. government on the WTO negotiations and as a means to reform agricultural and food trade policy, promote global security through open trade, and increase trade liberalization in the food and agricultural sector.

Our coalition has been very active at WTO Ministerials and throughout the Doha Development Agenda negotiations to help shape the U.S. position on the WTO negotiations on agriculture and to support the U.S. position in public fora, including before the general public and in meetings with WTO officials and member countries.

AgTrade members view the WTO negotiations on agriculture to be the most important element of the President's trade agenda. These negotiations, if properly structured, have the potential to further strengthen the U.S. food and agricultural economy by providing commercially meaningful opportunities to export our high quality, abundant food and

agricultural production. Without the successful conclusion of these negotiations, we may well see U.S. global market share in this important sector slip precipitously.

The U.S. food and agricultural sector is highly dependent on trade. Earnings from U.S. agricultural exports account for 20-30% of total farm income. Within a decade, USDA predicts that the value of agricultural exports could account for nearly thirty percent of market cash receipts.

Generating new farm and food exports has a positive multiplier effect throughout the U.S. economy. U.S. agricultural exports support additional services to harvest, process, package, store, transport and market the products produced by America's farmers and ranchers. This year, U.S. agricultural exports of over $62 billion will generate $162 billion in total economic activity in the United States, according to the USDA.

USDA figures also show that agricultural exports in 2003 generated 912,000 jobs, of which 461,000 were off farm. Agricultural exports generate a greater share of total employment benefits to rural communities than any other export industry.

In short, the best means for ensuring the continued positive impact of our sector on the U.S. economy is to achieve commercially meaningful results in the WTO negotiations on agriculture.

A recent World Bank report "Agricultural Market Access: The Key to Doha Success" noted that almost two-thirds of the benefits from dismantling barriers to global trade in these negotiations will come from agriculture[1]. This report specifically indicated that ninety-three percent of the welfare gains from removing trade distortions to global trade come from the reduction of import tariffs on agriculture.

The AgTrade coalition agrees that a key objective of these negotiations must be substantial improvements in market access. As the members of this Committee know well, the final result from the Doha negotiations must provide concrete and significant market openings across all food and agricultural products in all markets.

Our coalition has recently updated its key principles based on the WTO negotiating dynamics now underway. As indicated earlier, each organization that is a member of AgTrade has its own set of negotiating priorities, including some with more ambitious objectives. The principles adopted by the AgTrade coalition serve as the common objectives on which we all agree.

U.S. policy and process objectives for the WTO talks should include ambitious results in market access. Specifically, a harmonizing formula for reducing agricultural tariffs that will cut high tariffs more than low tariffs and result in substantial, commercially meaningful improvements in access in all products to all markets must be achieved.

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[1] Anderson, Kym, and Will Martin, "Agricultural Market Access: The Key to Doha Success," World Bank Trade Note 23, June 27, 2005.

Tariffs in the global food and agricultural sector remain the highest and the most complicated of all sectors currently being negotiated in the WTO. In order to achieve meaningful progress in market access, all food and agricultural tariffs should be capped and all complex tariffs must be eliminated such that the remaining tariffs are either *ad valorem* or specific.

Regarding so-called "sensitive" products, only a limited number - as defined in the Framework Agreement - should be allowed and there should be a requirement that market access for such products be substantially improved through a combination of tariff reductions and tariff-rate quota (TRQ) expansion commitments.

Concerning TRQs, all in-quota duties must be eliminated and the administration of TRQs should be improved.

For those food and agricultural sectors that would like to go further than the modalities now being developed, sectoral negotiations should be pursued.

Balance in the level of ambition in the three pillars is a central objective for the AgTrade coalition. To that end, reductions in total trade-distorting domestic support and other U.S. concessions must be commensurate with the achievement of U.S. objectives in market access and export competition.

Specific to the domestic supports pillar, a formula that harmonizes the levels of total trade-distorting support is necessary. Those countries with higher Amber box allowances should cut their subsidies by a greater degree.

Blue box criteria as set out in the July 2004 Framework Agreement should be pursued. On the green box, there should be no caps on, or excessively restrictive criteria defining eligibility for non-trade-distorting support. This will allow countries to move away from trade-distorting government support programs – an important goal of the Doha Development Agenda.

Significant progress has been made in addressing the export competition pillar in the WTO negotiations. The cornerstone achievement of eliminating export subsidies must remain. And rules to prevent circumvention of export subsidy commitments should be tightened. Export subsidy rules should apply equally to developing and developed countries.

The monopoly powers of state trading enterprises – like the Canadian Wheat Board – must be eliminated. Also important to eliminate are the government subsidies, financing, and underwriting of losses with respect to the export activities of STEs and the adoption of a set of disciplines to ensure operational transparency and the end of discriminatory pricing practices.

Regarding export credits, disciplines on official export credit and credit related programs should be applied to all WTO members. Reductions in the subsidy component of

existing programs that do not comply with the disciplines established should be implemented in a parallel manner with the phase-out of export subsidies and the elimination of monopoly powers of STEs.

Disciplines should also be developed on other export measures that have equivalent trade distorting effects, including the elimination of differential export taxes.

Food aid is an important mechanism for ensuring rapid and efficient responses to emergency situations. Disciplines on food aid should be imposed only to the extent necessary to prevent such aid from distorting commercial markets. There should be no prohibition on government to government food aid and no requirement that aid be in the form of cash only.

Finally, the AgTrade coalition remains committed to the following objectives, the first of which was a founding principle of our coalition and remains important today: the WTO negotiations on agriculture must be concluded as a "single undertaking" that encompasses all agricultural sectors. That is, there should not be any early harvests.

Regarding developing countries, certain more advanced developing countries, particularly exporting developing countries, must assume obligations similar to developed countries in all three pillars. And WTO rules for developing countries to graduate them to full WTO obligations using objective economic criteria must be established.

The European Union is insisting on the inclusion of geographical indications as a necessary component of the negotiations on agriculture. Our coalition opposes any extension of geographical indications beyond wines and spirits.

Finally, ensuring market access for products of biotechnology and that the regulation of these products is based solely on science is a central tenet that must be upheld.

Mr. Chairman, members of the AgTrade Coalition look forward to working with you and members of this Committee to ensure that the final WTO agreement on agriculture represents a balanced approach and will yield commercially meaningful opportunities to ensure the future viability of America's farmers and ranchers, processors, agribusinesses and retailers.

Testimony

Presented by Allen Helms, Vice Chairman

On behalf of the National Cotton Council

Before the Committee on Agriculture, Nutrition and Forestry of the United States Senate

The Doha Development Round of WTO Negotiations

September 21, 2005

Mr. Chairman and members of the Committee, I am Allen Helms, a cotton producer from Clarkedale, Arkansas and currently the Vice-Chairman of the National Cotton Council. I am happy to be here today to offer views on the WTO issues confronting cotton.

The U.S. cotton industry is committed to working within the World Trade Organization and recognizes the importance of a rules-based trading system. Although that system sometimes rules against our interests, as a whole, the system created within the WTO favors more trade and more markets for our products.

Overall Goals for the Doha Round

The U.S. cotton industry is committed to working within the World Trade Organization and recognizes the importance of a rules-based trading system.

A beneficial agricultural agreement in the Doha Round Negotiations will contain substantial market access improvements, an agreement to phase-out export subsidies, and will provide for reductions in, and greater harmonization of, trade distorting domestic supports by all countries. The U.S. cotton industry is fully prepared to negotiate reductions in trade distorting domestic supports as a part of an overall, beneficial agreement. A summary description of the National Cotton Council's objectives in the Doha Round is attached to this testimony as Appendix A.

Importance of a Single Undertaking

There are many trade-offs in a negotiation like this. The U.S. should not agree to dramatic cuts in its domestic supports unless we are assured we will obtain significant market access gains in return. At the same time, the EU will not end its export subsidy regime unless it obtains gains in other areas it deems to be equal to what it will be giving up. By its very nature, commitments in agriculture must be part of a single undertaking. That is the only way the world can obtain the outline of an agreement by December.

Efforts to single cotton out for special treatment are misguided, harmful to the U.S. cotton industry, and threaten the overall Doha Round.

Trade distortions in cotton are broader than just the production of cotton fiber, encompassing policies regarding manmade fiber and all textiles and apparel. Any meaningful effort at worldwide reform of policies affecting trade in cotton fiber must necessarily include all of these intertwined products. The strategy of singling out one U.S. commodity for special treatment must be met with a consistent message, namely, that targeting U.S. cotton will not help advance a Doha Round agreement. It will make an agreement more difficult to obtain.

The U.S. cotton industry has not asked for special treatment in this negotiation. It is fully prepared to participate in a meaningful negotiation that contains beneficial concessions by all parties. Feigned complaints that U.S. cotton will escape discipline should the world reach a new agricultural agreement in this round of negotiations should be regarded as what they are - diversionary tactics designed to lead the Doha Round away from a broad-based, reciprocal agreement.

With the establishment of a special cotton subcommittee, the potential to single out cotton grew. Many participants in that subcommittee attempt to ignore its original mandate to monitor and coordinate developmental efforts with the trade policy negotiations. U.S. trade negotiators have repeatedly carried the message to Geneva that this negotiation must proceed as a single undertaking. We appreciate and support that position.

In his outgoing assessment of the agricultural negotiations, former Chairman Groser made it clear that progress on cotton trade issues was fully dependent on overall progress within the agricultural negotiations. The private associations and countries that have made the U.S. cotton program their foil need to understand our position clearly:

> *We are fully prepared to work toward an overall, beneficial agricultural agreement and cotton is prepared to make an equitable contribution toward that positive result. We will, however, oppose any agreement that singles out cotton for unfair, special treatment.*

Africa

Much of the call for special treatment for cotton has come from several African countries that depend on cotton exports for a significant portion of their export earnings. Low prices have created true economic stress in these countries.

Since early 2004, the National Cotton Council (NCC) has engaged in a number of outreach activities with the West African countries of Benin, Burkino Faso, Chad and Mali. These efforts are aimed at helping rural Africans live better. All of the U.S. cotton industry's work has been in close cooperation with USDA and US-AID.

In June 2004, then NCC Chairman Woody Anderson, a Texas producer, participated in a Ministerial Conference on Agricultural Technology in Burkina Faso and traveled to its cotton growing areas with a U.S. delegation. During the conference, a memorandum of understanding between USDA and the African Agricultural Technology Foundation was signed with the intent of accelerating the transfer and dissemination of technologies developed by USDA scientists to West African researchers and the region's farmers. The West African ministers attending the ministerial adopted a resolution calling for greater research and investment in agricultural biotechnology and recommending the creation of a West African center for biotechnology.

In July 2004, the NCC helped organize U.S. cotton industry orientation sessions and a tour of U.S. cotton production, processing, marketing and research facilities for these West African countries' ambassadors and ministers. They explored ways in which West Africa can modernize its cotton industries. Immediately following its U.S. Cotton Belt tour, the West African contingent met in Washington, DC, with U.S. cotton industry representatives to discuss investment needs and opportunities, and with U.S. government officials to discuss a range of available technical assistance and capacity building programs.

In October 2004, a team of government and cotton industry technical advisors toured several of the West African countries to assess needs and identify both short and long-term opportunities for cooperative efforts and assistance. That tour included Bill Norman, NCC Vice President of Ginner Affairs.

In January 2005, a high-level U.S. government delegation traveled to Mali to address developmental aspects of the West African countries' cotton industries. The delegation was comprised of officials from USDA, the State Department, US-AID and the NCC, which was represented by American Cotton Producers Chairman John Pucheu, a California cotton producer. Discussions focused on cooperative project proposals designed to help West African cotton farmers improve their crops by more effective use of fertilizers, water management, biotechnology and integrated pest management.

In June 2005, cotton classing officials from four West African countries participated in a cotton classification and standards training program co-sponsored by the NCC and organized and funded in cooperation with the USDA Cochran Fellowship Program and US-AID. The West African officials received an orientation to the USDA Agricultural Marketing Service (AMS) cotton classification and standards program, including High Volume Instrumentation classification procedures, calibration standards and other USDA-AMS cotton program functions. While in Memphis, they participated in the Cotton Incorporated EFS conference, observed the Universal Cotton Standards conference and received a NCC orientation.

This cotton classing orientation was the first of three training programs being conducted this summer for these countries' cotton officials. The USAID and NCC are partnering to implement a two-week training session on integrated pest management. Benin, Burkino Faso, Chad and Mali each will send an entomology leader to learn ways to incorporate technologies that will foster adoption of integrated pest management principals in cotton production. Tuskegee University will coordinate with NCC on the training, which is scheduled for July, and will cover pest management in conventional cotton and in systems employing transgenic cotton for insect control and weed control. Training also is being scheduled on soil conservation/fertility.

NCC is working with USDA and USAID to offer a cotton ginning "school" in West Africa. This school would be fashioned upon the ginning schools held annually at the several cotton ginning laboratories cooperatively with USDA and the National Cotton Ginners Association. Plans are under development for follow-up trips to West Africa by U.S. teams to continue training programs.

These efforts underscore the commitment of the U.S. cotton industry and the U.S. government to assist in the development of agriculture in these countries.

Market Access

It is critical that the Doha Agreement contain real increases in market access for U.S. exports of cotton and cotton products. I am not talking about cuts made from fictitious and high bound tariffs. We need real increases in market access. Without commercially meaningful improvements in market access, it is difficult to justify significant cuts in U.S. trade-distorting domestic support.

The Framework Agreement concluded last July contained many of the right words regarding market access. For example, it called for higher tariffs to be reduced more than

lower tariffs, and it called for significant increases in market access for all products. But, it also contained exemptions for yet-to-be-designated Special Products and a new category of Sensitive Products. Developing countries are also insisting on a special agricultural safeguard mechanism available only to them. Importantly, the Framework contained no numbers indicating exactly how much tariffs would be reduced.

Ultimately, a truly positive result in market access is handicapped by the decision reached last year to make reductions from bound tariff rates rather than applied rates. In the U.S., our bound tariff rates are essentially equivalent to our applied tariffs. When we agree to reduce a tariff, there are immediate market access gains for the foreign country.

However, a recent report by the Congressional Budget Office indicated that the difference between bound and applied rates in most developing countries ranged between 50 and 65 percent. As a result, a celebrated 50 percent cut in tariffs does not result in any actual increase in market access, as it does not even approach a reduction in the actual applied tariff.

The G-20 group of countries tabled a market access proposal in July that has gained a fair amount of support. But while it contains some positive provisions, it also ingrains, perhaps permanently, the disparities between the treatment of developing country tariffs and developed country tariffs. In fact, that proposal ensures that the highest tariffs are not reduced the most. It also ensures that the United States, one of the most open markets in the world, will not achieve reciprocity in market access. The structure of the market access proposal tabled by the G-20 group of countries ingrains inequitable tariff cuts, fails to truly harmonize tariffs, and does not appear to offer any real increases in market access for U.S. exports. The U.S. cotton industry does not believe that the market access proposal by the G-20 contributes to a beneficial Doha agreement.

The Table attached at Appendix B outlines the potential result of the G-20 proposal if the highest tariffs are cut 60 percent.

Tariff Rate Quota Implementation Must Be Improved

The Office of the U.S. Trade Representative is well aware of the manner in which tariff rate quotas have been implemented in several countries. Often this implementation does not conform with WTO obligations and does not result in the agreed upon levels of market access. While TRQ implementation was a part of initial U.S. Doha proposals, it has faded into the background in recent discussions. The Council urges the U.S. government to ensure that TRQ implementation remains on the Doha agenda and that more transparent rules governing the implementation of TRQs be included in any agreement.

Trade Distorting Domestic Support

The United States exhibited a willingness to make substantial reductions in trade distorting domestic support in Cancun and has demanded these reforms since the inception of the Doha Round. The unambiguous position of the United States was largely ignored in Cancun, however, as the U.S. approach also required the rest of the world to make corresponding changes in their trade policy.

Last July's Framework Agreement calls for significant reductions in overall trade-distorting support, with the largest subsidizers to reduce the most, and it included a 20% down payment to get the ball rolling. It called for significant reductions in the amber box category of support, new product-specific caps and contained a redefinition of the blue box

category that would allow the U.S. counter-cyclical program to qualify. It also introduced limits, for the first time, on the blue box category of support.

There have been several recent press reports speculating that an acceptable agriculture agreement on trade-distorting domestic support would call for 50% reductions in amber box support. Council staff used those reports to theorize as to the effect on U.S. farm programs if the amber box ceiling were reduced by 50%. Such a reduction would lower the ceiling for amber box expenditures from $19.1 billion to $9.5 billion. As a result, the allowed level for marketing loan gains in U.S. policy drops from about $11 billion per year to a little over $2 billion, assuming no changes in other programs with significant levels of amber box support.

In the previous Round we might have speculated that the EU would never agree to such a reduction. But times have changed. Even though the EU may be asked to take an even greater cut in its trade distorting agricultural support – say, 60% -- the changes it has made to its Common Agricultural Policy over the last several years enable the EU to meet such a target.

Looking at this possible new ceiling within the context of recent U.S. agricultural expenditures is disheartening. While U.S. expenditures have been under our current AMS ceiling, we would have exceeded this new level in all but one of the past six years. So, this kind of a reduction is not comparable to the corresponding reductions promised in bound tariff rates – this kind of a reduction will have real impacts.

If we assume a situation where market prices fall to low levels not unlike those observed in the 1999-2002 period, then it appears to NCC staff that cuts in commodity loan rates and in dairy and sugar AMS in the range of 5 to 10 percent would be necessary to fit within this new, lower amber box ceiling. Again, this is a real cut in support to US farmers.

For cotton, this could mean loan rate reductions between 2.6 cents per pound and 5.2 cents per pound. This kind of a cut across all commodities could decrease annual program outlays by around $3 billion.

All of that support would not necessarily be lost. If the US is able to redefine the blue box to its satisfaction, some of this lost support could be regained through counter-cyclical payments – but not all of it. Likewise, decoupled direct payments could be increased. It seems, however, that in low price years, it would take a significant jump in direct payment rates to partially offset the reduction in actual support that arises from such a loan rate reduction. Other options include new approaches to environmental or conservation programs.

These kind of dramatic shifts could create new payment limit problems, have different budget impacts, and would affect some commodities differently than others. Environmental payments can cause a shift in program participants – away from actual farmers and in favor of landlords. Finally, under any scenario, the U.S. will have less effective export assistance, making it more difficult to export U.S. agricultural products and making it even more critical that a market access agreement truly increase access.

Export Subsidies

The cotton industry supports the U.S. push to eliminate export subsidies in agricultural trade. Export subsidies are no doubt the single most trade distorting mechanism in agricultural trade, causing adverse effects for all non-subsidizing exporting countries, and

especially for least-developed countries that export. The Framework agreement called for the elimination of export subsidies by a date certain. That result will be beneficial to agriculture worldwide.

At the same time, improvements need to be made in WTO rules with respect to downstream subsidization of agricultural products, the use of export taxes to reduce prices of processed products, content requirements for exports and exemptions from taxes for exported products. The refund of special value-added-taxes (VAT) on processed products that are exported is used in many textile-exporting countries to subsidize textile and apparel exports. This activity should be classified as an export subsidy, and prohibited.

Export Credit Guarantee Program

The export credit guarantee program has been an important component of U.S. agricultural policy for well over 20 years was determined to be an export subsidy by the Panel that determined the U.S. – Brazil cotton dispute. The Panel made this determination despite language in Article 10.2 of the Uruguay Round Agriculture Agreement that seemed to exempt export credit guarantees from compliance with that agreement.

In addition to the unfavorable Panel ruling, the Doha negotiations had already moved toward an agreement that would require the United States to phase out the subsidy component of this program in parallel with the overall elimination of export subsidies. After the implementation period, export credit guarantees are to be issued for a maximum period of 180 days.

The degree to which the US should accept disciplines on GSM programs depends upon the extent to which the export subsidy programs of the EU and other countries are eliminated, the degree to which monopoly practices of State Trading Enterprises (STEs) are eliminated, and the degree to which real market access is achieved.

Disciplines should cover the full range of credit programs, e.g. export credit insurance, and practices (including those of State Trading Enterprises) for many of which there is a substantial lack of information and transparency. Any negotiated disciplines should be transparent, clearly understood, implemented equitably and with relative ease, and monitored effectively and should prohibit credit programs and similar financial practices that do not comply with WTO rules.

Interaction between Ag Agreement and Subsidies Code

With the expiration of the Peace Clause, domestic and export subsidy programs that conform with the Uruguay Round Agricultural Agreement are nevertheless subject to challenges under Article 5 of the Subsidies Code. Unfortunately, Article 5 of the Subsidies Code contains vague standards of compliance such as "serious prejudice," "significant price suppression," and "price depression" – inexact economic notions at best. This situation amounts to a type of double jeopardy and came as a bit of a surprise to U.S. agricultural interests. We did more than agree to the disciplines on subsidies included in the Agricultural Agreement, we also agreed to never cause "serious prejudice," price suppression" or "price depression" or the other standards included in Article 5.

The final Doha Round agreement must appropriately protect countries that comply with the agricultural agreement from unexpected challenges under the Subsidies Code. Domestic farm programs that are structured to comply with a new Agricultural Agreement should not be undermined by Subsidies Code challenges that cannot be anticipated by Congress.

Conclusion

In order to reach an agreement on modalities by the Hong Kong ministerial in December, the Members of the WTO will have to reach an accommodation across a wide number of important issues in a short period of time. The analysis conducted by the National Cotton Council indicates that facially equitable levels of cuts in domestic supports and tariffs will not necessarily result in equitable results in the negotiation if the underlying framework is, in itself, not equitable.

The Brazil case has taught us that the language of a WTO agreement is subject to a wide range of interpretations by Panels that may have no connection to the compromises inherent in initially reaching that agreement. We urge the members of this Committee to evaluate carefully the progress in the Doha Round between now and December and to demand precision and equity in this agreement.

Appendix A

WTO Objectives for the U.S. Cotton Industry

The primary negotiating objectives of the National Cotton Council of America with respect to the Doha Round of Trade Negotiations are as follows:

1. Provide timely, effective and reciprocal access to foreign markets for U.S. cotton and its products.

- Bound rates of tariffs should be made equivalent with applied rates and then made comparable to US rates;
- Non-tariff barriers, which are being increasingly erected to block imports, should be eliminated; and
- U.S. textile and apparel exports should enjoy the same level of market access that textile exporting countries enjoy in the U.S. market.

2. Stop the erection of non-tariff trade barriers against agricultural biotechnology products.

- The fundamental aspects of the Sanitary and Phytosanitary Agreement (SPS) should continue to apply to trade in agricultural biotechnology products.

3. Improve disciplines applicable to the state trading of agricultural commodities.
4. Reduce and bind textile and apparel tariffs to levels that are the same as or lower than those currently in the United States.
5. Improve rules restricting the use of export subsidies, including rules with respect to downstream subsidization of agricultural products, use of export taxes to reduce prices of processed products, content requirements for exports, exemptions from taxes for exported products and the refund of value-added taxes that unfairly enhance the competitiveness of exported products.

- The refund of special value-added-taxes (VAT) on processed products that are exported is commonly used in many textile exporting countries to help subsidize textile and apparel exports. This activity should be classified as an export subsidy, and its use should be prohibited.

6. Reduce trade distorting agricultural subsidies worldwide, but preserve important U.S. domestic and export programs as long as necessary to compete with the treasuries of our competitors.
7. Maintain strong U.S. rules to protect against unfair trade practices.

- The National Cotton Council is opposed to any weakening of U.S. countervailing duty and anti-dumping laws.

8. Do not restrict the ability of the United States to enter into beneficial regional trading arrangements.
9. Improve the ability of the WTO to address managed and/or manipulated exchange rates.
10. Do not include cotton-specific provisions that are unfair or require inequitable and disproportionate changes in the U.S. cotton program or other U.S. policies that affect cotton.

11. Ensure that developing countries that are competitive in international markets with respect to certain commodities or products are made to conform to trade disciplines that are equivalent to those adhered to by developed countries.

Appendix B

G-20 Proposal – Tiered Tariff Reductions

The G-20 July proposal called for tiered tariff reductions as follows:

Developed			Developing		
Tier	**Bound Tariff**	**Percent Cut**	**Tier**	**Bound Tariff**	**Percent Cut**
1	0% ≤ 20%	*v%*	1	0% ≤ 30%	< *v%*
2	>20% ≤ 40%	*w%*	2	>30% ≤ 80%	< *w%*
3	>40% ≤ 60%	*x%*	3	>80% ≤ 130%	< *x%*
4	>60% ≤ 80%	*y%*	4	>130% - 150%*	< *y%*
5	>80% - 100%*	*z%*			
* The proposal calls for a ceiling of 100% on bound tariffs for developed and 150% for developing.					

Assume the following numbers are inserted for v, w, x, y and z and assume that the developing country cuts comply with the G-20 proposal that they be less than 2/3 of the cut to be undertaken by the developed country Members.[1]

Developed			Developing		
Tier	**Bound Tariff**	**Percent Cut**	**Tier**	**Bound Tariff**	**Percent Cut[2]**
1	0% ≤ 20%	*20%*	1	0% ≤ 30%	*13%*
2	>20% ≤ 40%	*30%*	2	>30% ≤ 80%	*20%*
3	>40% ≤ 60%	*40%*	3	>80% ≤ 130%	*26%*
4	>60% ≤ 80%	*50%*	4	>130% - 150%*	*33%*
5	>80% - 100%*	*60%*			

The Framework Agreement reached in July 2004 called for deeper cuts in higher tariffs. If this interpretation of the G-20 paper is correct, note what happens to deeper cuts in higher tariffs for developing countries.

[1] The G-20 paper states that "Developing country Members will cut less than 2/3 of the cut to be undertaken by developed country Members." I assume this to mean that for developing countries v% is less than 2/3 of v% for developed country Members.

[2] The appropriate tier for developed was multiplied by .66 – very slightly less than 2/3.

Tariff	Developed Cut	Developing Cut	Ratio – Percent Developing Cut Compared to Developed
149%	66%	33%	**50% less**
100%	60%	26%	**57% less**
65%	50%	20%	**60% less**
50%	40%	20%	**50% less**
40%	30%	20%	**33% less**
25%	30%	13%	**57% less**
8%	20%	13%	**35% less**

Under this reading of the proposal, a 149% tariff for the developing countries would be cut less than would a 50% tariff for developed countries and a 100% tariff for developing countries would be cut less than a 25% tariff for developed countries. Developing country tariffs would be cut more and more consistently if simply 2/3 of the developed country cut were applied to the equivalent developing country tariff. The proposed structure ensures that the highest tariffs will not be cut the most and would mark a windfall for developing countries.

The fact that bound agricultural tariffs in developing countries are considerably higher, on average, than agricultural tariffs in developed countries belies the assertion that the Uruguay Round did not provide reciprocity for developing countries. The discrepancy in existing tariffs shows that it did. Recent studies also dispute any claims that the Uruguay Round concessions harmed agricultural sectors in developing countries. They found that the comparisons between bound and applied tariff rates suggest that much of the market access being provided for agriculture in developing countries is occurring because the particular developing country is applying tariffs well below their WTO bindings.[3]

[3] *See* Congressional Budget Office – *Policies that Distort World Agricultural Trade: Prevalence and Magnitude* (2005), at pages 34-35.

STATEMENT OF
LEONARD W. CONDON
DIRECTOR, INTERNATIONAL BUSINESS RELATIONS
ALTRIA CORPORATE SERVICES, INC.

ON BEHALF OF THE
GROCERY MANUFACTURERS ASSOCIATION

BEFORE THE
UNITED STATES SENATE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

REGARDING
THE STATUS OF THE WORLD TRADE ORGANIZATION
NEGOTATIONS ON AGRICULTURE

SEPTEMBER 21, 2005

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Good morning, Mr. Chairman and Members of the Committee. I am Leonard Condon, Director of International Business Relations for Altria Corporate Services, a subsidiary of Altria Group, Inc. I also Chair the Grocery Manufacturers Association's International Affairs Group and the Agricultural Technical Advisory Committee for Trade in Processed Foods (ATAC). I am pleased to be here today to offer GMA's views on the status of the World Trade Organization (WTO) negotiations on agriculture.

GMA strongly supports these negotiations. We believe the WTO's Doha Development Agenda offers great potential for expanding U.S. processed food exports.

Overview of Processed Foods and Agricultural Exports

Altria Group, Inc. is the parent company of Kraft Foods -- the largest branded foods company in North America and second largest in the world. The Grocery Manufacturers Association (GMA) represents the world's leading branded food, beverage and consumer products companies. Since 1908, GMA has been an advocate for its members on public policy issues and has championed initiatives to increase industry-wide productivity and growth. GMA member companies employ more than 2.5 million workers in all 50 states and account for more than $680 billion in U.S. sales.

The processed food industry remains a significant and increasingly important component of the U.S. agricultural sector. U.S. exports of processed food products have grown to over $19 billion annually, representing one third of total U.S. agricultural exports. And, according to USDA's Economic Research Service (ERS), global processed food sales now total $3.2 trillion, or about three-fourths of total world food sales.[1]

Given that 96 percent of the world's consumers live outside the U.S. and in view of ongoing demographic trends in the U.S. market, future growth for the U.S. agricultural and food complex will be closely tied to our ability to expand export markets. We see enormous potential in emerging markets, due to increases in population size and per capita food consumption. For example, annual growth rates of retail sales of processed food products in developing countries range from 7 percent in upper-middle income countries to 28 percent in lower-middle-income countries, as opposed to the annual growth rate of 2-3 percent in developed countries.[2]

Increased processed food exports will clearly benefit the larger agricultural community, since they are essentially an export gateway for many bulk commodities. Last year, for example, Kraft Foods purchased $3.6 billion worth of farm commodities for use in its U.S. manufacturing facilities. This included $1.3 billion worth of dairy products, nearly half a billion dollars worth of pork, and almost one quarter of a billion dollars worth of

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[1] Anita Regmi and Mark Gehlhar, "Processed Food Trade Pressured by Evolving Global Supply Chains", Amber Waves, February 05.
[2] New Directions in Global Food Markets, edited by Anita Regmi and Mark Gehlhar, AIB-794, USDA/ERS, February 2005.

sugar. On a global basis, Kraft buys $7 billion worth of agricultural commodities annually. Kraft is one of the world's largest buyers of dairy products, sugar, meats, coffee, oils, and nuts. We also purchase large quantities of wheat, rice, corn, soy and other crops.

Kraft and other GMA members are very pleased that the U.S. Department of Agriculture (USDA) has recognized the export potential of the processed food sector and has taken steps to assist the industry in accessing foreign markets. First, in response to industry requests, the Administration in 2003 re-instituted the Agricultural Technical Advisory Committee for Trade in Processed Foods (ATAC). The ATAC has worked extremely well in facilitating a dialogue on trade policy priorities between representatives of the processed food industry and negotiators in the Office of the U.S. Trade Representative and in USDA's Foreign Agricultural Service (FAS). In addition, FAS recently created a new Processed Products Division dedicated to assisting U.S. processed foods exporters. This division is an enormous asset to food manufacturers engaged in exporting, or planning to export. The Division also provides critical analytical support to U.S. trade negotiators.

Impediments to International Trade in Processed Foods

U.S. processed foods exports grew rapidly in the 1970s and 1980s. By the 1990s, processed foods represented a greater share of agricultural exports than bulk commodities. Since the late 1990s, however, growth in exports of processed products has stabilized.[3] Some of this slowdown can be attributed to increased investment abroad, as firms have sought to manufacture products closer to consumers to tailor products to distinct local preferences. However, decisions on whether to export products or source locally are often driven by international trade rules. Despite progress in the Uruguay Round, there are still a number of barriers that impede processed food exports.

Tariff Barriers

High tariffs are the most significant barrier to trade in processed foods. While tariffs on agricultural products are high in general -- 62 percent, compared with a global average of 4 percent for industrial products -- tariffs on processed products tend to be even higher than their bulk ingredients. These high tariffs are largely a result of "tariff escalation," as countries try to protect local industries by increasing tariffs with the level of processing. For example, while most countries have no tariff on raw cocoa beans, finished chocolate confectionary products face tariffs ranging between 15 and 57 percent.[4]

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[3]

Market Access for High-Value Foods, by Anita Regmi, Mark Gehlhar, John Wainio, Thomas Vollrath, Paul Johnston, and Nitin Kathuria, AER-840, USDA/ERS, February 2005.

[4] Ibid, p. 7

Additionally, although Uruguay Round commitments required countries to cut tariffs by an average of 36 percent (24 percent for developing countries), high tariffs on processed foods were left relatively unchanged. Since countries were only required to make simple average tariff cuts, they naturally chose to take the largest cuts on already low tariffs (for example 50 percent on a 4 percent tariff) and only the minimum cut (15 percent for developed countries and 10 percent for developing countries) on higher tariffs. If we are to achieve commercially meaningful tariff reductions in the Doha Round, this aggregation of tariff cuts must be avoided.

Tariffication in the Uruguay Round also created a tariff-rate quota (TRQ) system for many sensitive products (for example, sugar and dairy products) that are important ingredients in many processed food products. These TRQs restrict access to these key commodities, raising raw material costs to many manufacturers. This impedes our ability to be globally competitive in products that are high in sugar or dairy content. Furthermore, processed foods often face complex tariff structures abroad when countries not only assess a duty on the product itself but on its ingredients by weight and composition, making it almost impossible to pre-determine the tariff on particular products.

In addition to these tariff barriers, the processed food sector also faces numerous non-tariff barriers that hamper exports. Examples of these types of barriers include unjustifiable labeling requirements, burdensome certification rules and unique packaging standards. These barriers are proliferating, most notably in the European Union (EU). They are often exported from the EU to other countries, as we are seeing in the case of mandatory labeling for products of agricultural biotechnology.

GMA Goals for the World Trade Organization (WTO) Negotiations

GMA members have developed priority objectives for the WTO agriculture negotiations. These objectives were endorsed by the Processed Foods ATAC and the WTO Processed Foods Coalition. I will elaborate on a few of our most important priorities:

Market Access

GMA is primarily concerned with achieving new, commercially meaningful access for food products. We are pleased that negotiators have agreed, in principle, to a tariff cutting formula that will cut high tariffs more deeply than lower ones. We urge negotiators to develop as ambitious a formula as possible not only to reduce tariff peaks and address tariff escalation, but also to achieve substantial reductions in both bound and applied rates. For many processed products there is an extremely wide disparity between bound and applied rates. For example, in India, the bound rate on pasta is 150 percent

whereas the applied rate is 30 percent. As such, even an aggressive 50 percent linear cut in tariffs would not result in any real new market access for our products.

It is also critical that the concept of "substantial improvements in market access" be applied to all products, even those considered "sensitive." The United States has far more to gain by pursuing an ambitious tariff cutting formula for all products, than a modest agenda centered on protecting our "sensitive" commodities. To that end, we also support a tariff cap in order to allow meaningful market access for all products. GMA believes that increased market access for sensitive products must come from tariff cuts, substantial increases in tariff-rate quotas (TRQs), or a combination of the two.

Finally, GMA believes that the U.S. negotiators should provide the intellectual leadership in developing an additional formula to address tariff escalation. The tariff escalation formula should complement the universal tariff cutting formula to ensure harmonization of all agricultural tariffs.

Domestic Support

GMA member companies are also penalized by U.S. policies that artificially inflate the price of sugar and dairy products. We, therefore, believe that amber box payments must be reduced and capped on a product specific basis to ensure that there are meaningful and equitable reductions in support across all commodities. In order to ensure that domestic support policies are as minimally trade distorting as possible, new disciplines should be developed for the expanded blue box. And there should be a commitment to reduce blue box support over time.

Export Competition

GMA believes that agricultural export subsidies should be eliminated within five years. The European Union's (EU) system of export refunds and inward processing seriously damages the competitiveness of U.S. products, hurting not only manufacturers but producers as well. For example, export subsidies on luncheon meat allow EU manufacturers to sell at well below domestic cost in the U.S. In the juice sector, export refunds for sugar and direct support for grape musts have resulted in an estimated loss of over $100 million to one GMA member company over the last ten years.

Geographical Indications (GIs)

GMA remains extremely concerned about the EU's sustained push for new protections for geographical indications (GIs). We are particularly alarmed by the EU's proposal in the agriculture negotiations to claw back rights to names that the U.S. Patent and Trademark Office considers generic in the U.S., such as parmesan and feta. In many cases, Kraft and other U.S. companies have built brands around these generic names. EU demands to rescind the rights to these and other names should be flatly rejected.

It is important to realize that our concerns go well beyond the loss of commonly known names. The EU initiative on GIs in the Doha Round represents a full-scale rewrite of existing WTO commitments and could seriously jeopardize basic intellectual property rights such as the priority and exclusivity of trademarks. If accepted, EU proposals on GIs could lead to a weakening of the trademark protections that are vital to Kraft and other GMA member companies. We believe that sufficient rules already exist to guarantee that GIs are protected and that new commitments in this area are not needed. New rules may only serve to confuse consumers and represent a direct threat to the trademarks and brands that are essential to the future growth of the food industry. GMA believes there should be no new mandate on geographical indications.

Conclusion

GMA strongly supports the WTO negotiations. We are anxious for a swift and commercially meaningful result.

Trade is the engine of global economic growth. A successful conclusion to the Doha Development Agenda will boost world economic activity, lift millions of oppressed people out of poverty, resolve a number of festering trade frictions, and restore credibility to the global trading system. Clearly, the ongoing negotiations cannot be concluded without an acceptable agreement on agriculture. We need stronger disciplines on agricultural support and protection to boost U.S. exports of processed foods and to increase economic efficiency in the global agricultural production and trading system. Given our abundant natural resources, highly efficient agricultural production and marketing system, and superior technological capabilities, we are convinced that U.S. agricultural and food producers can only gain from new WTO rules that further limit government intervention in the agricultural production and trading system.

Thank you for your attention.

The Grocery Manufacturers Association
Priority Objectives for WTO Agriculture Negotiations

The Grocery Manufacturers Association (GMA) views the WTO agriculture negotiations as a crucial opportunity for the United States to continue its pursuit of open markets and expanded trade in food and agricultural products. Processed foods now account for over one third of all U.S. agricultural exports. These products must be made a top priority during the agricultural negotiations. To achieve meaningful improvements in trading conditions for processed foods, it is essential to eliminate or significantly reduce all tariff and non-tariff barriers to trade as well as trade-distorting subsidies in this sector.

A number of particular problems continue to hamper the growth of global trade in the processed sector. These include, for example, tariff peaks; tariff escalation; tariff-rate quotas (TRQ) on key ingredients; export subsidies and trade-distorting domestic support.

Commercially meaningful liberalization of all agricultural products, including sensitive products, is a vital interest of the processed food industry. Limited access to world price sugar and dairy and inverted tariffs has led to a situation where it is more cost efficient to produce many candy and high-value dairy products abroad and ship them to the United States. The resulting loss of jobs and loss of export opportunities continues to hamper the growth of the processed food industry.

To address these concerns, we recommend the following:

Market Access

- Specific and complex tariffs must be translated to *ad valorem* equivalents (AVEs) in an accurate and transparent manner. Negotiators should pay particular attention to products subject to TRQs, where great disparities between domestic and world prices can result in inaccurate calculations of AVEs.
- An approach to tariff reductions across the board that leads to the elimination of tariff peaks and tariff escalation. Any formula should be ambitious enough to achieve substantial reductions in bound and applied tariff rates. In addition to the overall formula, negotiators should develop a second formula to specifically address tariff escalation.

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- The concept of "substantial improvement in market access" should be applied to all products, even those considered "sensitive." No tariff lines should be exempt from reduction commitments. The term "sensitive" is a dangerous concept that could allow countries such as Canada and Japan to shield their domestic industries from international competition. For example, Canada maintains prohibitively high duties on processed foods like ice cream, yogurts and cheese to protect their dairy sector.
- Increased market access for sensitive products through tariff cuts and substantial increases in tariff-rate quotas (TRQs). TRQs should be increased by a formula to be decided, which should be based either on an absolute increase in volume or by an increase in the percentage of consumption, whichever is greater. A suggested target would be at least 20% of domestic consumption or a 33% increase in volume
- Elimination of all in-quota tariffs on products subject to tariff-rate quotas.
- A cap on tariff levels at a commercially meaningful level.
- Additional reductions in tariffs through a zero-for-zero approach for particular products, including but not limited to, pet food, dry cereals, powdered soft drink mixes, cocoa and cocoa containing products, French fried potatoes, soft drinks, soups and biscuits.

Export Subsidies

- Elimination and prohibition of export subsidies within five years.
- A progressive approach towards elimination that reduces higher export subsidy levels at a faster rate than lower export subsidy levels.

Domestic Support

- Substantial reductions in all forms of trade-distorting domestic support – amber box, blue box and *de minimus*.
- Amber box payments must be capped and reduced on a product-specific basis to ensure that there are meaningful reductions in support across all products.
- The creation of an expanded Blue Box could undermine the goal of substantial reductions in trade-distorting domestic support. It is imperative that negotiators establish new disciplines to ensure that these programs are truly less trade-distorting than amber box subsidies. A cap should be established to ensure that WTO members are prohibited from increasing overall trade-distorting domestic support by "box shifting."

Geographical Indications

- No extension of rules governing geographical indications for wines and spirits in intellectual property rules to food products. Attempts to "claw back" generic names in the agriculture negotiations must be resisted.

Special and Differential Treatment

- Negotiators should develop objective criteria for differentiating between advanced and less-advanced developing countries in the WTO. Special and differential treatment (SDT) provisions should be targeted in a graduated fashion and made available to countries depending on their level of need.

Testimony By

Mark Viso
Vice President of Operations
International Programs Group
World Vision
September 21, 2005

Before the
United States Senate Committee on
Agriculture, Nutrition, and Forestry

Regarding the
Status of the World Trade Organization
Doha Round Negotiations on Agriculture

Mr. Chairman, thank you for the opportunity to testify today on the World Trade Organization (WTO) Doha Round Trade Negotiations. I am Mark Viso, Vice President of Operations for World Vision United States.

World Vision is a Christian relief and development organization operating in nearly 100 countries with 22,000 employees worldwide. In fiscal year 2004, World Vision handled 820,000 metric tons of food aid serving 7.2 million beneficiaries in 33 countries.

World Vision recognizes the staunch support this Committee has shown over past decades for ensuring that hungry people around the world are fed and provided a helping hand. Your track record reflects a genuine concern for the world's poor. I am sure this will continue and we thank you.

My testimony will focus on food aid in the Doha Round. It reflects the views of the 16 American private voluntary organizations and cooperatives (jointly called "PVOs") that are members of the Coalition for Food Aid.[1]

Because food aid is part of the international flow of commodities, it has been included in the Doha agriculture trade negotiations. PVOs are very concerned that as negotiators make trade-offs to derive a final agreement, restrictions on food aid could be adopted that would limit the availability of food aid to help the poor and hungry. It is critical that the United States stands firm against restrictions that could cause harm.

The United States Trade Representative should continue to reject proposals in the World Trade Organization's Doha Round that would eliminate in-kind food aid or monetization, restrict food aid provided through PVOs, or limit food aid to emergency uses. At the USDA Kansas City Food Aid Conference in May of this year, Agriculture Secretary Mike Johanns outlined critical issues that we believe should continue to form the basis of the U.S. position in the Doha Round.

First, the Secretary stated "[we] understand the important, often life-saving role of food aid. Unfortunately, others in some countries take a dim view of the way in which US Food Aid is delivered, characterizing it as a subsidy for our producers. We here know this is not the case."

We agree. As recipient countries have commented during the Doha negotiations, the needs of recipients for food aid to address chronic and emergency needs should be put first. Moreover, claims that food aid has potential for commercial trade displacement are overstated. Food aid comprises 2 percent of international agricultural trade and nearly all is used in least developed countries or low-income food deficit countries.

Second, Secretary Johanns said, "What the world needs is more food aid commodities, more cash, and more donors—not new and impractical rules that require everyone to contribute in exactly the same way."

We agree. Several exporting countries claim that in-kind food aid creates unfair competition for their commercial agricultural exports and therefore have put forward

[1]The members of the Coalition for Food Aid are: Adventist Development & Relief Agency International, ACDI/VOCA, Africare, American Red Cross, CARE, Catholic Relief Services, Counterpart International, Food for the Hungry International, International Orthodox Christian Charities, International Relief & Development, Land O'Lakes, Mercy Corps, OIC International, Project Concern International, Save the Children, and World Vision.

proposals to restrict food aid. The most extreme suggestion is to phase out in-kind food aid, defined as food procured in the donor country, and then only permit food in times of crisis. Other proposals would require all food aid to go through international organizations. This would, for example, no longer allow World Vision and other U.S. PVOs to partner with the U.S. Government to provide food aid for mother-child health care, food for education, and agriculture development projects.

A variety of options for providing food aid are needed, including in-kind commodities for targeted distribution and monetization and cash available for local purchase and program support. These aspects of food aid are beyond the interest, scope and expertise of the WTO, and the Doha negotiators should not attempt to define or to limit these activities.

Third, Secretary Johanns said, "We also believe that any new disciplines applied to food aid should be discussed by international food aid experts, not just trade experts negotiating the trade agreement."

Again, we agree. The WTO's objective is to provide ground-rules for international commercial trade. The 2004 WTO Doha Negotiating Framework states that negotiators will develop "disciplines" on food aid to avoid commercial displacement. Negotiators must be very careful when developing such "disciplines" or else they could eliminate a greatly needed form of humanitarian aid.

Thus, the Doha Round decisions will determine whether millions of the world's poor and hungry have access to adequate food aid in the future. We therefore look to the United States for leadership to protect this critical assistance program.

Limitations on Food Aid Proposed in the Doha Agriculture Negotiations.

Food aid poses special concerns and considerations for the WTO because it is not a commercial program. Food aid's purpose is to provide assistance to low-income, developing countries that are dependent on agricultural imports and to assist people who are suffering from emergencies or chronic hunger. Great care must therefore be taken to assure that the Doha agreement does not discourage donors from providing food aid or limit the ability of developing countries to access food aid.

Yet, proposals raised during recent Doha negotiation sessions would severely reduce the availability of food aid. Several papers were introduced during the June 2005 agriculture sessions that would eliminate (1) bilateral agreements between donors and PVOs or recipient countries; (2) "non-emergency" food aid (such as food-for-work, food for agricultural programs, mother-child health care, and food for education); and (3) nearly all in-kind food aid.

"In-kind" is food aid that is procured in the donor country, compared to "cash for food" which is the provision of cash by a donor that is used to buy food aid commodities from any country. Eighty percent of food aid, today, is in-kind; nearly all US food aid is in-kind; and the US is the largest provider of food aid worldwide. Many other countries provide in-kind food aid as well, including Canada, Korea, India, Italy and France. Even though the EU has a "cash for food" program, most of the food aid is actually procured from country members of the EU.

These proposals to limit food aid are extreme. The trade distorting potential of food aid is minimal – it comprises 2% of international agriculture trade and, of this, 78% is for emergencies. Nearly all of it is provided to least developed countries or low-income food deficit countries.

Even though commercial displacement has been shown to be very limited and often overstated, the focus on this issue rather than meeting the legitimate needs of developing countries has overtaken the debate. This is largely driven by the EU pronouncement that it will eliminate export subsidies if there is "full parallelism" in other areas, including the elimination of trade distorting food aid. It is also because the WTO's mandate and competencies are related to commercial trade, not to food aid and other forms of humanitarian and development assistance.

The Coalition has engaged in discussions with developing countries at the Doha negotiations. We understand that in recent Doha food aid meetings, these developing countries have become more engaged to effectively protect food aid program that they believe are very important, which we hope will help balance the call for restrictions on food aid promoted by certain exporting countries.

Monitoring the Potential for Commercial Displacement

Currently, the UN Food and Agriculture Organization (FAO) Subcommittee on Surplus Disposal (CSSD) is responsible for monitoring food aid flows to assess the potential for commercial displacement. We believe that improvements are needed in the way that the CSSD operates to make it more effective, but we do not believe that the WTO should try to take over the CSSD's role. We believe that the CSSD should continue to have this responsibility and that the FAO is the appropriate forum because:

(1) one of its key mandates is promoting food security in developing countries;

(2) it has an institutional history of working on food aid issues since1954;

(3) its membership is similar to the WTO, but with the benefit that many least developed countries (LDCs) that are not members of the WTO belong to the FAO; and

(4) the CSSD meets in Washington, where most LDCs have embassies with adequate staffing and can be encouraged to participate.

Increased Commitments to Food Aid are needed

Predictable levels of food aid, rather than surplus-driven donations are necessary to assure that net food importing developing countries and least developed countries have adequate access to food on a regular basis. We are dismayed that donor volume commitments under the FAC decreased from 7.52 million metric tons (wheat equivalents) in 1986 to 4.895 million metric tons in 1999. We urge donors to commit to higher levels in the future for both acute and chronic hunger.

We are seeing many protracted and complex emergencies drain the few food aid resources that are currently available and believe more is needed, not less. As provided for in the 1994 Marrakesh Declaration on Least Developed and Net Food-Importing Countries, Food Aid Convention food aid commitments should increase to meet these legitimate needs. In the new Food Aid Convention a laudable outcome would be donor

commitments that reach 10 million metric tons – the original goal of the Food Aid Convention. It is therefore critical that Doha Round negotiators do not take any actions that result in declining availability of food aid.

Maintaining Programs Conducted by PVOs

Food aid must remain directly available to PVOs for meeting emergency needs and for developmental programs. Any text emerging from the Doha negotiations must continue to permit full and direct PVO participation in food aid without unduly limiting the options for how the resource is used to meet identified needs.

With over 50 years experience in food aid programming, US PVOs take pride in the responsible use of this resource. As the global environment has changed and become more interconnected and complex, we have adapted our programs to meet the changing needs. We regularly evaluate our work to see how we can be even more effective, with the aim of contributing to the Millennium Development Goals, particularly the first goal: to eradicate extreme poverty and hunger, reducing by half the proportion of people who suffer from hunger.

We conduct both emergency and non-emergency programs. In the case of emergency needs, PVOs coordinate with communities (a) to identify the interventions that are needed immediately, such as the types of food, who should receive commodities and the best ways to deliver goods and services; (b) to identify the interventions for recovery, such as seeds, tools and fertilizer; and (c) to implement and to monitor programs. In the case of chronic hunger, the goal is to help people achieve food security, through integrated programs to improve rural infrastructure, flood protection, access to clean water, sanitation, agricultural development and the nutrition of infants and children, and primary education, particularly of girls. We help reduce vulnerability in high-risk populations, such as those affected by HIV/AIDS. PVOs have the comparative advantage of being development agencies with multi-sector expertise, grass roots community involvement, and our long experience and expertise in food programming.

PVOs cooperate directly with the poor and develop approaches from the perspective of people involved, increasing the capacity of local groups and administrative structures to address a range of social service and development problems.

Over the years, US PVO non-emergency food aid programs have evolved from a focus on food distribution to sustainable development. For example, food-assisted agricultural programs have been integrated with complementary activities such as technical assistance and training. Agricultural yields have been increased, storage losses reduced and household provisioning improved. Monetization has been a critical factor in achieving these goals.

Very little food aid is monetized. Currently, the total amount of PL 480 Title II that is monetized is about 400,000 metric tons out of approximately 2,500,000 metric tons. And yet monetization is of critical importance for low-income food deficit countries. First, there may be limited numbers of importers who have the liquidity or are able to obtain the credit needed to import adequate amounts of food into a developing country. Second, the proceeds are put to good use for a variety of food security programs. Finally, the monetization itself can help the local agriculture sector, such as internal traders or small

mills that cannot afford to import themselves, but are eligible to bid on food aid commodities.

Conclusion

Food aid is not a bargaining chip to be used in the geo-political game of reducing agriculture subsidies. World Vision and the Coalition urge you to continue keeping poor and hungry people at the center of your decisions. We ask that the world's poor do not become the unintended victims of our negotiations of WTO agreements.

Thank you again Mr. Chairman for allowing World Vision to testify today. I would be happy to entertain any questions you may have for me.

DOCUMENTS SUBMITTED FOR THE RECORD

SEPTEMBER 21, 2005

Statement of Senator Chuck Grassley
Senate Agriculture Committee Hearing on
The Status of World Trade Organization Negotiations on Agriculture
September 21, 2005

I'm pleased to submit this statement for today's hearing on agricultural negotiations at the World Trade Organization (WTO). As a senator from Iowa, and as a member of the Committee on Agriculture, I have a major interest in seeing that the Doha Development Agenda (Doha Round) negotiations of the WTO benefit the U.S. agricultural sector. Moreover, as Chairman of the Committee on Finance, the Senate committee with jurisdiction over trade legislation, I'm actively involved in trade issues affecting agriculture.

I'd like to begin by emphasizing the importance of international trade to the health of rural America. Approximately one-third of U.S. acres are planted for export. Agricultural exports constitute about one-fourth of U.S. farm cash receipts. U.S. farmers and ranchers clearly gain from international trade.

But we can do better than the present. High tariffs imposed by other countries significantly impede market access abroad for U.S. agricultural products. At the same time, U.S. tariffs on agricultural imports are among the lowest in the world. The levels of subsidies provided by some of our major trading partners are significantly higher than those of the United States. In addition, some WTO members – unlike the United States – extensively use export subsidies.

The Doha Round offers a once in a generation opportunity to change this situation. The outcome of the Doha talks could lead to the removal of artificial distortions in the international marketplace that harm U.S. farmers. For this reason, it's important that the United States remain focused on achieving results in the upcoming WTO ministerial in Hong Kong that will lead to a successful conclusion of the Doha Round by 2007.

But not just any Doha Round agreement will be acceptable to the United States. Such an agreement must result in real gains for U.S. agriculture. Most importantly, any new agreement must provide increased market access abroad for U.S. farm products. In addition, any new agreement must follow through with the goals of harmonizing levels of domestic support and eliminating export subsidies by a date-certain as provided in the WTO framework of August 2004.

Market Access

The single greatest goal of the United States in the Doha Round agricultural negotiations must be to obtain substantial improvements in market access for U.S. farm products. Any agreement that does not fulfill this objective must be rejected.

U.S. tariffs on imports of agricultural products are significantly lower than those of almost all of our trading partners. This is true of our developed country trading partners. According to a 2005 World Bank report, the average U.S. trade-weighted *applied* agricultural tariff is 2.7 percent. In contrast, the average trade-weighted applied agricultural tariff for the European Union is 11.8 percent, for Japan is 34.6 percent, and for Korea is 93.9 percent. Accordingly, the average applied tariff of the United States is more than four times lower than that of the European Union, over twelve times lower than that of Japan, and over thirty-four times lower than that of Korea.

Likewise, the average trade-weighted *bound* agricultural tariff of the United States – 6.2 percent – is much lower than that of most of our developed country trading partners. The average such tariff for the European Union is 20.5 percent, for Japan is 62.1 percent, and for Korea is 103.5 percent.

The disparity between tariffs of the United States and its developing country trading partners is pronounced as well. According to another 2005 World Bank report, the U.S. trade-weighted average applied tariff for agricultural and food products is 2.4 percent (slightly lower than in the other World Bank report noted above). The average such tariff for Brazil is 5 percent, for Indonesia is 5 percent, for Argentina is 7.1 percent, for South Africa is 8.8 percent, for Mexico is 11.6 percent, for Thailand is 29.7 percent, and for India is 50.3 percent. Significantly, all of these countries are members of the G-20, a negotiating group in the WTO talks that is calling for increased access to the U.S. market. The average applied agricultural and food tariff of Brazil, a leader of the G-20, is over twice as high as that of the United States. India, another G-20 leader, applies tariffs to agricultural and food products that are *over twenty times higher* than those of the United States. Before the United States commits to even further liberalize its agricultural market, we need strong assurances that these developing countries will provide greater access for U.S. agricultural products.

In order to ensure improved market access for U.S. producers, the number of products designated in the market access negotiations as "sensitive" or "special" should be kept low. Tariff peaks should be eliminated, thus leading to more harmonized agricultural tariffs.

Unfortunately, even if tariffs are cut significantly through the Doha Round, exports of certain major Iowa and U.S. agricultural products will not necessarily increase into all markets. For example, the European Union remains essentially closed to imports of U.S. beef, corn, and pork due to scientifically unfounded safety concerns. In the case of beef, the European Union maintains its ban despite a 1998 WTO ruling that this ban violates the European Union's WTO commitments, and the United States is currently challenging the European Union's moratorium on the approval of agricultural biotech products, a policy that in effect blocks exports of U.S. corn. Japan continues to ban imports of U.S. beef although this product is scientifically proven as safe. The United States must continue to work aggressively to see that non-tariff barriers to U.S. agricultural exports are removed. Otherwise, gains in market access for some products in certain countries will be largely illusory.

Domestic Support

Some countries have been calling for the United States to agree to reduce its domestic support before they agree to cut their tariffs. But we haven't seen a reciprocal willingness from them that they'll agree to the necessary tariff reductions in the negotiations. I believe that the United States should be willing to reduce its domestic support, but only if both developed and developing countries agree to provide greater market access for U.S. agricultural products.

When negotiating on domestic support, U.S. negotiators should work to see that subsidies are reduced and harmonized through the Doha Round negotiations. This would be in line with the framework agreement of August 2004, which provides that there will be a "strong element of harmonization" in cuts in domestic support, and that, specifically, "higher levels of permitted trade-distorting domestic support will be subject to deeper cuts." Accordingly, the European Union, Japan, and other countries must be willing to signal that they'll cut their support.

But interestingly, the United States is currently under attack in the WTO negotiations, especially from the European Union, over our domestic support. It strikes me as odd that the European Union is going on the offensive over U.S. subsidies. If anything, the European Union, and not the United States, must be prepared to reduce its subsidies if the round is going to have an element of harmonization. The European Union is currently able to provide over $60 billion annually in trade-distorting domestic support. This amount is *over three times* the $19 billion limit of the United States. Moreover, the European Union, unlike the United States, uses blue box subsidies, which can be provided in unlimited amounts.

Regarding the blue box, the European Union is protesting the inclusion of countercyclical payments in the "new" blue box as laid out in the framework agreement. From what I understand, the United States – prior to the reaching of the framework – was seeking to eliminate the blue box. After all, it didn't seem fair that just the European Union and six other countries have blue box subsidies. The United States dropped its demand to eliminate the blue box, however, after agreement was reached to include countercyclical payments in the new blue box. If the European Union is now calling for countercyclical payments not to be included in the new blue box, or if it is insisting that onerous conditions be placed upon them if they are included in the new blue box, I believe that the United States should revisit the issue of whether a blue box should exist at all.

Export Competition

Export subsidies are the most trade-distorting of all support measures, and I'm pleased that the framework agreement provides that they'll be eliminated by a date-certain. The European Union provides 85 to 90 percent of the world's total export subsidies. As export subsidies are used by so few countries, and as they are so trade-

distorting, it only seems reasonable that WTO member countries agree to their elimination. I hope that the United States and its trading partners agree to end them at the earliest possible date.

On a similar topic, I urge U.S. negotiators to press for the elimination of differential export taxes. Differential export taxes in effect subsidize exports of processed agricultural products. I understand that three of the four WTO member countries that use differential export taxes – Argentina, Indonesia, and Paraguay – are members of the G-20 and are asking that the United States lower its tariffs to their products and provide reductions in its domestic support. I encourage the United States to negotiate with these countries for the elimination of differential export taxes.

On another topic listed under the subject of export competition, I note that I'm wary of calls by the European Union to limit food aid to cash payments. I'm concerned that cash donations would invite corruption.

Developing Countries

Developing countries are fully involved in the current WTO negotiations, and this is a good sign for the world economy. Their further integration into the international market will benefit not only their citizens, but people throughout the world.

I'm concerned, however, by the apparent unwillingness of developing countries to push for agricultural trade liberalization among themselves. Developing countries need to appreciate that the key to development is not exclusion from liberalization, but liberalization itself. As demonstrated by their high tariffs, developing countries have among the world's most protected agricultural sectors. This protection limits market opportunities for agricultural exporters in both developed and developing countries who seek to export their products to developing countries. In addition, consumers in highly protected developing country markets, such as India, are penalized by high tariffs on agricultural and food products. By reducing agricultural trade barriers, developing countries would enhance their own competitiveness, and thus enhance their potential for income gains.

I'm also concerned by continued calls from net agricultural exporting developing countries for special and differential treatment. Some developing countries have world class, highly advanced agricultural sectors that compete directly, and successfully, with their counterparts in the United States and other developed countries. Providing special and differential treatment for internationally competitive producers in these developing countries is simply unwarranted. I urge U.S. negotiators to see that these producers are not provided special and differential treatment that they do not need.

Conclusion

The Doha Round has the promise of expanding trade opportunities for U.S. farmers and benefiting rural America. In order to live up to its promise, any agreement

reached through the negotiations must provide significant new market access opportunities – in both developed and developing countries – for U.S. agriculture. Negotiations on subsidies must provide for the reduction and harmonization of domestic support, and per the 2004 WTO framework agreement, U.S. negotiators should make clear that the United States expects that countercyclical payments will be included in the new blue box. In addition, as called for in the framework agreement, export subsidies should indeed be eliminated by a date-certain.

The Doha Round provides a once in a generation opportunity to promote international economic growth and prosperity through trade liberalization. The entire world will benefit if we're able to conclude these negotiations successfully.

Statement of Senator Patrick Leahy
Senate Agriculture, Nutrition and Forestry Committee
Hearing on
Review status of World Trade Organization
Negotiations on Agriculture
Wednesday, September 21, 2005

Mr. Chairman: I want to thank you for holding this hearing. It will be great to hear from the Secretary Mike Johanns and Ambassador Portman on the World Trade Organization negotiations on agriculture.

Our task here is a complex one as we try to level the global playing field in order to ensure the long term stability for American's and the world's agricultural communities.

In the coming months, the World Trade Organization negotiations on agriculture will continue and we must work diligently and make effective policy reform to agricultural trading rules.

These matters are crucial to America's farmers, ranchers, and consumers. Moreover, they are crucial to rural America. Perhaps that is why so many Vermonters are taking an extreme interest in the WTO meetings.

The benefits of agricultural exports to rural communities are important. Exports of these goods are vital to rural area where jobs, income and economic stability are often not created by other sources of industry.

Resulting agreements from WTO negotiations could have a dramatic impact not only on the small rural communities of Vermont and on the next farm bill – but also on job creation throughout the nation.

I share the growing concern about the state of our current agricultural trade agreements and the many challenges they face.

If we let this opportunity pass us by in the Doha Round, it may not come back for many years.

Unlike the Uruguay Round, I think the time is past when the U/S/ and EU could reach a deal on agricultural issues and everyone else will go along.

Nonetheless, it seems likely that many countries will have to step forward for the logjam to be cleared.

If the United States is to agree to reduce its domestic farm support programs, then other WTO members need to recognize that the U.S. still has the right to provide support to its farmers in less-trade distorting and non-trade distorting ways if Congress so chooses. This is crucial.

Issues like access to insatiable markets like China, with its rapidly growing middle class and demand for products, and creating a market that promotes fair competition for all will be crucial.

The success of America's agricultural community pivots on our ability to be successful in an increasingly competitive global marketplace.

I am also concerned – as a member of this Committee and the Judiciary Committee – about a matter that will be raised by the Grocery Manufactures Association by Leonard Condon. The concern is over EU proposals for new protections for geographical indications that would interfere with U.S. branded products and their rights to use common, generic, names such as parmesan and feta.

As talks continue, we need a solid comprehensive package that works well for American farmers, ranchers, processors, exporters,

rural America, consumers, and those in need of nutrition assistance. We cannot disarm alone.

It will be no easy feat to create global policies that reduce foreign imposed barriers to a minimum, hold everyone accountable to existing and future trade agreements and fully use USDA export and food aid programs.

I would like to thank our witnesses for taking time out of their busy schedules to share their thoughts and insights with us. I look forward to hearing from you.

Opening Remarks
Senate Agriculture Committee - WTO Agriculture Negotiations
September 21, 2005
Senator Blanche L. Lincoln

- Thank you, Mr. Chairman. You have shown tremendous leadership on this incredibly important issue, and I appreciate you holding this hearing today.

- Let me begin by welcoming Secretary Johanns back to the Committee. We have certainly kept you busy over the past six months, and I want to take a moment to thank you for traveling to Arkansas last spring to visit with my farmers. As I am sure you noticed, we are passionate about agriculture in the South, and we appreciated the time you spent discussing a variety of farm policy issues, specifically the ones we will address today.

- I also want to welcome Ambassador Portman to the Agriculture Committee. We have worked together closely in the Finance Committee, and I know you understand the importance of our trade policies to American farm families. With that in mind, I hope you feel as comfortable discussing trade issues here in this Committee as I do.

- Last, but certainly not least, I would like to welcome Mr. Allen Helms, who will be testifying today on behalf of the National Cotton Council. Mr. Helms is cotton producer from Clarkedale, Arkansas, a member of the Arkansas Ag Advisory Council, and a good friend to southern agriculture. I commend your leadership, Allen, and I appreciate you taking the time to offer your insight on the direction of our trade negotiations.

- Mr. Chairman, there is no issue closer to my heart than our nation's agriculture policy, and there is nothing I love more than advocating on behalf of my Arkansas farm families.

- They are hard working people who do something pretty incredible every day – they provide us with the safest, most abundant, most affordable food and fiber supply in the world.

- And they do this while facing an increasingly competitive world market that is not always free, nor fair.

- When U.S. farmers survey the world, they see an average bound tariff of 62 percent against their products, compared to the 12 percent that our foreign competition sees when they want to send something here to the United States.

- This is why our trade negotiators work in Geneva and ultimately Hong Kong this December is of vital importance to the future of U.S. agriculture.

- Our farmers recognize the importance of trade, but they are becoming increasingly frustrated with the actions of WTO members who have chosen to litigate, rather than negotiate, and have focused their attacks on U.S. commodity support programs.

- While Doha talks drag on, the WTO continues to rule against our commodity support programs – programs that under the Uruguay Agreement were considered fully compliant with WTO principles.

- Farmers want to meet our WTO obligations, but they also need the assurance that the U.S. government will stand by programs contemplated and authorized in an upcoming multi-year farm bill. Domestic farm programs that are structured to comply with a new agricultural agreement should be protected from challenges that Congress cannot possibly anticipate.

- Further, as I'm sure our Chairman and my distinguished colleagues noted earlier today, farmers are frustrated with continued demands by the Europeans that we unilaterally accept drastic cuts in our farm programs without their express commitment to provide meaningful market access to our producers in return.

- It is my understanding that Amb Portman and Secretary Johanns were able to meet with European officials in Washington earlier this month, and I look forward to your assessment of any progress in these areas during the hearing today.

- Mr. Chairman, I think we agree that the stakes are high. To reach agreement on modalities prior to the Hong Kong Ministerial, WTO members must reach agreement across a broad range of issues. More than ever, we need the assurance that our trade negotiators understand agriculture must be a top priority now and in the months ahead.

- With that, I thank the Chairman again for his strong leadership on behalf of America's farm families and for holding this hearing.

Written Statement by Senator Pat Roberts
Hearing on WTO Negotiations
Senate Committee on Agriculture
September 21, 2005

Mr. Chairman, I am pleased to be here today to review our progress in negotiations in the World Trade Organization (WTO).

I am pleased that we have both U.S. Trade Representative Rob Portman and U.S. Department of Agriculture Secretary Mike Johanns here today to discuss one of the most significant factors in the future of American farming and ranching.

And that is no exaggeration. It wasn't long ago when we met expanding our trade opportunities with our neighbors across the ocean with enthusiasm and eagerness. But times have changed.

I think we are suffering from trade fatigue. That is to say, many times we oversell and overestimate trade agreements. Many times we over-criticize them. As a result, farm country has grown weary on this animal we call free trade.

In the recent debate over joining arms with our neighbors in Central America in the CAFTA

agreement, we saw the fragmentation of American agriculture almost destroy an opportunity to expand our access to millions of consumers just a few thousand miles away.

I am pleased that Congress saw fit to approve CAFTA – but I am concerned about the hurdles that lie ahead.

In recent months our farm programs have borne the brunt of criticism and skepticism from the international community. Specifically, I'm talking about the Brazilian Cotton Case and the ongoing

criticism of our international food aid efforts.

These are two of the biggest decisions our negotiators, under Mr. Portman's leadership, must face. In particular, the Cotton Case has called into question the future structure and flexibility of our farm programs. In the coming weeks, WTO negotiators will make critical decisions about what will be considered green, blue or amber box payments.

These determinations could go a long ways in determining what our next farm program looks like. I

have long said that the United States should be willing to look at and consider any changes to our farm program. But, we should not unilaterally disarm.

Unless other countries are willing to reduce their spending on agriculture programs and/or increase access to their markets, the U.S. should not give one inch. I am also concerned that some have proposed making U.S. food aid programs cash donations instead of commodity donations.

I know that some nations of the world view these programs as commodity dumps for low priced U.S. grain. That simply is not the case. In many instances, the U.S.

programs are the difference between many people throughout the world, especially in Muslim nations, having a meal to eat each day.

In many cases, without these programs, people either won't eat or the young people will go to schools funded by radical extremists where they are taught a hatred of the United States and everything we stand for.

Thus, the food aid programs are a national security issue, in addition to an agriculture policy issue.

In short, I realize the consequences as well as the significance of the upcoming WTO Ministerial meetings

in Hong Kong.

It is no exaggeration to call this a crossroads in the future of farming. Let me be frank – I'm not trying to sell anyone on all of the good to come out of this agreement, nor am I trying to sell anyone on the challenges to come. Simply put, aside from energy and input costs, there is no other issue more critical to the future of American farmer and rancher than the ability to soundly and successfully complete this round of negotiations in the WTO.

I look forward to partnering with USTR Portman and Secretary Johanns to ensure the future of America's farmer and ranchers.

Statement of United States Senator Debbie Stabenow
Senate Agriculture Committee Hearing
Status of WTO Agriculture Negotiations
September 21, 2005

Mr. Chairman, thank you for holding this hearing today. International trade is one of the most important issues to the future of American agriculture. So I am pleased that Secretary Johanns and Ambassador Porter are here today to give us an update on the status of on-going negotiations.

I have voted for six trade agreements over the past few years and I agree with the written testimony of both Secretary Johanns and Mr. Porter that opening export markets is critical to the sustainability and growth of our agricultural industry. In fact, the only thing more important is that we properly enforce our existing trade agreements. For this reason, I have introduced a bill that creates the position of Trade Prosecutor at USTR. The function of this office is to advocate on behalf of our country in cases where trade agreements are violated.

I will submit my questions to the record.

Thank you.

STATEMENT OF
THE AMERICAN FARM BUREAU FEDERATION
TO THE
SENATE COMMITTEE ON AGRICULTURE
REGARDING
THE WORLD TRADE ORGANIZATION AGRICULTURE NEGOTIATIONS

September 22, 2005

The American Farm Bureau Federation (AFBF) would like to submit this statement for the record on the hearing held Sept. 21, 2005, by the Senate Committee on Agriculture.

AFBF believes that the World Trade Organization is important to the future of agriculture in the United States and around the world. The trade negotiation standard-setting and dispute-settlement functions of the WTO operate to provide a stable and predictable world trading environment for U.S. agriculture. With the production of one-third of U.S. cropland destined for foreign markets, U.S. agriculture is strongly export-dependent. The 148-member WTO operates to provide an environment for continued growth in markets for America's farmers and ranchers.

Farm Bureau policy, as adopted by the delegate body at our 86th annual convention, makes clear that our highest trade priority remains a successful conclusion to the multilateral Doha Round of the WTO trade negotiations.

Our delegates approved a thorough and well-thought-out position to guide AFBF in the trade arena. Farm Bureau policy affirms that all commodity sectors should be on the table during trade negotiations. Our delegates believe U.S. agriculture's best opportunity to address critical trade issues, such as market access and domestic subsidies, is through the multilateral process.

A review of the issues involved in the current round of agricultural trade talks highlights the vital role that the WTO plays in the economic development of agriculture. The Framework Agreement of July 2004 set the guidelines for further negotiations in the areas of market access, domestic support and export competition.

MARKET ACCESS

The world average tariff on agricultural imports is 62 percent, while the U.S. average agricultural tariff is 12 percent. The Framework Agreement supports the use of a formula for reducing all agricultural tariffs so that high tariffs would be reduced more than low tariffs, thus reducing the gap between high-tariff and low-tariff products. A final agreement on tariffs must result in significant percentage reductions that result in commercially meaningful access.

> Sensitive Products – The Framework Agreement allows all countries, developed and developing, to negotiate some number of "sensitive" products that will be subject to

smaller tariff cuts. Our goal is to assure that the number of sensitive products is limited so that meaningful market access is achievable as a result of these negotiations.

Tariff-Rate Quotas – A method to expand market access is to have a nation agree to a tariff-rate quota (TRQ) for a specific product. A TRQ is a reduced tariff on a specified amount of imported product. The U.S. would gain increased exports if countries actually "filled" their TRQs. Farm Bureau wants the negotiations to result in higher TRQs particularly for sensitive products and improved fill rates.

Special and Differential (S&D) Treatment – Developing countries, and in particular least developed countries (LDCs), have received S&D treatment to give them more time to adjust to competition. While the LDCs clearly require greater protection, some "developing" countries are actually highly developed and competitive. It is unreasonable to provide those countries special treatment. Those countries must assume greater obligations.

DOMESTIC SUPPORT

U.S. agriculture has clearly indicated its willingness to negotiate reductions in trade-distorting domestic supports as part of an overall agreement that increases market access in both developed and developing countries. Under the Framework Agreement, countries must commit to "substantive reduction" in domestic support levels. The WTO categorizes domestic support into the amber, blue and green boxes.

Amber Box – The amber box is composed of domestic support programs that are used to support prices or are directly related to production and are viewed as "trade-distorting." An example is the U.S. marketing loan program. The Framework Agreement calls for "substantive reduction" in trade-distorting domestic support. Any reductions must be balanced against improvements in the area of market access in order to advance export prospects for our farmers and ranchers.

Blue Box – The blue box includes agricultural support programs that are not related to production and are considered less trade-distorting. The July 2004 Framework Agreement includes criteria that will allow U.S. countercyclical programs to be included in the blue box. We support the framework blue box changes but oppose any further criteria which would limit U.S. utilization of the blue box.

Green Box – No caps should be placed on non-trade-distorting support. U.S. green box programs include research, extension, conservation and part of the crop insurance programs.

The negotiations over market access and domestic support must be directly linked for any substantive agricultural trade liberalization. While the U.S. is able to use domestic programs to assist producers, most nations use high tariffs (average 62 percent, with many tariff lines over 100 percent) to provide import protection for their agricultural producers. Both mechanisms of

support – tariffs and domestic programs – need to be addressed together to achieve a successful negotiation.

EXPORT COMPETITION

We support the complete elimination of export subsidies as contained in the Framework Agreement. Export subsidies are recognized as the most trade-distorting measure in trade. The European Union (EU) spends from $3 billion to $5 billion a year on export subsidies and is allowed to spend as much as $8 billion under the current WTO agreement. The EU accounts for about 88 percent of the world's export subsidies and uses them to market products of export interest to the United States. Farm Bureau also supports the phase-out and elimination of the trade-distorting practices of State Trading Enterprises, which is also included in the framework.

GEOGRAPHICAL INDICATORS

There must be no extension of geographical indicators beyond wines and spirits. Issues of product labeling should be dealt with by the intellectual property system and not part of the Doha negotiation.

In conclusion, Farm Bureau believes completion of a successful WTO Doha agriculture negotiation is the best way to achieve progress in a wide variety of international agricultural trade concerns. A final agreement must build on the July 2004 Framework Agreement, which calls for advances in market access, trade-distorting domestic support and export competition. We believe U.S. agriculture's future continues to lie in expanding foreign markets and eliminating barriers to our exports.

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September 20, 2005

The Honorable Saxby Chambliss
United States Senate
Committee on Agriculture, Nutrition and Forestry
SR-328A Russell Senate Office Building
Washington, D.C. 20510-6000

Re: Hearing on WTO Agriculture Negotiations

Dear Mr. Chairman:

As the national representatives of the U.S. wheat industry and wheat farmers, we jointly submit this letter to the Committee and respectfully request that it be made a part of the record of the September 21, 2005 hearing regarding the current WTO agriculture negotiations. We all agree that the WTO can be a useful forum for building trade relationships. The WTO provides an international means by which its Member countries can address critical issues facing the short and long-term export competitiveness of many U.S. agriculture products. These issues range from freer market access in customer countries to disciplines on export subsidies and state trading enterprises (STEs) in competitor countries. It is this latter issue – STEs – which prompts our letter to the Committee.

With regard to state trading enterprises, a large remaining obstacle to an open market is the continued existence of the Canadian Wheat Board and the Australian Wheat Board, Ltd. The CWB, in particular, as a STE has a long history of unfair practices which distort trade in the world wheat market. If any Member desires, we can provide the Committee with a lengthy chronology of the longstanding trade dispute between the United States and Canada which includes numerous Congressional requests to resolve the matter as well as several U.S. trade actions which have only temporarily brought the unfair trade practices to a halt. Mr. Chairman, resolving this dispute by bringing meaningful and permanent discipline to STEs such as the Canadian Wheat Board is long overdue.

The Office of the U.S. Trade Representative has worked diligently to end the unfair trade practices of this STE and the related unfair trade policies of the Government of Canada. We hope and expect that Ambassador Portman will continue the fight because, despite some recent success against the Canadian Wheat Board, the overall monopoly status of STEs in the ongoing round of WTO agriculture negotiations remains unresolved.

The CWB has a longstanding history of questionable practices aimed at systematically creating and developing a competitive advantage on a non-commercial basis in wheat markets around the world. As one of the largest exporters of wheat in the world, its protected and subsidized monopoly status (which grants it exclusive rights, provides government financial

guarantees, and protects its domestic market) allows it to distort world wheat trade and critically reduce market share and market value for competing wheat exports from the United States. It is critical that U.S. wheat producers have access to foreign markets and a fair chance to compete for the highest valued sales possible in the world market. Undisciplined, government-subsidized STEs are a real threat to that future.

Notably, progress and reform of the international wheat market was steady throughout the 1990s, with the exception of the CWB. In 1990, 90 percent of all international wheat purchases were made by governments. That number is now closer to 40 percent and continues to fall. Ironically, China entered into WTO membership having agreed to more disciplines on its STEs, including the introduction of private-sector imports, than Canada – the United States major trading partner – has ever entertained. Clearly, with regard to the status and functioning of STEs, the WTO and its Agreements have failed. Even when considering the AWB although privatized in 1999, it continues to operate under government sanction as a single desk monopoly which manipulates prices and distorts markets in the same manner as the CWB.

The U.S. Trade Representative has supported the wheat industry's efforts to bring a more focused and global attention to the problems that STEs create in the international wheat market. These efforts included a Section 301 investigation into the wheat trading practices of Canada which resulted in an affirmative finding, but no immediate action or relief for the U.S. industry. At the suggestion of the U.S. Trade Representative, the industry undertook countervailing duty and dumping investigations which have provided some temporary relief in the U.S. domestic market from the unfair practices of this STE. More significant, and permanent, progress needs to be made however, and active participation and involvement of the United States in drafting WTO language specific to disciplines on STE's is needed in the ongoing WTO agriculture negotiations.

We do appreciate the language adopted by the WTO General Council in July 2004, under Paragraph 18, which specifically lists trade distorting practices of STEs including the elimination of export subsidies provided to or by them, government financing and the underwriting of losses. This portion of paragraph 18 is key to any effort to meaningfully discipline STEs, and we understand this language to now be non-negotiable and that it will remain in the text of any final Agriculture agreement. This language must remain in order to force reform of STEs into more market oriented and commercial disciplined entities.

Additional text of the July 2004 WTO framework agreement, however, indicates that the future use of monopoly powers will be subject to further negotiations. With regard to the overall operations of STEs, both monopoly and monopsony powers granted to these entities must be disciplined in order to restrain and check the trade distorting practices of STEs. As a monopsonist (single buyer) and monopolist (single seller), the CWB is inherently a trade distorting entity. The CWB's control of its domestic wheat supply allows cross-subsidization between domestic and foreign markets or across foreign markets. Thus, it can engage in price discrimination across all of its markets, and the subsidies and protection it receives from the Government of Canada enhance its ability to engage in such discriminatory activities in a way

The Honorable Saxby Chambliss
Committee on Agriculture, Nutrition and Forestry
September 20, 2005
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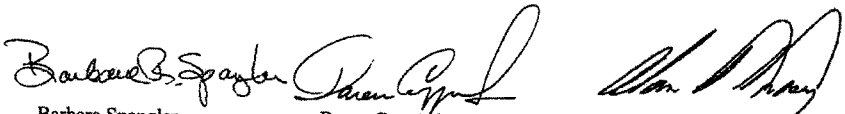
that no commercial entity could undertake. As a monopsonist buyer, the CWB can and does force Canadian producers to accept lower prices than would otherwise be derived under competitive conditions.

The challenges to the Canadian Wheat Board in recent years have exposed the unfair structure and government-guaranteed powers of STEs and the negative impact they have on other competing export countries. The CWB's activities distort international markets for wheat by reducing the price and increasing the volume of Canadian exports to both U.S. and third-country wheat markets compared to levels that would exist in an undistorted market. Clearly, the monopoly powers of STEs must be addressed in these ongoing WTO negotiations.

As world trade expands, we believe that the United States must continue to play an active role in establishing the rules for international trade if our commodity producers hope to have a profitable and competitive future. It is our hope that this Committee and the U.S. Trade Representative will continue to push aggressively in the Doha round of WTO negotiations and stress to other WTO Member countries that the discipline of STEs must be part of any final agreement.

Mr. Chairman, thank you for holding this important hearing. Please do not hesitate to contact any of us should you have any questions.

Sincerely yours,



Barbara Spangler
Executive Director
Wheat Export Trade
Education Committee

Daren Coppock
Chief Executive Officer
National Association of
Wheat Growers

Alan Tracy
President
U.S. Wheat Associates

cc: The Honorable Tom Harkin
The Honorable Robert Portman
Mr. Andy Morton
Ms. Stephanie Mercier

Statement
Of the

National Pork Producers Council

Before the
Senate Agriculture Committee

On

Status of World Trade Organization
Negotiations on Agriculture

September 21, 2005

Mr. Chairman and Members of the Committee:

The National Pork Producers Council is a national association representing pork producers in 44 affiliated states that annually generate approximately $11 billion in farm gate sales. The U.S. pork industry supports an estimated 565,761 domestic jobs and generates more than $83.6 billion annually in total economic activity. With 11,492,000 litters being fed out annually, U.S. pork producers consume 1.093 billion bushels of corn valued at $2.404 billion. Feed supplements and additives represent another $2.393 billion of purchased inputs from U.S. suppliers which help support U.S. soybean prices, the U.S. soybean processing industry, local elevators and transportation services based in rural areas.

Pork is the world's meat of choice; it represents 44 percent of daily meat protein intake in the world. (Beef and poultry each represent less than 30 percent of daily global meat protein intake.) As the world moves from grain based diets to meat based diets, U.S. exports of safe, high-quality and affordable pork will increase because economic and environmental factors dictate that pork be produced largely in grain surplus areas and, for the most part, imported in grain deficit areas. However, the extent of the increase in global pork trade – and the lower consumer prices in importing nations and the higher quality products associated with such trade - will depend substantially on continued agricultural trade liberalization.

In 2004, U.S. pork exports set another record; exports totaled 1,023,413 metric tons (MT) valued at $2.2 billion, an increase of 35 percent by volume and 41 percent by value over 2003 exports. 2005 is shaping up to be another record year. Much of the growth in U.S. pork exports is directly attributable to new and expanded market access. U.S. exports of pork and pork products have increased by more than 337 percent in volume terms and more than 293 percent in value terms since the implementation of the NAFTA in 1994 and the Uruguay Round Agreement in 1995. The top 7 export markets in 2004 are all markets in which pork exports have soared because of recent trade agreements.

The Importance of the WTO

International trade is vital to the future of American agriculture. As the world's largest exporter of agricultural products we have a critical interest in the development and maintenance of strong and effective rules for international trade. This is especially true for pork. U.S. producers were largely precluded from exporting significant volumes of pork to foreign markets before effective major trade agreements, in particular the WTO Uruguay Round Agreement. Prior to that time, a combination of foreign market trade barriers and highly subsidized competitors significantly limited U.S. pork exports.

The Uruguay Round succeeded in establishing a more effective set of trade rules for the agricultural sector and also began the process of reducing trade-distorting subsidies and import barriers. Since 1995, when the Uruguay Round Agreement

went into effect, U.S. pork exports to the world have increased by approximately 247 percent in volume terms and 239 percent in value terms from 1994 levels.

Pork exports generate wealth and create good paying jobs that contribute significantly to the economic well being of rural America. According to an Iowa State University study using the FAPRI model, a complete loss of U.S. pork export markets would cause cash hog prices to plummet by $33.60 per head ($12.96 per cwt). Research conducted by the Economic Research Service of the United States Department of Agriculture (ERS) indicates that for each dollar of value-added agricultural exports such as pork, $1.63 in additional U.S. economic activity is generated. Moreover, ERS calculates that every billion dollars in pork exports creates an additional 23,000 new jobs in the U.S. economy.

U.S. pork producers support all U.S. trade agreements that help to expand U.S. pork export opportunities. No trade agreement under negotiation is more important than the Doha Round negotiations. Ninety-six percent of the world's population lives outside the United States. Agricultural tariffs of countries other than the U.S. average 62 percent. Import duties on pork in these countries are even higher, averaging 77 percent. A successful Doha Round will create very significant new export opportunities for U.S. pork.

People frequently talk about trying to achieve "a level playing field" through the WTO negotiations. The U.S. pork industry is already trying to operate on its own level playing field. The average U.S. import duty on pork is about one percent. We receive no domestic subsidies, and no export subsidies. Because we get no subsidies or import protection, we have to rely on the market to be profitable. That is precisely why the WTO negotiations are so important to us.

A Critical Period for the WTO Negotiations

U.S. negotiators deserve high praise for the work they have done thus far to advance the WTO negotiations. They were successful in ensuring that these negotiations will take place as a "single undertaking", under which all components of the negotiations, agriculture, non-agricultural market access, services, etc., are part of a single negotiating enterprise. This ensures that the more sensitive areas of the negotiations, and agriculture is without question <u>the</u> most sensitive, are not left behind in order to achieve agreements in other areas. In addition, U.S. negotiators have been successful in establishing a broad negotiating mandate in agriculture, covering the three issues of vital interest to the National Pork Producers Council – market access, export subsidies and domestic support.

The WTO negotiations and the agricultural negotiations in particular, are now entering a critical phase. Negotiators have set the WTO Ministerial to be held in Hong Kong in December 2005 as the deadline for achieving agricultural "modalities", or specific formulas for reductions in tariffs, reductions in domestic support, and the elimination of export subsidies. Achieving a modalities agreement by the end of this

year will in turn give countries the time they will need to finalize their specific WTO commitments with respect to agriculture in 2006. The need to finalize the WTO negotiations by the end of 2006 is in turn driven by the expiration of U.S. Trade Promotion Authority (TPA) in 2007.

Achieving the goal of an agreement on modalities by the Hong Kong Ministerial is going to be extremely difficult. Negotiators have already missed a July 2005 deadline for arriving at a "first approximation" of those modalities. There are deep divisions in the market access negotiations between so called "high tariff" countries like the European Union and Japan on the one hand, and exporting countries like the United States, Australia, New Zealand, Brazil and Argentina on the other. There is also a rift between developed and developing countries on the issue of agricultural subsidies in general, and domestic support in particular. Significant progress has been made in discussions on the elimination of agricultural export subsidies. However, a serious impasse remains on the issues of market access and domestic support, an impasse that has to be resolved if these negotiations are to move forward.

It will take strong leadership from the United States, and a tireless effort on the part of U.S. negotiators, to steer the agricultural negotiations to a successful meeting in Hong Kong. Based on my comments to this point, it should be apparent to the Committee that success in this negotiation is of vital interest to the U.S. pork producers. As Agriculture Secretary Johanns has observed, the Doha Development Agenda represents the only opportunity we will have in this decade to forge new market access opportunities around the world for U.S. agriculture. While Secretary Johann's comments were about the importance of this trade round to U.S. agriculture in general, those comments certainly apply specifically to the U.S. pork industry.

Zero-for-Zero Negotiating Objective for Pork in the WTO

As already noted, U.S. pork producers have been a major beneficiary of past trade agreements. However, our ability to reap further benefits is severely hampered by the continued existence of trade-distorting policies. Import barriers remain high in many important markets, and our biggest export competitor continues to use subsidies to capture and maintain market share. The elimination of such unfair trade practices is essential to the future health of the U.S. pork industry.

U.S. pork producers have therefore proposed that the United States adopt as a primary negotiating objective in the WTO trade negotiations the total elimination, in the shortest possible time frame, of all tariffs, all export subsidies and all trade-distorting domestic subsidies for pork and pork products. The U.S. pork industry, in concert with U.S. trade negotiators, is working to gain support for this initiative among other WTO members. The United States should continue to use its negotiating leverage to push this objective with other WTO members, with the goal of ensuring we are afforded the best possible opportunity to take advantage of our natural competitiveness.

WTO NEGOTIATING OBJECTIVES FOR THE AGRICULTURE SECTOR

The U.S. pork industry does not view its zero-for-zero initiative in any way as a substitute for a comprehensive negotiation in agriculture. Fundamental liberalization in the pork industry can be most easily achieved in the context of an ambitious overall agreement. Therefore, NPPC's negotiating objectives for the agricultural sector as a whole are provided below.

Market Access

Tariff Reductions

Notwithstanding the progress made in the Uruguay Round, tariffs on agricultural products remain very high. As previously indicated, the average import duty for pork in other WTO countries is 77 percent, and the average import duty on all agricultural products is 62 percent. Meanwhile, the average U.S. agricultural import duty is 12 percent, and on pork, only 1 percent. The current inequities that the United States faces on import duties in the WTO can only be corrected through the use of a harmonizing formula that results in larger cuts on higher import duties.

NPPC has been an advocate of the Swiss formula, which would result in deeper reductions in higher tariffs based on the universal application of an arithmetic formula to all tariff lines. Current discussion in the WTO has moved in the direction of a "tiered" approach, under which different tariff ranges would be subject to different size reductions, with the highest ranges of tariffs subject to the highest cuts. NPPC is willing to support the "tiered" approach to tariff cuts, as long as this approach leads to deep cuts in the high pork tariffs, to levels comparable to those that would be obtained through application of a Swiss formula.

The best example of the importance of tariff cuts to the U.S. pork industry is Japan. Japan is the largest value export market for U.S. pork exports and second in volume only to Mexico. However, Japan imposes high duties on pork imports if they fall below a pre-established "gate price". The highest single market access priority of the U.S. pork industry in this trade round is obtaining a major reduction in the level of the gate price that Japan applies to pork imports, combined with a major reduction in the import duties on pork imports that come in under the gate price. In addition, it is important that the special safeguard that Japan applies to pork imports be eliminated in this trade round. That safeguard creates substantial volatility in the Japanese market, and has in recent years acted as a serious obstacle to U.S. pork exports.

Sensitive Product Designation

The July 2004 "Framework Paper", developed by the Chairman of the WTO agricultural negotiations as a benchmark for future negotiations, allows for countries to designate an unspecified number of products as "sensitive". These products will be subject to more lenient treatment as far as tariff cutting requirements are concerned. Expansion of tariff rate quotas is mentioned as an alternative option for trade liberalization for these products. The number of products that can be designated as sensitive is subject to further negotiation. Given NPPC's experience with the pork trade, we expect many countries will make use of the "sensitive product" designation for pork if at all possible. For this reason, it is important that the sensitive product designation apply to as small a number of products as possible. Moreover, for those products that are designated as sensitive, NPPC believes that a substantial reduction of tariffs and expansion of tariff rate quota opportunities should be required.

Tariff Caps

Another issue of importance in the market access negotiations is the question of whether tariffs should be "capped" at maximum levels, in cases where tariffs are currently so high that tariff cutting requirements do not yield commercially meaningful results. NPPC supports a tariff capping requirement. As already mentioned, the U.S. pork industry is forced to deal with excessively high tariffs in countries around the world. To provide one example, Norway has a WTO bound rate of 363 percent for pork. Tariff capping would be the most effective way of bringing such high tariffs down to more reasonable levels.

Special and Differential Treatment

Finally, there is another market access issue that, in the view of the NPPC, is of critical importance to the success of the WTO agricultural negotiations. Under the July 2004 Framework Agreement, developing countries will be given "special and differential treatment" when it comes to market access liberalization requirements. This includes more lenient requirements for tariff reductions and tariff rate quota expansion, allowance of additional sensitive product designations, and allowance for the establishment of a special safeguard.

NPPC fully understands and supports the need for special and differential treatment for the poorest, least-developed countries. However, the application of special and differential treatment for all countries that meet the broad definition of a "developing country" could have a very detrimental effect on the agricultural market access negotiations.

For example, NPPC does not believe that Brazil, a middle-income country that has seen explosive growth in its pork exports in recent years, should be allowed to receive special treatment when it comes to market access liberalization for pork. Looking at

the impact of this proposal on a regional basis, exemptions for special and differential treatment could have particularly negative impact on market access results in the Pacific Rim, where 56 percent of the growth in world population and 48 percent of world economic growth are expected to take place over the next five years. Allowing key countries in this and other regions of the world to take advantage of special and differential treatment could substantially diminish the trade liberalization impact of the Doha Development Agenda.

NPPC believes it is of critical importance that U.S. negotiators work in coming months to achieve objective criteria for special and differential treatment that will exclude countries that are competitive agricultural exporters, as well as middle income countries. In addition, objective economic criteria should be agreed on that will allow for the graduation of countries from developing country to developed country status.

Tariff Rate Quota Expansion and Administration

The U.S. pork industry faces tariff rate quotas in many of its primary markets around the world. As mentioned earlier, under the existing Framework Agreement, if a country designates a product as "sensitive", it will be obliged to expand tariff rate quotas, or TRQs. Because of the prevalence of TRQs in agricultural trade, it is important that all existing TRQs, regardless of whether or not they are designated as "sensitive", be substantially expanded through these trade negotiations.

The best example of the restrictive impact of TRQs on U.S. pork exports is the European Union. During the Uruguay Round, the EU established TRQs on pork that represented far less than 1 percent of domestic consumption. Measured as a percentage of domestic consumption, even developing countries like the Philippines did a far better job of offering TRQ opportunities in the Uruguay Round than the EU. Such limited access to the EU pork market is particularly frustrating for our industry, since the United States is one of the best markets that the EU has for its pork exports.

Of course, U.S. pork exporters face more than just TRQ restrictions in the European Union. The EU also maintains non-science based plant approval and sanitary requirements that are major obstacles to U.S. pork exports and which NPPC believes are in violation of the EU's trade obligations. We hope these issues can be addressed as part of the current WTO negotiations. At the same time, a major expansion of existing TRQ opportunities in the EU through the current WTO negotiations would represent an important step in opening up that potentially lucrative market to significant volumes of U.S. pork exports.

Unfortunately, in some cases, like that of the EU, the administration of TRQ's has also been used as an instrument to thwart imports. These kinds of problems arise from the lack of clear, specific rules on import licensing and the administration of TRQs. In the WTO agriculture negotiations, rules on TRQ administration must be

clearly delineated, in a manner that prevents import licensing from becoming a disguised restriction to trade.

In addition, in-quota rates on TRQs should be eliminated.

Export Subsidies and Other Forms of Export Competition

Export subsidies are universally recognized as being the most trade distorting of all government subsidy practices. Under WTO obligations established during the Uruguay Round, the EU can spend up to $175 million a year on export subsidies for pork. We commend the EU for its expression of willingness to eliminate agricultural export subsidies, including export subsidies for pork, as part of the current WTO negotiations. Prior to the Hong Kong Ministerial, the EU should take the additional step of committing to phase these subsidies out very quickly.

The EU says that its position with respect to export subsidies is contingent on action by other WTO members to discipline the use of agricultural export credits and food aid. For this reason, we fully support the current U.S. position that would accept new disciplines on the use of agricultural export credits. For the same reason, we would also accept the imposition of new disciplines on food aid, to the extent necessary to prevent such aid from distorting commercial markets in recipient countries.

Domestic Support

The pork industry recognizes the complexities of agricultural politics and acknowledges that farm programs often are designed to meet social as well as economic objectives. Moreover, there is clearly a major imbalance in current Amber Box spending limitations in the WTO, with the EU allowed to spend far more on trade distorting subsidies than the United States. We therefore fully support the U.S. effort to harmonize WTO spending limitations on trade distorting subsidies.

However, if this trade round is to be successful, we also believe it is critical that the U.S. be willing to cut its own levels of trade distorting support. We believe there are ways such cuts could be achieved without sacrificing the safety net that is important to some U.S. farmers. Some other members of the WTO, in particular the EU, have already taken steps to move their subsidy programs from the trade distorting Amber Box to the Green Box, where the WTO imposes no limits on spending.

We have already mentioned the importance to the U.S. pork industry of gaining significant improvements in market access through this trade round. We are convinced that U.S. willingness to significantly reduce trade distorting domestic support will have a direct and positive impact on the new export opportunities that we obtain through these trade negotiations. This is particularly the case for developing countries, which have established a clear link between their willingness to improve market access, and reduction of trade distorting support in developed

countries. In our view, movement on this issue by the United States would put the focus of the negotiations where it really belongs, on the refusal to this point of the EU, Japan and other high tariff countries to offer major improvements in market access.

Finally, to reiterate a position an earlier point, NPPC supports a zero-for-zero initiative on pork, under which all trade distorting subsidies for pork would be eliminated.

The U.S. Must be a Reliable Supplier of Agricultural Products

Trade liberalization is not a one-way street. If we expect food importing countries to open their markets to U.S. exports and rely more on world markets to provide the food they need, we should at the same time commit to being reliable suppliers. Current WTO rules permit exporting countries to tax exports whenever they choose (GATT Article XI.1), and to prohibit or otherwise restrict exports to relieve domestic shortages (GATT Articles XI.2(a) and XX(i) and (j)). These provisions should be eliminated in conjunction with the phasing out of import barriers. Such a move would not affect the ability of the United States to impose trade sanctions for reasons of national security; that right would be preserved under GATT Article XXI.

Comments on the Status of World Trade Organization Negotiations on Agriculture
Submitted by R-CALF USA
To the Agriculture, Nutrition and Forestry Committee of the U.S. Senate
September 28, 2005

The Ranchers-Cattlemen Action Legal Fund – United Stockgrowers of America (R-CALF USA) appreciates this opportunity to comment on the status of World Trade Organization (WTO) negotiations on agriculture, particularly with regard to the cattle and beef industry.

R-CALF USA is a non-profit association that represents over 18,000 U.S. cattle producers in 47 states across the nation. R-CALF USA works to sustain the profitability and viability of the U.S. cattle industry, a vital component of American agriculture. R-CALF USA's membership consists primarily of cow-calf operators, cattle backgrounders, and feedlot owners. Various main street businesses are associate members of R-CALF USA.

I. Introduction

R-CALF USA believes the current round of negotiations at the WTO – the Doha Development Round – provides an important opportunity for the U.S. to address deep imbalances in the global cattle and beef markets. The world market place for cattle and beef is one of the most grossly distorted markets of any sector. Cattle and beef markets are plagued by massive subsidies, including those provided through state trading enterprises; high tariffs and the manipulation of unscientific sanitary and phytosanitary measures to block imports.

These distortions drive down prices for U.S. producers and shut down markets for U.S. exports. As a result, the American cattle industry suffered catastrophic losses during the 1990s and up until the last two years. While the American cattle and beef market remains one of the most open in the world, markets abroad have slammed their doors shut to American exports. As a result, the U.S. has not enjoyed a trade surplus in cattle and beef trade since 1997, and the deficit in the sector has exploded over the past six years, hitting more than $3.3 billion in 2004.[1] Over the same period, the U.S. has lost its position as a global exporter of beef. While the U.S. was the second-largest exporter of beef in the world in 2000, accounting for 19.5% of global beef exports, in 2005 the U.S. is projected to account for only 4.1% of world beef exports, falling behind Brazil (the number one exporter), Argentina, Australia, Canada, the EU, India, New Zealand, and Uruguay.[2]

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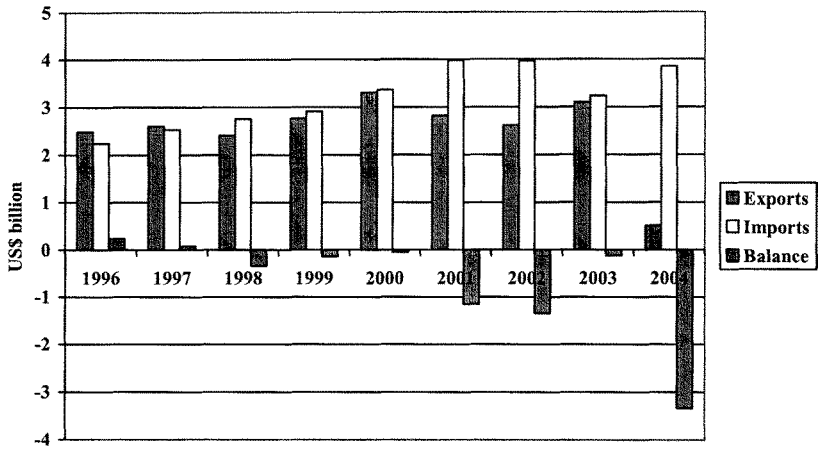
[1] U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics for HS 0102 (cattle), 0201 (fresh and chilled beef), and 0202 (frozen beef).
[2] U.S. Department of Agriculture, Foreign Agricultural Service, *Livestock and Poultry: World Markets and Trade*, April 2005.

U.S. Trade in Cattle and Beef



Source: Census Bureau Foreign Trade Statistics for HS 0102, 0201, and 0202.

Since 1994, more than 122,000 cattle ranches and farms have closed down or gotten out of the beef cattle business.[3] The steep decline of the cattle industry – the largest single component of American agriculture – has devastated ranching families and rural communities across the nation.

The underlying problems facing the American cattle industry are caused in part by the massive distortions in the global cattle and beef market. The Doha Development Round at the WTO provides a crucial opportunity for moving towards that goal. While a number of steps that have been taken in the current round of negotiations are welcome advances, a number of other trade issues of critical importance to the cattle and beef industry have not been adequately addressed to date. Commitments made in the Doha Round to eliminate export subsidies affecting the cattle and beef industry by a date certain are a needed step forward, but sufficient progress remains to be seen on the issues of domestic support, market access, and special safeguards. It is essential that the current round of WTO negotiations address special measures for perishable and cyclical products and that America's ability to effectively enforce its trade remedy laws be fully maintained in the Doha Round. Meanwhile, given that the Agreement on Sanitary and Phytosanitary Measures has not been opened to negotiations in the Doha Round, the Administration and Congress need to use other means available to insist that unsound sanitary and phytosanitary barriers to American beef and cattle exports be eliminated and

[3] U.S. Department of Agriculture, National Agricultural Statistics Service Agricultural Statistics Database, *U.S. and All States Data – Cattle and Calves*, 1994 – 2004.

bring trade cases to remove such barriers if necessary. Unless these outstanding issues receive the urgent attention they need, the current round of negotiations may do little to level the playing field for America's cattle producers.

II. Eliminate Harmful Subsidies

Major beef producing nations provide billions of dollars of subsidies to beef producers through export subsidies and domestic support programs. Brazil, Canada, China, the EU, Japan, Korea and other producers all subsidize beef production, while the U.S. provides no subsidies to the cattle and beef industry outside of disaster assistance and drought relief.[4] In addition, countries such as Australia and Canada use state trading enterprises for beef and for cattle feedstuffs such as wheat. Wheat Boards in these countries, for example, are able to guarantee domestic cattle producers artificially low feed prices, further disadvantaging American ranchers. These massive subsidies severely distort the global market for cattle and beef, artificially depressing prices and undercutting American producers.

R-CALF USA believes that these trade-distorting subsidies need to be eliminated in order to create a truly balanced international cattle and beef market in which the domestic industry can compete and thrive. R-CALF USA welcomes the commitment made in the Doha Development Round to eliminate export subsidies by a date certain, and believes the U.S. must push aggressively to reach agreement on the earliest termination date possible for these subsidies.

On the issue of domestic support, R-CALF USA believes that a sectoral approach would be the most appropriate way to address distortions in the cattle and beef sector. While the U.S. has reserved the right to pursue sectoral initiatives in the Doha round, the U.S. has not yet pushed trading partners to adopt a sectoral approach for cattle and beef support mechanisms. Given the larger difficulties in reducing and rationalizing domestic support across all of agriculture, a sectoral approach on this matter provides significant advantages to American producers in a sector where the U.S. already provides no trade-distorting support and foreign support regimes severely disadvantage domestic producers. The goal of such an approach should be to eliminate all domestic support measures that do not fit the criteria of the so-called permissible "green-box" subsidies. Internal support mechanisms for beef permitted under the so-called "blue-box" category should be as narrow and limited as possible. Finally, the U.S. should work in the Doha negotiations to eliminate state trading enterprises that undermine American cattle and beef producers.

III. Expand Market Access

U.S. tariffs on beef imports are among the lowest in the world. In-quota tariffs on beef imports range from 4 to 10 cents per kilogram,[5] and calculated duties for all beef

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[4] For a summary of foreign subsidies in the cattle and beef sector, see Office of the U.S. Trade Representative and the U.S. Department of Commerce, *Subsidies Enforcement Annual Report to Congress*, February 2004, at 37 – 43.

[5] U.S. Harmonized Tariff Schedule at Chap. 2, headings 0201 – 0202 (supp. 2005).

imports in 2004 equaled less than 2.6% of the value of those imports.[6] In addition, dozens of countries receive duty-free access to the U.S. market for in-quota beef imports, either through bilateral free trade agreements or unilateral trade preference programs.[7] Major U.S. trading partners, on the other hand, apply tariffs rates four to ten times higher than the effective U.S. rate. The European Union, for example, imposes tariffs of at least 12.8 percent on beef imports.[8] Japan applies a tariff of 38 percent on beef imports, and Korea's tariffs on beef imports are 40 percent or higher.[9]

In the face of such disproportionately high tariffs in prime export markets, and in light of the already extremely low tariffs imposed on imports into the U.S., a sectoral approach to market access in the beef sector is needed. While the U.S. has embraced the concept of sectoral initiatives, there is no indication the U.S. negotiators are working to create a sectoral approach for market access in the beef sector in particular. Sectoral negotiations on cattle and beef trade will allow the U.S. to seek parity in tariff and quota rates by pushing for harmonization of world rates to the U.S. level. If, however, a formula approach must be used, it is essential that the formula require those trading partners with the highest rates to undertake the steepest reductions and that the reductions achieve parity or near-parity within the shortest possible time. The same market-opening formula should apply to all major cattle-producing nations with high tariffs, regardless of their level of development. Whatever approach is employed, the goal of market access negotiations in beef and cattle in the Doha round should be the same: Bring trading partners' tariff and quota levels to parity with the levels granted by the U.S.

IV. End Unjustifiable Sanitary and Phytosanitary Barriers

In addition to tariffs, trading partners' abuse of sanitary and phytosanitary standards (SPS) presents a nearly insurmountable obstacle to exports of American beef. Scores of foreign countries shut their markets to American beef following the reported first bovine spongiform encephalopathy (BSE) case in the U.S. at the end of 2003, which involved a Canadian animal. Export markets have largely remained closed after the second reported BSE case in the U.S. this year. Currently, 54 countries prohibit some or all imports of U.S. beef, citing concerns about BSE.[10] The United States has repeatedly expressed concerns that many of these import bans are unjustified because they have been imposed with no science-based risk assessment, with an inadequate scientific basis, and/or on the basis of SPS standards that are inconsistent with international standards.[11]

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[6] Calculation based on data from the U.S. International Trade Commission's Interactive Tariff and Trade DataWeb for HS 0201 (fresh and chilled beef) and 0202 (frozen beef).
[7] U.S. Harmonized Tariff Schedule at Chap. 2, headings 0201 – 0202 (supp. 2005).
[8] European Union Tariff Schedule at 0201 – 0202 (2004).
[9] U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2005*, at 317 and 359.
[10] U.S. Department of Agriculture, Animal and Plant Health Inspection Service, *BSE Trade Ban Status as of 09/21/05* at http://www.aphis.usda.gov/lpa/issues/bse/trade/bse_trade_ban_status.html .
[11] See, e.g., U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2005*, sections on Argentina, Brazil, Chile, China, Hong Kong, Japan, Korea, and Taiwan at 11, 32, 65, 91, 257, 320, 364, and 596, respectively.

The unscientific BSE bans instituted by U.S. trading partners have taken a terrible toll on American cattle ranchers. The value of U.S. exports of beef and cattle plummeted by more than 83 percent from 2003 to 2004, representing a loss of nearly $2.6 billion in export revenue for the industry in just one year.[12] These losses come on the heels of other unjustifiable SPS barriers to U.S. beef exports, such as the European Union's ban on imports of hormone-treated beef dating back to 1988. While the SPS Agreement is not open for negotiations in the Doha Round, there are many steps the U.S. can take to push for an end to these bans on U.S. beef exports, including through bilateral negotiations, trade enforcement, and improvements in the U.S.'s own controls on cattle imports from countries known to have BSE risks. Ultimately, the U.S. must do everything it can to re-open these essential markets for American beef as quickly as possible.

V. Create Special Rules for Perishable and Cyclical Agricultural Products

In recognition of the unique challenges that producers of perishable, seasonal, and cyclical agricultural products face in international markets, Congress has directed U.S. trade negotiators to:

> eliminat[e] practices that adversely affect trade in perishable or cyclical products, while improving import relief mechanisms to recognize the unique characteristics of perishable and cyclical agriculture;[13]
>
> ensur[e] that import relief mechanisms for perishable and cyclical agriculture are as accessible and timely to growers in the United States as those mechanisms that are used by other countries;[14]

and

> [seek to] develop an international consensus on the treatment of seasonal or perishable agricultural products in investigations relating to dumping and safeguards and in any other relevant area.[15]

While the U.S. has made an initial proposal to clarify and improve rules on anti-dumping and countervailing duty investigations of perishable, seasonal, and cyclical products in the context of the rules negotiations at the WTO,[16] the U.S. has also proposed eliminating the special safeguard for agriculture in negotiations on the Agreement on Agriculture without proposing any specific measures to be taken under the Agreement to

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[12] U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics for HS 0102 (cattle), 0201 (fresh and chilled beef), and 0202 (frozen beef).
[13] 19 U.S.C. § 3802(b)(10)(A)(ix).
[14] 19 U.S.C. § 3802(b)(10)(A)(x).
[15] 19 U.S.C. § 3802(b)(10)(B)(i).
[16] *Identification of Certain Major Issues under the Anti-Dumping and Subsidies Agreements*, Submission by the United States to the Negotiating Group on Rules, WTO, TN/RL/W/72, March 19, 2003.

preserve countries' ability to safeguard producers of perishable, seasonal, and cyclical products from the harmful impact of trade distortions.[17]

R-CALF USA believes that the special agriculture safeguard in Article V of the WTO Agreement on Agriculture should be maintained. If the special safeguard has to be eliminated, this should only occur after a new, stronger regime of import relief mechanisms is established for cattle and beef. The U.S. successfully included a quantity-based and price-based beef safeguard in the U.S. – Australia Free Trade Agreement, and this is a model that could be built upon in the Doha Round of negotiations. Specifically, the administration should seek to construct a safeguard mechanism for cattle and beef that incorporates an automatic trigger for the safeguard rather than requiring the filing of a petition from a highly fragmented industry. An automatic trigger will also ensure that import relief is not delayed by an onerous petition process, but instead is available as soon as possible to the producers of perishable products who need immediate relief. In addition, the safeguard should be designed to protect domestic producers not only from sudden spurts in volumes of imports but also from excessive price volatility, which poses a particularly severe risk for producers of perishable products like cattle and beef.

VI. Preserve and Strengthen U.S. Trade Laws

In addition to negotiations regarding the Agreement on Agriculture, negotiations on the anti-dumping, countervailing duty, and safeguard rules are also a core concern of R-CALF USA members. While establishment of a sector-specific safeguard that recognizes the unique challenges the cattle and beef industry faces is essential, as discussed above, the U.S. must also work to ensure that the overall effectiveness of our trade laws, upon which the industry continues to rely, is preserved and strengthened. Of particular concern are on-going Rules negotiations in the Doha Round. Some countries have seized upon the Rules negotiations to try to weaken U.S. trade remedy laws. The U.S. needs to resist these threats and instead use the negotiations to clarify and improve WTO rules so U.S. trade laws can be preserved and strengthened. Congress has expressed its support for such a position through one of its principal negotiating objectives for trade agreements, which is to:

> preserve the ability of the United States to enforce rigorously its trade laws ... and avoid agreements that lessen the effectiveness of domestic and international disciplines on unfair trade, especially dumping and subsidies, or that lessen the effectiveness of domestic and international safeguard provisions.[18]

Unfortunately, to date the Rules negotiations appear to be headed in exactly the wrong direction – the very direction that Congress foresaw and directed U.S. negotiators to avoid. Since the Uruguay Round was concluded in 1994, WTO dispute panels and the Appellate Body have made numerous adverse

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[17] *Proposal for Comprehensive Long-Term Agricultural Trade Reform*, Submission from the United States to the Committee on Agriculture Special Session, WTO, G/AG/NG/W/15, June 23, 2000.
[18] 19 U.S.C. § 3802(b)(14)(A).

and overreaching decisions regarding U.S. trade laws. Some of these decisions have created new obligations beyond those agreed to by the parties in negotiations, and some panels have reached adverse conclusions by applying a more onerous standard of review than that provided for in WTO agreements. To redress these wrongs, the U.S. should work to clarify and improve the agreements so that: Adverse dispute settlement decisions can be resolved favorably; U.S. trade laws are protected from further challenge; and the U.S. enjoys the ability to strengthen its trade laws in the future. The U.S. should also take advantage of the current negotiations to ensure that future WTO panels cannot overreach their authority. While U.S. negotiators have made some positive proposals in the current round of negotiations, much more needs to be done if the problems that have arisen over the last decade are to be resolved.

In addition, an aggressive reaction is needed to stave off seriously harmful proposals that have been made by foreign countries in the Rules negotiations. Of the more than 180 formal submissions made in the negotiations so far, the vast majority are designed to weaken trade remedy laws and limit the ability to effectively enforce those trade laws. These proposals must be rejected if the U.S. is to preserve its ability to counteract unfair trade practices that undermine American producers.

VII. Conclusion

R-CALF USA believes that the current round of negotiations at the WTO can benefit America's ranchers if the negotiators work to eliminate gross distortions of the global cattle and beef market. The U.S. should pursue an aggressive agenda in the Doha Round to: eliminate subsidies; harmonize market access; preserve the special safeguard for agriculture; establish special rules for perishable, seasonal and cyclical products; and preserve and strengthen U.S. trade laws. This agenda must be accompanied by vigorous efforts to end unjustifiable sanitary and phytosanitary barriers to U.S. cattle and beef exports. America's cattle and beef producers are faced with unfair trade practices, a sharp deterioration in our trade balance, and threats to U.S. trade laws. The industry has lost tens of thousands of farms and ranches in the past decade and stands to lose many more. This decline can be reversed if the Doha Round results in trade that is open, fair, and balanced.

R-CALF USA appreciates this opportunity to present its views, and looks forward to a continued dialogue with the Committee on these important issues.

Comments by Constance E. Tipton
President and CEO
International Dairy Foods Association

For the Senate Agriculture, Nutrition, and Forestry Committee Hearing on the Status of the World Trade Organization Negotiations on Agriculture
September 21, 2005

Mr. Chairman and Members of the Committee, the International Dairy Foods Association (IDFA) would like to thank you for this opportunity to submit a statement as part of today's hearing on the World Trade Organization (WTO) negotiations on agriculture. IDFA and its constituent organizations -- the Milk Industry Foundation, the International Ice Cream Association and the National Cheese Institute -- represent more than 500 companies that account for over 80 % of the dairy products consumed in the United States.

In addition to our obvious interest in dairy products trade, our milk processors, yogurt and ice cream manufacturers also have strong interests in liberalizing sugar trading rules as sweeteners are an important cost factor in the manufacture of flavored milk beverages, yogurt and ice cream products.

Agreement among the 148 WTO member countries on an ambitious and comprehensive agricultural package holds the greatest promise for the U.S. dairy industry. Only through a broad agreement that continues to tie increases in agricultural market access with further reductions in domestic and export support can we achieve significant agricultural trade liberalization. Within the scope of the agricultural negotiations, IDFA wishes to emphasize that continued agricultural reforms should be comprehensive, covering all products, policies and countries.

Market Access

For the U.S. dairy industry and other sectors to benefit from the Doha Round of agricultural negotiations, substantial new commitments on market access are required. Accordingly, we are pleased that WTO Members have agreed to substantially improve market access for all products. However, we are extremely concerned that developed WTO Members may also designate a number of products (such as dairy and sugar) to be treated as "sensitive." This is a dangerous concept which may allow countries such as Canada and Japan to shield their dairy industries from international competition. For example, Canada maintains prohibitively high duties on ice cream, yogurt, and cheese to protect their dairy industry. We urge U.S. policy makers to limit the number of permissible sensitive products and to vigorously pursue an agreement which ensures true and substantial market access. No product should be exempt from reduction commitments.

In addition, we urge the elimination of all in-quota tariffs on products subject to tariff-

rate quotas (TRQs). We also support substantial expansion of all tariff-rate quotas and improved administration of tariff-rate quota disciplines to ensure that TRQs do not restrict trade.

Domestic Subsidies

With respect to the agricultural rules on domestic support, IDFA supports continued reduction and eventual elimination of all trade-distorting domestic supports. Domestic support policies which artificially stimulate or restrict production or ensure inefficient production can have significant effects on international market conditions. We urge U.S. policy makers to advocate deep, product-specific cuts in trade-distorting domestic support. WTO Members having higher levels of domestic support should make greater overall reductions.

IDFA also believes that the U.S. objective should be to encourage countries to move towards green box policies and minimize the use of the amber and blue boxes. We are concerned that the new criteria for the blue box may just facilitate shifting of amber box support into the blue box. We believe that WTO agricultural discussions should clarify blue box criteria to ensure that these programs are truly less trade-distorting than amber box-type subsidies and that WTO Members are not able to increase overall trade-distorting domestic support by "box shifting."

Export Subsidies

We are pleased that WTO Members agreed to a complete elimination of export subsidies in the July 2004 framework agreement. However, we urge that export subsidies be eliminated within five years. The U.S. dairy industry's competitiveness in international markets has been greatly hindered by European Union export subsidies, which have unfairly enabled its dairy industry to capture a large percentage of world dairy trade. Without export subsidies, world market dairy prices would be higher and more efficient dairy producers, including the U.S. dairy industry, would enjoy a larger share of international markets.

Geographic indications

Finally, IDFA members are extremely concerned about efforts by the European Union (EU) in the current Doha Round negotiations to extend to foods the geographic indication (GI) protections that were established exclusively for wines and spirits in the Uruguay Round Agreement on Trade-Related Aspects of Intellectual property Rights (TRIPS). IDFA is adamantly opposed to extending GI to food products.

The EU's Protected Designation of Origin (PDO) directive restricts the use of certain names (i.e. Parmigiano Reggiano, Feta, Gorgonzola, etc.) to cheese made or processed in a defined geographic area of Europe. The EU's PDO concept or its synonym, geographic indications (GI) is currently being debated at the WTO level. Presently, under the 1994 WTO TRIPS agreement, there is a provision which protects GI for wines and spirits. The

EU is now demanding that the TRIPS Agreement also include GI protection for the following cheeses:

Asiago;
Comte;
Feta;
Fontina;
Gorgonzola;
Manchego;
Mozzarella di Bufala Campana;
Parmigiano Reggiano;
Pecorino Romano;
Reblochon; and
Roquefort.

Should the EU obtain recognition of its GIs at the WTO level it is likely that it and other countries would wish to expand protection to other cheeses such as Cheddar, Edam, Emmental, Gammelost, Greyere, Mozzarella, Muenster, Neufchatel, and Swiss. As a result, U.S. cheese manufacturers would be prohibited from using these names in their exports or in the U.S. domestic market. U.S. companies would be forced to develop new and confusing names for their traditional cheese products.

Continuing the process of global reform of agricultural policies and rules in order to achieve more open markets and expanded trade is of great importance to IDFA. Thank you for the opportunity to comment on the WTO Doha Development Agenda negotiations.

QUESTIONS AND ANSWERS

SEPTEMBER 21, 2005

United States Senator Tom Harkin
Questions for the Record
Senate Agriculture Committee
Hearing on the Status of WTO Negotiations
September 21, 2005

Question:
Can you please clarify what the President meant in his comments at the G-8 Summit in July and last week at the United Nations? Did he intend to suggest we would abolish all support for U.S. agriculture, even those programs like conservation and rural development which are clearly non-trade-distorting?

Answer:
At the United Nations, President Bush was clear that we will work to end "unfair agricultural subsidies," those subsidies that distort the terms of trade. The President was not referring to non-trade distorting programs that support important rural development and conservation goals. Consistent with President Bush's statement, the U.S. agriculture proposal of October 10, 2005, offers significant reductions in the Aggregate Measurement of Support , "amber" box, or trade-distorting domestic support, but does not place limits on non-distorting "green" box programs, such as conservation.

Question:
If the Doha Round is not completed within the next couple of years, some analysts, including USTR negotiators, have suggested that other countries are likely to pursue additional cases against the U.S. farm program in the WTO dispute settlement process, following up on Brazil's successful claim against the U.S. cotton program earlier this year. Could you please indicate which countries may be considering such cases in the WTO, and on what subjects or program issues?

Answer:
If we are unable to successfully complete the Doha Round, it would not be surprising if other countries launched additional challenges to U.S. farm programs. The successful completion of the Doha Round would fundamentally alter the basis of any such challenges, and other countries appear to be taking a "wait and see" attitude for the moment. If, however, we do not succeed in Hong Kong, we may well have difficult consultations with Members such as Uruguay in January.

Questions
Senate Agriculture Hearing – WTO Agriculture Negotiations
September 21, 2005
Senator Blanche L. Lincoln

For Allen Helms:
1) Mr. Helms, we've heard that an elimination of the Step 2 Program immediately would have a significant impact on marketing this year's crop. Can you explain why or why not this is the case?

Response:
While the U.S. Administration has proposed legislation to Congress that would end Step 2 upon its enactment, the National Cotton Council has openly questioned the wisdom of taking such a step in the middle of a marketing year. The Council is of the opinion that compliance measures and timeframes within agriculture must keep in mind the cyclical nature of farming and of marketing crops. Dramatic program changes should not be forced on farmers in the middle of their marketing year for their crops.

Growers have made production and marketing decisions based on the expectation that the program for the '05 upland crop would be unchanged – this includes the Step 2 provision of the marketing loan program. Harvest and marketing of this year's crop is in full swing. Changing the Step 2 program within the horizon of these business decisions creates an unnecessary burden by introducing a change mid-stream in their business decisions.

Domestic mills that spin cotton represent the largest customer for the US grower with purchases of approximately 6 million bales. Historical survey data from Cotton Incorporated indicate that domestic mills, on average, take positions that cover their purchases of cotton for 9 to 10 months into the future. In many cases, these positions reflect contracts in which the price has been fixed. Mills have agreed to purchase at a fixed price based on New York futures. These positions were made with the expectation that the Step 2 program would be in effect at the time the bale is spun into yarn. Analysis indicates that removal of Step 2 causes a drop in NY futures. Mills who have previously fixed their price at the higher NY market are put at a severe disadvantage with the loss of the program.

The US merchandising segment is expected to export approximately 16 million bales in the 05/06 marketing year. Almost 7 million bales of export sales for the 05/06 marketing year have already been booked with the expectation of a Step 2 program in effect at the time of shipment. It is also important to note that these marketing year sales may be for shipment by any date prior to July 31, 2006.

If the program is to be eliminated at some future date, we urge Congress to take into account the timeframe of existing business decisions and give industry participants sufficient notice so as to lessen the adverse economic impacts.

2) Mr. Helms, the WTO case brought by Brazil against the US cotton program has given the cotton industry first-hand experience with the workings of the WTO. One issue highlighted by the case is the interaction between the Agriculture Agreement and the Subsidies Code. How should we address those concerns in the Doha trade agreement?

Response:
Prior to the Brazil case, it was widely accepted that if the United States stayed below the $19.1 billion ceiling on our Aggregate Measure of Support, then we were in compliance with our WTO commitments. However, the Brazil case shows that not to be the case. Although the United States was meeting its overall commitments in the Agriculture Agreement, the dispute panel determined that the United States was in violation of the Subsidies Code portion of the agreement. Specifically, the presence of certain U.S. programs was deemed to cause significant price suppression and serious prejudice to Brazil's cotton interests. Of equal concern is the lack of specificity and rigor employed by the panel in their finding of serious prejudice.

These uncertainties must be addressed in the Doha agreement. We can not be in a situation where there are uncertainties as to the conditions that constitute compliance with our WTO commitments. The language of the agreement must be clear. If the United States is meeting our commitments under the Agriculture Agreement, then our farm programs are not subject to challenge under the Subsidies Code. It is important to clarify that the mechanism does not eliminate the ability to challenge the programs of another country, but simply adds a hurdle that requires the first country to prove that the second country has operated the program at levels in excess of their commitments. In addition, such a shield would not preclude a country from challenging a measure as a prohibited subsidy. Without the protection offered by some type of shield or hurdle, allowable support programs are at continual risk of facing challenges before a WTO panel.

United States Senator Blanche Lincoln
Questions for the Record
Senate Agriculture Committee
Hearing on the Status of WTO Negotiations
September 21, 2005

Question:
Amb. Portman, you and I have had several conversations in recent months, and we have talked at length about the importance of opening markets for our producers. I think we agree that the Doha talks are by far the most important aspect of our ongoing trade agenda. I know you are aware of what happened in Cancun, and the significant delays we've seen since. There is no question that agriculture is the reason progress has stalled in recent years, and we need your commitment that you will continue to stand up for our farmers. Can you provide assurances that moving forward in the WTO will not require the U.S. to "trade away the farm"? What specific steps will the Administration take to ensure that market access benefits will be achieved that are at least equal to the cuts in trade distorting domestic supports that our negotiators have already agreed to?

Answer:
The Doha negotiations will improve export opportunities for U.S. producers by reducing tariffs in foreign markets and reducing subsidized competition our producers face in the marketplace. While the United States will also reduce tariffs and place new limits on trade-distorting domestic support programs, our negotiating objective is to maximize new export opportunities and retain appropriate flexibility for domestic policy formation, even as we continue the transition to less trade-distorting support programs. It is vital that we create the right balance across these negotiating topics and we will only accept a deal that improves the situation for our farmers.

Question:
Amb. Portman, some reports indicate that you have discussed "scenarios" or trade offs with the Europeans in terms of domestic support and market access. Can you elaborate on what those scenarios may entail?

Answer:
We have not discussed trade-offs between domestic support and market access with the European Union. Our negotiations have focused on implementing the principles of the Doha mandate and the July 2004 Framework, which required substantial improvement in both market access and significant reductions in trade-distorting domestic support, along with elimination of export subsidies. We have been clear that market access offers that fail to provide meaningful new access are not a basis for a successful negotiation and have also made clear that we need the appropriate balance between market access and domestic support.

Question:
Amb. Portman, USTR continuously assures Arkansas rice producers that trade agreements will result in higher sales and prices. Ours is an export-oriented industry, and Arkansas rice producers and millers have joined with their colleagues in the South and California in strong support of trade agreements like the NAFTA, Uruguay Round, and most recently, CAFTA.

These promises quickly tarnish however when our trading partners fail to live up to their obligations. For example, our rice industry has spent close to three quarters of a million dollars to defend against anti-dumping charges by Mexico. Access for U.S. brown rice in the EU was reduced when the EU withdrew the margin of preference concession last year. I also understand that Korea has yet to implement its commitment to increase market access for rice, while at the same time Korea is asking for a Free Trade Agreement with the United States.

Trade agreements without implementation and enforcement are worthless to U.S. rice farmers and millers. How will the Administration ensure compliance and enforcement of a Doha round agreement?

Answer:
We are active on several fronts defending the interests of the U.S. rice industry, including Uruguay's threat of a possible WTO complaint on domestic support given to the U.S. rice industry; ensuring continued markets for U.S. rice in Taiwan; and pressing Japan to change new guidelines related to rice cakes. In addition, in response to antidumping duties imposed by Mexico on U.S. rice, the United States filed a WTO dispute case. We won in the initial panel phase of the dispute proceedings. Mexico appealed the panel decision, and an Appellate Body report will be issued no later than November 29. We also continue to press the Korean Government to act quickly to ratify the agreement that it reached with the United States and other WTO Members late last year regarding market access for rice imports. The Korean Government has indicated that its National Assembly will consider ratifying the agreement in the coming weeks. We are watching developments closely, and we will continue to urge the Government of Korea to take prompt action on this.

USTR will continue to carefully monitor implementation of and compliance with WTO and bilateral agreements. When it appears that compliance has not been forthcoming, we will work closely with Congress, industry and other stakeholders to determine the course of action to ensure compliance. Depending on the situation, that response may be litigation, consultation, and/or capacity building.

Question:
Amb Portman, as you may be aware, I have been very concerned about the direction the U.S. Government is taking in the Rules negotiations in the Doha Round with regard to the treatment of U.S. trade laws. It is my understanding that the U.S. Government has yet to table papers on numerous specific areas for strengthening the trade law as they pertain to antidumping, countervailing duty, and safeguard provisions.

I would like to reiterate that many of my constituents in Arkansas, companies, and workers have used the trade laws to challenge unfair trade practices which have hurt their respective industries. Last week I appeared before the U.S. International Trade Commission on behalf of steel pipe producers who are seeking relief through Section 421 of the 1974 Trade Act. I believe that it is essential to the future of our agriculture and manufacturing sectors that we have trade laws on the books that can be used and enforced.

Can you provide me with information as to the progress being made by U.S. government trade officials in the WTO Rules negotiations and specifically what actions are being taken to ensure that we can vigorously enforce our trade safeguards?

Answer:
I share your belief that strong and effective remedies against unfair trade practices are essential to ensure that the benefits gained from trade liberalization are not undermined. We must continue to enforce vigorously the trade laws on the books so that American businesses and workers are competing on a level playing field.

The United States is pursuing an aggressive affirmative agenda seeking to ensure that our trade laws remain strong and effective, to address the unfair trade practices of others, and to promote greater transparency and due process in foreign trade remedy proceedings so that U.S. exporters are treated fairly. We have been very active in the WTO Rules negotiations, tabling a number of ambitious proposals to further our objectives. For example, we have submitted proposals to strengthen disciplines on subsidies, as well as to address concerns with circumvention of trade remedies and abuse of "new shipper" reviews. We have also tabled proposals to address issues arising from WTO dispute settlement reports, such as zeroing, distribution of collected antidumping/countervailing duties, and injury determinations, among others. Our papers have also raised specific Trade Promotion Authority objectives such as the need to address the unique issues associated with perishable/seasonal agricultural products and the differing treatment of direct and indirect taxes.

As part of our aggressive strategy, we have tabled detailed new proposals at the most recent WTO Rules meetings. At the September 2005 meeting, we tabled a detailed proposal on the critical issue of the causation standard in injury determinations, as well as a paper highlighting our objections to certain proposals tabled by other Members. At the October 2005 meeting, we have tabled a detailed proposal designed to strengthen our ability to address the problem of circumvention of trade remedy orders. We are working on tabling additional proposals at upcoming meetings to further our strategy. I look forward to working with you to determine how best to advance these proposals, and to ensure that our trade laws remain strong and effective.

United States Senator Debbie Stabenow
Questions for the Record
Senate Agriculture Committee
Hearing on the Status of WTO Negotiations
September 21, 2005

Question:
I am concerned that the Administration has said that they will reduce domestic support programs only if the right market access package is included in the negotiations. If there is no market access package, are you prepared to defend the United States dairy industry and other commodity programs in the WTO?

Answer:
The United States presented an ambitious proposal for agricultural reform on domestic support, market access, and export competition in line with the Doha mandate and the terms of the July 2004 Framework. We have made it very clear that our proposal was conditional on other members taking equally ambitious action on market access, greater harmonization of domestic support, elimination of export subsidies, and greater certainty on litigation protection. We remain hopeful that the EU and others will come forward with a serious market access proposal. Movement on market access is an essential component of any path forward on agriculture.

Successful completion of the Doha Round, including negotiated cuts to domestic support, offers the best protection against challenges to our commodity programs. USTR vigorously defended recent challenges to our cotton programs and will continue to defend our programs vigorously should future challenges arise.

Question:
What are your plans if the right balanced approach is not found?

Answer:
The U.S. proposal calls for high levels of ambition in all three pillars of the negotiations, market access, domestic support, and export competition. Each of these elements must be addressed for the agriculture negotiations to move forward. As we near the Hong Kong WTO ministerial, we will be reassessing our position.

Question:
In terms of WTO reform and dairy reform, how do you see the EU, United States, Japan and developing countries finding a balanced agreement?

Answer:
U.S. dairy producers and other producer groups support negotiations on agriculture in the WTO as a key component of a more equitable trading system. There is much work to be done, but the outlines of a deal which will address current disparities in protection and trade-distorting support

has been set. Significant progress must be made in all three pillars (domestic support, market access, and export competition) to achieve an outcome that benefits all WTO members. Now that the U.S. proposal is on the table, the burden is on the EU, Japan, and developing countries to come forward with meaningful proposals as well. In particular, we are calling on the EU to come forward with a more ambitious offer on market access. We will continue to work closely with all WTO members to achieve a balanced result.

United States Senator Ken Salazar
Questions for the Record
Senate Agriculture Committee
Hearing on the Status of WTO Negotiations
September 21, 2005

Question:
Have you thought about the direct affects of the Doha Round on small, family farmers? And, if so, what tactics are you taking to ensure that these negotiations will not contribute to their decline?

Answer:
One out of every three acres planted in the United States is planted for export, and 95 percent of the world's consumers live outside the United States. By further expanding markets overseas, all farmers, regardless of size, will benefit. The U.S. agriculture proposal also retains flexibility for Congress and USDA to create a range of farm programs, with support limits on those with trade-distorting characteristics and unlimited expenditures on non-trade distorting programs.

Question:
How do you communicate with farming and ranching communities about the trade negotiations? Have you convened a meeting of farmers or farm groups to hear their concerns? Would you commit, today to scheduling a regular briefing for farmers to call in to?

Answer:
USTR has consulted widely throughout the negotiating process with our private-sector advisers, over 200 of which represent U.S. food and agriculture groups and many of which are farmers and ranchers. We routinely schedule briefings for advisers and others interested in the agriculture negotiations to inform them of progress made and to hear their questions, concerns, and advice as the negotiations develop. We will continue to do so during subsequent negotiations and in Hong Kong.

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