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EXPANDING U.S. AGRICULTURE TRADE AND ELIMINATING BARRIERS TO U.S. EXPORTS

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

SECOND SESSION

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EXPANDING U.S. AGRICULTURE TRADE AND ELIMINATING BARRIERS TO U.S. EXPORTS

TUESDAY, JUNE 14, 2016

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

The subcommittee met, pursuant to call, at 10:01 a.m., in Room 1100, Longworth House Office Building, the Honorable Dave Reichert [chairman of the subcommittee] presiding.

[The advisory announcing the hearing follows:]

WAYS AND MEANS
CHAIRMAN KEVIN BRADY

Chairman Reichert Announces Hearing on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports

House Ways and Means Trade Subcommittee Chairman Dave Reichert (R-WA) announced today that the Subcommittee will hold a hearing on "Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports." The hearing will focus on how high-standard and ambitious trade agreements that are thoroughly implemented and fully enforced can open much-needed markets to U.S. agriculture exports and benefit rural and urban America. **The hearing will take place on Tuesday, June 14, 2016, in room 1100 of the Longworth House Office Building, beginning at 10:00 AM.**

In view of the limited time to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Tuesday, June 28, 2016**. For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

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

Note: All Committee advisories and news releases are available at http://www.waysandmeans.house.gov/.

Chairman REICHERT. This hearing will come to order. Thank you all for being here, and good morning. This subcommittee will come to order, and welcome to the Ways and Means Trade Subcommittee hearing on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports. Before hearing from our witnesses, I would like to make a few points myself, and will turn to Ranking Member Rangel also for some opening statements.

The United States is and must remain the world's leading agricultural exporter. We excel at producing and exporting a wide variety of agriculture products. For example, my home State of Washington is a leading exporter in fruit, vegetables, and wheat. If our agriculture sector is to continue to grow and to be a source of prosperity and jobs, we must be able to sell to the world's expanding markets. In addition, agricultural exports benefit both rural and urban America.

It is well known that America's farmers and ranchers increasingly depend on expanding exports. However, less well known is the fact that two-thirds of the jobs supported by agriculture exports are outside of farming. These jobs are in areas as diverse as transportation, financial services, and biotechnology research. Moreover, producers of further processed agricultural products, such as Washington State's world famous breweries and wineries, are important job creators.

This is why more needs to be done to tear down tariff and nontariff barriers to U.S. agriculture. Washington State fruit and vegetable exporters, on average, face tariffs of over 50 percent when they try to sell abroad. And nontariff barriers are becoming even a greater problem for our farmers and ranchers. USTR and USDA have been successful in fighting against many of these barriers, such as Indonesia's nontariff barriers on horticulture imports, but many still remain today.

For example, I am particularly concerned about the World Health Organization's attempt to impose restrictions on dairy products for young children that have no basis in science. In addition, the EU's restrictions on the use of generic food names by improperly designating them as geographical indications remains a significant problem.

Trade agreements are an effective tool to lower these barriers and open markets for America's agricultural exports. Even though we just implemented the Colombia and Korea free trade agreements a few years ago, U.S. agricultural exports to those countries are already setting triple-digit percentage growth for some products.

The TPP agreement also holds great promise. It would eliminate or significantly reduce tariffs and quotas for agricultural exports to the fastest growing region in the world. I am particularly pleased that TPP would establish enforceable WTO-plus obligations to ensure that SPS measures are not used as hidden protectionism, while not diminishing in any way the ability of the United States to guarantee the safety of imported food.

TPP's provisions on biotechnology and preventing the abuse of geographical indications are also important. However, trade agreements must be done right, must be fully implemented and enforced to benefit America's agricultural producers. For example, this

means that Canada simply cannot go back on its commitments in TPP and NAFTA and limit imports of U.S. dairy products through protectionist regulatory changes, as it is proposing.

Likewise, the administration must also work with other TPP countries, as well as Congress and stakeholders, to develop plans as to how these countries will comply with TPP's obligations on SPS measures and other agriculture-related areas. This will be essential to getting congressional support for the agreement, in addition to resolving other outstanding issues.

The negotiation of the trade agreement with the EU holds a lot of promise for agriculture products and exports, but it must be a comprehensive, high-standard agreement. That means knocking down the EU's 30 percent average agricultural tariff and forcing the EU to remove its countless nontariff barriers on the United States' products. The fact that the U.S. has a significant agricultural trade deficit with the EU but a large agricultural trade surplus with the rest of the world shows that that burden lies with the EU to open up its market.

Chairman REICHERT. So I will now yield to the ranking member, Ranking Member Rangel, for his opening statement.

Mr. RANGEL. Thank you, Mr. Chairman. I ask unanimous consent that my opening statement be placed into the record.

Chairman REICHERT. Without objection.

[The opening statement of Mr. Rangel follows:]

Hearing on the Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports

Tuesday, June 14, 2016, 10 a.m.
1100 Longworth House Office Building

Opening Statement of Charles B. Rangel

Thank you, Mr. Chairman.

As I see it, there are at least two ways for us to help our farmers and ranchers access foreign markets.

One way is by negotiating international trade agreements – agreements where foreign countries agree to reduce or eliminate barriers to our exporters, in exchange for us reducing or eliminating barriers to their products.

But as in any negotiation, we need to go into trade negotiations with our eyes wide open. We need to know when these trade agreements create real opportunities for our farmers and ranchers and when they create paper opportunities. Too often in the past, we have negotiated agreements to eliminate one barrier our exporters face – only to find that another barrier has taken its place. And I am particularly concerned about steps the Canadian

government has taken recently that would make it harder for New Yorker dairy farmers to access that market.

We also need to make sure we have the tools and resources to fully enforce and take advantage of our trade agreements. For example, our food safety inspectors need more resources to ensure that our imports are safe. And, as I've said for many years, we need to invest in ourselves to make sure we can win in the competitive global marketplace. That means investments in things like infrastructure and education, above all.

But in some cases we don't have to go to the trouble of negotiating an international agreement in order to help our farmers and ranchers export to foreign markets. In some cases, it isn't foreign governments that restrict access to foreign markets, it's the U.S. Congress.

Just three months ago, President Obama visited Cuba to advance the normalization of relations with that country. It was the first visit of a U.S. President to Cuba in almost 90 years, and I was very proud to be part of the delegation. Proud to be an American.

I have consistently pushed for my Free Trade with Cuba Act since 1993, to allow all Americans to visit the island, enable

Americans and Cubans to conduct business together, and to list restrictions on humanitarian assistance. And you can bet I'm going to push for that bill today because I know how much it would help our farmers and ranchers.

The International Trade Commission recently estimated that U.S. agricultural exports to Cuba would grow by almost half a billion dollars if the United States lifted its restrictions. And a former Secretary of Agriculture from the Reagan Administration has estimated that the increase could be closer to a billion dollars. I am looking forward to hearing more about that from our witnesses.

I will conclude my opening remarks here. I look forward to hearing the testimony of our witnesses.

Mr. RANGEL. The reason I do that is because you mentioned what is necessary for us to have congressional support for TPP. And to my political knowledge, there is no calendar for this to come before the Congress. So I hope our witnesses could express themselves, because there are many of us who believe that there is an opportunity here, if we take advantage of the fact, that infrastructure and the education and technology has to be a part of this package. The votes are not there. But I assure you that there are communities, if they can see a future for their young people in terms of education and technology, if they can see that infrastructure is a necessary part of a successful trade agreement, but just standing alone out there just seems to me that it is not on our legislative calendar. But we can do something about it.

Another point that is not mentioned at all is I cannot see how the agricultural sector of our great Nation can overlook the opportunities we have in Cuba. I just want any witness to tell us why we should not open wider the opportunities we have in Cuba in view of the close proximity and the ability of our farmers and dairy people and ranchers to meet the needs of these people. And lastly, I do hope, Mr. Chairman, that maybe the committee can get together and see whether we have some strategy, before or after the election, to see what good are these meetings unless we are going to ultimately have some type of a timetable to vote on this issue. Because my days in Congress are very, very limited because of my intention to retire, but it certainly would be exciting for the President and for the Congress, both the House and the Senate, to be able to say that we think this legislation is so important, as do the witnesses, that it receives some type of priority, notwithstanding the logjam that we appear to have on other pieces of legislation.

So I welcome the witnesses. I hope you talk in terms of infrastructure and technology. I hope you don't forget that even though Cuba is not a part of TPP, it certainly is a part of the industry. And I compliment and praise you, Mr. Chairman, for keeping hope alive.

Chairman REICHERT. Well, together we can do that. And today's hearing is just a part of the process in trying to educate members on the benefits of trade, and especially today focused on TPP and TTIP. And I think the conversation today will generally lead to a conclusion that selling of American products, whether manufactured or grown, is a huge benefit to our economy and a job creator.

So our hope is the same as yours, that this becomes a trade agreement that we can all finally come to agreement on ourselves somewhere in the near future, but there are outstanding issues that need to be resolved. And we are going to work hard to accomplish resolution of those issues with the ambassador of USTR, Ambassador Froman.

So thank you for your kind comments, Mr. Rangel. And, again, thank you all for being here.

We are joined by five witnesses today. The first witness is Mr. Kevin Paap, president of the Minnesota Farm Bureau and chair of the American Farm Bureau Federation Trade Advisory Committee. Our second witness is Mr. Randy Mooney, chairman of the National Milk Producers Federation. Our third witness is Mr. John

Weber, president of the National Pork Producers Council. I am proud to say our last two witnesses are from my home State of Washington. The first is Mr. Dale Foreman of Wenatchee, Washington, who is the chairman of the Foreman Fruit Company and the past chairman of the USApple and Washington Apple Commission. Dale has also served as majority leader of the Washington State House of Representatives. And finally, last but not least, is Ms. Heather McClung, of Seattle, Washington, who is the co-owner of Schooner EXACT Brewing Company and president of Washington Brewers Guild.

And before recognizing our first witness, let me note that our time is limited so you should limit your testimony to 5 minutes, please. And members should keep their questions to 5 minutes.

Mr. Paap, before you begin, I know that Mr. Paulsen would like to take this opportunity to personally introduce you since you are both from Minnesota.

Mr. Paulsen.

Mr. PAULSEN. Thank you, Mr. Chairman. It is my honor and privilege to have a fellow Minnesotan join us today. Kevin Paap is president, as you mentioned, of the Minnesota Farm Bureau and a fourth generation farmer in Minnesota, growing both corn and soybeans.

And I think every one of us understands the important role that agriculture plays in our economy, but I am proud to say that Mr. Paap has been a champion for farmers across my home State of Minnesota and the country. He has worked tirelessly to advance policies that will benefit America's farmers, both domestically and internationally. Mr. Paap is currently serving his sixth term as the president of the Minnesota Farm Bureau, and he has the distinction of also being the chairman of the American Farm Bureau's Trade Advisory Committee.

He has been a tremendous partner in educating farmers throughout my State to understand how important trade is for their business. And I want to thank Mr. Paap for making the trip to Washington today. And I look forward to hearing his thoughts on how we can increase trade opportunities for America's farmers.

Thank you, Mr. Chairman.

Chairman REICHERT. Thank you, Mr. Paulsen.

Mr. Paap, you are recognized for 5 minutes. And your written statement will be made a part of the record. So please continue with your statement.

STATEMENT OF KEVIN PAAP, PRESIDENT, MINNESOTA FARM BUREAU; CHAIR, AMERICAN FARM BUREAU FEDERATION TRADE ADVISORY COMMITTEE

Mr. PAAP. Thank you, Mr. Chairman. And good morning. My name is Kevin Paap, fourth generation farmer from Blue Earth County, Minnesota, where my wife and I, who is with me today, raise corn, soybeans, and boys. I am president of the Minnesota Farm Bureau Federation, chair of the Trade Advisory Committee on the American Farm Bureau Board, as mentioned.

A little over 5 weeks ago we finished planting our corn and soybean crops. And whether it was sitting in the tractor cab watching the 12 rows on the computer monitor while I am planting or while

we physically were placing seed in the 12 seed boxes on the planter, I am thinking about the fact that 4 or 5 of those 12 rows on that planter, every time we go across the field, 40 percent of what I have just planted will be grown for international markets.

You know, America's farmers and ranchers are truly blessed. We can grow more than we can use. Last year, our agriculture exports of $133 billion demonstrate the strength of our agriculture productivity, the important contribution of trade to our economic well-being, and the ability of the United States to provide competitive food and farm products to markets worldwide. Farm Bureau strongly supports efforts to increase agriculture trade through comprehensive trade agreements.

I would like to briefly highlight our written testimony. Expanding our trade opportunities happens through tariff reduction and removal and by the adoption of science-based standards for international agriculture and food trade. Both of these are critical to successful trade outcomes for agriculture. Our analysis of the Trans-Pacific Partnership Agreement shows a significant positive impact on agriculture, with an increase of net exports to the TPP countries of $5.3 billion annually and a boost to net farm income of $4.4 billion annually. American Farm Bureau strongly supports passage of TPP.

Along with tariff reductions and market access gains, the TPP makes important changes to trade rules for agriculture, addressing the nontariff barriers that reduce trade. The most important of these changes are the commitment to have science-based food safety standards. Also, crucial to exporters and importers is a rapid response mechanism that will notify them when an inbound shipment is being restricted. This will help speed trade, reduce losses to perishable products, and lower costs.

For biotechnology products, now so important to the U.S. agriculture trade, the agreement commits the participating countries to increase the transparency of national laws and regulations. The TPP agreement provides an opportunity to increase markets for U.S. agriculture by removing barriers to trade within a dynamic region.

Another important area of the elimination of the tariff and nontariff barriers will open new markets for U.S. agriculture's European Union. Transatlantic Trade and Investment Partnership negotiations between the U.S. and the EU must deal with the many issues that impede U.S.-EU ag trade, such as tariffs and the long-standing barriers against U.S. meat exports. The U.S. and the EU are major international trading partners in agriculture. U.S. farmers and ranchers exported more than $12.1 billion of ag and food products to the EU in 2015, while the European Union exported $20.1 billion worth of agriculture products to us last year.

You know, the EU was once the largest destination for U.S. agriculture exports. Today, it has fallen to our fifth largest market. Number five. Tariff and regulatory barriers have become significant impediment to increased exports. These negotiations must result in a modern, science-based and risk-based approach to food safety based on international standards which can truly settle disputes.

We must also resolve issues related to the approval of biotechnology products. In the European Union, implementation of a regulatory procedure approving the import of new biotechnology products has been slow and has suffered from political interference. In China, the timeline for biotech product approval for food, feed, or processing has grown less certain and extended in duration since 2012. The divergence in U.S. and Chinese approvals have and will continue to put billions of dollars of U.S. exports at risk.

America's farmers and ranchers are blessed. We can grow more than we can use. We know that increasing demand by expanding trade is necessary for our continued success. Expanding trade opportunities is an action that Congress needs to support.

We appreciate your leadership in holding this hearing and look forward to working with the committee on advancing the progress of international agriculture trade.

Chairman REICHERT. Thank you, Mr. Paap.

[The prepared statement of Mr. Paap follows:]

Statement of the American Farm Bureau Federation

TO THE HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

REGARDING THE HEARING ON EXPANDING U.S. AGRICULTURE TRADE AND ELIMINATING BARRIERS TO U.S. EXPORTS

June 14, 2016

600 Maryland Ave. SW | Suite 1000W | Washington, DC 20024 | p. 202.406.3600 | f. 202.406.3606 | www.fb.org

Good morning. I am Kevin Paap, a grain producer from Blue Earth County, Minnesota, and President of the Minnesota Farm Bureau Federation. I also serve on the Board of Directors of the American Farm Bureau Federation and am chair of the AFBF Trade Advisory Committee. Farm Bureau is the nation's largest general farm organization, representing farmers and ranchers of all farm sizes, producing every commodity, using a large variety of production methods, in every state.

Farm Bureau strongly supports efforts to increase agricultural trade through comprehensive trade agreements. The $133 billion of U.S. agricultural exports in 2015 demonstrates the strength of U.S. agricultural productivity, the important contribution of trade to the economic well-being of farmers and ranchers and the ability of the United States to provide competitive food and farm products to markets worldwide.

Trade Promotion Authority

Last year's passage of the Trade Priorities and Accountability Act (TPA) was important to the completion and current consideration of the Trans Pacific Partnership (TPP) and is critical to the ongoing Transatlantic Trade and Investment Partnership (TTIP) negotiations.

For farmers and ranchers, TPA provides an opportunity for farm and commodity organizations and our respective members to work with you and our individual representatives to explain the necessity of expanding agricultural trade opportunities. The negotiating objectives of improved market access to foreign markets by tariff reduction and removal, along with the adoption of science-based standards for international agricultural and food trade, are critical to successful trade negotiation outcomes for agriculture.

Trans Pacific Partnership Agreement (TPP)

A major regional trade effort for the United States is the TPP Agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States. Our analysis of TPP (http:www.fb.org/issues/tpp/pdf/TPP%20Report.pdf) shows a significant positive impact on agriculture with an increase of net exports to the TPP countries of $5.3 billion annually and a boost to net farm income of $4.4 billion annually. Due to the agreement's overall benefits for our farmers and ranchers, the American Farm Bureau Federation strongly supports passage of the Trans Pacific Partnership.

There are many new opportunities for expanded agricultural trade in the TPP agreement. Japan is the fifth-largest agricultural export destination for the U.S. with more than $11.2 billion in sales in 2015. Despite the significance of this market, barriers exist that prohibit sales from reaching their full potential. Japan maintains several restrictive policies that inhibit U.S. exports, such as high tariffs on beef, pork, dairy, horticulture, rice and other products, along with various Sanitary and Phytosanitary barriers. Japan has agreed in the TPP to resolve long-standing trade barriers for agricultural products.

With TPP, there will be a reduction in Japan's beef tariffs, reform of its gateway price system for pork, additional tariff-rate quotas (TRQs) for rice and reduction in tariffs on dairy products.

Under the TPP agreement Japanese tariffs on beef will decline from 38.5 percent to 9 percent over 16 years. For pork, Japan will cut its 4.3 percent tariff on fresh, chilled and frozen cuts to 2.2 percent immediately, going to a zero tariff over 9 years. Japan's additional duty on pork under its "gate price system" will drop immediately to 125 yen per kilogram from the current 482 yen per kilogram and will drop to 50 yen in year 10. Rice imports by Japan from the U.S., under a duty-free quota, will be 50,000 tons annually, rising to 70,000 tons after 13 years. Japan will also eliminate many cheese tariffs over 16 years.

Canada will reduce import restrictions on dairy, poultry and eggs from the U.S. and will yield new access for U.S. farmers and ranchers into this market. New access will be 3.25 percent of the Canadian dairy market, phased in through TRQs over five years. For poultry, Canada will increase imports via duty-free TRQs for 2.3 percent of domestic production of eggs, 2.1 percent for chicken and 2 percent for turkey.

Vietnam will eliminate its pork tariffs over 10 years and its poultry tariffs over 13 years. Vietnam's rice tariffs of 40 percent will be eliminated immediately when TPP enters into force.

Tariff reduction on fruits and vegetables in TPP will add more than $419 million in sales to the TPP countries.

The USITC (U.S. International Trade Commission) agrees, in its report, that U.S. agriculture is projected to gain significantly from passage of TPP. In fact, the USITC's report found that agriculture and food would see the largest impacts from TPP in percentage terms. The USITC estimates that U.S. output and employment for the sector would both be 0.5 percent higher than the baseline estimate. Agriculture is expected to experience the largest growth because it will experience the broadest liberalization under the agreement. The USITC projects exports will grow 2.6 percent, while net exports are expected to increase nearly $4.5 billion.

Along with tariff reductions and market access gains, the TPP makes important changes to trade rules for agriculture, addressing the non-tariff barriers that reduce trade. The most important of these measures are the commitment to base Sanitary and Phytosanitary (SPS) measures either on international standards or on science-based decision making. Also crucial to exporters is a rapid-response mechanism that will notify them, within 7 days, when an inbound shipment is being restricted. This will help speed trade, reduce losses to perishable products and lower costs.

For biotechnology products, now so important in U.S. agricultural trade, the agreement commits the participating countries to increase the transparency of national laws and regulations. The potentially trade disrupting issue of the low-level presence of biotech material is addressed through information sharing by importers and exporters.

The concern over the use of geographic indications (GIs) on food products is handled in the TPP by provisions that have the parties making the process of approving GIs transparent and inclusive of other TPP parties.

The TPP Agreement provides an opportunity to increase markets for U.S. agriculture and establish science-based standards for agricultural trade within the TPP region. It is a measure that the Congress can accomplish that will assist a wide variety of farmers and ranchers for many years to come. A failure to lead in this region will allow other nations to make trade deals, reduce market opportunities for U.S. agriculture and set the standards for trade throughout the Pacific region. We have seen time and again that U.S. agriculture loses market share in important export markets when our competitors have trade agreements in place and we do not.

Transatlantic Trade and Investment Partnership (TTIP)

Farm Bureau supports efforts to increase agricultural trade flows and remove trade barriers that currently exist between the United States and the European Union.

The TTIP negotiations between the U.S. and the EU must deal with the many substantive issues that impede U.S.-EU agricultural trade, such as long-standing barriers against conventionally raised U.S. beef, ongoing restrictions against U.S. poultry and pork, and actions that limit U.S. exports of goods produced using biotechnology.

The U.S. and the EU are major international trading partners in agriculture. U.S. farmers and ranchers exported more than $12.1 billion worth of agricultural and food products to the EU in 2015, while the EU exported $20.1 billion worth of agricultural products to the U.S. last year.

The EU was the once the largest destination for U.S. agricultural exports. Today, it has fallen to our fifth-largest export market. The U.S. is losing market share in the world's largest import market for agricultural commodities and food. While EU agricultural imports have grown, according to USDA, U.S. market share has steadily declined to just 7 percent—half of the level achieved in 2000.

Over the last decade, growth of U.S. agricultural exports to the EU has been the slowest among our top 10 export destinations. If U.S. farmers and ranchers were provided an opportunity to compete, the EU market could be a growth market for them. However, regulatory barriers have become a significant impediment to that growth.

Unless these trade barriers are properly addressed within the TTIP negotiations, they will continue to limit the potential for agricultural trade. It is imperative that TTIP be a high-standard trade agreement that covers all significant barriers in a single, comprehensive agreement. Scientific standards are the only basis for resolving these issues.

Continuing barriers to the export of U.S. beef, pork and poultry, along with the slow approval process for biotech products, are major areas of interest to the U.S. in the TTIP negotiations. Both the U.S. and the EU adhere to the World Trade Organization's Agreement on Sanitary and

Phytosanitary Measures, which states that measures taken to protect human, animal or plant health should be science-based and applied only to the extent necessary to protect life or health.

The U.S. follows a risk-assessment approach for food safety. The EU is additionally guided by the "precautionary principle," which holds that where the possibility of a harmful effect has not been disproven, non-scientific risk management strategies may be adopted.

The use of the "precautionary principle" is inconsistent with the WTO SPS Agreement and is used as a basis for trade barriers that not justified by science. The TTIP negotiations must result in a modern, science- and risk-based approach, based on international standards that can truly resolve SPS disputes. SPS issues must be directly addressed as a part of the negotiations, and these provisions must be enforceable.

The EU approach for approving products of biotechnology combines a lengthy approval process with the ability of EU member states to ban approvals. The result is restrictive import policies and substantial reductions in U.S. exports of corn and soybeans to the EU.

The EU system of geographic indications for foods and beverages designates products from specific regions as legally protected for original producers. The U.S. has opposed recognizing geographical names for foods when it would inhibit the marketability or competitiveness of U.S. products. The TTIP must not become an avenue to erect a new barrier to U.S. agricultural exports through the use of geographic indications.

Negotiations on bilateral concerns move in both directions. There must be positive outcomes for all sides. The European Union has concerns about U.S. rules on EU beef and dairy products. An emphasis on finding trade-opening solutions to sanitary barriers will assist in resolving our many trade issues.

The TTIP negotiation proposal calls for working toward the elimination of tariffs. The average U.S. tariff on imported agricultural products is 5 percent, with 75 percent of our tariff lines at between zero and 5 percent. For the EU, the average tariff is 14 percent, with 42 percent of tariff of lines at zero to 5 percent. In order to expand market opportunities for U.S. agricultural products in the EU, tariff reductions will be necessary.

We call for an ambitious agreement that addresses the real barriers to the growth of agricultural trade between the United States and the EU.

Biotech

The American Farm Bureau Federation remains dedicated to resolving issues related to the approval of biotechnology products. Today we face myriad challenges—some old, and others a bit newer.

In the European Union, implementation of the regulatory procedure for approving the import of new biotechnology products has been slow and suffered from political interference. This has led

to large disruptions in the trans-Atlantic trade in raw materials used by EU food and feed producers. It also has increased costs for producers, the agricultural supply chains and EU consumers. For example, it remains unclear when three soybean traits that are important to U.S. growers and that already have achieved EFSA (European Food Safety Agency) approval will receive final approval. Final approval is being held up by an unrelated debate on renewal of the pesticide glyphosate. Farm Bureau is working through the U.S. Biotech Crops Alliance for EU regulations that are consistent with the EU's obligations under the WTO SPS agreement.

In China, the timeline for biotech product approval for use as food, feed or processing has grown less certain and extended in duration since 2012. The divergences in U.S. and Chinese approvals have and will continue to put billions of dollars of U.S. exports at risk. At the December 2014 Joint Commission on Commerce and Trade (JCCT) meeting, the U.S. and China agreed to form the JCCT Strategic Ag Innovation Dialogue (SAID). Recent meetings, including President Xi's state visit last fall, yielded positive commitments that form the basis for improving U.S.-China relations. We hope that these commitments will soon translate into tangible outcomes. We commend the administration and Congress for their sustained high-level engagement on this issue. We hope that, through dialogue between our two nations, the important role that biotechnology plays in achieving food security, including timely approval of new products, will continue to be a primary focus.

World Trade Organization

As agricultural exporters, U.S. agriculture must continue to seek a commercially meaningful outcome through expanded market access from WTO negotiations. We must remain committed to advancing the goal of trade liberalization and increased opportunities for real trade growth.

Farmers and ranchers want an outcome to trade negotiations in the WTO that will open new markets around the world, produce new trade flows and grow the global economy. We can achieve this outcome by negotiating on the basis of a new agenda, not by reliving the failures of the past.

Farm Bureau supports a fresh approach in the WTO, with updated information and having market access as the most important part of any future agricultural discussions. Starting again with the previous failed agenda that focused on domestic support reductions that are not balanced by increased market access, especially to developing countries, will not achieve a positive market opening result for U.S. agriculture.

Cuba

There is a potential for substantial growth in U.S. agricultural sales to Cuba, but restrictions are hurting that growth. Under the Trade Sanctions Reform Act of 2000 (TSRA), agricultural products were allowed to be sold to Cuba. However, restrictions on trade financing, specifically the extending of credit, have hampered the growth of agricultural sales to Cuba. In 2015, our sales were less than $200 million into a $2 billion food import market.

The U.S food and agriculture industry is the only industry that must use third-country, non-U.S. banks for financing sales or have a cash transaction from a Cuban customer. These requirements increase transaction costs and limit the opportunity for sales into the market. Instead, Cuba buys from Brazil, Argentina, Vietnam, the European Union and Canada.

Allowing for sales of agricultural products using credit financing or, ultimately, removing the embargo will increase agricultural product access to Cuba.

Conclusion

Farm Bureau members all across our nation know that expanding opportunities for agricultural trade is necessary for their continued success. We appreciate your leadership in holding this hearing and look forward to working with the committee on advancing the progress of agricultural trade. During this time of declining prices for farmers and ranchers, expanding trade opportunities is an action that Congress needs to support.

Mr. Mooney, you are recognized for 5 minutes.

STATEMENT OF RANDY MOONEY, CHAIRMAN, NATIONAL MILK PRODUCERS FEDERATION

Mr. MOONEY. Well, Chairman Reichert, Ranking Member Rangel, and Members of the Committee, thank you for inviting me here to testify on the topics of expanding U.S. agricultural trade and eliminating barriers to U.S. exports.

My name is Randy Mooney. My wife Jan and I operate Mooney Dairy in Rogersville, Missouri. I serve as chairman of the National Milk Producers Federation, which is celebrating its 100th anniversary this year.

Trade has become such a big driver in the economics of America's dairy industry. Last year, we exported over $5 billion worth of dairy products, up 435 percent since the year 2000. Clearly, this is not my grandfather's dairy industry.

Over the last 15 years, foreign sales have helped us tap into millions more customers throughout the world, a development that has helped boost milk prices on average over that period. Those benefits go far beyond the farm, though.

Last year's dairy exports supported more than 120,000 American jobs solely at the dairy production and manufacturing level. The dramatic export growth we have experienced over the past two decades have made possible and key by the numerous well-negotiated FTAs put in place over that period, combined with the impacts of the WTO Uruguay agreement.

Looking ahead, we need strong market opening trade agreements as well as diligent implementation and enforcement of the terms of those deals. Toward that end, I would like to focus my remaining comments here today on a few main areas: TPP, Canada's persistent flouting of the trade commitments, TTIP negotiations, and protecting common food names.

NMPF supports TPP. We believe that this agreement could deliver important benefits to U.S. dairy farmers, provided that it is properly implemented and enforced. Particularly important are its groundbreaking SPS and GI provisions. But trade compliance is critical. If TPP partners are allowed to erode existing access in order to undermine future U.S. TPP gains, it is hard to see how it will live up to its potential to move us forward compared to the status quo as of TPP's close last fall. This is particularly a concern when you talk about Canada.

Our neighbors to the north, Canada, has repeatedly disregarded its trade commitments to us. The most recent Canadian policy shift, which has already led to export losses, is an Ontario milk pricing policy that may soon also be implemented nationally. Mr. Chairman and Members of the Committee, we are drawing the line here. This recent action by Canada is a clear violation of their prior trade commitments, as well as the spirit of the TPP, and it cannot be permitted.

Finally, I want to stress that where we are on TTIP right now is extremely alarming because the EU has such a well-known reputation for blocking U.S. ag exports. That pattern is a part of what drives the huge trade deficit we have with the EU. Dairy trade is not only about a few specialty cheeses. We are the largest exporter

in the world of skim powder, skim milk powder, whey ingredients, and cheese. So given a level playing field, we expect to see a more even level of Transatlantic dairy trade.

Let me be clear. TTIP cannot be an agreement that expands EU dairy exports while failing to resolve barriers to U.S. dairy exports. That is why negotiators need to focus on the underlying problems we face in accessing the EU market, not the isolated symptoms of it. We are deeply concerned by the focus on concluding TTIP negotiations this year, despite a lack of progress to date in tackling the EU's nontariff barriers to U.S. dairy exports. Meanwhile, the EU is not only maintaining their existing barriers, but it is actively pushing in TTIP to impose new barriers through special geographic indicator provisions.

Mr. Chairman, this basket that is sitting here in front of me is American agricultural products from Valencia oranges to Asiago and Parmesan cheese to Black Forest ham and to wines with the label Chateau. It includes several of the common name products that the United States cannot currently export to Europe or other foreign markets. Compounding those serious export challenges, the EU is now working to prevent us from selling products with these common food names, even in the United States.

America's dairy farmers will not support a TTIP agreement that incorporates policies aimed at artificially increasing the $1.5 billion transatlantic dairy trade deficit. A solid deal must level the playing field.

And in closing, I want to mention that as we work to open new markets for dairy around the world, we are also taking a proactive approach on other important issues. In the purview of this committee, we are supporting the introduction of a bill this week by members of this committee that would create an investment tax credit to help offset the upfront capital cost of biogas systems and nutrient recovery technology in order to improve environmental outcomes.

So, Mr. Chairman, I appreciate the opportunity to provide the comments on these important issues. Thank you very much.

[The prepared statement of Mr. Mooney follows:]

Testimony by the National Milk Producers Federation
Before the Trade Subcommittee of the House Ways and Means Committee
On Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports
June 14, 2016

Chairman Reichert, Ranking Member Rangel, and members of the Committee, thank you for inviting me to testify on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports. My name is Randy Mooney. My wife, Jan, and I operate Mooney Dairy in Rogersville, Missouri. I serve as chairman of the National Milk Producers Federation (NMPF) and chairman of Dairy Farmers of America (DFA), the nation's largest dairy cooperative. In addition to my duties as chairman of NMPF and DFA, I serve on the boards of several dairy organizations, including Missouri State Milk Board, Dairy Management Inc., Hiland Dairy and the Innovation Center for U.S. Dairy.

I am presenting testimony today on behalf of the National Milk Producers Federation (NMPF).

NMPF develops and carries out policies that advance the well-being of dairy producers and the cooperatives they own. NMPF's member cooperatives produce the majority of the U.S. milk supply, making NMPF the voice of more than 32,000 dairy producers on national issues. International trade is one of those issues and in recent years it has been one of the most important to our industry. NMPF works closely on international trade issues with the U.S. Dairy Export Council whose partnership between producers, proprietary companies, trading companies and others interested in supporting U.S. dairy exports, has contributed greatly to the success of the industry.

Importance of Trade to U.S. Dairy

The U.S. dairy industry has gone from exporting less than $1 billion in 2000 to exporting over $5.2 billion in 2015, an increase of 435 percent. Sales in 2014 were even greater at over $7 billion but declined during a global dairy recession last year. As a farmer myself, I know first-hand what this means to me and my bottom line. When our exports increase, I, and all my fellow dairy producers, benefit. And when, for whatever reason, our exports are impeded or we give up market shares, the effect is ultimately felt by the farmer in the price we receive.

But it is not just dairy producers who are affected for better or worse when exports rise or fall. USDA's Economic Research Service (ERS) estimates that each billion dollars of U.S. dairy exports generates 20,093 jobs at the milk production level and that $2.76 dollars of economic output are generated for each $1.00 of dairy exports. It is remarkable that, while for agriculture as a whole each billion dollars in exports generates 5,780 jobs[1], in the dairy sector each billion dollars in exports generates over three times as many jobs.

Thus, the $5.2 billion that we exported in dairy products in 2015 supported more than 104,000 U.S. jobs at the production level. And according to the ERS multipliers, those exports generated nearly $14.4 billion in additional economic activity at that level. At the manufacturing level, where the milk is turned into cheese and other processed dairy products, ERS estimates that each billion dollars of exports generates 3,150 jobs. So, our exports in 2015 supported approximately 16,400 jobs at the manufacturing level.

Last year, exports accounted for approximately 28.9 billion pounds of U.S. milk, equating to the milk from 1.3 million cows. As global demand for dairy continues to rise, U.S. dairy exporters are increasingly meeting the challenge by making the right products with the right packaging and the right specifications for each customer. The U.S. is now the world's leading single-country exporter of skim milk powder,

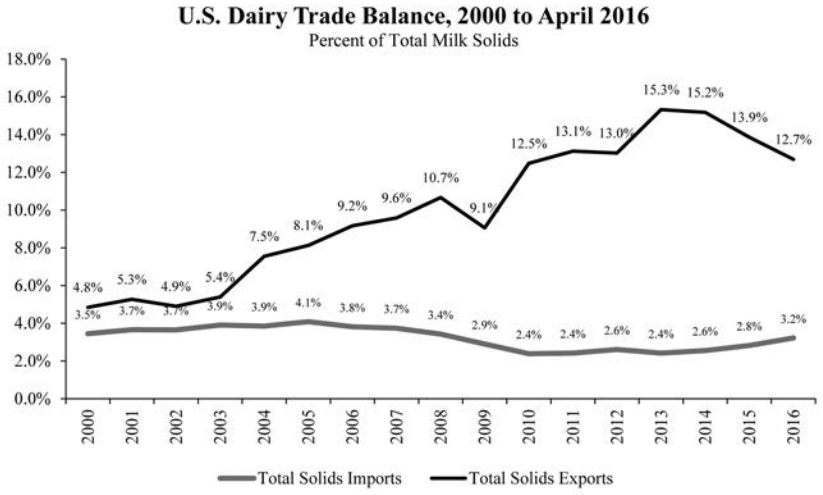
[1] http://www.ers.usda.gov/data-products/agricultural-trade-multipliers/effects-of-trade-on-the-us-economy.aspx

cheese, whey products and lactose, thereby benefiting millions of customers in hundreds of countries around the world.

To best understand the level of importance that exports have today for the U.S. dairy industry and farmers in particular, a key barometer is the percentage of incremental milk solids going to support U.S. dairy exports. Since 2003, total U.S. milk production increased by nearly 38.2 billion lbs. Over that time, 52 percent of the increase in U.S. milk solids produced was needed to supply additional U.S. dairy product exports. That means that more than 19.7 billion lbs. of the additional milk the U.S. has produced since 2003 has been devoted to exports. At the 2015 all-milk price of $17.10/cwt, this represents nearly $3.4 billion in additional dairy farm revenue. That amount of milk also represents the amount that more than 4,300 average-sized (i.e. 204 cows per farm) dairy farms would produce.

There is no doubt that exports will continue to play an increasingly important role within the U.S. dairy industry. Indeed, our future is dependent on continued growth in sales to foreign markets. USDA's long-term baseline projects U.S. milk production to increase to 225.2 million lbs. by 2019, which represents an increase of 12.8 billion lbs. If 52% of new milk continues to supply export markets, an additional 6.7 billion lbs will be used for exports.

During that time period, milk production per cow is expected to increase to 24,200 pounds per cow. That means that, without growth in dairy exports, 276,860 fewer cows would be required to produce milk in the United States and 1,357 fewer average-sized farms would be needed to keep up with the supply and demand for U.S. milk. For U.S. milk producers to continue to see robust milk production growth, exports must increase in not only absolute terms, but also in relative terms because the rate of domestic consumption growth is insufficient to maintain milk production growth, as projected by USDA.



Importance of Trade Agreements to Dairy

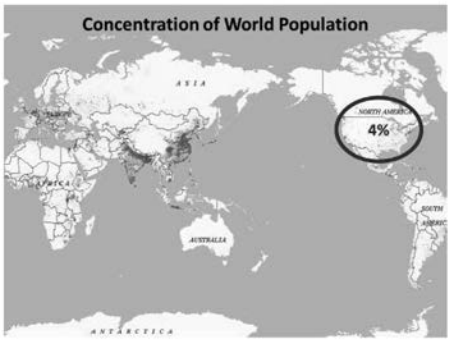
I have painted a rosy picture so far of the potential that increased dairy trade offers to our country. But when it comes to trade, those who stand still fall behind. Our competitors are negotiating trade agreements all over the globe. Unfair import barriers remain in place and new ones are erected all the time. They range from unjustifiable health and safety measures to certification requirements to the more recent and extremely protectionist efforts by the EU to prevent the use of common cheese names -- by misusing Geographical Indications to give its producers a lock on international markets. If we aren't in the game actively negotiating on these issues, we are ceding ground to our competitors and those looking to make it tougher for us to do business in their markets.

It is not coincidental that the enormous growth in dairy exports I mentioned earlier occurred during a period when the U.S. began negotiating market-opening free trade agreements (FTAs) and the Uruguay Round Agreement reduced export subsidies and created the first Sanitary and Phytosanitary Agreement (SPS Agreement). The FTAs implemented since the early 1990's lowered and ultimately removed tariffs on our exports and in many cases they gave our products a preferential advantage over other supplying countries. They also helped remove technical and regulatory barriers to our trade. Over this period, exports of dairy products to FTA partners grew by 685 percent as compared to 338 percent to non-FTA countries (see also Attachment 1).

As mentioned, our dairy exports last year temporarily dropped from the record $7.1 billion achieved in 2014, due in large part to a significant drop in global prices for milk powders and cheeses. But it is important to note that, while our exports to non-FTA countries contracted by 32 percent, they fell by only 20 percent to our FTA partner countries.

FTAs have created important new market access opportunities for us and we have worked very hard through our market development efforts to ensure that we are taking full advantage of them. Two to three decades ago our industry feared trade agreements. Now, we embrace the benefits that well negotiated agreements can offer as a vehicle for tearing down foreign barriers to our products and effectively enforcing the terms of U.S. agreements. Well-negotiated trade agreements are essential to ensuring that we do not lose out to competitors who are themselves cutting FTA deals around the world. Poorly negotiated agreements risk forsaking critical opportunities to level the playing field for U.S. exporters.

The fact is that 96 percent of the world's population is overseas and that population is growing faster than ours. The global market is where the output of our increasing dairy productivity must find a home. This means that for our farmers to continue to grow, and our processing companies to continue to expand and create jobs at home, overseas markets are critical.



However, while trade agreements have been and will continue to play a leading role in expanding market opportunities overseas, they represent only part of the job. Just as essential as getting the agreement's terms right to begin with is ensuring that the market access terms of the agreements are not subsequently undermined – or even violated entirely – by governments under pressure from domestic producers to keep imports at bay. This has been a full-time and regrettably, in a minority of FTAs, not always entirely successful undertaking. Fortunately, most of the 20 U.S. FTAs now in place are working well for dairy with little or no compliance problems.

But I will touch briefly on a few of the bigger trade compliance problems we have faced, both with FTA partners and with important WTO trading partners. I highlight these because vigorous trade enforcement is just as essential to a successful trade policy agenda as is the pursuit of new agreements.

I must start with our NAFTA partner to the north. Canada is without question the worst offender when it comes to erecting measures over the years to create new barriers to trade, impacting market access granted under its FTA with the U.S. and the WTO Uruguay Round. Canada appears to actively pursue every available opportunity to constrain dairy imports that begin to gain ground into its market, thereby repeatedly nullifying and impairing the value of dairy market access concessions. This is a clear violation of their prior trade commitments, as well as the spirit of TPP.

There has been case after case of Canada altering its rules to erect barriers to dairy trade. One notable example from a few years ago was Canada's change of its product standards to limit permissible ingredients in cheese, the goal of which was to restrict imports of U.S. milk protein concentrates and other dried protein imports. More recently, Canada has been considering expanding this to include a restriction in cheese and potentially yogurt production on the use of ultra-filtered milk, another product we currently export to Canada duty free for use in cheese production there.

Also within the past few years, Canada enacted a law that moved imports of a pizza preparations containing mozzarella from the appropriate duty-free tariff line to one with a tariff of over 200 percent. The intent and effect of this legislation was to block all imports of these food preparation products from the U.S. Around the same time Canada also caved to EU pressure to impose restrictions on several generic cheese names as part of its FTA negotiations with the EU. This decision which ran directly counter to Canadian IP policies and principles, as well as existing international obligations, imposes new use restrictions on generic terms such as feta, gorgonzola, muenster and other terms for any recent or future entrants to the Canadian cheese market.

The most Canadian recent policy shift, which has already led to a drop in U.S. dairy exports, is a milk pricing policy maneuver. This policy was first implemented in Ontario but is reportedly scheduled to go national later this summer. It is intended to discourage use of imported dairy ingredients and specifically encourage use by Canadian processors of domestic dairy inputs. This "Class VI" pricing program has already led to tens of millions of dollars in U.S. dairy export losses, an impact that comes at a particularly bad time for U.S. dairy farmers given the depressed dairy market situation currently.

Actions of this sort that unjustly attack the investments U.S. companies have made in servicing export markets cannot be tolerated and must be met with clear consequences. In the case of ultra-filtered milk in particular, U.S. companies -- supplied by American dairy farmers -- have made significant investments to seize the opportunities granted by NAFTA and the Uruguay Round. For Canada to now put in place policies designed to directly undermine and impair those investments harms employment in rural U.S. communities, impacts the supplying dairy farms and risks undermining support for the value of trade agreements. NMPF has urged the Administration to clearly and publicly reject Canadian actions at both the provincial and federal levels that erect new barriers to dairy trade.

These are just examples of the whack-a-mole problems we continually face in Canada.

By contrast, our other NAFTA partner, Mexico, has generally been a much better partner. And where problems have arisen, both governments have in general been willing to work together to find ways to resolve them. As a result of this partnership, trade in dairy products to Mexico is now operating fairly smoothly. We consider Mexico not only to be our best foreign market but also a very good trading partner.

Even in the best relationship, however, issues arise from time to time. One such challenge has recently presented itself in Mexico where intellectual property authorities have issued surprising rulings that call into question the continued ability of U.S., as well as Mexican, companies to sell various kinds of cheese in our largest export market. These determinations by Mexican IP authorities are directly contrary to the market situation in Mexico where the impacted cheese types are widely sold and appear to violate even domestic IP policies, let alone Mexico's international commitments. It is our hope that the U.S. will be able to build upon the positive trade relationship we have developed with Mexico over the years to successfully resolve these very misguided rulings.

I should also mention that one of our newer FTAs, with South Korea, experienced some early bumps in the road for dairy, but more like Mexico, Korean officials so far seem ready to work with our government to resolve them. Trade in dairy products is more than double the average of the three full years prior to the FTA, despite being down from 2014.

Although U.S. expectations of good-will are rightfully highest with our FTA partners, trade compliance is not only an FTA issue. It is equally important that we ensure compliance with WTO obligations, particularly by major trading nations whose actions could influence the decisions other countries make in turn. In this respect, overly burdensome and unscientific dairy import requirements by India and Russia remain a serious concern. For over 12 years India has blocked U.S. dairy products due to inappropriate certification requirements. In Russia's case, even aside from the current blanket ban on U.S. dairy imports due to geopolitical factors, Russia has maintained de facto plant registration requirements that run directly counter to their WTO accession agreement commitments. These are examples of the types of unfounded barriers to U.S. agricultural exports that merit continued attention by the U.S. government to ensure that U.S. exporters are able to make full use of previously negotiated market access opportunities under the WTO Uruguay Round agreement.

Regardless of the country, however, we realize that governments that are under political pressure from their own producers may look for any means possible to restrict imports, regardless of what a trade agreement might say. And where trading partners have demonstrated a willingness to persistently circumvent their trade commitments in certain sector – as is the case with Canada and dairy for instance – additional specifically-focused measures are needed to curtail the problem.

With respect to FTA partners, we believe that the best window of opportunity for influencing how countries will implement their FTA obligations is during the period prior to Congressional approval of an agreement and prior to U.S. certification of the country's readiness to implement that agreement. Action during this window both ensures that Congress has a clear understanding of how the agreement is intended to work in practice and maximizes U.S. leverage on specific issues that need to be addressed.

This becomes especially important now that the TPP has concluded and consideration in Congress will at some point begin. It is also important given that our attention is now turning to the TTIP negotiations with the European Union.

The Trans-Pacific Partnership Agreement and Dairy

The U.S. dairy industry supports TPP and calls on Congress to pass its implementing legislation this year. Although we were disappointed with certain aspects of the market access outcome in TPP, overall we expect that the agreement, if properly implemented and enforced, has the potential to move the needle forward for U.S. dairy exports.

This is with an important proviso, however. The U.S. government must remain committed to addressing important concerns on implementation and enforcement issues to ensure that the dairy provisions play out in practice as written on paper. Also important will be ensuring that the value of the TPP package holds up as promised in the deal's groundbreaking sanitary and phytosanitary (SPS) and geographical indication (GI) commitments. Attention to these critical issues will assure that the market access concessions that were won, as well as access avenues already open to U.S. exporters, are not undermined by future actions of key TPP partners.

Our carefully considered judgment, therefore, is that if the administration follows through on these priorities, the dairy industry will be better positioned for the future with the agreement in place than without it. Here are our reasons for reaching this conclusion.

On market access the status quo would leave in place high tariffs that limit U.S. dairy access to Canada and Japan. Under TPP, the United States would gain incremental access to both nations, while New Zealand would gain incremental access to the United States, as well as a small amount to Mexico, our largest export market. A comprehensive analysis of the agreement by USDEC and NMPF determined that the net effect of all market access concessions would be neutral to slightly positive for U.S. dairy.

It would have been far better of course had Japan and Canada been more forthcoming on market access in the dairy sector, especially considering that neither was a party to the deal at the onset of the talks. But we do believe that the access we did obtain under the agreement helped to avoid what could have been an unbalanced market access deal to the benefit mainly of New Zealand – a major global competitor.

With respect to sanitary and phytosanitary rules, under the status quo nations could continue to unilaterally and arbitrarily implement new import regulations with little notice. These can have serious consequences for U.S. dairy shipments. If technical consultations on such rules fail, as they often do, the only recourse left to us currently is the costly and time-consuming World Trade Organization dispute settlement process.

The TPP includes provisions that establish greater transparency in the rule-making process, so we will be able to see new and revised regulations before they are implemented, giving the United States more time to comment on and possibly shape those regulations. The TPP's SPS measures also upgrade science and risk analysis, equivalence and import checks, and establish a consultative mechanism intended to provide a means to resolve SPS problems expeditiously. Finally, most of the new SPS commitments are enforceable under TPP's dispute settlement mechanism, creating an important point of leverage to foster compliance with these obligations.

As regards geographic indications (GIs), the status quo would allow the EU to continue to press TPP countries to limit the use of many common food names, including many cheeses, to products from the EU. The EU has been using its own FTAs and other forms of bilateral agreements to strong-arm its trading partners into assuming such commitments at our expense. TPP's GI provisions break new ground by establishing a more equitable international model for GI evaluation and registration.

With respect to furthering U.S. dairy interests in the TPP region, the status quo would allow our main dairy export competitors (Australia, New Zealand and the EU), which already have more trade deals in place with Asia-Pacific nations than does the United States, to negotiate aggressively for more. These

deals put U.S. suppliers at a significant competitive disadvantage. An increasingly competitive global market further magnifies these FTA advantages.

Under TPP, the U.S. would be on an equal or better footing, as countries such as Indonesia, the Philippines, Taiwan and Thailand look to join the FTA. Those four countries would add 450 million people to the consumer pool. All four are FTA partners with New Zealand and three are FTA partners with Australia, a situation that contributes to Australia and New Zealand outselling U.S. dairy suppliers by nearly three-to-one last year ($1.7 billion vs. $565 million). TPP should help U.S. suppliers make up some of that ground as it expands to include more parties in the future.

As mentioned earlier, we are convinced that our industry's future is tied to growing global trade. The TPP agreement, if properly implemented and enforced, will create trade opportunities and support must-needed export growth for the U.S. dairy industry. Properly implemented, it will help us compete in a marketplace in which we need to continue to expand as a player, and it warrants support from our industry.

Yet, as I mentioned earlier, Canada is already seeking to move forward with actions that would take away with one hand what they are proposing to give with the other in TPP. In addition, early decisions in Japan and Mexico suggest that they may be disregarding the TPP provisions addressing common food names and Geographical Indicators, actions that would impact not only new market access but also current U.S. exports. The U.S. must clearly insist to these leading TPP trading partners, as well as others across the TPP region, that the TPP provisions and intent cannot be undermined. Without that, TPP's promise could be eroded by these sorts of barriers to trade.

The Transatlantic Trade and Investment Agreement and Dairy

We have generally supported the fundamental concept of a free trade agreement with the European Union. In our view a true and fair FTA with the EU would remove barriers to trade in both directions and establish a more level playing field for trade in dairy products across the Atlantic. Right now that playing field is anything but fair or level.
EU tariffs on whole milk powder, skimmed milk powder, whey products, butter and cheese are prohibitively high[2]. In many cases, even in-quota rates are extremely high[3] which leads to very low usage[4] of the existing tariff rate quotas (TRQs). In contrast, U.S. in-quota dairy tariffs are set at minimal amounts[5] and the EU has been granted exclusive quotas to the U.S. for which it is not forced to compete against other suppliers, a situation which is not replicated in the EU for U.S. exporters.

Non-tariff measures are also employed by the EU in order to make importing our dairy products complicated and burdensome. The EU requires multiple and complex certificates[6] that continue to evolve over time and varying testing methods pertaining to dairy products. It employs duplicative inspection requirements, in particular with regards to dairy products for feed use[7]. And it presents challenges in overcoming its TRQ licensing system.

[2] Many tariff lines for these products exceed a duty of €100per 100 kg net. For example, unsweetened milk powder of less than 27% fat content has a duty of €130.40 per 100 kg net, and a high fat content would require a duty of € 161.90 per 100 kg net.
[3] For example, U.S. butter exports to the E.U. are subject to an in-quota duty of 26.3%. We believe that also an in-quota duty of 21% for various cheeses and 13.2% for SMP is rather high as in principle in-quota duties should be negligible.
[4] For example, for Skimmed Milk Powder, the U.S. only fills 0.05% of the EU TRQ.
[5] For example, the in-quota rate for EU butter and sour cream exported to the U.S. is 2.5%.
[6] There are complex requirements when the use of the Dairy Certificate and/or Composite Product Certificate is required; in addition there are inconsistencies in these requirements.
[7] Unlike other U.S dairy export markets, the EU requires dairy shipped for feed use to be inspected by the USDA veterinary service, even if the plant is already inspected and found to be in compliance with food-grade inspection criteria, thus creating a duplicative requirement that does not provide additional safety for dairy trade.

The range of EU market challenges we face and their shifting nature is what has led us to insist that TTIP dairy talks focus not on trying to cherry-pick out one of these isolated issues to "solve", but rather that the root of the problem be addressed. It is critical that negotiators focus on the underlying problem of overly detailed, burdensome and shifting documentation requirements impacting U.S. dairy exports, not simply isolated symptoms of that problem. We have therefore sought to secure a more fulsome recognition of the safety of the U.S., a simplified dairy certificate and – most critically – assurances that new unjustified requirements will not be piled back on top of our exporters as soon as the ink on the TTIP agreement is dry. Without the latter, the EU track record on agricultural trade provides clear indication that some new certification or documentation requirement will surprisingly arise after the agreement is concluded and thereby reintroduce barriers to U.S. products.

On top of these more traditional types of nontariff barriers, is the ever-widening EU practice of limiting the use of common food names to products produced in regions of the EU. We have never opposed the use of these "geographical indications" in principle, but the EU has taken it to a level that is intended to provide protection from imports in its own market and block out fair competition abroad, rather than protection of legitimate regional names.

Parmigiano Reggiano and numerous other GIs are in fact registered in the U.S. today through the U.S. Trademark system and this does not create problems for either side. We cannot accept, however, that commonly used terms such as "asiago", "havarti", "feta", "parmesan", "munster" and "gorgonzola", among many others, can only come from specific regions and producers in Europe. These are generic cheeses that, while their names originated in Europe, have a long history of being produced all over the world. European immigrants brought their products to the U.S. and have produced the same cheese as in various countries in Europe for many years. This can be seen in examples of French feta or German parmesan sold outside of the EU to various foreign markets. In fact, U.S. producers have created markets and promoted globally – to Europe's benefit – the names of dairy and other products that originated in Europe.

Using the TTIP to erect additional restrictions on the use of generic names would act as replacement protection as EU tariffs are reduced. This would be infinitely worse than the existing system. Whereas tariffs can sometimes be overcome with competitively priced products, a ban on the use of the name of the product is impossible to overcome. It would cost the U.S. millions in lost trade and would render any deal on tariffs on such products meaningless.

The result of these myriad EU barriers is a trade imbalance in the dairy sector that cannot be justified on economic grounds. Last year, the U.S. imported $1.6 billion in dairy products from the EU but was able to ship only $97 million to the EU, a total only $20 million higher than U.S. sales to the Dominican Republic with its 10 million inhabitants. That is a trade deficit of $1.5 billion. Although Europe has at times suggested that the reason for this trade deficit is Europe's strength as a quality cheese producer, this disregards the current market reality where a sizable and growing number of U.S. companies are producing award-winning cheeses, including at times beating out European products in EU-based competitions. In fact it was a U.S. company that a few years ago won the last open competition for parmesan cheeses in the EU; the parmesan category in this EU competition was mysteriously eliminated after such a shocking upset.

Aside from the reality of a heightened level of the quality of U.S. cheeses, dairy trade consists of more than only consumer-ready cheeses. It includes dairy ingredients, butterfat products and cheeses for food service usage. The U.S. is now a major net exporter of a wide range of dairy products and could sell much more into the EU market, if not for the barriers I've mentioned.

The TTIP could be an important vehicle for addressing these concerns, but it has become abundantly clear that EU negotiators are focused entirely on expanding their sizable dairy trade surplus with the U.S. and

not at all on recognizing legitimate U.S. market access issues in the EU market. Of course, this is to be expected in any trade negotiation, but the EU has such a long and sordid history in its other free trade agreements of exempting sensitive agricultural sectors and erecting regulatory barriers to prevent meaningful liberalization, and it fully intends to try to do so in TTIP. Key European leaders have said as much publicly. The U.S. government cannot allow this to continue.

The fact is the EU is a different animal from any trading partner with which we have undertaken FTA negotiations and we are highly skeptical of its level of commitment to truly opening its shielded market. Even inclusion of a TPP-like SPS provision could not be presumed to be enough to guarantee that the EU would act in accordance with its terms. The EU has demonstrated time and again that it will avoid or delay bringing regulations into conformity with science-based SPS rules, if Member State politics or consumer activism gets in the way.

The EU is also known to avoid applying non-specific commitments to specific sectors, particularly within the livestock area, so we need sector-specific results. In other words, for dairy we need a fuller recognition of the safety of the U.S. dairy system, as noted above. This would enable a simplified, more stream-lined certificate program and an understanding that this recognition will be all that's required to allow trade, barring some unforeseen legitimate food safety issue. It must be clearly understood that regulations and restrictions cannot be imposed and justified to satisfy "consumer preferences."

We are deeply concerned by the continued focus on concluding TTIP negotiations this year despite a lack of sufficient progress to date in tackling these types of nontariff barriers to U.S. dairy exports. Meanwhile, the EU is actively and vocally arguing that it should be permitted to impose new barriers to competition and unique advantages for its producers via TTIP through special geographical indications provisions.

A "TTIP-Lite" result that does not truly establish simplified and dependable trading conditions for U.S. exports to the EU, including removal of the existing barriers in place, or that instead incorporates policies aimed at artificially increasing the $1.5 billion Transatlantic dairy trade deficit would be strongly opposed by America's dairy farmers. Solutions to the barriers we face must be established within the agreement itself; decades of discussions with the EU have indicated that continued dialogue, absent the pressure of a broader agreement, will not result in market-opening progress on nontariff barriers.

A bad deal as described above would be far worse than no deal. Negotiators should take the time to get the TTIP right by fully removing the barriers and future threats to U.S. dairy exports.

Conclusion

The U.S. dairy industry is thinking globally and it is prepared to do what our customers want and need. Our industry recognizes the market opportunities that exist overseas. We are prepared to capitalize on the good name that the U.S. has established as a reliable supplier of safe and nutritious products. Moreover, many throughout the U.S. dairy industry are undertaking significant long-term investment commitments in order to meet foreign demand.

We have learned that well-negotiated trade agreements can be highly beneficial to our industry if they are fully implemented, properly enforced and partner countries do not seek back-door means to undercut the trade concessions they granted. These past experiences also explain our qualified support for new trade negotiations and agreements such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), dependent not only on securing favorable terms for our trade interests but also on assurances that those terms will be undermined after the ink is dry on the texts.

I appreciate the opportunity to provide comments on this important issue to this committee. Thank you.

Attachment 1: U.S. Dairy Exports to Free Trade Agreement Partners

		U.S. Dairy Exports		
FTA	Date Entered into Force	Year Before Agreement	2015	Growth
		Million Dollars		Percent
Mexico -NAFTA	1/1/94	252	1,282	+409
Canada -NAFTA	1/1/94	65	554	+752
Jordan FTA	12/17/01	2	5	+150
Singapore FTA	1/1/04	8	67	+738
Chile FTA	1/1/04	3	68	+2,167
Australia FTA	1/1/05	6	137	+2,183
El Salvador (CAFTA)	3/1/06	5	16	+220
Honduras (CAFTA)	4/1/06	8	24	+200
Nicaragua (CAFTA)	4/1/06	4	21	+425
Guatemala (CAFTA)	7/1/06	30	33	+10
Morocco FTA	1/1/06	0.1	5	+4,900
Bahrain FTA	8/1/06	0.6	7	+1,067
Dominican Republic	3/1/07	17	77	+353
Costa Rica (CAFTA)	1/1/09	3	15	+400
Oman	1/1/09	0.6	2	+233
Peru	2/1/09	20	73	+265
South Korea	3/15/12	220	306	+39
Colombia	5/12/12	8	55	+588
Panama	10/31/12	32	40	+25

Source: USDA GATS

Chairman REICHERT. Thank you, Mr. Mooney.
Mr. Weber, you are recognized.

STATEMENT OF JOHN WEBER, PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL

Mr. WEBER. Good morning, Chairman Reichert, Ranking Member Rangel, and Members of the Subcommittee. My name is John Weber. I am a pork producer from Dysart, Iowa, and president of the National Pork Producers Council.

The economic well-being of American agriculture and the U.S. pork industry depends on maintaining strong export markets and creating new market access opportunities. With 95 percent of the world's population living outside of the United States, access to export markets is critical. Since 1989, when the United States began using bilateral and regional trade agreements to open foreign markets, U.S. agricultural exports have quadrupled in value and are now at $133 billion.

In our industry, we went from exporting just under $400,000 in the year the U.S.-Canada free trade agreement took effect to nearly $5.6 billion last year. The U.S. pork industry now is the number one exporter of pork in the world.

The benefits of free trade agreements to pork producers like myself is underscored by one fact. The U.S. pork industry now exports more pork to the 20 countries with which the United States has free trade agreements than to the rest of the world combined. And those exports, which last year added $48 to the price of each hog sold, don't just benefit all U.S. pork producers. They are a boon to the entire U.S. economy.

Pork exports support 110,000 U.S. jobs. We must continue to grow our exports and we must do so through free trade agreements which eliminate tariff and nontariff barriers to our products. The pending 12-nation TPP would do just that, opening or expanding markets that include nearly a half billion consumers and 40 percent of the world's gross domestic product. TPP is the biggest commercial opportunity ever for the U.S. pork industry, and NPPC strongly supports its passage and implementation.

Iowa State University economist Dermot Hayes estimates that U.S. pork exports to our 11 TPP partners would increase exponentially and help create more than 10,000 U.S. jobs. A couple of other points on TPP. First, the agreement has become the de facto global trade vehicle and other countries in the region are already lining up to get into it. Secondly, and more importantly, because other Asia-Pacific trade agreements are being negotiated without the United States, we cannot afford, either economically or geopolitically, to walk away from the fastest growing region in the world.

If we do turn our backs on that region, two things will happen. Some other country, such as China, which is now leading the talks for the 16-nation regional comprehensive economic partnership, they will write the rules for global trade. And the United States not only won't realize the benefits of TPP, it will lose market share in those 11 countries as other nations negotiate free trade agreements with them.

Congress must pass TPP and it must do so soon. Because TPP would become the global trade agreement, it would set the new

rules of trade and the bar for future trade agreements. That is important, given that we are now in talks with the European Union on free trade agreements.

TTIP, which would open a market of about 508 million consumers to our products. The 28-member EU is the second largest pork consuming market in the world. Obviously, China number one. But U.S. pork sales to the EU are lower than they are to the smallest of countries, such as Honduras. EU tariff and nontariff barriers have limited U.S. pork exports to one-twentieth of 1 percent of the EU pork consumption.

Assuming the EU barriers to the U.S. pork we want eliminated through TTIP negotiations are tariff rate quotas, costly and unnecessary trichinea risk mitigation requirements, and a ban on pathogen reduction treatments that produce a safer product for consumers. Iowa State's Dermot Hayes estimates that the increase in U.S. pork exports that would be generated by a TTIP agreement that eliminates all tariff and nontariff barriers would create nearly 18,000 new jobs in the United States.

U.S. pork producers' support for a final TTIP agreement is conditioned on the elimination of all tariff and nontariff barriers to U.S. pork exports to the EU, an outcome achieved in every other U.S. free trade agreement. TTIP should be no different.

Finally, I would like to thank the members of this committee, the entire Congress, and USTR for the recent efforts to get U.S. pork into the South African market, which until this year had banned our product through nonscience-based restrictions.

Thank you for this opportunity to tell you how free trade works for the U.S. pork industry. And I will be happy to answer any questions.

Chairman REICHERT. Thank you, Mr. Weber.

[The prepared statement of Mr. Weber follows:]

Introduction

The National Pork Producers Council (NPPC) is an association of 43 state pork producer organizations that serves as the global voice for the nation's pork producers. The U.S. pork industry represents a significant value-added activity in the agricultural economy and the overall U.S. economy. Nationwide, more than 68,000 pork producers marketed more than 115 million hogs in 2015, and those animals provided total gross income of nearly $24 billion. Overall, an estimated $23 billion of personal income and $39 billion of gross national product are supported by the U.S. pork industry.

Economists Daniel Otto, Lee Schulz and Mark Imerman at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of more than 37,000 full-time equivalent pork producing jobs and generates about 128,000 jobs in the rest of agriculture. It is responsible for approximately 102,000 jobs in the manufacturing sector, mostly in the packing industry, and 65,000 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry is responsible for nearly 550,000 mostly rural jobs in the United States. U.S. pork producers today provide 24 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide.

Exports of pork continue to grow. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for 21 of the past 24 years. In 2015, the United States exported nearly $5.6 billion of pork, which added more than $48 to the price that producers received for each hog marketed. Exports also supported approximately 110,000 jobs in the U.S. pork and allied industries. Net exports last year represented almost 25 percent of pork production.

U.S. Agriculture Benefits from Trade

The economic well-being of American agriculture depends on maintaining strong export markets and creating new market access opportunities. Export markets are in large part the result of trade agreements negotiated over the past two decades. Since 1989, when the United States began using bilateral and regional trade agreements to open foreign

markets, U.S. agricultural exports have nearly quadrupled in value and are now at $133 billion. Exports of high-value products such as pork have recently overtaken bulk products and now represent nearly two-thirds of the total; 25 years ago it was the reverse.

Farm and food exports have a positive multiplier effect throughout the U.S. economy. According to USDA's Economic Research Service, every $1 in U.S. farm exports stimulates an additional $1.27 in business activity. Off-farm activities and services include purchases by farmers of fuel, fertilizer, seed and other inputs and post-production processing, packaging, storing, transporting and marketing the products shipped overseas. Exports of $133 billion in fiscal 2015, therefore, generated another $168 billion in economic activity in the United States, bringing a total benefit to the economy of $301 billion. This economic activity creates jobs. Every $1 billion of U.S. agricultural exports requires the full-time work of approximately 7,550 Americans throughout the economy, according to the U.S. Department of Agriculture. Exports in 2015, therefore, supported more than 1 million full-time jobs, and more than half of those jobs were created in the past 10 years. In the meat sector, though, USDA puts the job-creating number higher. So the $2.7 billion increase in U.S. pork exports over the past 10 years has created well over 20,000 new U.S. jobs related to those exports.

Agricultural exports also help offset part of the U.S. nonagricultural trade deficit. Agriculture has been a positive contributor to the nation's trade balance for more than 50 years. For 2015, the agricultural surplus was $16 billion, according to USDA's Economic Research Service and Foreign Agricultural Service.

Importance of Trade to the U.S. Pork Industry

With more than 95 percent of the world's population living outside the United States, the U.S. pork industry continues to focus on increasing its exports. NPPC works to open new and to keep open and expand existing markets for U.S. pork products.

Exports of U.S. pork add significantly to the U.S. agricultural economy and to the overall U.S. economy. For each additional 1 percent of U.S. pork production that is exported, live hog prices increase by approximately $3 per hog. Higher prices eventually stimulate

additional pork production, and the industry expands to meet the new opportunity, thus creating more jobs. In fact, pork exports, which help all producers regardless of size, support more than 110,000 pork-related U.S. jobs.

Bilateral and regional trade agreements have created enormous benefits for the U.S. pork industry, with every agreement to date resulting in complete tariff elimination. Free trade deals such as those with Mexico, Canada, Central America, Australia and South Korea as well as the bilateral WTO accession agreement with China have generated a ten-fold increase in U.S. pork exports since the early 1990s, propelling the United States to the No. 1 exporter of pork in the world.

Free trade agreements (FTAs) have increased U.S. pork exports by more than 1,300 percent in value and by more than 1,200 percent in volume since 1989 – the year the United States began using bilateral and regional trade agreements to open foreign markets. In 2014, U.S. pork exports reached a record $6.6 billion.

The importance of free trade agreements to U.S. pork producers is underscored by one fact: The U.S. pork industry now exports more pork to the 20 countries with which the United States has FTAs than to the rest of the world combined.

U.S. pork producers last year exported almost $5.6 billion worth of pork and pork products, accounting for 24 percent of the industry's production. Those exports added $48.31 to the price producers received for each hog sold. Much of the exports were of cuts that in the United States are low value but abroad command higher prices.

Japan in 2015 continued to be in the No. 1 market for U.S. pork exports, taking in nearly $1.6 billion of pork. Mexico and Canada were the No. 2 and No. 3 markets, respectively, with China/Hong Kong and South Korea rounding out the top five. Pork exports to South Korea were up 6 percent for the year as the U.S. FTA with that country neared full implementation.

Exports in 2015 were down from 2014 because of several factors, including a stronger U.S. dollar – which makes U.S. exports more expensive in importing countries – and the West Coast ports work slowdown, which cost the U.S. meat sector hundreds of millions of dollars over the nearly four-month-long labor dispute between longshoremen and port facility companies.

Forecasts from pork industry analysts and USDA's Foreign Agriculture Service estimate that U.S. pork exports in 2016 will rebound provided the dollar stays steady, there are no shipping issues and the world economy continues to improve following several years of sluggish growth.

One factor that can nearly guarantee an uptick in U.S. pork exports is expansion of overseas markets through free trade agreements. The United States is on the cusp in the Asia-Pacific of implementing the most significant regional FTA ever negotiated, is in the middle of negotiations with Europe on another potentially huge agreement, recently gained partial access to a growing African market and is looking south in Latin America for another new market.

Trans-Pacific Partnership (TPP)

The 12-nation TPP, which includes the United States, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, represents "the most important commercial opportunity ever for U.S. pork producers," according to Iowa State University economist Dermot Hayes, who estimates the TPP will exponentially increase U.S. pork exports and help create more than 10,000 U.S. jobs tied to those exports.

The TPP countries combined have more than 800 million consumers and account for 40 percent of global GDP.

NPPC led a massive U.S. agricultural campaign to secure the best possible deal for U.S. pork and other products in the Asia-Pacific regional trade agreement, which was concluded in October 2015 after nearly six years of negotiations. The multilateral FTA

eliminates virtually all tariff and non-tariff barriers on U.S. pork exports to the TPP countries.

Here are the benefits of the TPP for U.S. pork producers from the top export markets:

- **Japan** – The largest market in terms of value and the second largest volume market in the world for U.S. pork exports, Japan in 2015 imported more than 406,000 metric tons of pork, valued at $1.58 billion. The high volume of U.S. pork exports to Japan takes place despite significant import protection that country has erected through a complex system of tariffs commonly referred to as the "Gate Price" system. The impact of the Gate Price on U.S pork will be virtually eliminated through the TPP.

  The Asian nation will eliminate tariffs on all products, including the Gate Price on processed pork, in six to 11 years from entry into force of the agreement. For processed products not subject to the Gate Price such as seasoned ground pork and sausages (the U.S. shipped close to $300 million of these products in 2015), tariffs will be eliminated in year 6.

  Japan will reduce the impact of the Gate Price on chilled and frozen pork upon entry into force of the TPP. The Gate Price will remain at 524 Yen per kilogram indefinitely. However, the specific duty that is assessed when products do not meet the Gate Price will phase down to 50 Yen per kilogram in Year 10. There will be a safeguard on processed product and two safeguards on chilled/frozen pork. Those disappear in Year 11.

- **Vietnam** – Despite being a larger consumer of pork than Mexico (the largest volume destination for U.S. pork), U.S. pork exports to Vietnam represent less than 2 percent of that country's pork consumption. U.S. pork exports have been limited by tariffs and a series of non-tariff barriers. Under the TPP, Vietnam will eliminate tariffs on pork and pork products, currently as high as 30 percent, in five to 10 years. It will eliminate tariffs on frozen cuts and shoulders in eight years and

on preserved pork, fresh pork cuts and shoulders in 10 years. In addition, Vietnam's non-tariff barriers, which are being eliminated, are the subject of a side letter.

- **Australia** – Import duties for all pork products were immediately locked at zero when the U.S.-Australia FTA was implemented in 2005. While pork is the top U.S. agricultural export to Australia, it is not eligible to be sold at retail in Australia because of non-science-based sanitary-phytosanitary (SPS) barriers that country has in place. NPPC is working with the U.S. government to facilitate a review of the SPS issues in Australia.

- **Malaysia** – Nearly all of Malaysia's tariffs on pork and pork products will be eliminated upon entry into force of the TPP agreement. In addition, Malaysia dropped its non-tariff-barriers on U.S. pork in December 2014.

- **Singapore** – Import duties on all pork products were immediately locked at zero when the U.S.-Singapore FTA was implemented in 2004. NPPC is working with the U.S. government to facilitate a review of certain non-tariff measures in Singapore.

- **New Zealand** – Currently, pork from Australia, Canada and China enters New Zealand duty-free, but the United States must pay an import tariff. On entry into force of the TPP Agreement, tariffs on U.S. pork and pork from other TPP nations will be eliminated except for hams and shoulders, which will go to zero in Year 3.

- **Chile** – Import duties on most pork products went to zero immediately when the U.S.-Chile FTA was implemented in 2004. For pork offal, the duty was phased out by 2009.

- **Peru** – Tariffs on U.S. pork either now are zero or will be zero within three years under the U.S.-Peru FTA.

Economically and geopolitically, the United States cannot afford to walk away from the fastest growing region of the world. Doing so not only would result in the United States forgoing expanded access to nearly half a billion consumers, but many, if not all, U.S. economic sectors would lose existing market shares in the region as other trade deals – without the United States – are concluded. The European Union, for example, already is negotiating FTAs with nations in the Asia-Pacific, and the China-led, 16-country Regional Comprehensive Economic Partnership negotiations are well underway.

NPPC is urging the Obama administration to address TPP implementation issues in some countries and asking congressional lawmakers to support the trade agreement when it comes up for a vote.

Transatlantic Trade and Investment Partnership (TTIP)

U.S. pork producers' support for a final TTIP agreement between the United States and the European Union is conditioned on the elimination of all tariff and non-tariff barriers to U.S. pork exports to the EU. This outcome for pork was achieved in every other U.S. FTA, and TTIP should be no different.

The EU, with 508 million mostly affluent consumers, is the second largest pork consuming market in the world. (China is No. 1.) Yet U.S. pork sales to the EU are lower than they are to small countries such as Honduras. Current EU sanitary and phytosanitary (SPS) and tariff barriers have resulted in U.S. pork exports to the European bloc amounting to less than 0.05 percent of EU pork consumption.

In the absence of tariff rate quotas and SPS restrictions, the EU would be one of the largest markets in the world for U.S. pork exports. According to Iowa State University economist Dermot Hayes, the increased U.S. pork exports that would be generated by a TTIP agreement that eliminates all tariff and non-tariff barriers would create nearly 18,000 new jobs in the United States.

The following are EU impediments to increased U.S. pork exports that must be eliminated through the TTIP:

- **Tariff Rate Quotas** – During the WTO Uruguay Round, the EU refused to adopt the agreed on minimum access quantity for its tariff rate quota on pork. Although the agreement called for a minimum quota of 1 percent of domestic consumption – which would have been around 1 million metric tons – the EU approved quotas totaling only 70,000 metric tons. Moreover, taking advantage of that small total quota is made difficult by high in-quota duties and a licensing system that makes it difficult to adjust to market conditions. Shipping pork to the EU outside the quotas is impossible because out-of-quota duties are set at prohibitively high rates.

- **Ractopamine.** – The EU bans the use of ractopamine in pork production and the import of pork produced with ractopamine despite the absence of a science-based risk assessment to justify its actions. The EU ban on ractopamine means that only a small fraction of U.S. pork – pork verified to be free of ractopamine – can be shipped to the EU.

  In July 2012, the U.N.'s Codex Alimentarius Commission established a maximum residue level (MRL) for ractopamine. In recognizing the safety of ractopamine, the Codex joined the U.S. Food and Drug Administration and 25 other countries that have approved the product for use in pork production. Additionally, 75 countries allow for the importation of pork that has been fed ractopamine even though it is not allowed to be fed in their domestic herds.

- **Trichinae Mitigation.** – The EU currently requires that the United States conduct trichinae risk mitigation such as testing or freezing as a condition for market access. The mitigation requirements are costly and unnecessary. USDA has determined that there is negligible risk for trichinae in the U.S. commercial swine herd. U.S. experts estimate the chance of a human getting trichinosis from the consumption of U.S. pork at 1-in-300 million.

- **Pathogen Reduction Treatments**. – The EU currently prohibits the use of anti-microbial or pathogen reduction treatments (PRTs) for pork despite the facts that

scientific studies have demonstrated that PRTs produce a safer product for the consumer and that the EU has approved such a treatment for beef. The ban extends to imports, which has the effect of making safe U.S. pork prohibitively costly to process for the EU market.

PRTs were approved for use in pork production in the United States after a rigorous risk assessment by FDA. The assessment found that their use, in accordance with recommended manufacturing practices, was a safe and effective way of eliminating bacterial contamination on pork products and of improving product safety for consumers. The Codex Commission also has recognized the safety of PRTs in meat production when used in accordance with good manufacturing practices.

Numerous studies have found greater pathogen reduction by lactic acid than by water alone. Additionally, studies on bacterial numbers over time indicate that pathogenic bacteria counts on lactic-acid-treated samples usually remain significantly lower for at least two to three weeks than either untreated or water-washed samples. Until recently, water was the only treatment approved by the EU.

In February 2013, the EU approved the use of lactic acid as a PRT for beef. That approval followed an endorsement by the European Food Safety Authority, which found that the use of lactic acid for beef posed "no significant concerns for consumers." EU meat processors welcomed the decision as providing a new and effective tool to reduce food contamination. The EU decision was promoted at the time as a sign of good faith at the start of the TTIP negotiations. However, approval of lactic acid, the most widely used PRT in the U.S. pork industry, and other PRTs used for pork was withheld.

- **Plant Approvals** – Although the EU did simplify the process for plant approval for export to the EU, there are still significant costly requirements that deter most U.S. packers from seeking plant approval. As NPPC has pointed out for years, the United States accepts a systems-based approach for inspection of countries that

> export to the United States. There is no reason the EU cannot accept the USDA plant inspection and approval system for pork plants, something the majority of U.S. trading partners already have done. While NPPC currently supports the TTIP negotiations and recognizes the enormous potential for increased trade of a final agreement, U.S. pork producers have serious doubts about whether the EU is willing to fully open its market to U.S. pork. The EU's track record on market access for pork is dismal, and it previously has publicly stated its unwillingness to eliminate tariffs on beef, pork and poultry.

NPPC is urging U.S. trade negotiators to demand that the EU eliminate all tariff and non-tariff barriers, including its non-science-based SPS requirements.

South Africa

Until early this year, South Africa blocked U.S. pork exports based on what the South African government said were concerns about porcine reproductive and respiratory syndrome (PRRS), pseudorabies (PRV) and trichinae, in addition to several other issues. The ban on U.S. pork was in place despite the U.S. government and the U.S. pork industry providing the South African government information demonstrating that U.S. pork is safe and poses a negligible risk of transmission of PRRS, PRV and trichinae.

In January, after the Obama administration threatened to suspend its trade benefits under the African Growth and Opportunity Act (AGOA) – duty-free access for products exported to the United States – South Africa agreed to partially lift its ban on U.S. pork, allowing a variety of raw, frozen pork, including hams and shoulders, for unrestricted sale and other pork for further processing. NPPC agreed to accept partial market access for U.S. pork even though there is no scientific justification for restricting any U.S. pork.

While the agreement struck with South Africa is not perfect, there is good news for U.S. pork producers: U.S. pork now is flowing to South Africa.

NPPC is appreciative of the work of U.S. trade officials and members of Congress to create this opportunity for pork producers. NPPC is closely monitoring the implementation of the market access agreement. If South Africa does not live up to the agreement to allow even partial market access to U.S. pork, NPPC will be back to this committee for help enforcing the deal.

Argentina

While the United States has FTAs with several South American countries, among the ones with which it does not and which represents a potentially good market for U.S. pork is Argentina, the second largest economy in South America, with almost 43.5 million people.

Currently, though, U.S. fresh and frozen pork are ineligible to be shipped to Argentina because of unscientific trichinae mitigation requirements and other sanitary issues.

Recent political changes in the country, specifically the election last November of pro-business and pro-trade Mauricio Macri as president, have brightened the prospects of bilateral trade with the Latin American nation. In fact, NPPC has been working with USDA in negotiating an export certificate with Argentina that would open its market to more U.S. pork.

Economist Dermot Hayes of Iowa State University sees significant opportunity for U.S. pork exports to Argentina, noting that fresh pork consumption has increased from 1 kilogram in 2005 to 10 to 12 kilograms today. The Argentine pork industry estimates that by 2020, consumption will increase to 16 to 20 kilograms.

Conclusion

The U.S. pork industry is the No. 1 exporter of pork in the world, and America's pork producers are the "poster children" for free trade agreements. Maintaining those positions and ensuring the viability of the U.S. pork industry depends on growing exports through opening new markets and expanding existing ones.

Mr. Foreman, you are recognized for 5 minutes.

STATEMENT OF DALE FOREMAN, CHAIRMAN, FOREMAN FRUIT COMPANY

Mr. FOREMAN. Thank you, Mr. Chairman. We appreciate the opportunity to be here. Chairman Reichert and Mr. Ranking Member Rangel, thank you very much for your interest in this most important topic.

My wife Gail and I have been fruit farmers in Wenatchee, Washington, for over 30 years. Our three children and their spouses have now returned home to help us expand the business. I am also the past chairman of both the Washington Apple Commission and the USApple Association. I have had the opportunity to travel to over 25 countries throughout my career to promote the sale of American tree fruit, including New York apples, Vermont apples, Virginia apples, Minnesota apples, Michigan apples, and Washington, Oregon, Idaho, and California apples.

Pacific Northwest is home to family-owned orchards that provide approximately 66 percent of apples, 75 percent of the pears, and 80 percent of the sweet cherries grown in the United States. Export markets are critical to the success of the tree fruit industry. Approximately one-third of our crop, that is over $1 billion, is sold through export markets every year.

Korea's 24 percent tariff on sweet cherries was eliminated in 2012 through the U.S.-Korea free trade agreement. Cherry exports nearly doubled in the next year and have continued to grow exponentially, making it the third largest cherry market this year.

Some countries, many with tree fruit industries of their own, impose sanitary and phytosanitary policies that they purport to address human health or plant pest or disease concerns but which we believe are often just not based on science. They are not based on an accurate risk assessment, and they are actually created to protect their domestic industries from American competition.

While not completely eliminating these type of nontariff barriers, the TPP includes a sanitary/phytosanitary chapter that encourages participating countries to conduct risk assessments and base their policies on the best available science. This chapter also requires participating countries to make available an appeals process that allows for a timely response by the importing country when a shipper disputes the rejection of a shipment on arrival. This has happened to me. It is expensive, it is painful. We need an appeals process that is timely.

The TPP eliminates the 10 percent tariff on apples, pears, and cherries in the growing market of Vietnam. And the Asia-Pacific region that this agreement covers is one of the most commercially important areas in the world for tree fruit. It is one of the fastest growing.

By enhancing our trade relationships with these countries, the TPP would improve the platform to address bilateral disagreements, including SPS issues, and raise the rule of law standards for trade policies in other countries throughout the region. For these reasons, the Northwest Horticultural Council that represents the Pacific Northwest tree fruit industry on international trade

issues has adopted a position in support of the TPP and encourages Congress to move forward with approving this agreement.

I am also in favor of selling apples and pears and cherries to Cuba, Mr. Rangel.

Many previous trade agreements adopted by the United States have benefited tree fruit growers, and I am certainly supportive, in general, of our government pursuing new agreements that are fair, expanding free trade opportunities. However, I would like to highlight a concern about the TTIP that is currently being negotiated with the European Union.

While the EU used to be an important market for U.S. apples and pears, a hazard-based principle approach to the regulation of crop protection tools and food additive tolerances has caused our tree fruit exports to plummet. In spite of the significant increase in crop size, our apple exports to the EU have gone down from 1.1 million boxes in 2001 to only 151,000 boxes this year. Pear exports, and I am a large pear grower, have reduced from 574,000 boxes to little more than 9,000 boxes in the same period. I am skeptical that TTIP will bring about the drastic change to the EU's restrictive regulatory framework necessary to make Europe a viable export market.

At the same time, they are considering allowing Poland, which is the second largest apple grower in the world, to import their apples into the United States without a proper pest risk assessment. That is a very bad bargain. And we would ask you to concern yourselves with the fairness of the TTIP negotiations as they go forward.

I see my time is up. I want to thank you very much for the opportunity to be here today.

Chairman REICHERT. Thank you, Mr. Foreman.

[The prepared statement of Mr. Foreman follows:]

Testimony of Dale Foreman,
Foreman Fruit Company
"Expanding U.S. Agricultural Trade and Eliminating Barriers to U.S. Exports"
House Committee on Ways and Means
Subcommittee on Trade
June 14, 2016

Thank you Chairman Reichert and Ranking Member Rangel for the opportunity to testify before the Subcommittee today on expanding agricultural trade and eliminating barriers to U.S. exports. I have been an apple, pear, and cherry grower for more than 30 years. I am the chairman of Foreman Fruit Company, a large orchard operation based in Wenatchee, Washington, that my wife Gail and I operate with our three adult children and their spouses.

I am also a past chairman of both the Washington Apple Commission and the U.S. Apple Association, and have had the opportunity to travel to many foreign countries to promote American tree-fruit during my career. I have been in the fruit markets of Hong Kong, Taipei, Cairo, and Jerusalem. I have met with our U.S. trade officials in New Delhi, Quito, Bogota, and Buenos Aires. I have met importers throughout India, Chile, Mexico, Costa Rica, Panama, and all over Europe. I know how vital foreign trade is to our country. In addition to farming, I am an attorney and previously served in the Washington State Legislature and was the House Majority Leader from 1995 to 1997.

The Pacific Northwest is home to family-owned orchards that provide approximately 66 percent of the apples, 75 percent of the pears, and 80 percent of the sweet cherries grown in the United States. Export markets are critical to our industry, with approximately one-third of the crop – valued at approximately $1 billion – exported to dozens of countries across the globe each year.

The trade policies implemented by the United States and its trading partners matter to the growers, packers, and shippers of Pacific Northwest tree-fruit. For example, when Korea's 24 percent tariff on cherries was eliminated in 2012 through the U.S.-Korea Free Trade Agreement, cherry exports nearly doubled to this country in the first year and have continued to grow exponentially, making it our third largest market in 2015.

It is important to note that tariffs are only part of the picture when it comes to barriers to trade. Some countries, many with tree-fruit industries of their own, impose sanitary and phytosanitary (SPS) policies purportedly intended to address human health or plant pest and disease concerns, but which we believe are often not based on science or an accurate risk assessment, and are actually created to protect their domestic industries by keeping our products out of the marketplace.

These SPS barriers, such as requiring an onerous process like methyl bromide fumigation or months-long cold storage requirements to make the fruit "safe" before export, imposing burdensome pesticide residue test-and-hold policies, or employing questionable inspection

protocols at the port, increase cost and risk for shippers – sometimes to the point of effectively closing major markets or potential markets to commercial shipments. Such policies exist in countries like Australia, Korea, and Japan.

While not completely eliminating these types of non-tariff barriers, the negotiated Trans-Pacific Partnership (TPP) includes a Sanitary-Phytosanitary chapter that encourages participating countries to conduct risk assessments and base their policies on the best available science. This chapter also requires participating countries to make available an appeals process that allows for a timely response by the importing country when a shipper disputes the rejection of a shipment upon arrival. While the appellate decision may still not be in favor of the shipper, the guarantee of a timely ruling may allow for the possibility of diverting the shipment to another market while these perishable products are still in good condition.

On the tariff side, the TPP eliminates the 10 percent tariff on apples, pears, and cherries in the growing market of Vietnam, which is already the sixth largest market for Washington apples – in spite of apples shipped by our Australian and New Zealand competitors entering duty-free.

The agreement also reduces the 17 percent tariff on apples, 5 percent tariff on pears, and 9 percent tariff on cherries in Japan. Japan's phytosanitary protocol currently prevents the United States from exporting apples regardless of tariff levels. However, this important trading partner is already a top-ten market for cherries, and there is the potential for additional growth with the elimination of this 9 percent tariff.

It is also worth noting that the Asia-Pacific region this agreement covers is one of the most commercially-important areas in the world for tree-fruit – and one of the fastest growing. By enhancing our trade relationship with these countries, the TPP would improve the platform to address bilateral disagreements, including on SPS issues, and raise the rule-of-law standards for trade policies in other countries throughout the region.

For these reasons, the Northwest Horticultural Council (NHC) that represents the Pacific Northwest tree-fruit industry on international trade issues has adopted a position in support of the TPP, and encourages Congress to move forward with approving this agreement. It may be worth noting that I am a former trustee of the NHC.

Many previous trade agreements adopted by the United States have benefited tree-fruit growers and I am certainly supportive in general of our government pursuing new agreements that are fair to tree-fruit exporters. However, I would like to highlight some concerns our industry has with the Trans-Atlantic Trade and Investment Partnership (TTIP) currently being negotiated with the European Union (EU).

While the EU used to be an important market for U.S. apples and pears, a hazard-based or precautionary principle approach to the regulation of crop protection tools and food additive tolerances has caused our tree-fruit exports to plummet. In spite of a significant increase in crop size, apple exports to the EU have gone down from more than 1.1 million boxes in 2001 to about

151,500 boxes this year, and pear exports have reduced from more than 574,000 boxes in 2001 to a little more than 9,000 in the same time period.

I am skeptical that TTIP will bring about the drastic change to the EU's restrictive regulatory framework necessary to again make Europe a viable export market. Yet at the same time, USDA's Animal and Plant Health Inspection Service (APHIS) recently released a proposal for public comment to allow apples and pears from certain EU countries – including Poland, which has not exported to the United States previously and therefore has not gone through a full pest risk assessment to ensure that imports would not place our domestic industry at risk by introducing new pests – to enter the United States under a systems approach-protocol.

While our industry has no objection to reducing administrative burdens in trade so long as sufficient safeguards against importing pests and diseases are in place, we oppose moving forward with the EU proposal because we do not believe this threshold has been met. In fact, we are concerned that APHIS was pressured to move forward on this proposal too quickly to fully consider the pest risks to U.S. growers – for political reasons related to TTIP negotiations.

The introduction of new pests and diseases creates the double threat of making it more difficult for American growers to provide top-quality fruit to consumers, and jeopardizing entire export markets. I would ask the Committee members to monitor this proposal and evaluate if it is necessary or beneficial to move forward as proposed, given the tenuous nature of TTIP negotiations. Asking apple and pear growers to absorb the financial costs associated with increased imports – including from Poland, the second largest apple-growing country in the world behind China – in return for progressing trade negotiations, is a very bad trade-off and is not the way to generate support for trade.

I would also like to highlight how policies seemingly unrelated to trade can have a significant impact on the ability of growers to get their goods to international markets. For example, the failure of President Obama to intervene in last year's labor dispute that caused slowdowns at West Coast ports, cost Pacific Northwest apple and pear growers more than $100 million in lost sales overseas. I would encourage Congress to change federal law to prevent future labor contract negotiations from interrupting commerce at our nation's ports in such a draconian way again.

Seemingly domestic decisions by other countries can also impact trade. Burdensome licensing requirements imposed by the Indonesian government on their own importers have made it more difficult for us to export to this commercially-important market for apples, which has and will continue to have an effect on the bottom line for tree-fruit growers, packers, and shippers – especially of Red Delicious apples, which are very popular in Indonesia. Our industry supports and appreciates the decision by the U.S. Trade Representative (USTR) to contest these unfair policies at the World Trade Organization (WTO). Strong enforcement of WTO rules is increasingly needed.

I would also like to highlight the embargo imposed by Russia in 2014 on agricultural products from the United States and other countries, which was issued in retaliation for the sanctions our government set on Russia for its actions against Crimea. The embargo has created

a serious imbalance in world apple and pear trade by disrupting well-established trade flows. It has had a huge financial impact on Northwest pears, as Russia was our third largest market before the embargo, with nearly 500,000 boxes shipped in the 2013/2014 crop year.

While there are certainly a lot of challenges for Washington tree-fruit growers looking to export their products, I would like to end my testimony as I began it – on a positive note. Whether it be working to reverse a bad policy decision by a trading partner or helping get answers for an individual shipper whose container has been held up at an international port, USTR, USDA's APHIS, and USDA's Foreign Agricultural Service (FAS) representatives serving in Washington, D.C., and overseas do an excellent job representing and advocating for our agricultural exporters, in what can often be confusing and difficult regulatory environments. In addition, the FAS-administered Market Access Program has played an invaluable role in leveraging grower dollars to increase access to foreign markets for all three of the crops that I grow.

I believe that these agencies – and this program – are good investments of taxpayer dollars.

With more than 95 percent of the world's population living outside of the United States, the continued success of our growers, packers, and shippers is dependent on maintaining and expanding access to these international markets. If we do not continue to pursue fair trade agreements and policies that lower both tariff and non-tariff barriers for U.S. exporters, we will not only lose out on opportunities to expand exports, but will also jeopardize our current market share, as our international competitors plow full steam ahead on new agreements that will lower their tariff rates and place our growers at a disadvantage. The United States must also be vigilant both in holding our trading partners accountable for fair, science-based trade policies, and in meeting our own international trade obligations.

Once again, thank you for the opportunity to testify before you today. I am happy to answer any questions the subcommittee may have.

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Ms. McClung, you are recognized for 5 minutes.

STATEMENT OF HEATHER MCCLUNG, CO-OWNER, SCHOONER EXACT BREWING COMPANY; PRESIDENT, WASHINGTON BREWERS GUILD

Ms. MCCLUNG. Thank you. Chairman Reichert, Ranking Member Rangel, and the Members of the Subcommittee, thank you for the opportunity to testify.

My name is Heather McClung, and I am an independent craft brewer. I am here to lend the perspective of a manufacturer whose relationships with their agricultural partners are vitally important to our own success. I will testify as to how exporting beer benefits, not only urban and rural breweries and their communities, but also the hop and multigrain industries.

Schooner EXACT is a relatively small producer in Washington State. We began in 2007 as a side project to our day jobs as educators. Schooner has grown from brewing on a half-barrel system with zero employees to a 20-barrel system and 25 employees. Today, we run a brewery restaurant and distribute kegs and packaged product throughout Washington, Oregon, and Japan.

Washington State has the second highest number of breweries in the Nation with over 300 breweries. I have had the pleasure of serving as the Washington Brewers Guild president for three terms, steering the guild through threatening times, and advancing State and Federal policy and legislation, such as the Craft Beverage Modernization and Tax Reform Act, favorable to brewers of all shapes and sizes as well as our agricultural partners.

Beer is only as good as its ingredients. Hop varietal development increasingly allows world beer consumers to have the opportunity to taste the creativity and diversity of American agriculture. The hop industry's innovation is being exported as raw ingredients, as well as in its final form, beer.

The American beer industry as a whole supports 1.75 million jobs, pays wages and benefits approaching $7.9 billion, and generates more than $200 billion in economic impact. Exports continue to contribute to the overall industry growth. Annual U.S. beer exports have seen an average growth rate of 14.3 percent over the last 5 years.

Within this larger number, craft brewing has experienced an average growth rate of 31 percent since the inception of the Brewers Association Export Development Program, the EDP. The EDP receives funding from the BA, small independent brewery members, and the USDA Market Access Program. The EDP uses MAP funds to examine potential target markets for the U.S. craft beer exporters, participate in trade shows, conferences and competitions, as well as conduct seminars and prepare technical materials about craft brewing and product quality.

Schooner EXACT is a perfect example of how a small craft brewery can benefit from the EDP. The resources, networking, and competition opportunities are invaluable to a craft brewer. Our first event with the EDP was the American Craft Beer Experience, a two-day event in Tokyo and Osaka, Japan. Over 4,000 attendees sampled beer produced by U.S. craft brewers.

In Osaka, the EDP assisted with a seminar educating retailers and the media on maintaining beer quality through proper storage and serving conditions. After our visit, Schooner's sales climbed 29 percent. We are planning another Japan trip this year.

Our participation in the EDP has also allowed us to enter international competitions. One such competition was the Brussels Beer Challenge where Schooner EXACT won a gold medal for Hopvine IPA and overall best in show against 1,100 international entries. Though our export volume is relatively small, it is an important segment to our business, providing another sales channel in an increasingly competitive U.S. marketplace.

Schooner EXACT has been relatively lucky to not encounter many obstacles to export activities. However, the EU's push for protecting beer styles, such as Kolsch and Oktoberfest, are worrisome. The beer industry appreciates any efforts that ensures that geographic indicator protections do not invalidate existing trademarks while granting users the ability to continue to use common names. Quality beer is not possible without quality ingredients. Craft brewers have higher hop and malt usage rates than their competitors, a direct benefit to the American agricultural producers.

By implementing governmental policy favorable to the hop and barley industries, it ensures that the growing craft segment will have access to stable sources of ingredients from which to create a truly American beverage for domestic and international markets.

Lastly, the USDA export assistant programs available to the agricultural community are relied upon and much needed. Congress can continue to expand U.S. trade and exports by reauthorizing and expanding upon those programs.

After our success in the Japanese market, Schooner is eager to investigate new export markets for our beer. Hopefully the USDA, MAP, BA, as well as stable American grain and hop industries will all be along for the ride.

Thank you for the opportunity to appear before your committee.

[The prepared statement of Ms. McClung follows:]

Written Statement by

Heather McClung
Co-Owner, Schooner EXACT Brewing Company
President, Washington Brewers Guild

House Committee on Ways and Means Subcommittee on Trade
U.S. House of Representatives

"Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports"

June 14, 2016

Chairman Reichert, Ranking Member Rangel, and members of the Subcommittee,

Thank you for the opportunity to testify. My name is Heather McClung and I am an independent craft brewer. I am here to lend the perspective of a manufacturer whose relationships with their agricultural partners are vitally important to our own success. I will testify as to how exporting beer benefits not only the urban and rural breweries and their communities, but also the hop and malted grain industries.

Background

Schooner EXACT (SE) is a relatively small producer in Washington State. SE began in 2007 as a side project to our day jobs as educators. In 2010, we hired our first employees and that fall made the leap to full time brewery owners. SE has grown from brewing on a half barrel (bbl) [1] system producing 55 bbls/year with zero employees to a 20 bbl system, producing over 3500 bbls/year and 25 employees. It has been quite the journey starting a business in the midst of a recession. Today we run a brewery restaurant and distribute kegs and package products throughout Washington, Oregon and Japan.

During 1999, a handful of brewers joined forces to advocate for the brewing industry in Olympia, Washington. This was the beginning of the Washington Brewers Guild. When I became President six years ago, there were 127 breweries in the state. Today, Washington State has the second highest number of breweries in the nation with over 300 breweries, one third of which began in the last two and a half years. The high number of new businesses has presented the Guild with interesting educational and legislative challenges. I have had the pleasure of serving as the Guild President for three terms, steering the Guild through threatening times and advancing state and federal policy and legislation, such as the Craft Beverage Modernization and Tax Reform Act (H.R. 2903), favorable to brewers of all business models, and breweries in both rural and urban centers. This legislation is also fully endorsed by our agricultural producers like the Hop Growers of America and the National Barley Growers Association. Gayle Goschie a hop grower from Oregon referenced the legislation as something that would be beneficial to hop growers in her testimony to the Senate Finance Committee in April.

[1] 1 barrel (bbl) equals 31 gallons; 2 15.5 gallon kegs

Hops take Center Stage in Craft Brewing

Beer is only as good as its ingredients. In Washington State, the apples are amazing, wine grapes are spectacular, but the jewel in the crown are the hops. I have the privilege of brewing within close proximity to the world's best source of quality innovative hops. The continuing creativity of our hop farmers fuel the passions of craft brewers as they experiment with new flavor and aroma profiles, much to the delight of consumers.

Traditional US hop rates have been in the .2 -.25 pounds per bbl range. Microbreweries fall into the high hop rate user category; showcasing the flavor and aromas of hops by utilizing an average hop rate of 1.39 pounds per bbl. Craft brewers self-report using 135 varieties of hops in 2015, up from 88 varieties in 2009. Hop varietal development increasingly allows world beer consumers to have the opportunity to taste the creativity and diversity of American hop agriculture. The hop industry's innovation is being exported as raw ingredients as well as in its final form; beer.

Exports Experience Accelerating Growth Rate

The American beer industry as a whole supports 1.75 million jobs, pays wages and benefits approaching $7.9 billion, and generates a $253 billion economic impact. Exports continue to contribute to the overall industry growth. Annual US Beer Exports have seen an average growth rate of 14.3% over the last 5 years to over 5,300,000 bbls[2]. Within this larger number, craft beer has experienced an average growth rate increase of 31% since the inception of the Brewers Association (BA) Export Development Program (EDP) in 2004 to 446,000 bbls[3] being exported today.

The BA Export Development Program receives funding from the BA, small independent brewery members of the BA, and the USDA Market Access Program (MAP). The EDP uses MAP funds to:

- Research export markets as potential target markets for US craft beer exports
- Participate in trade shows, conferences, competitions, and other events that generate exposure for the US craft brewing industry and foster interaction between importers and US suppliers
- Conduct seminars and prepare technical materials about craft brewing and the care required to ensure product quality and freshness to the consumer
- In general, maintain the US industry's position as leaders in craft brewing innovation, quality, marketing, and trade

MAP Dollars at Work: Export Development Program Benefits Small Producers

Schooner EXACT is a perfect example of how a small craft brewery can benefit from the EDP. We joined the program a little less than a year into our exporting activity. The resources, networking, and competition opportunities are invaluable to a craft brewer. Our first event with the EDP was the American Craft Beer Experience, a two-day event in Tokyo and Osaka, Japan. Over 4,200 attendees sampled beer produced by US craft brewers. The attendees included retailers, Japanese brewers, ex-pats, and people interested in beer produced by American craft brewers. In Osaka, the EDP assisted with a seminar

[2] Beer Institute, 2015
[3] Brewers Association, 2015

educating retailers and the media on maintaining beer quality upon arrival through proper storage and serving conditions.

Besides the Brewers Association sponsored event, Schooner EXACT took the opportunity to conduct thank you visits to our Japanese retailers, hold promotional events, and participate in a collaboration brew with Ushitora brewery in Shimotsuke, Tochigi, an hour's train ride outside of Tokyo. Our experience was unforgettable. The people we interacted with were passionate about American craft brewing and eager to learn and taste more styles of beer! After our visit, our sales climbed 29%. Schooner EXACT is planning another Japan trip this year, hopefully to coincide with the next American Craft Beer Experience.

In addition to the growth in the Japanese market, our participation in the EDP has also allowed us to enter international competitions with minimal logistics. One such competition was the Brussels Beer Challenge. This competition attracted over 1,100 entries, judged by many of the same judges as the World Beer Cup which is produced by the Brewers Association. Schooner EXACT won a gold medal in the IPA category for Hopvine IPA and advanced to secure Best in Show. For an American beer, and a Northwest-style IPA at that, to win Best of Show in Belgium is truly an honor and a testament to our agricultural partners in the hop and malted grain industries.

While the exported percentage of Schooner EXACT's total production volume is relatively small, it is an important segment to our business by providing another sales channel in an increasingly competitive US marketplace, as well as attaining international recognition that raises our profile amongst US consumers. Being able to brew in a Japanese brewery and in turn receive visits and collaboration brew requests at our own brewery, provides the opportunity to engage in the global brewing community and create relationships with our brewing counterparts in other countries.

Congressional Action to Support Export Activities

Schooner EXACT has been relatively lucky in not encountering many obstacles during export activities. Feedback from other breweries and importers include: maintaining quality during shipping and customs processes, labeling requirements, inventory level fluctuations, and investing in additional equipment to support an increase in export production. Besides the equipment procurement through programs such as Small Business Administration's Export Loans, the other concerns are outside the influence of Congress.

Geographic Indicators (GI) is one area of concern that falls under the purview of the Trade Department. The European Union's push for protecting beer styles such as Kölsch and Oktoberfest are worrisome. The beer industry appreciates the continued efforts by the Trade Representative outlined in the Special 301 Report to ensure that any GI protections do not invalidate existing trademarks while granting users the ability to continue to use common names. We also support the opposition to extending the wine GIs to other products, such as beer.

Quality beer is not possible without quality ingredients. The other way to maintain and grow exports is to sustain a stable agricultural climate for the hop and grain producers. Since 1987, hop producers have seen three boom or bust cycles. Historically, the hop industry has been influenced by a few primary customers seeking alpha (bittering) hops. When these customers are acquired by another brewing entity, hop varieties and purchasing cycles can change dramatically. The rise of microbreweries and their higher hop usage rates have helped insulate the hop producers against these shifts by not only having more customers, but also by offering innovative new proprietary varieties at a premium. In the US, the hop

market is 80% aroma thereby sidestepping the need to play in the alpha commodity game. However, in light of the move for increased consolidation occurring at the largest brewing companies and the rapid increase of high hop usage rate breweries coming online, the stability of hop availability may again be called into question.

Current US malting barley production supports demand, but in order to fulfill that malting capacity, the industry now is dependent upon the Canadian crop. Barley production has declined at a steeper rate due to the rise in corn ethanol. The ethanol plant byproduct is used as feed, greatly reducing the sales channels for barley, disincentivizing farmers to plant. As craft breweries grow, their demand for malted barley increases substantially. 22-24% of US malt usage can now be attributed to craft beer. Craft utilizes malt at a 365% higher rate than that of a light lager.[4] The explosion of craft breweries has helped flatten the demand decline, but has not offset the loss. By implanting governmental policy favorable to the hop and barley industries, it ensures that the growing craft segment will have access to affordable US agriculture from which to create a truly American beverage.

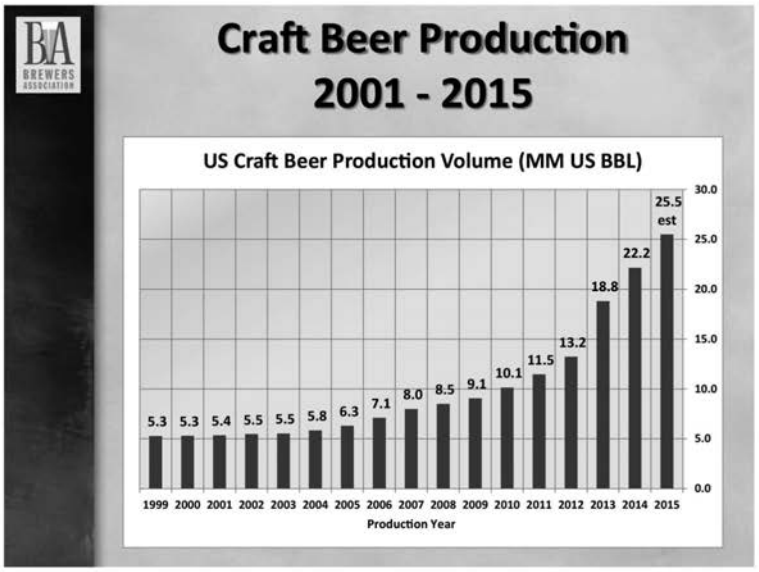
Lastly, Congress can continue to expand US trade and exports by re-authorizing and expanding upon export assistance programs. The programs are through the USDA and made available to the agricultural community are relied upon and much needed. Looking forward, after our success in the Japanese market, Schooner EXACT is eager to investigate new markets for our beer. Canada, Taiwan, Europe… time will tell, but hopefully the USDA, MAP, BA, as well as strong and stable grain and hop industries will all be along for the ride.

Thank you for the opportunity to appear before the subcommittee.

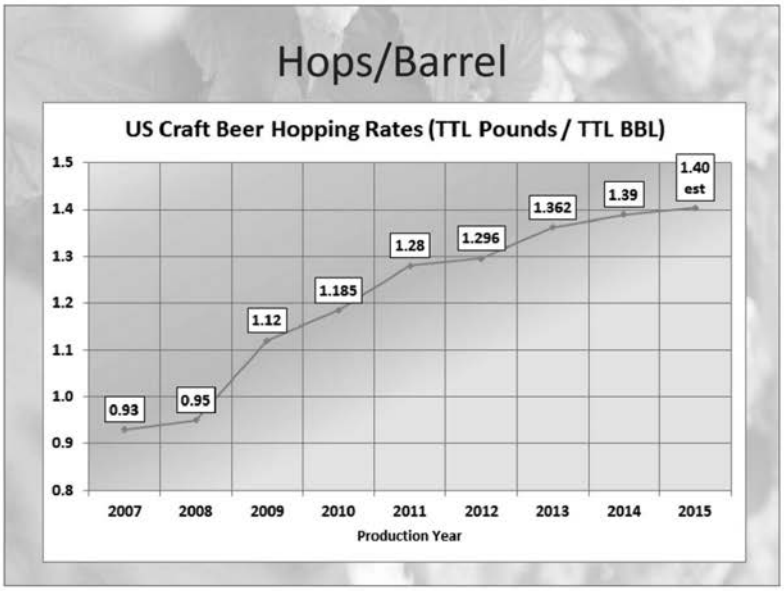
[4] Briess, 2015

Appendix 1

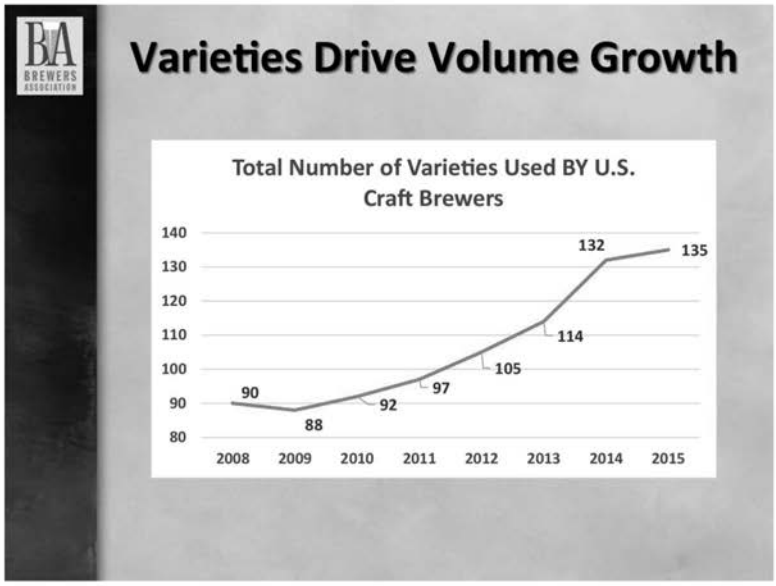
Flavor & Freshness
How important are each of the following when choosing a craft beer to purchase?
Flavor
Freshness
Aroma
Ingredients
Bitterness
Independently Brewed
Appearance
High Alc Cont.
Low Alc Cont.
99%
94%
79%
75%
71%
61%
60%
47%
16%
Important (very/somewhat)
Source: Nielsen's Craft Beer Insights Poll (CIP) conducted May 2015 by Harris Poll (n=1,014 Craft Drinkers/ n=590 weekly craft drinkers)
Prepared by the Brewers Association, 2016


BA
BREWERS ASSOCIATION
Craft Beer Production
2001 - 2015
US Craft Beer Production Volume (MM US BBL)
5.3
5.3
5.4
5.5
5.5
5.8
6.3
7.1
8.0
8.5
9.1
10.1
11.5
13.2
18.8
22.2
25.5 est
30.0
25.0
20.0
15.0
10.0
5.0
0.0
1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
Production Year

5



Brewers Association, 2016

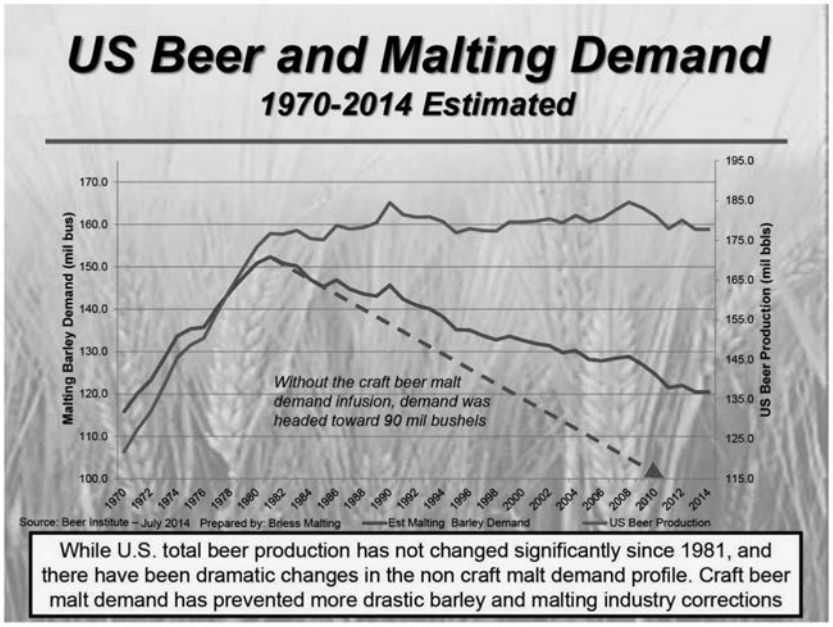


6

U.S. HOPS: SEASON AVERAGE PRICE & TOTAL CROP VALUE

Marketing Year	SEASON AVERAGE PRICE				U.S. Production	Total Crop Value
	Washington	Oregon	Idaho	U.S.		
	($ / pound)				(Lbs. x 1,000)	(x 1,000)
2006	$1.98	$2.60	$1.61	$2.05	57,672	$118,008
2007	$2.94	$3.31	$2.77	$2.99	60,253	$179,978
2008	$4.08	$3.75	$4.00	$4.03	80,630	$325,092
2009	$3.54	$3.63	$3.75	$3.57	94,678	$337,874
2010	$3.11	$3.96	$3.89	$3.28	65,493	$214,589
2011	$3.06	$3.79	$2.93	$3.14	64,782	$203,378
2012	$3.10	$3.91	$2.69	$3.17	58,911	$186,876
2013	$3.37	$3.76	$2.62	$3.35	69,246	$232,308
2014	$3.73	$4.07	$2.72	$3.67	70,995	$260,627
2015	$4.71	$3.24	$3.53	$4.38	78,846	$345,388

SOURCE: USDA-NASS. Prepared by Hop Growers of America



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Chairman REICHERT. Thank you.

Thank you all for your testimony. I think it is one of the few hearings I have been to where everybody was on 5 minutes, so congratulations.

It is the beer. Must be the beer. You had some beer and wine and cheese beforehand.

So thank you for also agreeing to stay a few minutes and allowing each member to ask some questions.

So I want to start with, of course, Mr. Foreman and then go to Ms. McClung. Shocker I should focus on two Washington State witnesses.

But, Mr. Foreman, you, I think, laid out the statistics for your industry as far as growth when it comes to trade, especially in the areas of fruits and also in vegetables. I think sometimes that area of our economy is overlooked. Exports of fruits and vegetables have approximately doubled over the past 20 years. But there are some foreign barriers that you touched on, and they are holding back fruit and vegetable exports from growing even more.

Besides high tariffs, I know firsthand about many of the protectionist nontariff barriers that countries put up against our exports. For example, Indonesia suddenly threw up a number of barriers against horticultural exports, which particularly hurt many Washington State growers. And I am glad that the U.S. is making some progress on that and taking action.

But, Mr. Foreman, could you please describe how important exports are to Washington State fruit growers and what the opportunities are for fruit growers in the future for growth?

Mr. FOREMAN. Thank you, Mr. Chairman. There are—95 percent of the 7 billion people in the world live overseas. To a large extent, they live in Asia. There is a huge emerging middle class coming in Asia who want good quality food. They want the better things of life, and part of that is fresh fruit.

We think that there will be 2.7 billion middle class consumers in Asia by 2030. That is six times what the United States market is projected at that point in time. So we have a huge opportunity to raise high quality agricultural products and ship them to a world that will be hungry and demanding more. But there are terrible barriers.

You mentioned the Indonesia barrier, which you have been instrumental in helping us work on, and I appreciate that very much. But Japan requires a 55-day cold treatment and methyl bromide fumigation prior to shipping. Now, what that really does is it closes out the market because they want to protect Japanese apple growers from competition.

I have been to India. I was in India in the big market in New Delhi where there was Chinese Fuji apples side by side with Washington Fuji apples. Our Fuji apples cost twice as much per box. But the buyers wanted our Fuji apples, not Chinese apples. Why is that? Because of the terrible pollution in the air and the soil and the water of China. People in India are smart. They don't want to buy apples that have been irrigated with heavy water, with polluted water. They want Washington State, Oregon, California, fresh, clean water and minimal fertilized apples.

We grow a lot of organic fruit. There are people in the world who have regulations to exclude our organic fruit on trumped-up reasons because they can't compete organically with the orchards that we have.

You helped us gain full access to all our varietals to China last year. It has made a huge improvement. We have sold 1.1 million boxes to China so far this year. But now India has tried to restrict our apples to entry by only one port. And the USTR and the USDA, the Department of State, and the Department of Congress all went to bat for the apple industry to work with India to try to open up that regulation.

So my point is, it is an ongoing battle between success and barriers. And we need your support and we appreciate your support in opening up the barriers as they continually, through protectionist policies, erect new barriers.

Mr. FOREMAN. And we need to be vigilant to have both free and fair trade for our products.

Chairman REICHERT. Thank you for your answer. You flowed right into the second part of my question, so I won't even ask it. It was on barriers.

But I want to move to Ms. McClung quickly. Agricultural exports are not limited to what is grown, as I said in my opening statement, raised, and harvested in America. Just as important are exports of products made from what farms produce. And with 300 breweries in Washington State and the innovation that I have seen, out of the 300, I just want to confess, I have only visited about four so far. So I have not been to all 300 yet, but I have had the opportunity to taste, I don't know if anyone in this room has, but Chocolate Cake beer. So that is just one of the—Chocolate Cake beer. I know. It sounds delicious, and it is. I just had a sip.

But I think you laid out all of the statistics very clearly. But tell us, maybe in a little more detail, why small breweries like yours decide to export and how exports to Japan have helped grow your business. And if you have time, maybe follow up with describe some of the barriers. You said there were not many barriers. But what do you see as, you know, as high tariffs or burdensome regulations, red tape, that sort of thing?

Ms. MCCLUNG. Thank you, Chairman. When the opportunity to export to Japan came about, we felt compelled to take advantage of that. At the point—that point in time, we had some extra capacity in our brewing production, and so meeting that inventory volume was an easy thing to achieve. It is definitely important to diversify one's revenue stream and the export markets provides that ability to do so.

Labeling can be a little bit of a challenge for breweries. The amount of packaged product needed to order in advance can be burdensome on one's cash flow. The brewing industry, in general, is a very capital intensive industry, and that can be mitigated through the SBA export assistance programs as well as the Import-Export Bank. And one excellent way to help invigorate small breweries would be with the excise tax reduction measure, the H.R. 2903. And that would really enable small breweries to be able to reinvest in that additional packaging or brewing equipment needed to fulfill their volumes for the export.

Chairman REICHERT. Thank you for your answer.

Mr. Rangel, you are recognized.

Mr. RANGEL. Thank you again, Mr. Chairman, for calling this hearing. And I thank the witnesses for sharing with us the positive contributions that the agriculture community is making to our great country. Not many Americans are aware of the improvement of the quality of life as a result of your successful efforts.

So when you go back home, I am pretty confident that when they ask you, how did Congress receive your testimony, that you should be comfortable in saying it was very, very well received. They may ask you: What do you think they are going to do about TPP? And I don't think any of you are going to say that you think it is going to pass before this election.

Is there anyone here that thinks TPP is going to be on the President's desk before the election?

So let's see where I can help you. One of the reasons why we don't have the votes for TPP, that there is a general feeling that with these trade bills there is a loss of jobs. And I don't think any of you can deny that, with an effective trade policy, that you are going to have to improve our infrastructure in order to be successful. We have got to have better seaports, better airports, better roads and whatnot. And, of course, if that was included in a bill like this, or part of a package, which I am certain that you would agree would be important in the long run, I think people might take another look at TPP.

Another thing is that technology has to be a part of your successes. No matter how good you are or where you come from, you are competing with international forces, and your workforce must reflect that. And so if you had a good agreement and you still didn't have a workforce that was able to compete, here again, there are a lot of communities that believe if technology and education was a part of this overall package for the progress of America in the future, that they would take a look at it.

Is there anyone that disagrees that we need this in order to be successful in our trade; infrastructure, technology?

Another thing is that I can't find out any reason in the world why any of you would not want restrictions removed from exports to Cuba. You go into any Cuban restaurant and the menu is rice, beans, pork, and chicken. If that is not the U.S., I don't know what it is. And here again, for political reasons, which has nothing to do with improvement of our trade and exports, we don't have the slightest clue as to why the farmers and those people are doing so well cannot do even better in improving the quality of life for farmers and the rest of Americans.

Is there anyone here prepared to comment in any way before you leave as to what you can do to improve the climate here in Congress to review some of the issues that I have raised?

Mr. Mooney.

Mr. MOONEY. Yeah, Congressman, the one thing that I know is dairy would benefit if we had a trade agreement where we could sell to Cuba. There is no doubt about that. We produce fluid milk, long shelf life milk that I know would be well——

Mr. RANGEL. Who is your Congressman?

Mr. MOONEY. Pardon?

Mr. RANGEL. Who is your Congressman?

Mr. MOONEY. My Congressman is Billy Long, southwest Missouri.

Mr. RANGEL. Does he support your position?

Mr. MOONEY. Yes, he does. He has been down there.

Mr. RANGEL. Okay. Anybody else have any comments? Because we are talking about votes.

Mr. Paap.

Mr. PAAP. You know, when I harvest our crops here in about 4 months, 4 of those 12 rows are exported. Forty percent is leaving the country. Transportation is very important to agriculture. It is key to trade.

As you talk specifically about Cuba, you know, why would the United States, where we grow more than we can use, why would we not take advantage of a market just 90 miles away? We have the transportation advantage.

Mr. RANGEL. Who is your Congressman?

Mr. PAAP. Congressman Walz.

Mr. RANGEL. Does he support you?

Mr. PAAP. Congressman Walz has been very good on trade issues and the importance to have a market for those more than we can grow.

Mr. RANGEL. Well, all of you can make a difference, perhaps not before this election, assuming we will have a country left, but certainly after the election we all have homework to do. And I wanted to tell you how much I appreciated the expertise which you have brought before this committee. Thank you for your commitment.

Chairman REICHERT. Thank you, Mr. Rangel.

Mr. Nunes, you are recognized.

Mr. NUNES. Thank you, Mr. Chairman. And I just want to say briefly that Mr. Rangel and I have had this discussion many times. But clearly the issue of Cuba is quite complicated, largely because of the support of terrorism by the Castro regime. A lot of history here. I am sure that Mr. Rangel will argue that it hasn't worked and, you know, this continues to be a debate before Congress. But I think it just should be stated, for the record, that the Castro regime has blood of Americans on its hand and continues to do so. And I think that is the big concern is with the Castro brothers being in charge in Cuba there. We, obviously, would like to sell agriculture products to the Cuban people and we would like to see the Cuban people live in a free democracy.

I want to go into—give Mr. Mooney an opportunity to talk about—could you talk about specifically the pros of where we will be able to export dairy products into and then maybe some of the areas that you would like to see improved with TPP?

Mr. MOONEY. Okay. And TPP, when you did the—when we did the final analysis, it was positive for us as far as exports. We are getting more exports into Japan. Presumably, more exports into Canada, which will help us. New Zealand is getting more exports into the United States. But on balance, we think we are in a good shape.

The two big benefits that we saw, and you was very much helpful in this, Congressman Nunes, was SPS rules and GI rules. Because

with the SPS rules, you know, countries could change their policies it seems like overnight. And what you have done, I think, it is all about process. It is more time, more notification, more risk assessment, more penalties for countries that don't abide by the agreements. So that was a major issue for us in TPP was the SPS rules and the GIs. But there was also other countries there in TPP that we can export to.

And if you look at how our exports have grown, in 2000, we exported 5 percent of the U.S. dairy products. Today, we are exporting 15 percent. One day out of every week is for exports.

And to Congressman Rangel's point on technology, there is plants being built in the U.S today that is having the most up-to-date technology there is on whey proteins and stuff. Twenty years ago, whey was something we put down the drain. Today, whey is the most important part of milk, really, for infant formula and a lot of things like that. So technology is great, and I think the dairy industry is leading that in technology and dairy.

Mr. NUNES. Thank you, Mr. Mooney.

Mr. Weber, I will give you the same question. What are the markets that you are most interested in and then where could we see some improvements?

Mr. WEBER. Yes. Well, obviously, again, I will make a comment on Cuba. I think, you know, our organization is a protrade organization and we are willing to participate in whatever markets would come about. Our resources are being focused on TPP. Access into these countries is just—it is imperative for our industry. These are pork-consuming people. Their economic development and economic growth potential is huge. We want to be a part of that market. So that is why we are spending our efforts on TPP.

Again, many of the issues we talked about today, the phytosanitary issues and stuff were clearly addressed. The food safety issues were clearly addressed in the TPP negotiations, and we are very optimistic about that. Very helpful. There could be some implementation issues that we are, you know, concerned about. But we are going to focus on getting TPP passed and we are going to monitor, as we always do, as we have done in the other previous free trade agreements, how these agreements are implemented and do the countries in fact live up to the agreements as we move forward.

Mr. NUNES. Well, thank you. I want to thank the panelists for being here.

And, Mr. Chairman, I will just say that it is critical that we pass TPP largely because I think some of the witnesses said it today, but this really sets the rules of trade for the future. I think the WTO is really outdated, and this really will be the standard agreement that we can then build the EU agreement of off and hopefully will fix some of the problems that we see in the WTO. So I want to thank all of you for being here today. And I yield back my time.

Chairman REICHERT. Thank you, Mr. Nunes.

Mr. Smith, you are recognized.

Mr. SMITH. Thank you, Mr. Chairman. And thank you to our witnesses today for sharing your perspective. Certainly, I don't have to tell you that Nebraska is a big ag producer, and certainly with the TPP outlook over the next 16 or so years with $10 billion

in increased output, that, I think, shows a lot of promise. I hope that we can have a forward-thinking view of trade in general. And certainly, the benefits that TPP can bring U.S. agriculture, not just Nebraska agriculture, but U.S., whether it is California or Kansas, on each side of me literally and figuratively.

The fact of the matter is, I think we have got a bright future for agriculture as it relates to trade. However, I am concerned about, for example, the Chinese delays in recognizing biotechnology and that—the impact that that actually has on producers themselves.

Mr. Paap, could you discuss the negative impacts of China's delays in improving biotechnology products and how effective has the U.S. Government been in addressing this problem?

Mr. PAAP. Well, certainly, in the last 36 crops that we have planted on our farm, biotechnology is one of those things that really adds to our farm. You know, we can raise more crop on less land with less water, less soil tillage, fewer crop protection products. We like to say we get more crop per drop using biotechnology. And certainly, China needs to expedite their approval process to biotechnology.

The dialogue has resulted in a commitment by China to have products approved in a timely manner. It is not that timely. We need to speed up the process. Having access to those markets with biotechnology is so important.

Mr. SMITH. And can you speak to how the U.S. Government has handled this?

Mr. PAAP. Well, certainly, we are working not only with USDA but USTR on ways to improve the process. But, you know, there is ways to slow down trade besides, you know, the tariffs, those taxes at the border, and that is the things like biotechnology and those types, SPS.

Mr. SMITH. Okay. Now, we talk about scientific basis for biotechnology and various regulations, perhaps. But let's now shift gears just a little bit to the unscientific regulations, such as Vermont's labeling law and our ability to convince, perhaps, the EU to change course on some of their biotechnology regulations and views.

Can you discuss perhaps how the Vermont law might be impacting the marketplace or certainly for producers themselves?

Mr. PAAP. Well, certainly from the American Farm Bureau perspective, labeling is very important. We want to protect the sanctity of the label, believe the label is for things like nutritional differences, allergens, things like that. The label is not a marketing tool. We should talk more about the food and what is in the food or not in the food versus how it was produced as far as a production method and things like that.

We certainly have a concern with a patchwork of different State labels and support a national labeling standard.

Mr. SMITH. Okay. Shifting gears just a bit, we have got the U.K. is set to hold the referendum on the so-called Brexit on June 23. And if the U.K. were to leave the EU, they would be left out of TPP, and our administration has indicated they are not interested in pursuing a bilateral agreement. The U.K. has also taken a more scientific approach to the regulations of certain pesticides and biotechnology, as well, than perhaps the rest of the continent.

Can you expand on perhaps the impacts Brexit would have on U.S. agriculture exports?

Mr. PAAP. Exports are so important to our prices on the farm. Farm prices are based on supply and demand. Certainly, supply is mostly the weather. Hard to control the weather. But we certainly can control or we can increase that demand and by increasing international trade.

So whether it is with countries in the Asia Pacific, whether it is European Union, whether it is Cuba, it is important. It has already been mentioned, 96 percent of the people in this world of our customers for our U.S. food do not live in the United States.

So from a Farm Bureau perspective, we certainly want to have trade, international trade, with anyone and everyone that is willing to work with us.

Mr. SMITH. Thank you. I yield back.

Chairman REICHERT. Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

Thanks to the panelists. I thought the testimony was superb.

I think the limit everybody would acknowledge is that you have all got a great story to tell, and the textbook analysis of trade, which up until a point was very bipartisan here, indicated that much of what you are saying is entirely accurate.

Now, at the same time, you can see where our Nordic friends have begun to oppose science in terms of New England lobsters, you can see that the French farmer demands a certain level of subsidy, that the Italians question what really constitutes, as Mr. Mooney pointed out, parmesan cheese. Overcapacity in China right now means that they are dumping steel across America. And the American people, for a variety of reasons, have now begun a slow but steady metamorphosis on their support of free trade.

And so I would leave it to the panelists to tell me how you think that we could do a better job of selling many of these agreements beyond the regional advantages that each Member of Congress gets.

The example that comes to mind for me would be the Panamanian FTA, which means that the Port of Boston is about to do quite well. It is being deepened as we speak, and those new tankers that are coming through the canal are going to find a very nice home in Boston.

And the problem is, as one who has been pretty supportive of what you have pointed out, that I find that now, unless a specific geography of the country benefits, it is harder to put together the consensus based upon the arguments that you have all made about advancing trade.

Now, the latest example would be, I suspect, that TPP would have a much easier path if we could have left out Vietnam. You see the example that I am raising? But the problem with multilateral agreements is it becomes very hard to leave out anybody.

So I would be very interested as to how you might respond.

Mr. WEBER. I followed you a long ways there, but I am not sure exactly, Congressman, where your question was going. It is our understanding that these countries will have an opportunity at some point down the road to participate in TPP if it is passed.

Mr. NEAL. Let me just qualify that, Mr. Weber. My suggestion is that you would find the agricultural States, by and large, to be pretty supportive of free trade.

Mr. WEBER. Absolutely.

Mr. NEAL. I think there is general agreement on that. I understand why. At the same time, those States that have a preponderance of manufacturing would question the validity of, actually, I think the enforcement of some of the trade agreements. So maybe you could take it from there.

Mr. WEBER. I guess my response to that is often these arguments are about jobs, manufacturing jobs, and we went through those statistics before. Employment peaked way before free trade agreements came about, has declined significantly because of technology.

I think my point would be that in free trade agreements it is about competition. To me, it is. It is about competition. And you have to be willing to compete. The statistic alone that sticks out to me is that 95 percent of our global populations outside of this country, are you afraid to compete with them in whatever sector it is, whether it is producing pork, like I do, or whether it is manufacturing?

I think you have to look closely and analyze your business and just decide whether you are willing to compete and look at what caused the changes if you can't compete with another country, what are the reasons. And, obviously, technology has been a huge driver in the last decade for becoming more efficient, both in this country and abroad.

Mr. NEAL. To your point, though, and I understand the argument you are making, but if the head of the automobile industry were sitting in those seats right now, capitalists all, believers in competition, they would object to the manner in which Japanese automobiles flooded America, in which the Japanese simultaneously closed their markets to the American automobile or made it much harder. And remind ourselves that the FTA with Korea, that the UAW actually supported the Korea Free Trade Agreement and now they are having trouble, based on the arguments they previously made, trying to figure out how we are going to export automobiles to Korea because it hasn't quite gone the way that we had intended.

And I thank the panelists, Mr. Chairman. Thank you.

Chairman REICHERT. Thank you.

Dr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman.

And I want to thank our witnesses, as well, for being here today and providing testimony.

I want to take a step back for just a moment. Consider that the United States created the modern global trading system after World War II. We have led that effort, and of course there are continued problems and so forth with market access as we go forward, and for the longest time, we were at a standstill. And I do believe getting trade promotion authority passed was a vital step, a catalyst to having a real coherent foreign economic policy for our country. And I do firmly believe that the United States should continue

to lead in opening markets around the world and lead this global trading system.

Clearly, it is in our interest to have a growing economy. It is necessary, if we are going to see growth going back to 3.5 or 4 percent, to open up these markets for American producers, American manufacturers. Higher wages, more jobs, it is good for us. But I also believe that we should not cede any market to any country as we go forward. We should try to lead in all these markets in knocking down tariff and nontariff barriers.

I do believe TPP is a good step in the right direction. We are still trying to work through some technical issues, but I do believe at the end of the day TPP is going to be the model for what the future trading system looks like, and it is certainly, on balance, a good agreement for agriculture as a whole. But I do believe we could also do better, as well.

My State, Louisiana, is an exporting State. Agricultural exports are a dominant part of it. In fact, 25 percent of our State's economy depends on exports, and these are good-paying jobs. We have ports, with the Port of New Orleans, Lake Charles, and so forth, that position us to do very well in the global trading system.

A couple of questions. One, I am concerned about our position with Cuba. We are losing market share, agricultural market share with Cuba. And, in fact, U.S. exporters used to rank first in terms of providing agricultural goods into Cuba, and we have now fallen to number four. Rice, in my State, we are the third largest rice-producing State, we have lost market share pretty significantly to the EU, to Brazil, to Argentina, and other countries.

I do believe that the shift in 2000, the year 2000, which put prohibitions on credit transactions is a factor in that. And we can argue all day long about Cuba and opening trade agreements, but I do believe a simple step would be to allow for credit-based transactions. I think we would start to regain some of that market share.

So I am curious to get your opinion on that issue, and then I have another follow-up question.

Mr. MOONEY. Well, one thing I would say real quickly is Cuba, again, the United States ought to own that market as far as agriculture goes. I mean, we are so close, we ought to own it.

Mr. BOUSTANY. I agree.

Mr. MOONEY. Going back to TPP, your comments on TPP and other countries, we should want to export to every country, I believe, because we are the most productive country in the world. From a dairy standpoint, we have the most nutritious product and the safest product around the world. Nobody can compete any better than we can, and we can do it on a cost basis also.

The thing we have got to watch out for is these Johnny Come Latelies that come to the table late. Canada is an example. They were late signing up for TPP, and now they are already throwing things, that they are not wanting to follow the rules.

Mr. BOUSTANY. Right.

Mr. MOONEY. And I know this committee is overseeing making sure the rules are abided by, but that is what we have got to do to every one of these countries, make sure they abide by the rules or some of this is worthless.

Mr. BOUSTANY. Well, I think with TPP we have to get this right because this is going to be the standard, and so we will work with you on that.

Mr. Paap, rice, I want to talk a little bit about the Farm Bureau position with regard to rice and rice market access. You know, when we did South Korea, rice was really not part of that agreement and my rice producers were not happy about it. TPP, we have gotten some market access now into Japan. I would have liked to have seen more. Hopefully this is a starting point.

What is the Farm Bureau position with regard to rice access and the way TPP will play out?

Mr. PAAP. Well, certainly in American Farm Bureau we represent all of agriculture, all the commodities. In 2015 rice exports were nearly 4 million metric tons with an export value of over $2 billion. This was the second largest volume in the last decade.

One of the issues is Japan, as you mentioned, is very protective of their rice producers, kind of isolating them from that competition, very high tariffs. Despite that, U.S. producers shipped more than 320,000 metric tons of rice to Japan in 2015. They came via the WTO commitment.

We believe that the rice producers, U.S. rice producers, will have the opportunity to capitalize on a U.S.-specific TRQ of up to 70,000 tons with the TPP. We are still going to face some more competition with Mexico, as Vietnamese rice exports will have those lower tariffs. But we want to make sure we can do everything we can, that whether you are a rice producer, a corn producer, a cattle or dairy, whatever the products are of U.S. agriculture, that we are at the table and have that ability to provide our products.

Mr. BOUSTANY. Thank you. My time has expired.

Thank you, Mr. Chairman.

Chairman REICHERT. Mr. Paulsen.

Mr. PAULSEN. Thank you, Mr. Chairman, for having a good host of folks testifying on agriculture in particular, and it is pretty clear it is important to our economy.

And Minnesota, as Mr. Paap had mentioned, we are a leader in a number of different areas. Second largest exporter of pork, fourth largest exporter of soy beans, and the fourth largest exporter of corn.

And, Mr. Paap, as president of the Farm Bureau, you know these statistics, you have shared them already. And you mentioned the 4 rows, the 40 percent, 4 rows out of every 10 that you are planting that are being exported. And a big part of this is taking pride in our farmers' accomplishments and ranchers' accomplishments of the direction we are going, but also continue to look for new opportunities and additional opportunities of what trade is all about and selling overseas.

Mr. Paap, just expand a little bit. What are the most important opportunities that are now on the horizon? You talked a little bit about the nontariff barriers. You mentioned biotechnology, having science-based food safety standards. Any other examples of nontariff barriers that prevent us from maximizing our opportunity to export and help our farmers here at home?

Mr. PAAP. Well, certainly, in Minnesota we are very proud of the over 2.3 billion in ag products that we export. And those exports are important. TPP will be important to our animal agriculture.

I think one of the things that we sometimes forget about—yes, animal agriculture will be probably a bigger winner than other parts in trade, but just because we don't export the corn and soy beans we grow here, we can use those corn and soy beans, those go into the livestock as animal feed.

And one of the things that we can do, that is that adding value, that adding jobs in our local community that is so important. And it also is important for generational sustainability. Animal agriculture many times gives those opportunities for adding people in the farming operation in that family farm.

So we want to make sure that we have got that ability to export specifically to the nontariff. And those are the hard ones. You can see the tariff. You can negotiate that. It is a little harder, whether it is biotechnology, whether it is other nontariff items. That is why we need to have trade agreements, and that is why we need to follow those trade agreements.

Mr. PAULSEN. Ms. McClung, let me just touch base with you, because I am a member of the Small Brewers Caucus. I am the lead author of the bill that you mentioned, the Craft Beverage Modernization Act. I am familiar with the challenges that you face on a daily basis as a small brewer and the folks that you represent there in Washington State, and you have an impressive story.

I think it is also helpful for this subcommittee to understand how the benefits of agricultural exports that extend beyond just those who grow and raise the products themselves. And can you just talk a little more about how furthering these opportunities for America's small brewers overseas is actually going to help operations expand potentially for you or for the others that you represent in Washington State and the 100 small craft brewers we have now in Minnesota.

Ms. MCCLUNG. Excellent. Thank you.

Expanded trade would obviously mean increased sales for our brewery, and that would allow for a diversified revenue stream, which is important in a time of a shifting landscape in the brewing industry with all of the consolidation of the big breweries, as well as the explosion of the new craft breweries coming online. These additional sales would lead to additional employment opportunities for our own community as we are adding staff to help fill those export orders and production of those export items.

And to touch base on the international competitions, for an American beer to take "Best of Show" in Belgium, which is renowned for their beer, just raises the profile of all American craft beer. And so that was a pretty great accomplishment and another testimony to the exporting.

Mr. PAULSEN. Wonderful.

And, Mr. Mooney, we are going to run out of time, but I think that one of the biggest barriers, looking at parmesan cheese right there in your basket there, one of the biggest barriers we have is the misuse of these protected geographical indications. And applying these protections in generic terms in establishing them through

very unfair and nontransparent procedures is a big problem for U.S. dairy producers.

And could you just discuss maybe the impact of the EU's misuse of GIs on U.S. dairy exports and how that can further threaten the exports in the future? It is something we need to address.

Mr. MOONEY. Yeah, and we are part of a consortium for common food names. It is actually trying to do an economic analysis now of what that would actually mean to the dairy industry, and we know it is going to be in the billions, with a B, of the economic impact for dairy in the United States.

And it is interesting, just to relate to this, this parmesan 2 years ago won "Best of the World Class Cheese" in Europe. We no longer can go to the European Union and be part of that contest because we beat them once. That is just a little interesting, I thought.

But, no, this is a big deal. And we are not against GIs. Parmigiano-Reggiano, if it is compound names and geographic areas, that is fine. But when you are using a name parmesan that has been used here for decades, that is ridiculous to me. It will have a large economic impact.

Chairman REICHERT. Thank you, Mr. Paulsen.

Mr. Blumenauer.

Mr. BLUMENAUER. Thank you.

I appreciate several of you referencing the enforcement of trade agreements, and I would just put in a slight plug. One of the things I worked on with Senator Cantwell was a Trade Enforcement Trust Fund, which was a part of our customs approach for the earlier trade legislation.

We have $15 million dedicated in the House CGS appropriations for the trust fund. There is nothing in the Senate. It would be great if the assembled multitude represented here of all the various agricultural interests that you are connected with could lean in a little bit on that process.

Enforcing trade agreements is expensive, it is time consuming, it is hard. The thought was having a trust fund to make sure that all our agreements were honored would put us in stronger footing, not only to deal with people who are cheating on us, but make it less likely that we would have problems in the future.

So if there is any way to look at that trust fund and to add your collective voices to having the Senate put that money in and that ultimately it is there, I think it might make all our jobs a little bit easier.

Continuing my northwest theme here, we love the friendly rivalry with folks across the Columbia River from us in craft brewing, for instance, cider craft brewing. You are even starting to produce wine in Washington, I understand.

I wondered, Ms. McClung, if you could just elaborate slightly on the specific challenges you face trying to penetrate the Japanese market to be able to go from a small but growing enterprise with an opportunity to expand your economic reach in Japan or elsewhere.

Ms. MCCLUNG. Thank you. That is a great question.

One of the challenges that we have encountered is the transport and the storage of our product once it arrives. And so that is why the export development program gave the educational seminar to

retailers regarding proper storage. Because it doesn't do American craft beer any good to have our product leave the U.S. in pristine condition and then, once it reaches Japan, the hop flavor and aroma is depleted or it has gone bad due to improper handling. And so just the education side of what do we do with craft beer once it has arrived in a hot, humid climate.

That has been one of our challenges. Otherwise, the Japanese people, we were very warmly welcomed and they have a great excitement for many things American, and craft beer definitely was on the top of their list. There is some competition with their own domestic industry, but our hop profiles, both with Oregon and Washington hops, definitely puts us a step ahead.

Mr. BLUMENAUER. I appreciate your reference to the infrastructure. In terms of specifics, in terms of tariffs or procedures, I would welcome any feedback if it occurs to you.

Mr. Foreman, you also, I think, represent sort of the other part of the equation, not so much talking about the industrialized modernization of American agriculture, but you are talking about fruits and vegetables, nuts, berries. Some people would call it food, not just the commodities, specialty crops.

Can you speak to the challenges of being able to penetrate foreign markets from your perspective.

Mr. FOREMAN. It has been very difficult to get into some foreign markets, but the Market Access Program, which Congress has enacted over and over again, has done a great job in opening up some doors. For example, the Oregon and Washington pear growers are represented by the Pear Bureau Northwest and the Northwest Hort Council, and they have spent money on cold chain training and introducing the foreign handlers in Vietnam, in the United Arab Emirates, in India, into how to handle and care for a very perishable commodity, like a Washington or Oregon Anjou pear or a Bosc pear.

These are dessert quality, extraordinarily delicious fruits, but if you put it on a ship and it takes 21 days to cross the Pacific Ocean and it is not properly handled in the cold chain, and then once it gets to the street market in Mumbai or New Delhi nobody knows how to handle it, it becomes worthless fast.

And so the Market Access Program has allowed us, in cooperation with some California citrus products and with some California grape growers, to join forces to train exporters or importers from their side and handlers from the grocery store cold chain down to the street market vendor in how to properly handle a perishable crop.

So there are barriers, there are challenges, but the Market Access Program has consistently, year after year, helped us overcome some of those challenges.

Chairman REICHERT. Mr. Marchant.

Mr. MARCHANT. Thank you, Mr. Chairman.

As the committee knows, anyone who has read much about the trade bill, Texas beef is considered to be one of the big winners in a TPP bill. But it is affected much by the same barriers that the rest of our agriculture is affected by—tariffs, sanitary, phytosanitary, everything that affects. We have a huge border with Mexico. We deal with that all the time. These barriers are pro-

viding really very big impacts on our trade with our current partners, Canada and Mexico.

But many of our row crops are considered to be low-value crops, so they are very dependent on high volume and very, very intensive in pest control, et cetera, et cetera. So the ability of the farmer to get these crops out of the country, this 40 percent, I don't know what percentage of our crops in Texas go overseas, but the profitability really has to do mainly with tariffs.

Mr. Paap, since you are in that crop category, with trade involved in so many of these different agriculture sectors, how can various barrier eliminations best serve my State, Texas?

Mr. PAAP. Well, certainly reducing tariffs is important. It is crucial to increase those beef exports. Japan will reduce their 38.5 percent tariff to 9 percent over 15 years. We believe this, along with other export growth into the region, should add about 1 billion to the U.S. beef exports.

You are exactly right, Congressman, beef is the largest agriculture sector in Texas to benefit from TPP, with over 190 million of the 340 million additional exports being for beef. As we look at trade agreements and as we look at different crops, different products, things like that, TPP gives that opportunity for many, certainly some more than others. But when you represent all of agriculture, we always look at trade agreements, what it does for all of agriculture. But certainly beef is an important part and we recognize that.

Mr. MARCHANT. Thank you very much. Yield back.

Chairman REICHERT. Mr. Young.

Mr. YOUNG. Thank you, Mr. Chairman.

Thank you all for your appearance here today.

I am going to focus narrowly on the issue of implementation and enforcement, enforcement in particular. As it has been pointed out here, we can have a very well written, well crafted trade agreement, one that pleases not just our ag producers in a State like mine that is a major ag producer. But if those provisions aren't enforced and predictably enforced, then that creates great challenges.

You have dealt with some of these challenges in a very direct and on-the-ground way. Could you speak to the challenges of implementation? And perhaps you even have some ideas about how we could improve enforcement. One idea that has been baked into this agreement, referenced by one of my colleagues, was the Trade Enforcement Trust Fund.

Are there other things we ought to be looking at, considering, as we try and ensure that the provisions that are important to you are, in fact, strictly enforced?

Mr. Weber, we will start with you, sir.

Mr. WEBER. And there are some trade implementation issues that we are very concerned with. They are being worked on. We have been working on them since last October when the trade agreement was announced, had some fears then, and are still working on them. And we are very hopeful that we are making significant progress on some of these issues.

Again, our focus has been on the total benefits of the package to us, and we have had to get the agreement in place, I guess, first.

But part of our role at NPPC is to monitor what we have been talking about here, to monitor if countries live up to those agreements once they are implemented and take place. And we have had significant successes in the past with working with the individual sectors that may be impacted on an implementation issue, and we are going to continue to do that. And we feel that is our best strategy.

We need access into the market, and we will fight for these implementations to the best of our ability prior to getting there. And if the country doesn't live up to them, we will continue that pursuit through whatever means is available to us.

Mr. YOUNG. Well, I know in my home State, our ag sector could benefit immeasurably from consummating this agreement. Projections have the State of Indiana realizing an annual increase of $80 million in corn and soy revenues, $50 million increase in net pork exports. We could go on and on.

But I do think there is a linkage, especially outside of the ag sector, when you are dealing with some corners of our manufacturing economy, between faith or trust in enforcement on one hand and the particular provisions on the other. And so hoping we can create more confidence in that area.

Mr. Mooney, you spoke earlier to Canada and your belief, at least, that they have not followed particular rules important to you. Could you speak to that episode, please?

Mr. MOONEY. Yeah, in my written testimony there are actually four examples of things that we think that they are not going along with the current agreements that we have or won't go along with TPP. And I think the key is the penalty, what is the penalty for not doing what you are supposed to do, because if there is not a strict enough penalty, the people who want to find loopholes, they will continue to find loopholes.

So I think we have got to have risk assessment, what is the risk, and what is the penalty, and the penalty has got to be great enough to stop what is going on.

Mr. YOUNG. Mr. Paap.

Mr. PAAP. Well, American Farm Bureau believes, whether it is in implementation process or an enforcement of anything as we deal with rules, regulations, that the process needs to be transparent. We need to make sure we have got all the stakeholders involved, that everybody is at the table.

And as we look at specific to enforcement, there are concerns with those that are bending or breaking the rules, we want to make sure as we are having those transparent discussions that they are based on rules based, they are science based, and that we follow the rules. That is what life is all about, is we need to set the rules, we need to know how to follow them, and what happens if we choose not to follow those rules.

Mr. YOUNG. As someone who raises children and not grow crops, I understand that indeed.

I yield back.

Chairman REICHERT. Thank you, Mr. Young.

Mr. Kelly.

Mr. KELLY. Thank you, Mr. Chairman.

Thank you all for being here.

When we talk about all these market opportunities and then the key becomes, oh, so how accessible are they? And I am from Pennsylvania. Every one of us can talk about what is important to our district and our State because we are all involved in agriculture. Agriculture is Pennsylvania's number one industry.

But in the EU, if we look at a lot of things that are keeping us out of there, it is not transparent, it is unpredictable, EU regulations are there. So I keep hearing about we have these agreements. I really do wonder if there is such a thing as a free trade agreement, because people play with so many different things on it.

And each of you, just to discuss a little bit about what keeps you out of those markets and how much of it is actually factual. Mr. Paap, any of you, because you all face the same problems.

Mr. FOREMAN. Well, I had a container of organic pears shipped to Rotterdam, and when I was sitting at my desk I got a phone call from the shipper, and he said, your container has been rejected because it has such-and-such a chemical on it. And I said, that is impossible, we don't have that chemical in the State of Washington. And he said, well, they found it on your pears.

So I called my chemical supplier, and I said, do we ever have that chemical? Has it been licensed? Is it available in the State of Washington? He said, no, it is a fraud. It is a lie. They are using you as a scapegoat.

So I had $100,000 of pears sitting on a dock in Rotterdam. And the shipping agent calls me back and says, well, I can sell them for animal feed for 10 cents on the dollar. It is your choice. You either take them back, pay $20,000 to ship them back, or dump them for 10 cents on the dollar.

That is a good, real life example of the problems that farmers have when they are dealing with nonrule-based, nontransparent, phony systems.

Mr. KELLY. Yeah. Well, I mean, rather than everybody, because we have such limited time, someone gets so badly gamed on this. I think this is the thing that probably bothers me more than anything else. We talk about free trade, but then we say, so what are you going to do about? You had pears sitting on a dock, and I would just assume that they probably go bad after a while. I know you start with a green banana, it turns to a green and yellow banana, it turns to a yellow banana, then a yellow and brown banana, then a black banana, and then it doesn't become good for anything.

We get so badly gamed in these trade agreements. This is my perception of it, of what should happen in the automobile industry. What would we do about it? Because it comes down to what you just said. So what was the remedial? So what are you going to do, take 10 cents on the pound for it or throw them away?

Mr. FOREMAN. So we took 10 cents on the dollar. What else can you do? Your question was what rule of law, what systems can a trade agreement put in place to protect farmers and traders, and the answer is something better than we have now.

Mr. KELLY. All right. So that all takes place during negotiations. But I keep hearing about this market that is outside of the United States and I say, yeah, that is fine, if you have access to it. And if you get so badly gamed you can't play in that field?

Mr. FOREMAN. I haven't sent any pears back there since.

Mr. KELLY. I don't blame you. I don't blame you.

Now, Ms. McClung, first of all, congratulations on your award-winning performance. But each of you do something in addition to what you actually do. Talk about some of the other opportunities that take place in America whenever we do trade and whenever we expand our market, because we have bigger market accessibility. Because you have other people that produce things that help you produce your final product. So whether it is machinery or whatever it is, there are a lot of jobs involved in that, kind of ancillary things that maybe we don't recognize.

Ms. MCCLUNG. Definitely. Expanded trade to other markets would also help our allied industries, such as equipment manufacturing, stainless steel, producers of equipment, fermenters, which are also used by our friends in the dairy industry as well, and packaging equipment, and even branding. They all need merchandise support to promote your brand out there, so your T-shirt manufactures are even going to get a bump from it. It is really exponential.

Mr. KELLY. Mr. Weber.

Mr. WEBER. For our industry to grow and prosper, trade is absolutely essential. I mean, we basically do have a mature market here in the United States. And I have a young son at home and young herdsmen working with me, that TPP is their future. It is their future. It is the growth of the industry. And to us gaining access into these markets will be critically important for the next generation.

Mr. KELLY. So it creates an awful lot of jobs, maybe something we don't look at right off the top, but these are incredibly job-producing products that you put out there. And what I think bothers me is when we are the most attractive market in the world, why did we end up with such lousy trade agreements? I would think if you deal from a position of strength you would have a little more leverage.

And I think when I look at this, I say, what in the world are we doing? We are getting gamed so badly. And we continue to sit back and say, boy, I wish they would play by the rules. Well, if there is no penalty for not playing by the rules, why the heck would they?

And I know you face it every day. And I have got to tell you, we have such an opportunity, but we have got to be stronger. If we are a strong country, we are a strong country, and we have to make trade agreements that really benefit not only our workers but our entire economy, and we have the ability to do better. Why we don't, I will never understand.

Thank you, Mr. Chairman.

Chairman REICHERT. Thank you, Mr. Kelly.

Sometimes we have to help him with the clock.

Nothing. I said, sometimes we have to help you with the clock.

Mr. KELLY. Well, the clock is running out on all our businesses. This is the thing that bothers me. We think it is something about a clock; it is not about a clock. It is about losing our economy, and we are sitting here watching it, and we are wringing our hands and saying what the heck can we do about it.

We are the biggest economy in the world. Everybody wants to participate here. And my question is, if you want to participate, let us participate too. I am so tired of the damn debates over this stuff and we lose market share. I have watched General Motors go from 25 percent of the car market and 30 percent of the truck market—that was just Chevrolet by the way, not of all General Motors—General Motors now tries to capture 13 or 14 percent of the market.

We have allowed ourselves to be gamed so badly, we have lost jobs in every segment of our economy because we don't stand strong for the people that we represent.

Sorry to get carried away, but I think we are way past the midnight hour when we talk about these things.

Chairman REICHERT. We appreciate your energy, Mr. Kelly.

Ms. Jenkins, you are recognized.

Ms. JENKINS. Thank you, Mr. Chairman.

And thank you for our panelists for being here today.

First, I would just like to say that as a daughter of dairy farmers, I find the EU strategy of using geographical indications to impose barriers to U.S. exports very troubling. I agree with Mr. Mooney, we need to do all that we can to ensure our ag exports are treated fairly.

But my question has to do today with growing wheat exports. Because as you all know, Kansas is the wheat State. We are usually the number one producer of wheat in the country, accounting for almost one-fifth of the country's production. In fact, as we speak, farmers across Kansas are hard at work harvesting this year's wheat crop.

Historically, almost 50 percent of the wheat grown in Kansas is exported. Kansas farmers have been shipping wheat to Central America, Sub-Saharan Africa, and the Middle East for decades. However, this year, wheat exports are expected to hit a historic low, a 40-year low, in fact, and profitability is on the decline. As a result, planted wheat acres in Kansas are at their third lowest level since World War I.

So my question, maybe for Mr. Paap. With wheat as one of the most trade-dependent crops we grow in the United States, what can we be doing on the trade front to help increase profitability of our wheat and raise the price of wheat for our Kansas farmers?

Mr. PAAP. Well, certainly wheat is dependent on those exports. Our U.S. wheat producers, they are under pressure. Exports are under pressure. Competition, but also the higher dollar is a concern. Provisions in the trade agreements that lower tariffs such as TPP will hopefully increase the opportunities for even more wheat exports. Wheat is expected to make gains in sales to Vietnam and maintain our position as the number one source of wheat in Japan. Better tariff treatment will certainly make the U.S. more competitive with the Australian wheat.

So certainly we recognize that, we understand the importance of export to wheat and the other markets, and the way we do that is with rules-based trading and opening those opportunities.

Ms. JENKINS. Thank you, Mr. Chairman. I will yield back.

Chairman REICHERT. Mrs. Noem.

Mrs. NOEM. Thank you, Mr. Chairman. Thank you for holding this hearing today.

I am a South Dakota farmer and rancher, so it is what I have done my entire life. After my dad was killed in a farm accident at the age of 49, I spent almost 20 years farming with my two brothers and my sister in a partnership. So this is an important issue for me, and I recognize that 95 percent of the world's consumers are outside the United States. So it would be foolish for us to sit here and say we don't need trade agreements.

And that is really what frustrates me too about the fact that this has somehow in this Presidential election become controversial. Everybody that has to make a decision on what we are going to eat tomorrow morning should want us to have trade agreements.

For me, when I look at food supply, it is a national security issue. I don't want one or two large corporations or another country growing our food for us because then they control us. That is why we have a farm bill, and I served on the Ag Committee that put together the last farm bill to make sure we had good policy that protected this volatile industry that needs protecting to make sure we have thousands and thousands of farmers out there growing our food supply, and then moved over to the Ways and Means Committee because the next two big issues that are threatening the agriculture industry is trade and tax policy.

And so that is why we are here today. In South Dakota in 2013, 41 percent of our crops were exported. So it is critically important, and I think it is pretty consistent from State to State.

But what frustrates me is this has somehow become a political issue, and I don't really understand that. People say we have lost jobs in this country due to trade. People say we have gained jobs.

What we need to do is look at this and view it as to what kind of opportunities are in front of us. And you come to this committee today and you tell us you guys need to work harder to educate Members of Congress to get them on board, keep your powder dry through the tough political environment, this is something that we need and it is very important to agriculture. And I know that it is.

And every time I go home to South Dakota and talk to people or talk to other Members, I tell them how important trade agreements are in TPP. And I have traveled all over in those countries talking about the trade agreements, how we need them to be fair in a level playing field. So I am heavily invested in this.

Supposedly, the President is, but I haven't seen him working Congress like he should. And if he wants this trade agreement to be done, he needs to engage more.

But what I am going to ask you is, what are you doing as organizations to promote these trade agreements? Because it has to be all hands on deck to really take advantage of these opportunities. So I am working, I am traveling to spread the message, I am fighting for a fair agreement that is good for South Dakota agriculture, but also American agriculture, to take hold of this opportunity.

But could each of you speak to what you are doing as organizations to make sure that Members of Congress vote on this bill, first of all, and get it passed so that we have these opportunities that we can grab.

Listen, any community that you are doing business in is a friendlier community. So where do we need friendly communities? Asia would be a good place to start. If we don't grab this market, China will. And so we want to be there, we want to trade with them, create a friendlier environment so that we control the narrative there.

And I am just curious as to your organizations that you are a part of, what are you doing to motivate people at the grocery store, at church, at the gas station, or even other Members of Congress to how important these trade agreements are to their food supply.

Mr. MOONEY. First of all, I would say it is very insightful comments about the security of this country. I also believe it has everything to do with food.

One of the things that we are doing in the dairy industry is we are building new plants. And when you look at the economic driver, you look at the multiplier effect. These communities, these small communities, one in Garden City, Kansas, we are spending $500 million on a new plant there, and we are going out and talking about the multiplier effect of what those farms generate, and taking that to town, taking it to Kansas City. That message is getting out there.

And I think if we are going to change the attitude of people in Congress that don't understand agriculture, it has got to be talking about a trade agreement that is really about labor. It is not necessarily about trade. It is about labor. It is about putting people to work.

Mrs. NOEM. Good.

Mr. PAAP. From a Farm Bureau perspective, not only are we doing what we can here nationally, here in Washington, D.C., or in our 50 States and Puerto Rico on a State-wide level, but probably most important with Farm Bureau being a grassroots organization is those 2,800 county or parish farm bureaus. The 78 county farm bureaus we have got in Minnesota are working with our members, talking with our members, and finding out exactly what these trade agreements are and they are not, whether it is with their elected officials in the——

Mrs. NOEM. But, you have got parishes and you have got Farm Bureau entities in districts where maybe their representative is not supportive of TPP. Are you motivating them to be educating their Member of Congress?

Mr. PAAP. What we are doing is we are trying not to educate as much as we are trying to engage. We are engaging them and doing a lot of listening, because what we are hearing is, well, I have heard this in it or it is going to do that. And what we are doing is we are having those conversations, listening to their concerns, and then getting those answers, helping put the right people, whether it be USTR, USDA, to help answer those questions, to say, well, I heard this is in it. It is not in it. It is available. And that is having those conversations.

And you are exactly right, Congresswoman, we are fortunate to have members in areas that are not a lot of agriculture, but it is still part of this country and part of Minnesota. So having that engagement, those conversations to find out what are the myths, what are the misconceptions, and address those.

Mrs. NOEM. Mr. Weber, let me give you 10, 15 seconds. I am out of time, if the chairman will allow.

Chairman REICHERT. Yes.

Mrs. NOEM. You look like you want to say something.

Mr. WEBER. Yeah. I will make just a couple brief comments. I think NPPC has been engaged since day 1 in TPP. Obviously, it was an extremely difficult summer with the candidates, whatever you want to call it, the rhetoric that is used against trade. And certainly it is our hope that that will quiet down and people will come to their senses on trade.

But we have always been a pro-trade organization. It is not hard to go out in the country and talk to our personal pork producers and our constituents about the importance of trade to our organization, to our industry.

And believe me, we will be engaged. We are starting to gear that up right now. We think it is time to engage, not only perhaps the individual candidates that are running for President, but to be involved on demonstrating the importance of free trade to the whole ag sector, not just pork producers, but to the whole ag sector.

So believe me, our organization, I think, stands second to none on being engaged on trade.

Mrs. NOEM. Thank you.

Mr. Chairman, yield back.

Chairman REICHERT. Thank you, Mrs. Noem.

I thank the witnesses for being here today. Thank you for your testimony. Thank you for being patient with the questions.

We all, as you might have picked up from the conversation, on both sides of the aisle recognize the importance of trade. We recognize the importance of, look, we are in a global economy, right? We are not going to wind that clock backwards. So what is the answer to that?

And I think Mr. Kelly was very eloquent in his passionate words saying, look, if we are going to be in this global economy—and we are—we have to lead. We have to set the high standard. We have to define what a global economy looks like. When America does that, the rest of the world will follow us and will be a part of that high standard fair trade agreement.

In Washington State, as my two Washington friends know, we are the most trade-dependent State in the country. Forty percent of our jobs are directly related to trade. So one of the things that we have recognized in Washington State, it may not be so obvious in other parts of the country, is that trade jobs pay more. So if we want to talk about raising the minimum wage, one of the ways to do that is to trade with the rest of the world because they pay 15 to 20 percent higher wages.

Trading with the rest of the world, of course, is a good thing because we all want to buy American. We make American, grow American. We all want to buy American. But we want to sell American also. And, as we have learned today, we can't sell all of American products, grown or made, in the United States. Because why? It is only 5 percent of the market. The other 95 percent of the market that you want to sell to is the rest of the world. We want the rest of the world to buy American products, not Chinese products.

So that is, simply put, the benefits of trade. However, we do have a lot of work to do, and there are some issues that we want to resolve. We want to make sure, as the bottom line, I think, statement for all of us is, we want to make sure that this works for the American people, that this creates jobs here at home, protects jobs here at home, and most of all then, creates jobs here at home for our younger generation.

As Mr. Rangel so aptly described, education and technology and science is really where we need to prepare our young people in looking forward to this new global trade environment that we are going to be leading in, in the future.

I have to say, as a part of my closing, I think that you have given us all a lot to think about. And please be advised that members will have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record. Our record will remain open until June 28. And I urge interested parties to submit statements to inform the committee's consideration of the issues discussed today.

Chairman REICHERT. With that, this committee stands adjourned.

[Whereupon, at 11:54 a.m., the subcommittee was adjourned.]

[Submissions for the record follow:]

Brandon Baum
Adjunct Professor of Intellectual Property Law
University of California, Hastings
200 McAllister St.
San Francisco, CA 94102

June 24, 2016

Ways and Means Committee Office
1102 Longworth House Office Building
Washington D.C. 20515

To the House Ways and Means Trade Subcommittee:

I'm pleased to see that the U.S. House of Representatives Ways and Means Trade Subcommittee is seeking input about trade agreements. In response to the committee's June 14 hearing on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports, I wish to outline my own support for new policies by explaining the direct impact they would have on the U.S. economy.

As an academic specializing in intellectual property law and a former Silicon Valley attorney, I know that new trade agreements are crucial for ensuring that we reap the benefits that our technological advances have sown. America and California lead the world in technological advances in food science. Our food is safer, more robust, and produced more efficiently than anywhere in the world. Other countries might be able to undercut our labor costs, but they can never match the productivity gains we enjoy through technological advances. Some countries have raised protectionist barriers against our agricultural exports. We need strong trade agreements to ensure a level playing field, with easy to implement "teeth" for enforcement. With greater access to international agricultural markets through trade agreements, California will continue to be as it was described upon admission to the Union in 1850; "a marvel to ourselves and a miracle to the world."

Thank you for your consideration.

Sincerely,

Brandon Baum
Adjunct Professor of Intellectual Property Law
University of California, Hastings

BRATECC BRAZIL-TEXAS CHAMBER OF COMMERCE

To Foster Business and Friendship, Networking Decision and Opinion Makers

Houston, June 27th. , 2016

Ways and Means Committee Office
1102 Longworth House Office Building
Washington D.C. 20515

To the House Ways and Means Trade Subcommittee:

I'm pleased to see that the U.S. House of Representatives Ways and Means Trade Subcommittee is seeking input about U.S. agricultural exports in trade agreements. In response to the committee's June 14 hearing on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports, I wish to outline my own support for new policies by explaining the direct impact they would have on my company and the greater U.S. economy.

As president of the Brazil-Texas Chamber of Commerce, I speak on behalf of the organization in stating that we are very interested in developing a program of mutual trading and cooperation between the Brazil and the United States. Former Brazilian Minister of Agriculture Katia Abreu, along with other politicians from both nations, has spoken in favor of such developments, stating that Brazil and the United States, as giants in the production of food and other exports, should work together to promote global food safety and other mutual regulations.

In the wake of such revitalized interest between the two countries, the Brazil-Texas Chamber of Commerce sees an excellent opportunity in creating such a partnership. We believe that new trade policies are especially necessary for developing regulations required for conducting exceptional bilateral business.

I hope your committee will support international trade agreements.

Thank you for your consideration.

Sincerely,

Cid Silveira
Executive Director
Brazil-Texas Chamber of Commerce

Honorable Dave Reichert
Chairman,
Subcommittee on Trade,
Committee on Ways and Means,
U.S. House of Representatives
1104 Longworth HOB
Washington, DC 20515

Honorable Charles B. Rangel
Ranking Member,
Subcommittee on Trade,
Committee on Ways and Means,
U.S. House of Representatives
1104 Longworth HOB
Washington, DC 20515

Statement of Mr. Tracy Brunner, President, National Cattlemen's Beef Association
Submission for the record to the
United States House Committee on Ways and Means,
Subcommittee on Trade
"Importance of Trade to U.S. Agriculture"
June 14, 2016

Chairman Reichert, Ranking Member Rangel and members of the committee, on behalf of the U.S. beef industry, I thank you for holding this hearing on the importance of trade to U.S. agriculture. My name is Tracy Brunner, and I am a cattleman from Ramona, Kansas. I am the president of the National Cattlemen's Beef Association (NCBA), the nation's oldest and largest trade association representing the U.S. beef industry and I am honored to share with you the pros and cons of trade that we have experienced as an industry over the years.

Cattlemen and women support open markets, level playing fields, and science-based standards when it comes to international trade. We do not support trade based on politics and protectionism where governments, not consumers, determine demand. Simply put, when governments get in the business of picking winners and losers, everybody loses. The U.S. beef industry has been both the beneficiary and victim of trade policy and it is important that Congress and the White House work together to avoid the pitfalls of the past.

Beef demand around the world continues to grow at a strong and steady pace. In order to keep up with demand, we rely on science and technology to assure our natural resources are efficiently used. We also rely on proper conservation practices to make sure our pasture and grazing lands remain healthy even in tough times like these. The judicious use of scientific interventions such as antibiotics, pest control, and growth promotants allow me and other producers to compete with beef producers across America and around the world for a growing consumer base that is hungry for the safe and delicious beef we produce. It is very important to me and many other ranching families that we do everything possible to ensure that the next generation will have the opportunity to continue providing high quality beef to consumers around the world. While government incentives for young and beginning producers may sound good in theory, the truth is nothing attracts workers like the promise of the almighty dollar. Exports will help provide the real economic incentive needed to stem the tide of disappearing farmers and ranchers needed to continue providing safe and affordable food to a growing global consumer base.

The elimination of tariff and non-tariff trade barriers is a top priority for the U.S. beef industry. I strongly encourage you to work with President Obama to implement pending and future trade

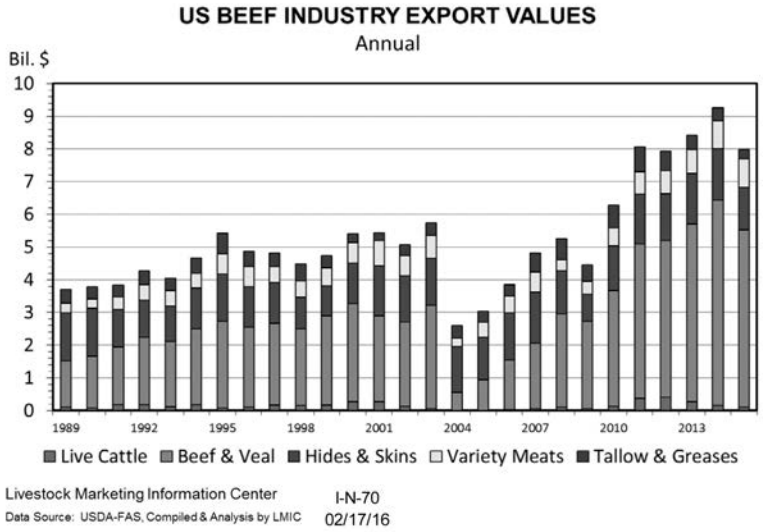
agreements based on free market, science-based principles that will resolve the limited market access we face due to tariff and non-tariff barriers. It is my hope that this information will highlight expanded trade opportunities as well as the barricades to trade that we continue to face in the U.S. beef industry.

Overview of U.S. Beef Industry and Exports

According to the U.S. Department of Agriculture, the U.S. beef industry consists of nearly 915,000 cattle and calf operations with a national herd size of 92 million head of cattle, with 90 percent of cow herds consisting of less than 100 head (average is 40 cows per operation). In 2015, the U.S. beef industry generated $82.5 billion in farm gate receipts and the average American spent approximately $350 per capita on U.S. beef products. Without question, our domestic market is our largest consumer base and the focus of most of our marketing campaigns. Americans love beef, and we enjoy a dominant share of the domestic market place. At the same time, international consumers are often willing to pay premiums for cuts and variety meats such as tongue, livers, short ribs, skirts, and stomachs that are not as valuable in the U.S. market.

The U.S. beef industry has traditionally exported 10 to 15 percent of our products and we expect that percentage to rise as more consumers are exposed to U.S. beef in other countries. In 2015, foreign consumers purchased 1.06 million metric tons of U.S. beef and beef products at a total of $6.3 billion. In addition to beef and veal, we also export hides and skins, tallow, live cattle, semen, embryos, and even rendered cattle. If there's a market demand for any part of the animal we do our best to meet it. According to Global AgriTrends, exports accounted for $325 per head of fed cattle in 2015.

Beef and beef products are the largest segment of our export portfolio. According to the U.S. Meat Export Federation, our top five export markets in 2015 were: Japan ($1.28 billion, 204,927 metric tons), Mexico ($1.09 billion, 225,574 metric tons), Canada ($900 million, 124,822 metric tons), Korea ($810 million, 126,093 metric tons), and Hong Kong ($800 million, 120,905 metric tons).



Success Stories for U.S. Beef Trade

Quite possibly one of the greatest success stories for the U.S. beef industry has been the North American Free Trade Agreement (NAFTA). In 1993, the pre-NAFTA level of U.S. beef exports to Mexico were 39,000 tons valued at $116 million. As a result of NAFTA, Mexico eliminated its 15 percent tariff on live cattle slaughter, the 20 percent tariff on chilled beef and the 25 percent tariff on frozen beef. Fast forward to 2015—Mexico was our second largest export market, valued at over $1 billion. Since Mexico lifted the 30-month age-based restriction on U.S. beef products, we anticipate further growth in our exports to Mexico. Meanwhile, Canada has traditionally been our largest export market for U.S. beef, but finished third overall with a remarkable $900 million in sales. Having two large export markets at our borders has greatly benefitted the U.S. beef industry.

Not only do we trade beef with Mexico and Canada, the live cattle trade is also a very lucrative business for all three nations. In 2015, we imported nearly two—million head of cattle from Canada and Mexico. Mexican-born and Canadian-born cattle are a critical component to the success of the U.S. beef industry, something on which U.S. cattlemen depend in order to supplement our herd shortage.

Likewise, our trade agreements with other countries in the western hemisphere have proven to be very successful for the U.S. beef industry. After ten years under the terms of the Central American Free Trade Agreement (DR-CAFTA) where we are experiencing the benefits of elimination of 15-40 percent tariffs over 15 years and the strengthening of SPS measures.

Of course, we are very excited to see the growth and opportunities that have been created with the implementation of the free trade agreements with Korea, Colombia, and Panama. Korea is a top five market for U.S. beef exports and the 15—year phase out and elimination of the 40 percent tariff on U.S. beef allows us to sell more U.S. beef to more Korean consumers. We currently enjoy an eight percent tariff rate advantage over Australia and Canada because Congress implemented our agreement before Australia and Canada. In recent years critics questioned whether the Korea FTA was beneficial to the beef industry because sales were not as high as the year before the FTA was implemented. One important fact they do not take into account is that prior to the implementation of the FTA, Korea was suffering from a massive shortage in their domestic livestock production due to animal health issues that led to a spike in beef imports. Domestic production in Korea has been recovering at a rapid pace, and even in spite of that, 2015 was a great year for beef sales in Korea at $810 million.

While elimination of Korea's massive 40 percent tariff is important, equally as important are the strong sanitary and phytosanitary standards (SPS) in the Korea FTA. The Korea FTA's SPS agreement is considered the gold standard of SPS agreements and is something we want reflected in all future agreements. Similarly, the SPS agreements in the Colombia and Panama FTAs are also very strong.

One market that has been beneficial for U.S. beef exports is Hong Kong. The cause of this increase in sales has not had as much to do with the removal of tariff barriers as the removal of a non-science based, age-based restriction on U.S. beef. In May 2013, the U.S. was designated as "negligible risk status" for bovine spongiform encephalopathy (BSE) by the World Organization for Animal Health (OIE). Under a previous agreement Hong Kong agreed to grant full market access (no more restriction on age) for U.S. beef. In 2008, Hong Kong purchased $43 million in U.S. beef. In 2015, that number grew to $800 million.

Without question, one of the greatest developments for the U.S. beef industry was Japan lifting their age-based restriction on U.S. beef from 20 months to 30 months on February 1, 2013. Prior to that time Japanese protocol limited imports of beef from the U.S. to cattle slaughtered before they reached 21 months of age. The removal of that arbitrary trade barrier allowed the sale of U.S. beef to climb from $4 million in 2004, to $1.3 billion in 2015. Japanese consumers want U.S. beef, and the removal of the age-based restriction will further encourage our sales to grow.

Hindrances to U.S. Beef Trade

Unfortunately we continue to face many unnecessary barriers from tariffs, tariff rate quotas, and non-science based non-tariff barriers. Many of these restrictions have been the result of government reaction to cases of BSE.

China

China's market remains closed to U.S. beef since the 2003 discovery of a Canadian-born cow infected with BSE in the U.S. Since 2003, China has continuously used non-science based standards to ban imports of U.S. beef, a product that is recognized internationally as a safe product. Arbitrary guidelines not based on science have resulted in lost profits for U.S. beef exports across the globe. According to CattleFax, the U.S. beef industry lost nearly $22 billion in potential sales through 2010 due to BSE bans and restrictions around the world.

The U.S. beef industry has taken great strides to open markets and promote U.S. beef in Asia. As the middle-class grows throughout Asia, consumers are switching to a protein-based diet. There are tremendous opportunities for beef, pork, and poultry in China, a place with a high population and a growing demand for protein. It has been estimated that U.S. beef sales in China could exceed $300 million annually if given access.

U.S. beef isn't the only industry to suffer from these non-science based trade restrictions. On a larger scale, the elimination of China's tariffs and other trade restrictions could lead to an additional $3.9 to $5.2 billion in U.S. agricultural exports to China, according to a study by U.S. International Trade Commission.

One of the greatest hindrances for the U.S. beef industry has been China's reluctance to embrace internationally recognized science-based standards for beef such as those standards recommended by the World Organization for Animal Health (OIE) and the Codex Alimentarius (Codex).

According to a March 2011 report by the United States International Trade Commission, U.S. and Chinese officials have been unable to reach an agreement on requirements for trade in a variety of beef products, owing to China's regulations related to BSE. In June 2006, China agreed to allow imports of boneless U.S. beef from cattle less than 30 months of age. However, approval was subject to a number of stipulations, many unrelated to BSE risk, and an agreement has not been reached.

On May 29, 2013, the OIE upgraded the United States' designation for BSE from controlled-risk to negligible risk for BSE. The *negligible BSE risk* distinction applies to cattle and commodities from countries or zones that pose a negligible risk of transmitting the BSE agent as demonstrated by: 1) a risk assessment; 2) the appropriate level of BSE surveillance; 3) one of the following: no BSE cases, only imported BSE cases or indigenous BSE cases born no more recently than 11 years; 4) an existing education and reporting program; and 5) a feed ban that has been in place for at least eight years if an indigenous or imported case or other risk factors exist.

It is unfortunate that China will import beef from other countries that have negligible risk status, such as Australia and New Zealand, and even from countries such as Canada that have controlled-risk status, a lesser status in the OIE scale of designations, but not from the United States. NCBA encourages U.S. and Chinese negotiators to develop a beef protocol based on sound science and commercial feasibility instead of political interests.

Another area of concern is China's opposition to the proper use of internationally-approved technologies, particularly beta agonists such as ractopamine. Beta agonists are fed to cattle (steers and market heifers) in feedlots during the last 28 to 42 days of the finishing period to safely increase carcass gain, feed efficiency and carcass leanness while maintaining beef's natural taste, tenderness and juiciness. The Codex Commission, the international food standards-setting body recognized in the WTO-SPS Agreement, has established a set of Maximum Residue Levels (MRLs) widely accepted in international trade. On July 5, 2012, Codex adopted standards for maximum residue levels for ractopamine. The establishment of international standards for

veterinary drugs like ractopamine is important since many countries rely on science—based food standards to ensure that the food they are importing is safe. U.S. agricultural exporters and consumers worldwide benefit from the adoption of international standards for food safety. Unfortunately, China continues to find reasons to delay approval of technologies like ractopamine, instead of incorporating into their protocol the proven scientific standards of the international community. Other countries have changed their beef protocols in the wake of the Codex approval. NCBA encourages China to do the same. As the global population continues to grow, and as a result a growth in the demand for protein, food production must adapt through the use of safe technological advances that rely on fewer available natural resources.

Russia

Prior to 2013, Russia was the fifth largest market for U.S. beef exports with Russian consumers purchasing more than $300 million of U.S. beef in 2012. Unfortunately, at the end of 2012 Russia closed its doors to beef from the United States, Canada, Mexico, and Brazil due to non-science based concerns over production technologies used in each of those countries. While the impact of unnecessarily closing a $300 million market to U.S. beef has impacted our industry, this unfortunate move by the Russian government did not come as a surprise.

On August 22, 2012, Russia officially joined the WTO. As part of Russia's accession agreement with the U.S., Russia agreed to expand market access for U.S. beef to 60,000 metric tons (frozen beef) and an unlimited supply of High Quality beef at a 15 percent tariff rate. Even though the U.S. beef industry raised concerns with our government over Russia's history of implementing market-disrupting non-science based trade barriers, the increase in available quota for U.S. beef was viewed as a promising move for U.S. beef producers and Russian consumers who continually purchased more U.S. beef year after year (2010: $152 million in annual sales / 57,453 metric tons; 2011: $256 million in annual sales / 72,797 metric tons; 2012: $307 million in annual sales / 80,408 metric tons).

Prior to Russia joining the WTO, the U.S. beef industry had not been a target for Russia's non-science-based market closures suffered by other U.S. meat industries like pork and poultry. Russian consumers had not raised concerns about the safety of U.S. beef, nor had the Russian government. Even after Russia voted in opposition of the Codex Alimentarius' (Codex) establishment of a maximum residue level (MRL) for ractopamine, Russia continued to import record amounts of U.S. beef through 2012. It was not until the end of 2012, that Russia announced it would no longer accept beef and pork that was not certified as "ractopamine-free". Unfortunately, Russia has yet to provide any science-based standards to justify this action and has provided little direction to the U.S. beef industry on how to meet their demands for ractopamine-free beef.

Russia continues to find reasons to delay approval of technologies like ractopamine instead of incorporating into their protocol the proven scientific standards of the international community. Other countries have changed their beef protocols in the wake of the Codex establishment of a MRL for ractopamine, and NCBA encourages Russia to do the same so we can resume trade once their self-imposed embargo is lifted.

Hindrances to U.S. Beef Trade Caused By U.S. Policy

Unfortunately, there are some policies enacted that have managed to restrict the U.S. beef producers' ability to sell beef in some countries. One situation that is still fresh on our memories is the trade retaliation that resulted from the U.S. government failing to enact a cross-border trucking program with Mexico. While the U.S. may have been the first country to implement carousel retaliation schemes, other countries have picked up on the idea and are becoming experts at innovating its implementation. Fortunately U.S. beef was not on the first retaliation list for Mexico during the trucking dispute, but we are very confident that if the United States violates the World Trade Organization (WTO) ruling against Mandatory country-of-origin labeling (COOL) then U.S. beef will be on the top of the list of retaliatory tariffs for both Mexico and Canada. Fortunately, Congress was able to repeal the mandatory COOL law prior to retaliation setting in at the end of 2015.

NCBA Supports Science-Based and Market-Driven Trade Opportunities

Trans-Pacific Partnership

The Trans-Pacific Partnership (TPP) is an ambitious, 21st-Century trade agreement that includes Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States. NCBA believes that the TPP has the potential to open a number of export opportunities for U.S. beef and expand our presence in Asia. NCBA has been strong supporter of our government's efforts to push for tariff elimination and strong science-based standards among all TPP nations for as long as the U.S. has been part of TPP.

If Congress passes TPP in 2016, the U.S. beef industry will be one of the biggest winners in agriculture. At the same time, if Congress fails to pass TPP or delays action on TPP, the U.S. beef industry will be one of the biggest losers in agriculture.

Roughly 80-85 percent of the beef we produce is for the American market. American consumers love the ribeyes, tenderloins, and briskets from our cattle, but not all cuts of the carcass can be sold domestically at a premium. The small percentage of beef that we export are cuts like tongues and short plates that are not desirable for American consumers. Rather than send these cuts to a landfill or process them into pet food, we have found that Asia has proven to be a great destination for these cuts.

As a result, we have capitalized on the growing demand for U.S. beef overseas and Japan has become our leading export market. In 2015 the Japanese purchased $1.3 billion of U.S. beef and was one of the leading export markets for beef tongue. Even with a 38.5 percent tariff rate on our beef, we have seen a tremendous growth in export sales to Japan over the past four years and we have been able to gain significant market share because of the quality and price of our beef.

Our leading competitor in the Japanese beef market is Australia. In January 2015 the Japan-Australia Economic Partnership Agreement took effect and gave our leading competitors a 10 percent tariff advantage over us in our leading export market. In other words, the Japanese tariff on U.S. beef is 38.5 percent and the Japanese tariff on Australian beef is less than 28 percent. This disadvantage for U.S. beef in Japan resulted in nearly $300 million in lost sales in Japan in 2015. The tariff rate advantage for Australia will continue to grow for the next decade unless

something is done to level the playing field in Japan. The good news is TPP will level the playing field for U.S. beef in Japan by lowering the tariff rate on U.S. beef to match Australia's tariff rate upon implementation of TPP and will continue to decrease to 9 percent over 16 years. This the greatest beef market access ever negotiated into Japan.

Japan market access is not the only highlight of TPP. TPP eliminates tariffs on U.S. beef exports to other countries including Vietnam and Malaysia and also includes a strong set of rules that prevent governments from putting in place non-science based barriers and technical barriers to trade. TPP also gives us leverage over countries like Indonesia, Taiwan, the Philippines—all countries who want to join TPP and all are countries where U.S. beef has outstanding issues with market access.

The benefits of TPP are great, but so are the costs of inaction. If the United States fails to enact TPP, then we will send a strong message to our allies in the Pacific Rim that we are no longer willing to lead in the Pacific and the United States will simply resign our position of leadership to China regarding international trade and the geopolitical affairs of the Pacific Rim.

We have seen the benefits of trade agreements and we want to build on that success with implementation of the TPP. For example, other beneficial trade agreements include the following:

- Korea-U.S. FTA: Elimination of 40% tariff over 15 years; inclusion of strong SPS* measures
- Colombia-U.S. FTA: Elimination of 80% tariff over 15 years; inclusion of strong SPS* measures
- Panama-U.S. FTA: Elimination of 30% tariff over 15 years; inclusion of strong SPS* measures
- DR-CAFTA-U.S. FTA: Elimination of 15-40% tariffs over 15 years; inclusion of strong SPS* measures
- Chile-U.S. FTA: Elimination of price-band system,; recognition of U.S. beef standards
- Peru Trade Promotion Agreement: Re-opened market to U.S. beef, eliminated 25% tariff; inclusion of strong SPS* measures

Some opponents of TPP claim they cannot support TPP because it does not address the issue of currency manipulation. While we agree that currency manipulation is a serious issue that must be addressed, we agree with those who believe it is dangerous to include currency manipulation rules in a trade agreement because it could incite a trade war—and while the intentions may be good in trying to place currency manipulation measures in trade agreements the end result may cause more harm than good. With that said, NCBA strongly supported passage of the recently-enacted Customs Enforcement Bill that lays out strict criteria to prevent the U.S. from entering trade agreements with countries who have a problem with currency manipulation. We also support the use of existing international enforcement standards like the G-20 that have addressed and corrected previous international violators.

Conclusion

With 96 percent of the world's consumers living outside of the U.S., access to foreign markets for our beef and beef products is significantly important for our industry to grow. Exports are vitally important for the future success of U.S. beef producers and rural America and the future growth of the U.S. economy depends upon our ability to produce and sell products competitively in a global marketplace. Choosing to abstain from trade agreements will not immunize the U.S. economy from the effects of economic globalization.

We support effort to double U.S. exports and create jobs in rural America. On behalf of NCBA and many other stakeholders of the U.S. beef industry, I thank you for your continued efforts to open and expand market access for U.S. beef producers.

Sincerely,

Tracy Brunner
President, NCBA

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Trade Subcommittee

Hearing on Expanding U.S. Agricultural Trade and
Eliminating Barriers to U.S. Exports
Tuesday, June 14, 2016, 10:00 AM

By Michael G. Bindner
Center for Fiscal Equity

Chairman Reichert and Ranking Member Rangel, thank you for the opportunity to submit these comments for the record to U.S. Agricultural Trade and Eliminating Barriers to U.S. Exports. As usual, our comments are based on our four-part tax reform plan, which is as follows:

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure very American pays something.
- Personal income surtaxes on joint and widowed filers with net annual incomes of $100,000 and single filers earning $50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25% in either 5% or 10% increments. Heirs would also pay taxes on distributions from estates, but not the assets themselves, with distributions from sales to a qualified ESOP continuing to be exempt.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age sixty.

The main trade impact in our plan is the first point, the value added tax (VAT). This is because agricultural products would shed the tax, i.e. the tax would be zero rated, at export. Whatever VAT congress sets is an export subsidy. Seen another way, to not put as much taxation into VAT as possible is to enact an unconstitutional export tax.

The second point, the income and inheritance surtax, has no impact on exports. It is what people pay when they have successfully exported goods and their costs have been otherwise covered by the VAT and the Net Business Receipts Tax/Subtraction VAT. This VAT will fund U.S. military deployments abroad, so it helps make exports safe but is not involved in trade policy other than in protecting the seas.

The third point is about individual retirement savings. As long as such savings are funded through a payroll tax and linked to income, rather than funded by a consumption tax and paid as an average, they will add a small amount to the export cost of products.

The fourth bullet point is tricky. The NBRT/Subtraction VAT could be made either border adjustable, like the VAT, or be included in the price. This tax is designed to benefit the families of workers, either through government services or services provided by employers in lieu of tax. As such, it is really part of compensation. While we could run all compensation through the public sector and make it all border adjustable, that would be a mockery of the concept. The tax is designed to pay for needed services. Not including the tax at the border means that services provided to agricultural employees, such as a much needed expanded child tax credit – would be forgone. To this I respond, absolutely not – Heaven forbid – over my dead body. Just no.

Our last point has nothing to do with tax policy and everything to do with agricultural trade. For too long, agricultural trade policy has been explicitly designed to dump our goods on poor countries at or before harvest. Much of the world has gone hungry based on how that has crippled local agriculture. Market penetration should be to other OECD countries. We should never import food to nations where doing so kills local agriculture. To consciously do so is damnable and should not be done in the name of American voters or consumers. Ever.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Contact Sheet

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Trade Subcommittee
Hearing on Expanding U.S. Agricultural Trade and Eliminating Barriers to U.S. Exports
Tuesday, June 14, 2016, 10:00 AM
All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.

Statement of the Corn Refiners Association

Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports

U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Trade

June 14, 2016

Corn Refiners Association
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We commend the Chairman for convening this hearing on "Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports," and appreciate the opportunity to submit our views. Since 1913, the Corn Refiners Association has represented the U.S. corn refining industry. Our members manufacture products such as sweeteners, starches and feed that are used in food, animal feed, textiles, home improvement and commercial products that are consumed all over the world.

Corn refiners collectively employ 65,300 people, and in 2014 contributed over $10 billion in value-added manufacturing to the U.S. economy, producing an economic impact that extends far beyond agriculture. The U.S. corn refining industry highly supports U.S. engagement in free trade agreements such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). Our industry firmly believes that comprehensive free trade agreements are one of the best avenues for supporting greater economic stability and growth.

Customers in 234 countries and territories buy U.S.-made goods and services. When American food and agricultural exporters have more opportunities to sell the products they make to the 95 percent of consumers who live outside of our borders, it boosts America's bottom line from coast to coast.

In addition, with over one-third of the value of annual U.S. agricultural production now going to export markets, U.S. agriculture is even more reliant on overseas markets than the overall U.S. economy. Therefore, agreements such as the TPP are extremely important to the vitality of the entire U.S. food and agriculture value-chain.

Demand in the Asia-Pacific region is increasing, which presents new opportunities for U.S. corn refiners and allied farmers and employees. Along with demand, there is also growing competition with non-TPP members such as China. The TPP will allow for our industry to more easily meet the needs of new and current customers in the Asia-Pacific region by providing us an even playing field with a reduction in tariffs and fairer trade rules.

The U.S. corn refining industry supports the passage of TPP because it would:

- Provide new and commercially meaningful market access through significant tariff reductions or preferential tariff rate quotas. Under the current TPP plan, CRA members would be able to increase exports of corn sweeteners and starches to Asian markets.
- Discourage countries from imposing export restrictions on food and agricultural products as a means of protecting their domestic market from changes in the world market.
- Ensure that food safety, animal health and plant health measures are developed and implemented transparently and in a science-based manner formed around risk, as we do in the United States.
- Commit signatories to provide transparency on government measures on trade in agricultural products derived from biotechnology, and provide for information sharing.

For these reasons, the Corn Refiners Association strongly urges Congress to support all efforts towards opening trade, in particular, passing the TPP. With each day that the U.S. holds on engaging in the advancement of free trade agreements, U.S. businesses, farmers and workers lose out to competitor countries.

We appreciate your consideration of our views and stand ready to be of assistance to the Committee.

David Ickert, Vice President – Finance
Air Tractor, Inc.
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June 28, 2016

Ways and Means Committee Office
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To the House Ways and Means Trade Subcommittee:

I'm pleased to see that the U.S. House of Representatives Ways and Means Trade Subcommittee is seeking input about U.S. agricultural exports in trade agreements. In response to the committee's June 14 hearing on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports, I wish to outline my own support for new policies by explaining the direct impact they would have on my company.

As a finance leader at a company that exports agricultural planes to countries all over the world, I know that workers' jobs depend on our ability to export. Our 250 employees manufacture and sell small airplanes for spraying agriculture crops and fighting forest fires. Since 1994, our sales to customers in other countries have increased from 10 percent to 50 percent. There are more than 100 employees at our company who owe their jobs to exporting—that's significant in a small town of only 3,000 people.

Exporting helps provide good middle-class jobs that pay well and support families. This is a trend companies across the country are seeing; exports supported more than 11.3 million U.S. jobs in 2013. Exporting has also been instrumental in our steady growth, and we know that our future growth will continue to be global because 95 percent of consumers in the world live outside the United States.

I hope you and your committee will support international trade agreements.

Thank you for your consideration.

Sincerely,

David Ickert
Vice President - Finance

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

TRADE SUBCOMMITTEE

EXPANDING U.S. AGRICULTURE TRADE AND ELIMINATING BARRIERS TO U.S. EXPORTS

JUNE 14, 2016

STATEMENT OF THE DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES, INC.

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U.S. HOUSE OF REPRESENTATIVES
TRADE SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS

"Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports"

June 14, 2016

The following statement is submitted on behalf of the Distilled Spirits Council of the United States, Inc. ("Distilled Spirits Council") for inclusion in the printed record of the House Ways and Means Trade Subcommittee's hearing on expanding U.S. agriculture trade and eliminating barriers to U.S. exports. The Distilled Spirits Council is a national trade association representing U.S. producers, marketers, and exporters of distilled spirits products. Its member companies export spirits products to more than 130 countries worldwide.

I. Introduction

Distilled spirits are processed agricultural products that fall within the scope of Chapter 22 of the Harmonized Tariff Schedule of the United States, the WTO Agreement on Agriculture, and the agriculture chapters of the free trade agreements the United States has negotiated with a number of key trading partners. The Distilled Spirits Council and its member companies have a strong and long-standing interest in agricultural trade, from a commercial perspective and from a policy perspective.

The Distilled Spirits Council and its members have strongly supported efforts to liberalize trade through a variety of fora and mechanisms. International trade has become increasingly important to the U.S. distilled spirits industry, and is instrumental to its long term viability. Past efforts by the United States to open foreign markets have contributed to the impressive gains the U.S. industry has made, and continues to make, in expanding U.S. spirits exports. Since 1989[1], the value of global U.S. distilled spirits exports has increased nearly 545 percent, from $242 million to over $1.5 billion in 2015. The majority of U.S. spirits exports are comprised of whiskey (particularly Bourbon and Tennessee Whiskeys), which accounted for 68 percent of total exports in 2015. In addition, exports of rum, vodka, grape brandy, liqueurs and cordials also make a significant contribution to the U.S. economy. As of 2013, the distilled spirits industry supported 745,000 direct employees. Continuing to expand exports supports current and future employment in the industry.

The Distilled Spirits Council has strongly supported multilateral, regional, and bilateral agreements, as these are vital to opening new markets, and keeping them open, for U.S. spirits exports. U.S. spirits exports to our trading partners which have agreed, either through multilateral, regional, or bilateral trade agreements, to eliminate tariffs on U.S. spirits have reached $1.35 billion in 2015, accounting for 86 percent of global U.S. spirits exports. The Council strongly supports the Trans-Pacific Partnership, as it will provide significant and measurable market access benefits for U.S. spirits exporters to key markets in the Asia-Pacific region.

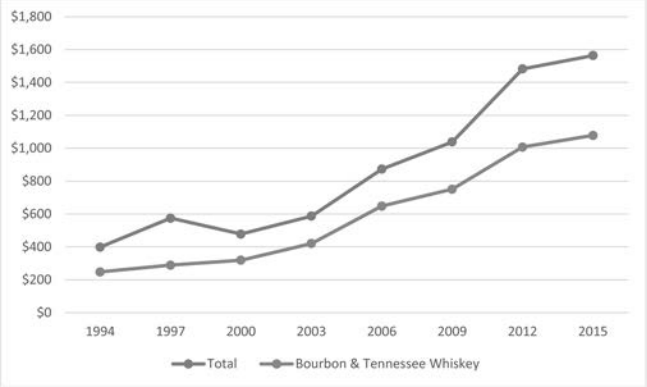
II. Uruguay Round Agreements

The Distilled Spirits Council has had a long and active involvement with the World Trade Organization (WTO). The Council remains a strong supporter of the organization and ongoing efforts to further liberalize global trade and strengthen the rules-based multilateral trading system. Unquestionably, the package of agreements concluded in the Uruguay Round, which led to the

[1] 1989 is the first year U.S. trade data is available on the U.S. International Trade Commission DataWeb.

establishment of the WTO in 1994, has significantly benefitted the U.S. distilled spirits sector. In particular, since the Uruguay Round agreements entered into force in 1995, global U.S. distilled spirits exports have increased nearly 291 percent through 2015.

U.S. Global Distilled Spirits Exports 1994-2015
In millions of U.S. dollars



a. Tariffs – "Zero-for-Zero"

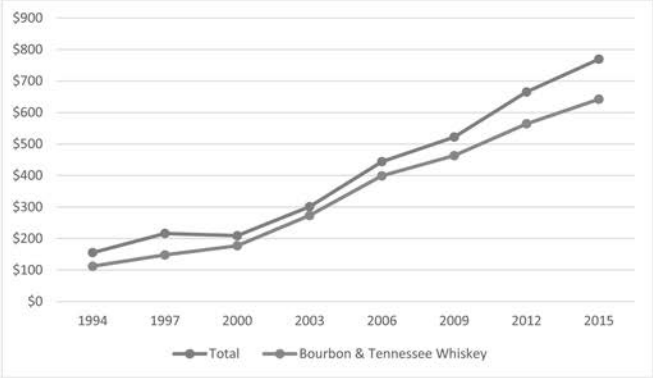
The tariff elimination commitments regarding distilled spirits products secured during the Uruguay Round and subsequent negotiations under the U.S. government's "zero-for-zero" initiative has paved the way for a significant increase in U.S distilled spirits exports. At the outset, participation in the spirits "zero-for-zero" was limited to the United States and the European Union. However, other countries, including Japan, Canada, Macedonia, Taiwan and Ukraine have since been included. For example, since Taiwan eliminated its tariffs in 2002, U.S. distilled spirits exports to Taiwan increased nearly 763 percent -- from $1.1 million to $9.5 million in 2015. In the case of Japan, U.S. distilled exports grew from $71.8 million in 2002, when the tariff was eliminated, to $110 million in 2015, representing a growth rate of 53 percent for that period.

The "zero-for-zero" agreement continues to produce benefits for U.S. spirits exports. Specifically, as countries have joined the European Union they are required to adopt the European Union's common external tariff, which, in the case of distilled spirits is zero for practically all spirits. Since 2004, the following countries have joined the European Union: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic, and Slovenia. For example, exports to Latvia, which is currently the 10th largest destination for U.S. distilled spirits, increased almost 2,333 percent, from $1.8 million in 2004 when it joined the European Union, to $43.8 million in 2015. Similarly, exports to Poland, which is the 14th largest market, increased nearly 1,699 percent, from $1.1 million in 2004 when it joined the European Union to $19.8 million in 2015. Prior to Poland joining the European Union, U.S. spirits faced tariffs ranging from 75 percent to 105 percent *ad valorem*.

In addition, prior to Bulgaria and Romania's entry into the European Union, those countries applied preferential tariff rates to EU-origin spirits, which significantly disadvantaged U.S. spirits exports to those markets. Immediately upon their accession to the European Union, however, Bulgaria and Romania were required to adopt the European Union's common external tariffs on spirits (i.e., zero for practically all spirits categories), thus creating a level playing field for U.S. spirits exports to those markets.

Since the "zero-for-zero" agreement came into effect in 1995, the value of U.S. spirits exports to the European Union has more than quadrupled, from $184 million to over $769 million in 2015.

U.S. Distilled Spirits Exports to the European Union 1994-2015
In millions of U.S. dollars



b. Trade Enforcement Mechanism

In addition, the industry has benefitted from the WTO's dispute settlement mechanism established under the WTO's Dispute Settlement Understanding. Specifically, it has provided an important forum to ensure that countries meet their international trade obligations. The mechanism has been used successfully to challenge discriminatory spirits excise tax regimes in four dispute settlement cases: Japan – Alcoholic Beverages (DS8, 10 and 11); Korea – Alcoholic Beverages (DS 75 and 84); Chile – Alcoholic Beverages (DS 87 and 110), and most recently the Philippines -- Taxes on Distilled Spirits (DS396 and DS403). As a result of the aforementioned cases, U.S. distilled spirits products were put on equal footing in regards to domestic taxes with domestically produced products in accordance with Article III of the WTO's General Agreement on Tariffs and Trade.

c. Regulatory Reporting Mechanisms

In addition, the reporting mechanisms established by the Agreements on Technical Barriers to Trade (TBT Agreement) and Sanitary and Phytosanitary Standards (SPS Agreement) have given the industry advance notice, in some cases, of significant regulatory changes that could have serious – and sometimes adverse – effects on the industry. Most importantly, the reporting mechanisms provide industry with an opportunity to provide valuable and pertinent input on the potential impact of proposed

regulations. This helps to ensure that regulations are, for example, based on science, reflect international standards and best practices, and do not discriminate against imported products or create unnecessary obstacles to trade.

d. Protection for Bourbon and Tennessee Whiskey

Similarly, the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), includes important protections for geographical indications (GIs) for spirits, such as "Bourbon" and "Tennessee Whiskey." The inclusion in the agreement of provisions specifically mandating the establishment by all WTO member countries of a legal means of protecting GIs associated with distinctive distilled spirits was, in our view, a major achievement of the Uruguay Round.

III. Current Bilateral and Regional Free Trade Agreements

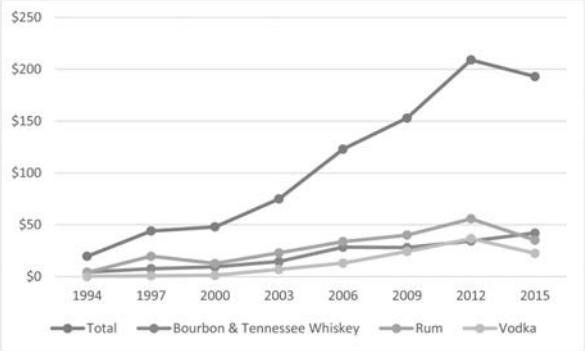
The Distilled Spirits Council equally supports efforts by the U.S. government to secure the most rapid trade liberalization and enhanced rules through comprehensive bilateral and regional free trade agreements. Such comprehensive agreements have played a critical role in opening foreign markets and increasing U.S. distilled spirits exports. In 2015, U.S. distilled spirits exports to bilateral and regional free trade agreement partners reached roughly $472 million, accounting for nearly a third of global exports. In fact, between 2000 and 2015, exports to bilateral and regional trade agreement partners have grown at a faster rate (289 percent increase) than total U.S. distilled spirits exports (227 percent increase).

a. Tariff Elimination

As with the reduction of tariffs under the Uruguay Round, the elimination of tariffs on U.S.-origin spirits through regional and bilateral trade agreements has led to a significant increase in exports to these trading partners. As a result of U.S. bilateral and regional free trade agreements, the vast majority of U.S. distilled spirits to Israel, Mexico, Canada, Singapore, Australia, Chile, Peru, Panama, Morocco, Bahrain, Korea, Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua are currently duty-free. As noted below, some products are still subject to tariff phase-outs.

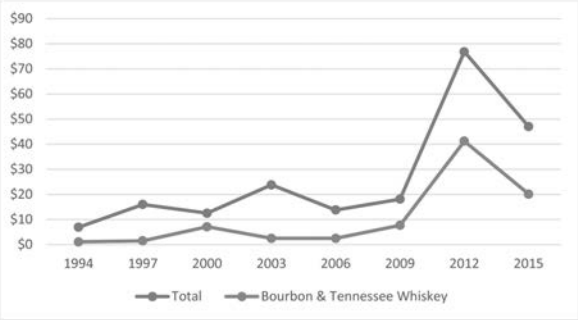
The export data clearly indicates that bilateral and regional trade agreements have had a significant impact on U.S. distilled spirits exports. For example, since implementation of the ***North American Free Trade Agreement*** (NAFTA – Canada and Mexico), U.S. spirits exports to Canada grew nearly 589 percent, from roughly $28 million in 1995 to $193 million 2015. Canada ranks as the 2nd largest export market for U.S. distilled spirits exports. Similarly, in the case of Mexico, U.S. distilled spirits exports grew nearly 623 percent, from $6.5 million in 1995 to $47 million in 2015. Mexico is currently the 9th largest market for U.S. distilled spirits exports. As noted below, the United States exports a wide variety of spirits products to our NAFTA partners, including rum, vodka, liqueurs, etc.

U.S. Distilled Spirits Exports to Canada 1994-2015
In millions of U.S. dollars



U.S. Distilled Spirits Exports to Mexico 1994-2015

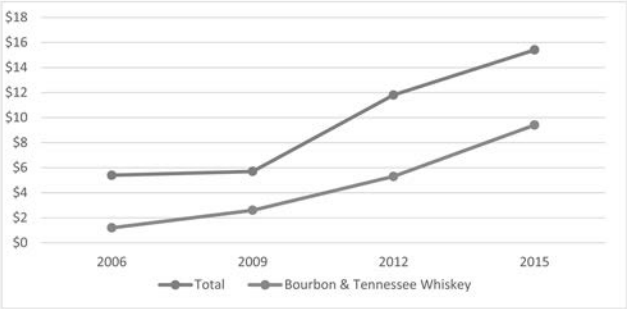
In millions of U.S. dollars



Since tariffs were eliminated under the ***U.S. - Australia FTA*** in 2005, U.S. spirits exports have grown by nearly 62 percent, from $77 million to $125 million in 2015. Australia now ranks as the industry's fourth largest export destination worldwide.

Under the ***U.S. - Chile FTA***, tariffs on all U.S. spirits (except gin) were eliminated in 2006, immediately upon entry into force of the agreement. The tariff on U.S. gin was eliminated on January 1, 2016. As noted below, since implementation of the agreement U.S. spirits exports have increased nearly 200 percent from $5.1 million to $15.4 million in 2015.

U.S. Distilled Spirits Exports to Chile 2006-2015
In millions of U.S. dollars



The ***U.S. - Peru FTA*** eliminated tariffs on all U.S. spirits products in 2009. Since that date, U.S. spirits exports increased from $878,000 to $2.7 million in 2015. Likewise, the ***U.S. – Panama FTA***, which was implemented in 2012, included immediate elimination of tariffs on all U.S. spirits exports. Exports to Panama have increased from $5.8 million in 2012 to $19.9 million in 2015.

In the case of the ***U.S. - Colombia Trade Promotion Agreement*** (CTPA) and ***U.S. - Oman Free Trade Agreement***, tariffs on U.S. distilled spirits products are currently being phased-out.

Under the CTPA, ***Colombia*** eliminated its tariffs on U.S.-origin brandy, gin and liqueurs as of May 15, 2012. The tariffs on U.S. whiskeys, rums, and vodkas will be phased out by 2021. U.S. spirits exports to Colombia have increased modestly since implementation of the agreement in 2012, from $2 million to approximately $2.4 million in 2015.

In the case of the ***U.S.-Oman FTA***, the 100 percent tariff on U.S. origin spirits will be eliminated by January 1, 2018.

b. Distinctive Product Recognition for Bourbon and Tennessee Whiskey

Many of the international trade agreements in which the United States is a party includes important protections for "Bourbon" and "Tennessee Whiskey," the single largest category of U.S. spirits exports. Such recognition ensures that products sold as Bourbon and Tennessee Whiskey are produced in the U.S. in accordance with U.S. laws and regulations. Distinctive product recognition for "Bourbon" and "Tennessee Whiskey" has been secured in free trade agreement negotiations with Canada, Mexico, Colombia, Peru, Chile, Australia, Panama, Korea, Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. In addition, distinctive product recognition for "Bourbon" and "Tennessee Whiskey" has been secured in Brazil and the European Union through bilateral agreements. With regard to the European Union, any country that joins must automatically afford this protection to "Bourbon" and "Tennessee Whiskey."

IV. Trans-Pacific Partnership Agreement

On balance, the recently-concluded Trans-Pacific Partnership (TPP) Agreement will provide significant and measurable market access benefits for U.S. spirits exporters to key markets in the Asia-Pacific region. Once fully implemented, it will bring about significant and measureable benefits to the many U.S. spirits exporters to the region. In 2015, U.S. spirits exports to the TPP countries were valued at $557 million; Bourbon and Tennessee Whiskey accounted for over 50 percent of the total. The specific benefits of TPP for the U.S. spirits sector are detailed below.

a. Tariff Elimination

Vietnam's current 45 percent *ad valorem* tariff on U.S. spirits will be eliminated over eleven or twelve years, depending on the product.

Malaysia, which had previously excluded all beverage alcohol from all previous free trade agreements in which it was a party, agreed to eliminate tariffs on U.S. spirits over 16 years. Malaysia's applied tariffs on imported spirits are extremely high, with higher rates on whiskey, brandy, vodka, rum, gin, and liqueurs as compared with samsu. The tariffs will be eliminated in sixteen equal annual stages, and all U.S. spirits exports to that market will be duty-free on January 1 of year 16.

New Zealand's 5 percent tariff on U.S. liqueurs, vodka and gin will be eliminated immediately upon entry into force of the agreement. All other U.S. spirits already face a zero duty to that market.

Most categories of U.S. spirits already enter ***Japan*** duty-free. Japan will eliminate residual tariffs on the remaining categories (all in the "other category" under 220890) over 6-11 years.

U.S. spirits exports to ***Singapore, Chile, Peru, Australia, Mexico,*** **and** ***Canada*** are already duty-free under existing bilateral and regional trade agreements.

b. Distinctive Product Recognition for Bourbon and Tennessee Whiskey

In addition, the agreement includes critical protections for Bourbon and Tennessee Whiskey. Specifically, bilateral understandings regarding distinctive product recognition of Bourbon and Tennessee Whiskey have been reached with ***Japan, Malaysia, Vietnam*** and ***New Zealand*** via side letters.

In the case of ***Japan,*** it was agreed to "initiate, in accordance with its applicable laws and regulations, the process to consider" affording such recognition. In exchange, the U.S. agreed to begin a similar process to recognize "Yamanashi wine, Iki shochu, Kuma shochu, Satsuma shochu, Ryukyu awamori, Hakusan sake, Japanese sake, or Nihonshu sake" as distinctive products of Japan.

Distinctive product recognition for Bourbon and Tennessee Whiskey already exists with several of the other TPP parties (*i.e.,* ***Australia, Chile, Peru, Canada,*** and ***Mexico***).

Singapore did not have any offensive interests with regard to distinctive products, so declined to provide such recognition. The sale of all alcohol is banned in ***Brunei*** (including hotels). However, non-Muslim visitors over 17 years old are allowed to bring alcohol into Brunei for their personal consumption.

c. Technical Barriers to Trade: Spirits Annex

For the first time in any U.S. trade agreement, the Technical Barriers to Trade Chapter includes an annex on wines and spirits, committing all TPP members to abide by a list of standard international best practices with regard to labeling rules and certification requirements for spirits and wine. These disciplines establish more predictability, transparency and consistency of the regulations for U.S. spirits exporters to the TPP region, and will serve as an important benchmark for the development of other regulations impacting spirits.

V. Conclusion

In summary, the U.S. distilled spirits industry has benefitted significantly from the comprehensive multilateral, regional and bilateral trade agreements the United States has concluded. The Distilled Spirits Council strongly supports the Trans-Pacific Partnership and additional efforts to further liberalize trade with other trading partners, as this will be the key to continued growth and long-term viability of the U.S. spirits industry. Thank you again for the opportunity to provide the U.S. spirits industry's views. Please do not hesitate to contact us if we can provide any additional information.

Thank you very much for your consideration.

Written Statement of:

Christine LoCascio
Senior Vice President
International Issues and Trade
Distilled Spirits Council of the United States, Inc.
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Washington, DC 20005
Tel: (202) 682-8882
Fax: (202) 682-8844

Ms. Kearyn Rubio
U.S. Commerce Global Partners, Inc.
222 Elmwood Avenue
Hempstead, NY 11550

Ways and Means Committee Office
1102 Longworth House Office Building
Washington, D.C 20515

June 27, 2016

To the House Ways and Means Trade Subcommittee,

I am pleased to see that the U.S. House of Representatives Ways and Means Trade Subcommittee is seeking input about U.S. agricultural exporting in trade agreements. In response to the committee's hearing held on June 14, 2016. I wish to outline my own support for new policies by explaining the direct impact they would have on my company.

As President of a firm that aids businesses looking to expand internationally, I know the many ways in which international trade policies affect American businesses and the global economy. Currently, the United States faces a high threat of IP theft from countries, which can deprive companies of revenues and threaten public health through trading potentially counterfeit products. We also face agricultural challenges, as we aim to feed a population expected to reach nine billion by 2050. High tariffs are making trading with other nations unachievable for many American businesses.

Improved trade legislation—like the Trans-Pacific Partnership (TPP)—will help to lessen numerous global challenges, like intellectual property theft, food shortages, and high tariffs. If legislatures act, business leaders like myself will be able to trade, or help others to trade more easily. Working with producers around the world to help create sustainable agricultural solutions; and sell our products to more consumers. In turn helping to empower the national economy.

I hope this body will support enhanced international trade agreements. I look forward to this continued discussion in how we can promote American ingenuity.

Thank you for your time and consideration.

Respectfully,

Kearyn Rubio
Madame President
U.S. Commerce Global Partners, Inc.

Jerry Tyler
Owner and Vice President
Heart of Nature LLC
34710 7th Standard Rd.
Bakersfield, CA 93314

June 27, 2016

Ways and Means Committee Office
1102 Longworth House Office Building
Washington D.C. 20515

To the House Ways and Means Trade Subcommittee:

I'm pleased to see that the U.S. House of Representatives Ways and Means Trade Subcommittee is seeking input about U.S. agricultural exports in trade agreements. In response to the committee's June 14 hearing on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports, I wish to outline my own support for new policies by explaining the direct impact they would have on my company.

As the owner of a fertilizer company that conducts business in Asia, South America, and Australia, I know how vital new trade agreements would be for our company and for California's economy. When our company exports to other countries, we require more employees to bag products and prepare them for shipping. New trade agreements would make it easier for my business to expand our exporting operations, which would ultimately mean job growth for Central California.

I hope you and your committee will support international trade agreements.

Thank you for your consideration.

Sincerely,

Jerry Tyler
Owner and Vice President
Heart of Nature LLC

Jorge Corralejo
President
Macondo Leasing Company Inc.
1577 Dara St
Camarillo, CA 93010

June 26, 2016

Ways and Means Committee Office
1102 Longworth House Office Building
Washington D.C. 20515

To the House Ways and Means Trade Subcommittee:

I'm pleased to see that the U.S. House of Representatives Ways and Means Trade Subcommittee is seeking input about U.S. agricultural exports in trade agreements. In response to the committee's June 14 hearing on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports, I wish to outline my own support for new policies by explaining the direct impact they would have on the U.S. economy.

As a business owner for 34 years and a Chamber of Commerce leader for decades, I believe that improved trade agreements would make it simpler for California agricultural firms to export their products. Specifically, they would ensure that foreign trade benefits not only middlemen from other countries, as other trade agreements have done. I further recommend a "Measurement of Commitment" that trade be made by parties in two directions. This suggestions would greatly benefit American producers.

I hope you and your committee will support international trade agreements.

Thank you for your consideration.

Sincerely,

Jorge Corralejo
President
Macondo Leasing Company Inc.

José Carlos González
Principal
Gonzalez & Associates Consulting
2205 Fulton St.
Houston, TX 77009

June 27, 2016

Ways and Means Committee Office
1102 Longworth House Office Building
Washington D.C. 20515

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As a principal at a firm that is hoping to expand its services overseas, I believe the Trans-Pacific Partnership (TPP) is highly necessary. The agreement will help to level the playing field so that American businesses can compete with those in countries like China. It will also ensure better agricultural and manufacturing standards, better protection of workers, and the natural environment.

Thank you for your consideration.

Sincerely,

José Carlos González
Principal
Gonzalez & Associates Consulting

Kevin Berken
Rice Farmer
12527 Highway 14
Lake Arthur, LA 70549

June 27, 2016

Ways and Means Committee Office
1102 Longworth House Office Building
Washington D.C. 20515

To the House Ways and Means Trade Subcommittee:

I'm pleased to see that the U.S. House of Representatives Ways and Means Trade Subcommittee is seeking input about U.S. agricultural exports in trade agreements. In response to the committee's June 14 hearing on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports, I wish to outline my own support for new policies by explaining the direct impact they would have on my company.

As a rice farmer who exports to over thirty countries, I know workers' jobs and the success of Louisiana's economy depend on our ability to sell to international consumers. Currently, the U.S. rice industry exports approximately fifty percent of crops, which means we require U.S. workers for bagging and shipping. If we are able to access more markets, like Cuba, where demand is especially high, we would sell far more rice, boosting our state's job numbers and GDP.

I hope you and your committee will support international trade agreements and eliminate restrictions on doing business with Cuba.

Thank you for your consideration.

Sincerely,

Kevin Berken
Rice Farmer

Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports
House Committee on Ways and Means
June 14, 2016

Testimony of Linda Reiff, President and CEO, Napa Valley Vintners

Introduction to Napa Valley

Chairman Reichert, Ranking Member Rangel, Members of the Committee, thank you for the opportunity to offer testimony on the opportunities and barriers facing the U.S. agriculture industry.

I am Linda Reiff, President and C.E.O. of Napa Valley Vintners (NVV). NVV is the non-profit trade association representing the wineries in California's Napa Valley. We proudly represent more than 530 wineries nearly 98% of all Napa Valley wine.

Today, Napa Valley is known across the globe for our world class wines. The Napa Valley wine industry alone generates $50 billion in economic activity and creates 303,000 jobs nationwide.

The success of Napa Valley wines is in large due part to the distinctive geography, topography and weather conditions in our region. Consider this:

- Napa Valley is classified as having "Mediterranean Climate;" a designation that is only applied to 2 percent of the Earth's surface.
- Napa Valley contains a stunning variety of soil 33 types, half of the world's soil orders and 100 soil variations all within our small 45,000 acres. And,
- Napa Valley vineyards range from sea level to 2,600 feet above sea level.

Wine is a Product of Place

The unique features of our region are what give Napa Valley wines their unique and highly sought-after characteristics. Each soil type and weather pattern creates subtle differences in flavor and texture. It's why two wines made from the same type of grape can taste so different.

And for the wineries I represent, it is this distinction—their location—that brings economic value to their businesses. Federal law recognizes that certain winegrowing regions reflect unique characteristics, and as such the names of those regions are legally protected to allow companies to differentiate their wines based

on those place names. This, in turn, allows wineries to sell their wines from these areas at a premium.

The added value wineries receive based on location, or terroir as it is known in the industry, is a well accepted fact. It plays a role in every day transactions from acquiring land to the pricing of grapes.

Put simply, on the domestic wine market the fact that location matters is second nature. It is not controversial or anti-competitive in any way.

Existing federal laws restrict the use of terms that identify "appellations of origin" because this principle is so commonplace in the wine industry. These are well known terms such as "Napa Valley," or "Columbia Valley" in your district, Mr. Chairman. They also includes the names of every other American Viticulture Area, including "Indiana Uplands," "Puget Sound," "Shawnee Hills," "Ozark Highlands," "Finger Lakes," "Cayuga Lakes," "Lancaster Valley," "Lake Chelan" and "Mississippi Delta" which are in the Congressional districts of the members of this committee.

It is worth noting that the laws governing name protection for the wine industry are different from other agriculture industries.

The reason is simple: terms such as "Napa Valley" are not exclusively owned by any one producer; they are collectively shared by all the producers making wine from the region. As a result, the U.S. Patent and Trademark office will not allow this type of term to be registered as a trademark for any one party. So in the U.S. market we rely on the special wine-centric laws and protections provided in Title 27 of the U.S. Code. (Unlike other agriculture products that primarily look to Title 7 of the U.S. Code).

Name Protection Challenges on the Export Market

When our producers look outside of the borders of the U.S., the rigorous name protections in federal law give way to a confusing morass of international laws.

These incongruent name protection laws are the primary trade barrier for NVV and other groups representing American wine producing regions. Put bluntly, there is no clear path on how to protect our regional terms in a number of markets.

It seems like in every new country to which Napa wine is exported, we face a new set of legal challenges.

In the E.U. for instance, we were asked to use their Geographical Indication (GI) system. While difficult to obtain, NVV was granted GI status for Napa Valley wines in 2007. This years-long process was only completed after NVV hired in-country lawyers and experts to prove our case.

In other countries, such as South Korea, we are asked to obtain Certification Marks." This type of Intellectual Property (IP) requires NVV to serve as an independent certifier of which wineries are made inside of the Napa Valley AVA. This designation was finally awarded to the NVV in 2015 after nearly half a decade of legal and organizational challenges were resolved.

But the number of countries where our AVA terms are protected is dwarfed by the markets where the Napa name has no meaningful legal protection.

Look to Nepal, where a local producer is bottling "the King's Napa Valley Wine," and we have limited recourse to halt production of this misleading product.

Or Vietnam, a market we see as having high potential for growth, where after nine years of wrangling with the Vietnamese government we still have no clear path to achieve name protection and time table for completion.

Or to Switzerland or Chile, which generally recognize certification marks but refuse to recognize ours because it is geographic in nature. So, in countries like these where we don't fit into any category, we are left fighting with the local trademark office to receive some form of protection (which often comes at a great financial cost to us and our members).

The bottom line is that these overly complicated name protection regimes discourage U.S. producers from building market share in foreign countries. This is unacceptable, and Congress and the Administration must act to provide a clear and consistent method for U.S. wine regions to protect our names abroad.

Existing International Law Provides a Path Forward

The remedy for inadequate name protection is as straightforward as it is simple.

Article 23 of the Trade Related Aspects of Intellectual Property Rights Agreement, commonly known as "TRIPS", calls for the establishment of a "multilateral system of notification and registration of geographical indications for wines eligible for protection in those Members participating in the system."

This "multilateral system" should be implemented without delay. And, critically, the system must include all U.S. American Viticulture Area terms.

The wine and spirits register should closely mimic the widely successful Madrid Protocol for trademarks.

Under the Madrid Protocol, a trademark holder wishing to protect his or her name in foreign countries simply has to initiate the system by identifying which

countries they want their name protected and paying the pre-set fees for that right. Participating countries have a set amount of time to respond, provide comments, and identify potential issues. And after that, the applicant receives the benefits of name protection in those markets.

The Madrid Protocol is a consistent, predictable, well-understood process. Sadly, this efficiency is lacking in our industry, as demonstrated by the years it takes for organizations to protect regional AVA terms and the absolute lack of a delineated process for doing so. This harms the ability of U.S. companies to successfully and profitably export products.

Addressing Concerns About GIs

While I am fully aware of the controversial nature of Geographical Indications (GI) in the food industry, I hope to leave you with an understanding that the issue of regional branding is far less controversial in the world of wine. We have built our domestic industry on these terms, and wine consumers around the world have come to expect truthful and accurate labels when it comes to the origin of our products. Consequently, NVV urges Congress and the Administration to maintain the current U.S. policy of treating the food and wine industries differently when it comes to resolving the longstanding disputes over regional branding issues.

It is indisputable that American Viticulture Areas (AVAs), which are a creature of existing U.S. law and a well-established part of the wine industry, closely resemble European Geographic Indications. In the most basic sense, the two property rights are similar in the fact that a government entity essentially approves an area on a map, and once approved only producers from within that region can use the name associated with it.

But while we believe that regional branding helps build value for small farmers, the headline grabbing tug of war between the U.S. and E.U. related to how European GIs are applied to U.S. food products is not our fight.

We are simply interested in obtaining a clear and consistent path to protecting our name, and the names of other wine regions across the globe.

Name Protection Matters to Domestic and Foreign Producers

To achieve meaningful name protection via a multilateral register, NVV acknowledges that the U.S. wine industry will have to work cooperatively with other wine producing nations.

That means that if we want to make sure that Napa Valley wine is only from Napa Valley in the U.S., or that Columbia Valley wine is only from the Columbia Valley in the U.S., then we also have to provide a path for other great wine regions to protect their names as well.

This means that a wine using the words Marlborough would have to be from Marlborough, New Zealand. And a wine using the word Mendoza would have to be from Mendoza, Argentina.

But—and this is where things start to get controversial—it also means that wines using the word Champagne have to be from Champagne, France. And wines using the word Port have to be from Portugal.

Because, in order for this multilateral system to work, we need to respect and protect all wine place names—not just a handful of them.

As we see it, this means that the U.S. should revisit the 2006 U.S.-E.U. Wine Agreements to phase out the use of all "semi-generic" terms that are tied to specific locations. This is a small price to pay if that's what it takes to protect all 250+ American Viticulture Area terms and the thousands of wineries that rely on these terms to build value for their businesses.

NVV believes in this principle so strongly that we have begun working with our members to phase out the use of the misleading terms.

The results have been eye opening and should be used to inform the dialogue going forward.

More than a dozen NVV members were grandfathered in to the 2006 agreement, meaning they could legally use the term Champagne on their wine, even if it was produced outside of France. But we worked with them to replace the term "champagne" with "sparkling wine," because we believe it is the right thing to do.

Years in, we can now definitively say that this change did not hurt the sales of these products. Instead, the businesses have actually been able to increase consumer interest and sales in the intervening years.

Further evidence from our northern neighbors suggests that ending the use of "semi-generic" wine terms does not hurt U.S. brands. In 2015 new requirements went into effect for wine labeling in Canada, the biggest export market for our industry. And despite requirements that prohibit the use of the word "champagne" unless the product originates in Champagne, France, exports to Canada continued to grow.

As demonstrated above, today, the American wine industry is clearly strong enough to stand on our own. Past practices of borrowing Old World terms of origin to help build our market are no longer necessary, and are deceiving to consumers.

Conclusion

I want to conclude by reiterating that since the creation of the Federal Alcohol Administration in 1935, U.S. law has provided consumers with detailed information about where their wine is from. This has provided great value to our industry and we believe it will continue to do so in the coming years.

However we recognize that only four percent of the world's potential consumers live in the United States. So in order for us to grow in today's global market, we must have the laws and regulations in place to protection place names in other countries as well.

A multilateral register, as envisioned by TRIPS, is the most promising way to provide the protection U.S. wine producers need to strengthen protection in our export markets, and we urge you to work with the Administration to ensure that this register is set up without delay.

Thank you for the opportunity to provide this testimony today, and I am happy to answer any questions you may have.

STATEMENT OF ROGER JOHNSON
PRESIDENT
NATIONAL FARMERS UNION

SUBMITTED TO THE HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

REGARDING EXPANDING U.S. AGRICULTURE TRADE AND ELIMINATING BARRIERS TO U.S. EXPORTS

JUNE 14, 2016
WASHINGTON, DC

Introduction

On behalf of the family farmer, rancher, and rural members of National Farmers Union (NFU), thank you for holding this hearing examining the expansion of U.S. agricultural trade and eliminating barriers to U.S. exports.

NFU was organized in 1902 with the mission of improving the well-being and economic opportunity for family farmers, ranchers, and rural communities through grassroots-driven advocacy. As a general farm organization, NFU represents agricultural producers across the country and in all segments of family agriculture.

NFU, as directed by its policy adopted by delegates at its annual convention, advocates for fair trade. NFU recognizes that international trade is an important part of successful family farming in the U.S., but increasing trade is not an end unto itself. NFU policy states, "Every future trade agreement must address differences in labor standards, environmental standards, health standards, and the trade-distorting effect of currency manipulation and cartelization of agriculture markets."[1]

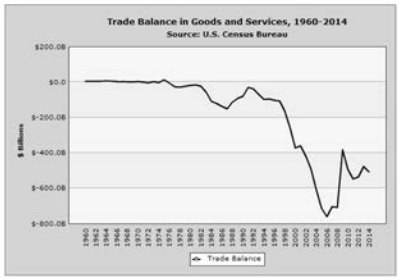
While NFU was not invited to participate in today's hearing, we encourage the Subcommittee to consider the opinions expressed by our membership on both the experienced and potential impacts of trade agreements on U.S. agriculture. NFU encourages the committee to seek diverse opinions as it evaluates trade moving forward.

Balancing trade

The U.S. trade deficit totaled over $531 billion in 2015.[2] It represents roughly three percent of the U.S. Gross Domestic Product (GDP). The trade deficit causes a significant drag on the growth of the entire economy. For more than 40 years, the U.S. has had a trade deficit that, on average, continues to grow (Figure 1). With a strengthening U.S. dollar, the deficit is likely to grow in 2016, as a strong U.S. dollar will encourage imports and reduce exports. The massive overall trade deficit exists despite the U.S. having free trade agreements with 20 countries, including half of the countries in the Trans-Pacific Partnership (TPP). Because of the significant impact the trade deficit has on the U.S. economy, all trade agreements, such as TPP, must have the explicit objective of balancing trade.

[1] Nat'l Farmers Union, 2015 Policy of the National Farmers Union (2015) available at http://www.nfu.org/nfu-2015-policy/2066.
[2] "Foreign Trade." U.S. International Trade in Goods and Services (FT900). U.S. Census Bureau. Web. 12 Jan. 2016.

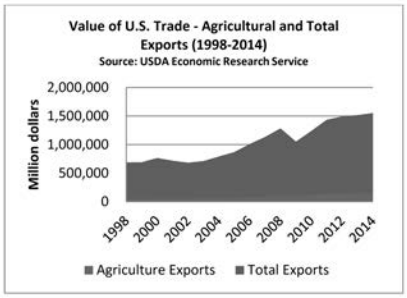
Figure 1



For years, trade agreements have received praise for their ability to open markets to U.S. agricultural exports. Relative to the entire economy, agriculture has fared relatively well in trade. Agriculture, however, is an exception among other sectors of the economy. Since 1960, U.S. agricultural exports have been larger than agricultural imports, creating a surplus in agricultural trade.[3] This surplus is important for the overall economy because it helps offset the massive overall trade deficit. But it is insignificant relative to other segments of the economy (Figure 2).[4] In addition, the agriculture surplus has recently decreased.[5] Figure 3 graphs all U.S. domestic agricultural exports to the world and all U.S. imports for consumption from the world. [6] While exports have sloped upwards for years, imports have increased at a greater rate. Figure 4 depicts this balance of agricultural trade by value.[7]

Another way of measuring the impacts of trade agreements is examining the domestic exports as a percent of imports for consumption (See Figure 5: where any number less than 100 percent indicates a negative trade balance). Over time, if the percentage decreases, it indicates that the trading partners' exports into the U.S. are increasing at a faster rate than the U.S. exports to other parties. While the U.S. trade balance for all agriculture (including manufactured food and kindred products, beverages and tobacco products) is positive, it has decreased from 144.9% in 1997 to 116.5% in 2014 (Figure 5).[8]

Figure 2



[3] "U.S. Agricultural Trade." USDA Economic Research Service. 28 Sept. 2015. Web. 13 Jan. 2016.
[4] "U.S. Agricultural Trade." USDA Economic Research Service. 28 Sept. 2015. Web. 13 Jan. 2016.
[5] "Outlook for U.S. Agricultural Trade." USDA Economic Research Service. 1 Dec. 2015. Web. 13 Jan. 2016.
[6] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.
[7] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.
[8] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

Figure 3

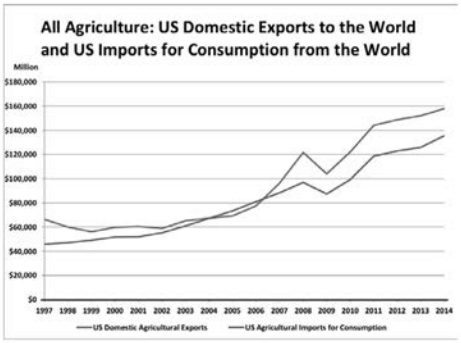
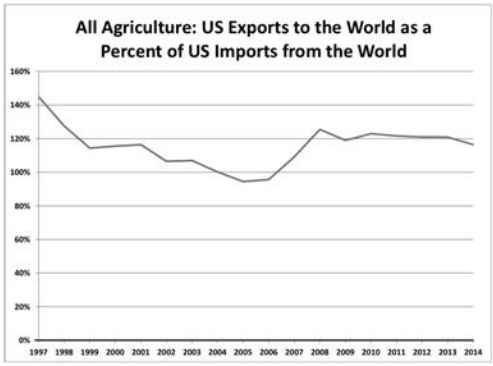


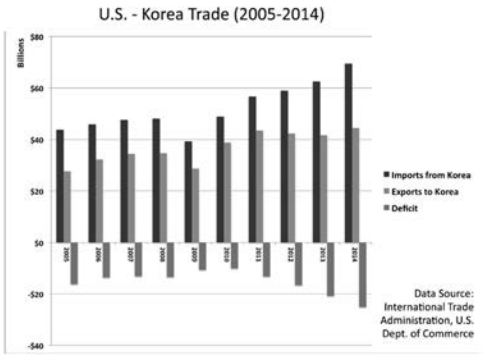
Figure 4

Figure 5



For example, agriculture trade with Korea has been positive and is growing on average. Unfortunately, relative to the overall economic trade with Korea, agriculture represents a small portion of trade and the deficit with Korea continues to grow. The U.S. entered into a free trade agreement with Korea and since implementation in 2011, the overall trade deficit has grown (Figure 6).[9] Figures 13, 14 and 15 depicting the agricultural trade data, which offsets some of the overall trade deficit for Korea, are included on pages 13 and 14.

Figure 6



Relative to TPP, the U.S. International Trade Commission (USITC) estimates the impact on U.S. GDP would be growth of GDP by .15% by 2032. Some estimates predict negative growth effects in the U.S. as a result of TPP.[10] A possibility of negative GDP growth raises

[9] "Data & Analysis." International Trade Administration Data & Analysis. Department of Commerce. Web. 13 Jan. 2016.

[10] Capaldo, Jeronim, and Alex Izurieta. Trading Down: Unemployment, Inequality, and Other Risks of the Trans-Pacific Partnership Agreement. Global Development and Environment Institute, Tufts University, 18 Nov. 2015. Web. 8 Jan. 2016

the question of why the U.S. would pursue this agreement at all. Even a growth rate of 0.15% is unacceptable when the trade deficit currently sits at three percent of GDP and is likely to grow with implementation of TPP.

Currency manipulation

One of the major contributing factors to the massive trade deficit is currency manipulation. Currency manipulation occurs when other countries deliberately lower the value of their currencies relative to the U.S. dollar to gain an unfair advantage. This effectively acts as a subsidy on that country's exports and a tax on U.S. exports to that country. Currency manipulation remains a top concern of NFU, particularly in the context of TPP. Members of the TPP negotiations are well known currency manipulators, including Malaysia, Singapore, and Japan.[11] Last summer, as a direct result of China's devaluation of currency, Vietnam (the TPP nation poised to gain the most from the TPP agreement[12]) devalued the dong by 1.2 percent.[13]

Japan, the second largest TPP economy, is an identified currency manipulator. In a report by the Economic Policy Institute (EPI) evaluating the impact of trade with Japan, EPI found that 896,600 U.S. jobs have been lost due to the U.S.–Japan trade deficit.[14] Currency manipulation is the single most significant cause of the trade deficit with Japan, which totaled $68.9 billion in 2015 for goods.[15]

The issue of currency manipulation is not exclusive to countries with which the U.S. does not have trade agreements. In fact, the latest free trade agreement the U.S. entered into with South Korea suffers the same issues with currency manipulation as Japan. Last year, the U.S. Treasury Department issued its semiannual report on international economic and exchange rate policies. In its report, its harshest criticism of currency manipulation was reserved for South Korea. The report stated, "Korean authorities appear to intervene on both sides of the market but, on net, they have intervened more aggressively to resist won appreciation."[16] The U.S. entered into a free trade agreement with Korea in March of 2012.

In its first report since the passage of the Trade Facilitation and Trade Enforcement Act of 2015, the U.S. Treasury created a "Monitoring List" that includes China, Japan, Korea, Taiwan, and Germany. These countries fulfill 2 out of the 3 criteria for the U.S. to identify them as currency manipulators.[17]

The U.S.-Korea Free Trade Agreement (KORUS) used essentially the same architecture as previous trade agreements and failed to include provisions to address currency manipulation. South Korea has been, and continues to be, one of the world's major currency manipulators.

The U.S. did not secure enforceable mechanisms against currency manipulation in the TPP. The Joint Declaration of the Macroeconomic Policy Authorities of Trans-Pacific Partnership Countries (the TPP side agreement on currency) contains no dispute settlement mechanisms and provides no new consequences or disincentives to countries relative to currency manipulation. Japan's Finance Minister has even stated that the TPP deal won't have binding power on Japan's currency policy.[18]

Currency manipulation has the capacity to eliminate any gains in tariff reductions that are made in free trade agreements. Without measures to enforce restrictions on currency manipulation, free trade agreements will continue to fail to live up to the promises made by their supporters.

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[11] Economic Policy Institute. Currency Manipulation and the 896,600 U.S. Jobs Lost Due to the U.S.-Japan Trade Deficit (2015) available at http://www.epi.org/publication/currency-manipulation-and-the-896600-u-s-jobs-lost-due-to-the-u-s-japan-trade-deficit/

[12] Boudreau, J. (2015, October 18). The Biggest Winner From TPP Trade Deal May Be Vietnam. Retrieved January 11, 2016, from http://www.bloomberg.com/news/articles/2015-10-08/more-shoes-and-shrimp-less-china-reliance-for-vietnam-in-tpp

[13] Uyen, N. (2015, August 18). Vietnam Devalues Dong for Third Time in 2015 on Yuan Fallout. Retrieved January 11, 2016, from http://www.bloomberg.com/news/articles/2015-08-19/vietnam-s-central-bank-devalues-dong-for-third-time-this-year

[14] Economic Policy Institute.

[15] Economic Policy Institute.

[16] U.S. Department of the Treasury, Report to Congress on International Economic and Exchange Rate Policies (2015) available at http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2014-4-15_FX%20REPORT%20FINAL.pdf

[17] U.S. Department of Treasury, Office of International Affairs. (2016, April 29). Foreign Exchange Policies of Major Trading Partners of the United States. Retrieved June 14, 2016, from https://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2016-4-29 (FX Pol of Major Trade Partner)_final.pdf

[18] Kajimoto, Tetsushi. "Finance Minister Aso: TPP Deal Won't Have Binding Power on Japan's Forex Policy." Reuters. Thomson Reuters, 05 Nov. 2015. Web. 08 Jan. 2016.

Trade and Agriculture History

1. *The North American Free Trade Agreement (NAFTA)*

Like TPP, the North American Free Trade Agreement (NAFTA) came with promises of great agricultural export opportunities for U.S. farmers. It has remained the case; however, that the U.S. imports more agricultural goods from Canada than it exports to Canada (Figure 7).[19] The balance of agricultural trade with Canada has remained negative from 1997 to 2014 (Figure 8).[20] The cumulative trade deficit for trade with Canada for all of agriculture, including manufactured food and kindred products and beverages and tobacco products, between 1997 and 2014 was $46.4 billion.[21] When expressed as a percentage of exports to imports, with the exception of the Great Recession, the percentage has hovered around 80% (Figure 9).[22]

Figure 7

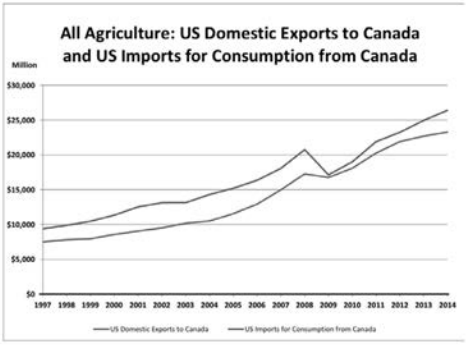
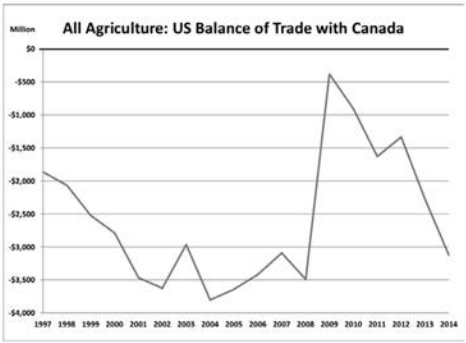
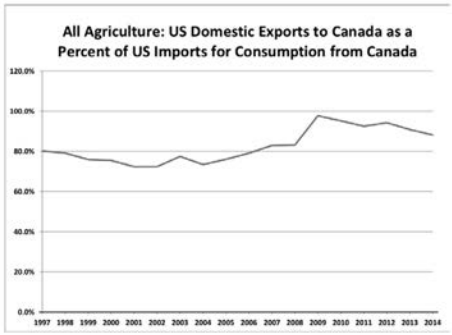


Figure 8



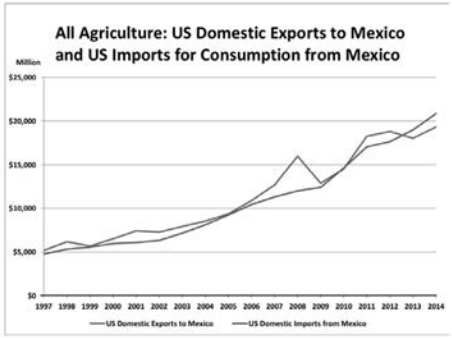
[19] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.
[20] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.
[21] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.
[22] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

Figure 9



In the post-NAFTA period of 1997 to 2014, U.S. agriculture exports to Mexico have grown, albeit somewhat erratically (Figure 10).[23] U.S. agriculture imports from Mexico have also grown at a steady and increasing pace. In 2013, the U.S. imported more agricultural goods from Mexico than we exported to Mexico. Agriculture exports as a percent of imports have wavered around 100 percent since 1997 with the exception of the most recent years when the percentage has dropped below 100 (Figure 11).[24] The U.S. balance of trade by value with Mexico fluctuates between near zero and $1 billion for the non-Great Recession years (Figure 12).

Figure 10



[23] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.
[24] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

Figure 11

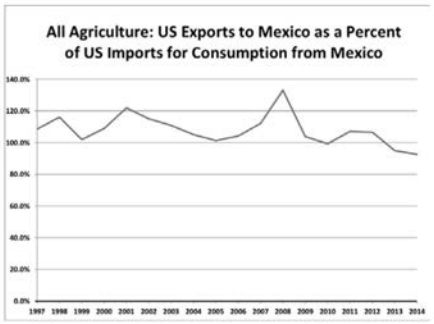
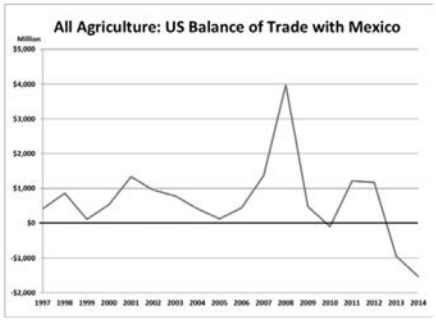


Figure 12



The agriculture trade data from Canada and Mexico after NAFTA implementation depicts no major boon to U.S. agriculture as was promised. The agricultural trade surplus would need to be much greater to offset the overall goods trade deficit with Mexico.

2. *The Korea Free Trade Agreement (KORUS)*

While the U.S. trade deficit with Korea has continued to grow after implementation of KORUS, agricultural exports have trended upwards to Korea (Figure 13).[25] The U.S. agriculture trade balance with Korea has remained positive since 1997 and continues to grow (Figure 14).[26] U.S. exports as a percent of imports of agricultural goods have decreased from nearly 1800 percent to roughly 1075 percent (Figure 15).[27] The percentage is still very high, and good for the agriculture sector, but a decrease of more than 700 percent over 17 years depicts a decline of relative agricultural trade to Korea.

[25] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.
[26] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.
[27] Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

Figure 13

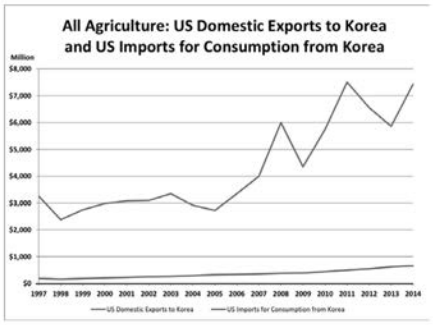


Figure 14

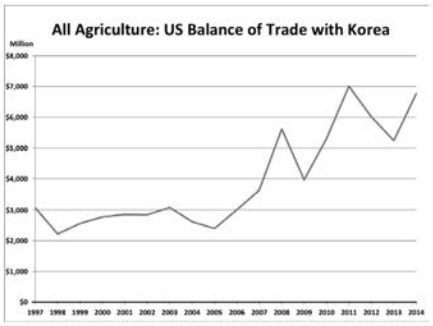
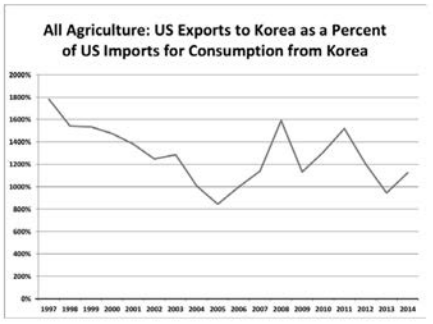


Figure 15



Conclusion

NFU's policy book states, "The measure of the success of a trade agreement has to be its benefit to U.S. agriculture and specifically of its producers' net income. Vague promises of market access do not offset opening our border for even larger amounts of foreign-produced goods to enter our markets. Market access does not equal market share."

Of the top seven purchasers of U.S. agricultural exports, three already have a free trade agreement with the U.S. (Canada, Mexico, and South Korea) and three are not involved in the Trans-Pacific Partnership (China, Hong Kong, Taiwan). The remaining country is Japan which is expected to experience only 2.7% of extra economic growth for all sectors by 2030 as a result of TPP, according to the World Bank.[28] The TPP-related tariff reductions and additional market access that Japan has given to the U.S. is a positive step for U.S. agricultural exporters, but must be measured in the context of the entire multilateral agreement. U.S. agricultural exporters will have to compete in the Japanese market against agricultural goods from the other TPP countries including major agricultural exporters like Canada, Australia, New Zealand, and increasingly Mexico, while simultaneously giving greater market access to all of the TPP partner countries.

The U.S. Department of Agriculture (USDA) states, "New trade agreements create opportunities to increase international sales by stripping away trade barriers, eliminating tariffs, opening markets, and promoting investment and economic growth."[29] While certainly eliminating tariffs and opening markets is positive for agricultural exports, it is also important to examine the overall impacts on family farmers. While modest increases in agriculture export opportunities may occur with trade agreements, they can be severely overshadowed by the resulting massive increases of imports in agriculture and in other sectors.

TPP contains no enforceable measures to address the persistently increasing U.S. trade deficit or currency manipulation and will likely lead to the same negative overall outcomes of previous trade agreements. Its impact on agriculture and rural communities will perpetuate the same trends that have characterized the past 20 years of free trade agreements: greater consolidation; erosion of mid-sized farms; increased volatility in farm incomes; and depopulation of rural America.

The U.S. can write the rules for trade. We can do better. We must do better because these deep trade deficits are crippling America. Thank you for the opportunity to testify.

[28] World Bank. "Potential Macroeconomic Implications of the Trans-Pacific Partnership." Global Economic Prospects. World Bank, 2016. Web. 13 Jan. 2016.
[29] "U.S. Agriculture Benefits from Trade Agreements." Foreign Agriculture Service (n.d.): n. pag. U.S. Department of Agriculture, Apr. 2015. Web. 8 Jan. 2016.

Sean Murphy
Founder
Hemp Biz Journal
1550 Larimer St #123
Denver, CO 80202

June 27, 2016

Ways and Means Committee Office
1102 Longworth House Office Building
Washington D.C. 20515

To the House Ways and Means Trade Subcommittee:

I'm pleased to see that the U.S. House of Representatives Ways and Means Trade Subcommittee is seeking input about U.S. agricultural exports in trade agreements. In response to the committee's June 14 hearing on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports, I wish to outline my own support for new policies by explaining the direct impact they would have on my company.

As founder of the hemp industry's leading publication and research report, I know that strong international trade policy is vital to the emerging U.S. hemp industry. Currently, the hemp industry is growing at 33 percent per year. Market research projects it to grow from a $500M industry to a $1.8B industry by 2020, creating economic opportunities for American farmers.

Further growth will not be possible, however, without passage of industrial hemp legislation (H:525 S:314) at the federal level. With full federal legalization, we project U.S. hemp exports to compete against Europe and China imports. We are calling on Congress to open up the industrial hemp export market by making it fully legal to cultivate industrial hemp in the United States.

I hope you and your committee will support international trade agreements.

Thank you for your consideration.

Kind regards,

Sean Murphy
Founder and Publisher
Hemp Biz Journal

Cindy Harling
Sales Manager
Stash Tea Company
PO Box 910
Portland, Oregon 97207

June 27, 2016

Ways and Means Committee Office
1102 Longworth House Office Building
Washington D.C. 20515

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I'm pleased to see that the U.S. House of Representatives Ways and Means Trade Subcommittee is seeking input about U.S. agricultural exports in trade agreements. In response to the committee's June 14 hearing on Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports, I wish to outline my own support for new policies by explaining the direct impact they would have on my company.

As a manager at Stash Tea, one of the largest specialty tea companies in the United States, I know how important new trade legislation is. Since our 1972 founding in a small house in Portland, Oregon, we have become a major success thanks to our ability to export. We currently sell our products in over 35 countries, but we face plenty of challenges in this arena that could be mitigated by improvements in international trade policy.

In particular, there is a need for establishing uniform regulations between trading nations. For example, when it comes to exporting our teas, our company must constantly adapt to meet a variety of different standards: China and Brazil require in-country certification; Korea does not permit the words 'caffeine free' on their packaging and taxes green tea at high duty; and China allows us to purchase their safflower but does not permit us to sell flavors to them with it.

Furthermore, policymakers should reconsider current rules on organic trading. My company is at a disadvantage because it cannot participate in any trade missions, show products to incoming buyers from other countries, participate in the U.S. pavilion at international trade shows, or ask for assistance from the Organic Trade Association or WUSATA, because we purchase some of our raw materials outside of the United States. I believe processed food companies like Stash Tea will have more issues like this unless these policies are changed, as demand for exotic ingredients will only continue to grow.

The success of my business heavily affects job growth in Oregon and the health of our nation's economy. Stash Tea provides jobs and pays American freight companies, labeling facilities, and packaging companies to produce and deliver our products. If policies are updated to meet the needs of our dynamic global market, our company—and thus thousands of individuals—will be better off.

Thank you,

Cindy Harling
Sales Manager
Stash Tea Company

○