

AGRICULTURAL NEGOTIATIONS IN THE DOHA DEVELOPMENT ROUND

HEARING BEFORE THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES ONE HUNDRED NINTH CONGRESS FIRST SESSION

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REVIEW AGRICULTURAL NEGOTIATIONS IN THE DOHA DEVELOPMENT ROUND

WEDNESDAY, NOVEMBER 2, 2005

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

The committee met, pursuant to call, at 1:35 p.m., in room 1300 of the Longworth House Office Building, Hon. Bob Goodlatte (chairman of the committee) presiding.

Members present: Representatives Goodlatte, Pombo, Lucas, Moran, Gutknecht, Johnson, Osborne, Bonner, King, Musgrave, Neugebauer, Boustany, Schwarz, Kuhl, Foxx, Conaway, Fortenberry, Schmidt, Peterson, Holden, Cardoza, Herseth, Cuellar, Costa, Salazar, Barrow, Pomeroy, Larsen, Davis, and Chandler.

Staff present: Lynn Gallagher, Ben Anderson, Bryan Dierlam, Bill Imbergamo, Tyler Wegmeyer, Ryan Weston, Callista Gingrich, clerk; Lindsey Correa, Robert L. Larew, Andy Baker, and Chip Conley.

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

The CHAIRMAN. Good afternoon. This hearing of the House Committee on Agriculture to review agricultural negotiations in the Doha Development Round will come to order.

While he has been before the committee in executive session a number of times, today is the first time that Ambassador Portman has testified before the Committee on Agriculture. It is my honor to welcome our former colleague to the committee. Ambassador Portman has been generous with his time, meeting with members of this committee on previous occasions to discuss agricultural trade. We expect that we will be a frequent visitor to the committee. Ambassador Portman was appointed United States Trade Representative by President Bush on April 29, 2005 and was sworn into office on May 17.

During his time in Congress, Ambassador Portman served as the chairman of the House Republican Leadership and was the liaison between the House leadership and the White House. He was also a prolific legislator known for reaching across the aisle to achieve results. As a member of the House Ways and Means Committee and its Subcommittee on Trade, he has been involved with trade issues and legislation for years. He also served as vice chairman of

the House Budget Committee. Among other international meetings and conferences, he attended the Seattle WTO Ministerial in 1999.

On behalf of the committee, I welcome him and Secretary of Agriculture, Mike Johanns. I am pleased that you both are able to appear before the committee today to discuss the status of the agriculture negotiations of the Doha Development Round.

There has been a lot of activity over the past few weeks concerning these negotiations and how they could affect United States agricultural producers. Additionally, I am aware of the recent agricultural proposal offered by the European Union, unfortunately described by them as a "final offer." This offer looks to be both inadequate as it relates to market access and overreaching as it relates to other sectors, especially geographical indications.

The purpose of today's hearing is to hear from the administration and others on the latest developments in the Doha agricultural negotiations and an assessment of these negotiations as the WTO Ministerial Conference is set to begin in a matter of weeks. As you know, WTO Ministerial Conferences are the highest decision making authority and this one is designed to settle a range of issues so that the final agreement on the Doha Development Agenda can be reached next year. The committee will be interested in our witnesses' assessment of what can be achieved in Hong Kong. By my calculations, it looks like tentative agreements should be reached fairly soon, by the middle of this month, if there is to be a successful ministerial in Hong Kong.

I firmly believe that these negotiations are the means to achieve fair trade because some countries support agriculture in ways that significantly distort trade. Some countries deliberately put up non-tariff trade barriers for agriculture, such as denying consumers a choice, as with U.S. beef or artificial health safety measures, as the use of biotechnology. The U.S. cannot operate as a free trading country while other countries do not and therefore, worldwide trade negotiations are essential. United States agriculture depends on exports and a vibrant trade policy is important to United States farmers and ranchers and to all agribusiness. We want to seek greater opportunity for our agricultural products and trade negotiations can make that possible.

U.S. agricultural markets are already open to imports and our tariffs are low. Agricultural tariffs worldwide average about 62 percent, while U.S. agricultural tariffs are 12 percent. The WTO negotiations offer an opportunity for the United States. Our goals for these negotiations are to decrease tariffs, reduce trade distorting domestic support, eliminate export subsidies, discipline state trade enterprises and ensure that science, not protectionism, is the basis for worldwide trade rules. Those of us interested in promoting United States agriculture around the world believe our farmers and ranchers can do better in world markets once barriers of all kinds are reduced or eliminated.

I hope these agricultural negotiations will pave the way for American agricultural producers to do what they do best, provide food and fiber for people at home and around the world.

It is now my pleasure to recognize the ranking member of the committee, the gentleman from Minnesota, Mr. Peterson.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, and I thank Ambassador Portman and Secretary Johanns for being with us today. But I have to say that I was disappointed with the latest U.S. offer on agriculture in the WTO. I think the message from Congress, in my opinion, at least, has been clear that the United States should not and probably will not agree to a change, to change our policy until the EU gets serious about reducing its subsidies to our level. At best, under the U.S. offer, even if it were accepted outright, the EU amber box subsidy limit would remain twice the U.S. limit. Even with this best-case scenario, the overall subsidy limitation for all of the boxes would put the United States at a distinct disadvantage to Europe with an overall limit of \$23 billion versus a limit for Europe of \$39 billion.

The latest U.S. offer was billed as a way to reinvigorate the negotiations and has been defended by those who think that it is in the best interest of the United States to lead by example. The policy underlying the offer has led to the, in my opinion, to the huge disparity in our current subsidy limitations versus those in Europe, which has wisely avoided showing its hand in WTO negotiations too early. In fact, the counter offer from the Europeans would be disastrous for U.S. farmers, demonstrating, I think, the flaw in our approach.

The EU claims that its offer would result in tariff cuts averaging 46 percent. In fact, by the time the EU gets through excluding 176 tariff lines essential to products, I suspect that the average will be much lower. Perhaps the biggest problem is that the U.S. offer is based on a false premise, that we can make up for cuts in domestic support through increased market access for our exports. This policy has failed U.S. agriculture in the past and our traditional trade surplus in agriculture has disappeared.

While U.S. subsidy reductions are being offered at Doha, many subsidy programs in other countries will not be addressed under our current approach to the WTO. Testimony from the Soybean Association witness notes a number of subsidized loan programs and tax rebates that subsidize Brazilian farmers. The sugar witness notes Brazil's ethanol program, debt forgiveness and currency devaluations that have increased its sugar exports from 1.8 million tons to about 18.8 million tons annually, since 1990. The corn growers note many market access barriers that will not be addressed in the current WTO negotiations.

European biotech related restrictions on U.S. corn exports, the fact that the bound tariff levels in many developing country markets are so high that no actual tariff reductions may occur even under those most ambitious market access proposals and the non-tariff trade barriers to U.S. meat and dairy products, which reduces demand for feed corn. The cattlemen note that they have been, as we all know, shut out of the biggest market for cattle and that is Japan, for 22 months. The pork witness cites the EU's onerous residue testing requirements unnecessary disease related testing and difficult plant approval requirements and you know, how long will it be before Japan erects similar barriers to U.S. pork?

None of these barriers will be addressed in the current round of WTO negotiations. So I would caution farmers to be skeptical of the promises made about market access. Why bet the farm on the willingness of the Europeans and the Japanese to follow the rules? They haven't been very good about that, in my opinion, in the past.

Another area that I would like to mention while Ambassador Portman and Secretary Johanns are here is food aid. The U.S. proposal in this area still has a few shortcomings, in particular, the section on emergency programs does not specify that the request can come from intergovernmental or nongovernmental organizations or from governments. The section on other food aid does not include nutritional needs of a country as an indicator of food aid needs. Many poor food-deficient countries, such as Bolivia and Guatemala are left out of the least developed country and net importing developing countries category that is exempted from further disciplines.

It is important that nutritional indicators like signs of chronic hunger and not just shocks or financial downturns are part of the proposed commodity import requirements. So I would hope that we can make some corrections as we move forward so that we can get to an end result here with this Doha Round that is going to put the Americans finally on an equal footing with a lot of these other countries in the world and I thank the witnesses for being here and thank the chairman for calling this hearing.

The CHAIRMAN. And I thank the gentleman and without objection, all other opening statements will be made a part of the record.

[The prepared statements of Messrs. Lucas, Davis, and Holden follows:]

The Honorable Frank D. Lucas
 Opening Statement
 Full Committee on Agriculture—Public Hearing
 RE: Review of Agricultural Negotiations in the Doha Development Round
 1300 Longworth House Office Building
 November 2, 2005
 1:30 pm

The United States recently announced one of the most sweeping agricultural trade proposals ever put forward. The European Union (EU), other developed nations, and many developing nations seem to enjoy bashing the U.S. for having a support system that produces the safest food on earth and is the envy of many people around the world.

The U.S. took the lead in the last round of World Trade Organization (WTO) negotiations and in my opinion the rest of the world didn't step up and cut their own domestic agricultural aid or provide as much market access as the U.S. I also don't believe the last round of negotiations placed all countries on the appropriate levels. For example, it is ludicrous that major exporting countries such as Brazil can continue to "self determine" themselves as developing countries and be exempted from the more strict trade rules that developed countries must abide by. However, to negotiate in good faith we must move the process forward to help determine, at the end of the day, if a new agreement that will be better for our producers can be reached.

Changes in Domestic Support

The current U.S. proposal would allow the amber box to be cut by 60% based on a 1999-2001 base period. This could require major changes in the U.S. loan program and loan deficiency payments as well as counter cyclical payments. The EU and Japan would have to reduce their amber box programs by 83%.

The latest EU proposal would require the U.S. to reduce domestic supports by 60% but the EU would only have to reduce by 70 %.

In 2001, the EU spent \$35.1 billion in amber box supports while the U.S. only spent \$14.1 billion. While both countries remain below the amounts they are allowed to spend, it is easy to see that the EU's proposal would allow it to stay well above the U.S. in actual amber box spending.

Changes in Market Access

The U.S. (which currently has some of the lowest tariffs in the world) proposes to cut tariffs by 55%-90% and no tariff would be allowed to be higher than 75%. The EU would not allow any tariff to be cut by more than 60%. The U.S. currently exports half of its wheat and at times nearly a third of its corn and soybeans. We have to ensure that in this round of negotiations that the EU is forced to open its markets to U.S. products.

Changes in Export Competition

The U.S. proposes to eliminate all export subsidies and establish more strict guidelines for export credit guarantees, state trading enterprises (STEs) and food aid. The EU will only eliminate export subsidies if their proposals on export credits, food aid and STEs are accepted. The EU proposes to prohibit using actual grain for food aid programs and instead insists that cash is used for food aid programs. The successful and popular U.S. food aid programs currently use real grains and food products and do not provide direct cash as the EU is proposing.

Further, the EU used \$2.297 billion in export subsidies in 2001 while the U.S. only used \$55 million in export subsidies in 2001. There are few programs that the EU could continue to protect that more drastically disrupts the open market than export subsidies.

Also, in a very disturbing move the EU has insisted that special safeguards remain in place for beef, poultry, butter, fruits and vegetables, and sugar. U.S. beef hasn't been given a fair access to the EU in more than a decade and barriers need to be lowered not continued. The EU has also proposed that geographical indications (GIs) for products such as Roquefort cheese be included in the negotiations. The EU has previously agreed that GI issues were not to be included in the negotiations -- the EU is trying to reopen a point it already conceded.

Trade negotiations are not to be approached lightly. The U.S. should learn from its previous negotiations that countries hold dearly to domestic agriculture production support. We should not give up U.S. domestic support unilaterally and hope that it entices other countries to join us. Other countries must of their own free will provide market access and knock down barriers that prevent U.S. products from being imported into their countries.

I cautiously approach this round of trade negotiations and will closely scrutinize all of the proposals to ensure that U.S. producers are treated fairly and that our negotiators put U.S. interests first.

Agriculture Committee
Hearing on Agriculture Negotiations in the Doha
Development Round
November 2, 2005
Opening Statement for Congressman Davis (D-TN)

Thank you Chairman Goodlatte and Ranking Member Peterson for having today's hearing on the progress of the agricultural negotiations in the Doha Development Round. These negotiations are incredibly important to the future of agriculture in America and around the world. Additionally, the negotiations will undoubtedly impact the reauthorization of the Farm Bill. As many on this committee know, in the past I have supported some trade agreements and opposed others. When I am deciding whether or not to support an agreement there is one question I must answer for myself: will this agreement be beneficial to my constituents. That's it. For me that is the ultimate question, and I believe it should be the ultimate question for every Member of Congress. So, when it comes to the subject of today's hearing, I once again have one primary concern: will this WTO agreement benefit the farmers in my district. Now, of course I have other concerns as well—as does every Member who serves this body. I want to make sure America continues to produce the most abundant, and the safest food in the world. I want to make sure that trade distorting barriers that prevent American commodities from entering foreign markets are removed. I want to make sure that the American farmer doesn't go extinct—that he can still practice his trade. And I also want to ensure that rural America doesn't become a ghost land and that the American people will be able to depend on American agriculture for their food supply for as long as we exist as a people. Being able to produce our own food is not

just a nutrition issue or health issue, or even an economic issue, it is also an issue of national security. I look forward to hearing the testimony of our distinguished panel, and again, I'd like to thank the Chairman and Ranking Member for holding today's incredibly important hearing.

PREPARED STATEMENT OF HON. TIM HOLDEN, A REPRESENTATIVE IN CONGRESS FROM
THE COMMONWEALTH OF PENNSYLVANIA

Agriculture is a vital component of the economic health of the northeastern and mid-Atlantic States. The region's agriculture base is highly diverse. Dairy, specialty crops, forest products, and some traditional program crops all forming part of the farm economy. While agriculture remains a powerful business sector, we must provide and expand on essential markets in order to preserve our regions family farms.

The Northeast is home to more than 135,000 small and midsized farms and has a total population of more than 60 million (2004 census). The livelihoods of 4 million people in the region are dependent on agriculture, yet northeastern farmers receive less than 1 percent Federal agriculture subsidies. The region's independence has compelled producers to rely on markets and innovation for survival, most notably in the specialty crop industry.

My home State of Pennsylvania exports \$1.5 billion of food, agricultural, and forest products annually. Specifically, Pennsylvania is a major producer of a great variety of crop and livestock products, particularly greenhouse, nursery, and floricultural products, mushrooms, grains, soybeans, and several kinds of fruits and vegetables, which amount to more than \$100 million annually.

Pennsylvania is representative of the importance of specialty crops to the entire region. Specialty crops represent 32 percent (U.S. average 21 percent) of northeastern agriculture and most States grow a diverse assortment of products, ranging from apples to mushrooms to squash. Generally, the industry has competed well with little Government intervention; however, our growers share problems in common with the rest of the Nation, including high energy prices and natural disasters. They are exploring a variety of methods to reposition northeastern agriculture and capitalize on current trade negotiations. Production and sale of higher value specialty crops also offers a critical means of compensating for the Northeast's high agricultural land values, which are 150 percent above the national average.

Agriculture exports means jobs and income for the Northeast. The pursuit of export opportunities and new business ventures is key for the industry. It is important we do not overlook those who provide us with the safest, highest quality fruits and vegetables in the world. Increasing market opportunities is a goal for all of us, but it's necessary for the future of our specialty crop growers.

The CHAIRMAN. We have three panels of witnesses and we want to afford the Secretary and the Ambassador as much time as possible, so at this time, we will welcome Secretary Mike Johanns and Ambassador Rob Portman. Mr. Secretary, we will start with you. We are glad to have you with us today.

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

Secretary JOHANNS. Thank you, Mr. Chairman. Mr. Chairman, members of the committee, it indeed is a pleasure for me to be here today. A good place for me to start my testimony is to talk about the overall state of our farm economy. Our farmers continue to be the most productive, innovative and competitive really anywhere in the world, even as they deal with some real challenges, such as higher energy costs and higher input costs. Production is near all-time record levels for some commodities such as corn and soybeans. American farmers have proven over and over again that they can produce and I know they can compete.

The reality is that while our domestic market is big, it is growing very slowly. In order to prosper, we just simply need new customers. We must get our products into foreign markets because 95 percent of the world's potential customers live outside the United States. A look at the numbers tells us the world wants what we have to sell. In 2004 we set a new record for U.S. agriculture exports of \$62.4 billion. In 2005 we expect to reach \$62 billion and our forecast for 2006 anticipates yet another record of \$63.5 billion.

Our sales are strong now, but we cannot rest on our laurels because competition out there is growing. The world marketplace is becoming more dynamic and American agriculture must continue to adapt to compete. The solution is to keep our farmers and ranchers competitive in the global economy. That is why the President, Ambassador Portman and I believe that trade liberalization will enormously benefit American agriculture and frankly, the future of agriculture in this country depends on expanded trade.

It has been 6 weeks since we last met with the members of this committee. In that time the Ambassador and I have traveled the globe and visited with other countries in an effort to move the Doha Round. I have taken an active role in the WTO talks and for that, I appreciate the Ambassador inviting me, encouraging me to participate. As you know, there has been some successes and there have been frustrations in this process. Now with some 40 days remaining before the WTO Ministerial in Hong Kong, the clock is really ticking. We have to pick up the pace. We are beyond the point where steps in the right direction will get us there. We need to set a pace that is more along, a gallop, if Hong Kong is to be successful. That is the message we have been sending to other parties and we will continue to press forward in our meetings, and I might mention that both the Ambassador and I will be in London and Geneva next week on meetings relative to the WTO.

Recently in Geneva, the United States introduced a comprehensive proposal that clearly demonstrated our ambition in the three pillars. We have been credited with breathing new life into the negotiations by offering a bold proposal. Here are some of the highlights. We called for aggressive tariff cuts ranging from 50 to 90 percent and restricting to no more than 1 percent the number of products that could be termed sensitive and subject to smaller tariff cuts. We also proposed that no tariff could exceed 75 percent of value. This proposal indicated the level of market access that we were looking for in exchange for the cuts in trade distorting domestic support.

We proposed to cut the amber box, AMS, by 60 percent. Our proposal addresses the primary concerns of our trading partners with significant cuts in the amber and the blue boxes. When the other reductions in trade distorting supports are included, overall U.S. levels of allowable trade distorting domestic support would be reduced by 53 percent. Ambassador Portman will go into detail in just a couple of minutes about the state of play on market access in export competition. I can tell you this much though, we have a pretty simple approach to a threshold for success. The U.S. expects other WTO members to match the level of ambition that we have put forward. We have shown our leadership, but of course, this can't be done alone.

Last week the EU offered a new market access proposal that does not match the ambition of the U.S. proposal. Our negotiations continue, but time is clearly running out. This administration is determined to expand economic opportunities for agriculture. We are aggressively and strategically pursuing free trade agreements. In addition, we continue to vigorously monitor and enforce agreements that we have in place. We have heard your concerns loudly and clearly and we share your frustration that too often sanitary and

phytosanitary trade barriers are used unjustifiably to block market access. I assure you that the USDA, both in Washington and our attache offices around the globe place top priority on these issues.

As many of you know, I have been traveling throughout our great Nation to conduct farm bill forums to hear directly from our farmers and ranchers. We have had forums now in about 40 States. I have done 20 of those. I will do a couple more this week; one in Washington State tomorrow and in Missouri on Friday. One thing continues; we need to develop a farm bill for the future. The forums have demonstrated that we must be bold. Currently, program crops represent a quarter of production value, yet they receive virtually all the funding.

The farmers who raise other crops, two-thirds of all farmers, receive very little support from current farm programs. We must look to the future and focus more attention on research, promotion, increase sanitary and phytosanitary systems and access to new markets. U.S. agriculture cannot accept the status quo. Our farm programs have been found to be not compliant with current WTO rules in the Brazil cotton case. We should not allow our policies to be dismantled piece by piece by one challenge after another. We must use the WTO to force markets open.

As I have said many times, I believe the 2002 farm bill was the right policy for the economic conditions of the time. Times are changing. As Secretary of Agriculture, I will work with you, do everything I can to offer you input in your crafting of the farm bill. A true safety net is much more than subsidies, however. It must also be about real market access. It must be inclusive and predictable and beyond challenge.

So in conclusion, our goal is fair trade. We would prefer to achieve this objective through a successful conclusion of the Doha negotiations. However, as we have made clear in Geneva, we have no intention of unilaterally disarming. Our offer to reduce domestic support is tied to progress in market access. To do otherwise would not be fair trade. In the meantime, we will continue to pursue our trade goals through pre-trade agreements and enforcements of agreements in place. We do appreciate your continued support and input. It is always appreciated and I will be glad to answer any questions once Ambassador Portman has finished his statement. Thank you, Mr. Chairman.

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

The CHAIRMAN. Thank you, Mr. Secretary. Ambassador Portman, welcome.

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

Ambassador PORTMAN. Thank you, Mr. Chairman. It is great to be before the committee in public session. I appreciate the many conversations and input I have gotten from a number of members of the committee in my first 5 months on the job and I expect much more in the future, including some today.

I would like to, Mr. Chairman, if I could to submit my written comments for the record and instead go quickly through a presentation you should have in front of you which lays out some of the

challenges we have on the WTO front. It also goes through some of our bilateral and regional trade agreements and then some enforcement issues. With your permission, Mr. Chairman, I will focus on the WTO today, given your opening comments, but at the very end of the presentation, I would like to spend a moment on compliance and particularly to announce a WTO action that we are taking today.

Mr. Chairman, you started off this hearing by saying that WTO talks are essential to helping level the playing field for our farmers and ranchers and that is what it is all about. There is no other way to achieve the same level of fairness other than through these global trade talks I appreciate the comments of my friend, Mr. Peterson, on his concerns about either the U.S. offer or our approach, but I will tell you, the status quo is not good and the status quo disadvantages American farmers and American ranchers. And again, the way to get at this is through free trade agreements on a country-by-country basis, for maybe even Central America on a regional basis, but you are not going to be able to get at these global disparities without doing it through the WTO.

So I think it is a worthy undertaking. It isn't easy. It is difficult; 148 countries have to get together and decide by consensus how they are going to move on and as you have seen with the European offer recently, countries are very good about defending their own interests. But the U.S. goal ought to be, I think, to push as hard as we possibly can to try get a WTO agreement that makes sense for our farmers and ranchers by basically lowering tariffs, lowering other trade distorting subsidies like export subsidies, 87 percent of which are European, to be able to be sure that our subsidies are fair, as Collin Peterson said, and therefore to give our guys a fair shake.

If you look at the beginning of the presentation where it says Global Trade Talks, we are in the middle of this 4-year process now of the Doha Round. It is supposed to end at the end of 2006, in part because our trade promotion authority expires in 2007 and there is something called a farm bill coming up in 2007, which means that, as Secretary Johanns has said very well, we are at a crucial point. There is a ministerial meeting at the end of the year in Hong Kong. I know a number of you are planning to come. You have told me about that and I welcome you. As I just told Mr. Costa, if you come, you will be put to work. I think we don't utilize our members of Congress enough in advocacy for our farmers and ranchers and if you do decide to come to Hong Kong, I look forward to seeing you there and having you be part of this discussion.

There are three core negotiating areas in the Doha Round. Some of you have been involved in all of this, Mr. Pomeroy and others on the Ways and Means Committee. They are manufactured goods, services and agriculture. I am not going to spend any time on these except to say these are incredibly important to our economy, each and every one. Manufactured goods is 62 percent of our exports and the manufactured goods area is incredibly important to us because our tariffs here are about 3 percent, on average, on manufactured good, whereas the rest of the world, the average tariff is 30 percent. So reducing tariff barriers to our largest export markets, and we are the world's largest exporter of manufactured products,

is incredibly important to your districts and to our Nation's economy.

Second is services. There again, we have more trade in services than we do in agriculture and we have a comparative advantage. We had about a \$48 billion trade surplus last year in services, incredibly important to each and every one of your districts and incredibly important for our economy.

Agriculture is the third main pillar. And as we have talked about already today, this committee has a special interest in that, of course, but it is also very important to our economy and very important to level that playing field.

The next slide shows what our agricultural economy is today. Bottom line is it is dependent on exports. Twenty-seven percent of our income comes from exports. Think about if we didn't have those markets out there, the effect on pricing and think about the effect on the fact that 1 out of every 3 acres in my home State of Ohio and in most States in this country are planted for export now. It is true that our growth markets are overseas. Our market is pretty mature here. And we have great opportunities if we can knock down some of these barriers to our agricultural exports. We have got some of the most productive land in the world and the most productive farmers in the world and we ought to let them compete and compete fairly.

The Doha agenda is laid out here, building on this July 2004 framework. This is something that the United States and the other 147 members of WTO decided on a year and a few months ago and that is an agriculture agenda divided into three pillars, as the Secretary said. One is market access, two is eliminating these export subsidies I have talked about; export subsidies as compared to domestic subsidies. And third is to substantially reduce trade distorting agriculture subsidies around the world.

The next slide puts us into WTO speak. A lot of you have heard about the amber box and the blue box and the green box; some of you are very familiar with it, some of you are not so familiar. These are basically categories where you put subsidies; the most trade distorting would be amber, the least trade distorting would be green. In fact, we would argue our green box payments are not trade distorting, at all. One item in there, as an example, would be the food stamp program. Under the agreement, again, we have agreed to substantially reduce subsidies and the focus has been on the amber box, but also on the blue.

Here is a way to look at it graphically in terms of what is going on today, first pillar being agriculture market access. You can see the U.S. tariff there at 12 percent, as the chairman said. You can see the average is 62 percent; that is the global average at the far right. And you can see what other countries do. The EU is at 31 percent here, for example. It is definitely in our interest to knock down barriers on the tariff side because we are already relatively open.

Under export subsidies, here the EU has about 87 percent of these direct export subsidies, over \$2 billion a year. This is something that, again, back in 2004 the members agreed to eliminate, but didn't set a date, so we need to push for a date certain and to

eliminate these export subsidies that unfairly, again, affect our farmers and our ranchers.

Finally, last pillar is domestic support. This is what is happening now and Mr. Peterson talked about this. The gold is the allowed amount and the yellow is the actual used amount. Allowed is under the WTO. Under the Uruguay Round, the last round, we were all asked to reduce our subsidies depending on how much we have and the Europeans were asked to reduce more than us, but they still have a lot more than us. As you can see here, it is $4\frac{1}{2}$ times what we are allowed and they use three times what we use. So they are allowed to use $4\frac{1}{2}$ times more subsidies than we are under the current rules. So is Japan, incidentally, because this graph, of course, is based on the absolute numbers as a percentage of their agriculture production. Japan has about $4\frac{1}{2}$ times more than we do, also.

The next chart shows you what the Europeans are saying, which is hey, we have already made our changes to our agriculture programs. We have already reduced our subsidies. And under their cap reform they have reduced some of their subsidies as you can look see from this chart, this is the last 10 years. The black line is what the EU has allowed. The black bars are what they actually used. Red is Japan, yellow is us. In the last 10 years we have increased our subsidies, whereas Japan and the Europeans have reduced their subsidies. That is what has happened over the last 10 years but still, the Europeans have $4\frac{1}{2}$ times what we have in terms of what they are allowed to use, $4\frac{1}{2}$ to 1 and 3 to 1 in terms of what they actually use.

Secretary Johanns mentioned the proposal we submitted on October 10. Three weeks ago we did make a bold proposal to break the deadlock in agriculture. It has helped to shake things up. It has helped to get us more focused on the real issues, which is market access, subsidies and again, export subsidies. Here is what the proposal says, just to be clear. Substantial reductions in trade distorting support means a 60 percent cut for us in our allowed amber. We say there needs to be an 83 percent cut for the EU and Japan. That is fair. It takes us from $4\frac{1}{2}$ to 1 to 2 to 1. A substantial reduction in tariffs with higher cuts for higher tariffs. This is a WTO and a Doha principle that the higher tariffs would be reduced the most. Again, you see our cuts are pretty ambitious; 59 to 90 percent cuts with no tariff cap, by the way.

We also limit the number of sensitive products. Under this framework agreement from 2004 it was agreed that some products could be kept out of the tariff formula and dealt with as sensitive products and therefore subject to a tariff quota. We have said we will live by that, but it has got to be a very small and a very limited number of products. Our proposal is 1 percent of total tariff lines. And then finally, on the third tier of the third pillar, which is export subsidies, we set a date, 2010, for total elimination of all export subsidies. In the second stage, after 15 years, we would phase out remaining tariffs and trade distorting support as others do the same.

The next chart shows you where these proposals are currently in terms of the three pillars. The first pillar, market access. Current is on the left, the U.S. proposal is next over, then the G-20 pro-

posals. This, interestingly, is a group of developing countries led by India and Brazil, but including a lot of other developing countries, some of whom have defensive, some have offensive interests in agriculture. They have got a pretty good proposal. Not as good as ours, but a pretty good proposal on market access and on sensitive products.

And then there is the EU proposal. As you can see, they do call for reductions of tariffs and that is why it is a step in the right direction. But my concern, which Mr. Peterson talked about, is that they provide a huge loophole in terms of these sensitive products, 8 percent, which is 142 product lines in Europe. This is not about our access to the European market, alone, although it is very important to us. It is also about the framework that will then be applied to the rest of the world. So sometimes the press and so on have indicated this is a battle between the United States and the EU and us trying to get access to their market. That is part of it. But it is also about what will happen in these emerging developing countries where we see real potential for our agricultural products, where you have extremely high tariffs and other trade distorting barriers to our trade. So we have got to be sure that this framework works for us, not just in Europe, but around the world.

The second page on the current proposal shows direct export subsidies. There again, our proposal is elimination. The third pillar there is domestic support. It is an interesting chart because it shows where we are now with the allowed, that is the gold. Projected is our actual, that is yellow, and then brown is our proposal. Again, as you can see, the U.S. proposal is to reduce our trade distorting domestic support, the amber box, but also to have the Europeans and the Japanese reduce theirs more. So you end up, again, with the 2 to 1 ratio, rather than the 4½ to 1 ratio currently allowed under the WTO rules after the Uruguay Round.

The next chart shows the timetable. We talked about this a moment ago. But you might want to start at the bottom there, which is the 2007 farm bill. That is when our farm bill expires, when it is to be renewed. Going up from there, TPA, the Trade Promotion Authority, under which we can take trade legislation to Congress without amendments, expires in July 2007. This is why I believe we need to complete these negotiations by the end of 2006; send it to you all in Congress early in 2007, and have time to work through this before TPA expires and before the farm bill.

Mr. Chairman, I said I am going to skip over the free trade agreements. Let me just say that whether an agreement has been implemented or is capped or whether they are agreements we have recently completed, Australia, Chile, Morocco, Jordan, these have all been beneficial to our agriculture products, our agricultural exports. I believe the ones coming up are, as well. Again, I won't spend a lot of time on this because I know you want to focus on WTO, except to say, with regard to Bahrain, which could come up soon, this is a good agreement for agriculture. If you look at page 14, you can see that it would be duty-free immediately for 98 percent of U.S. tariff lines, 81 percent of agriculture products to Bahrain. This is not a big market, but it is an important step in terms of developing more free markets in the Middle East.

Bahrain would be another agreement to add to a Middle Eastern free trade area, which would include, over time, we hope, not just Morocco and Jordan and Israel, with which we already have free trade agreements, but also countries like the United Arab Emirates, Oman, which we are close to completing and even Egypt, which is a country we are talking to right now about a future free trade agreement. So I hope you will support the Bahrain agreement. If you have any questions about that today or in the future, I would love to talk to you about that.

Potential free trade partners, again, I won't focus on this except to say there are some exciting new opportunities here for agriculture. Korea is a huge agriculture market for us, as is Egypt. We will only enter these free trade agreements with them and launch the discussions if it makes sense for both of us, by the way. So we haven't launched these yet because we are still working through some issues on their side, frankly, to be sure they can do what we require, which is real market access in our free trade agreements. Our free trade agreements are tough, they are the toughest in the world. We require them to open their markets and we have got to make sure they understand that before we launch these discussions.

The final area is enforcement. Again, if you could go to page 17, we will get into some of the recent enforcement measures. I want to talk about Turkey for a second. We have had discussions with Turkey over the past couple of years. I have personally talked to the trade minister there. We have had plenty of bilateral discussions telling them that we have serious concerns about the way they restrict our rice exports. They have a licensing requirement that is frankly unfair for our exporters, including requiring sometimes more than three times the amount of rice being exported and purchased locally by someone who wants an import license. This is simply unfair and that is why today we filed a WTO case against Turkey. And I wanted to announce that here at the committee because I also want to say that I think it is our job at USTR not just to negotiate free trade agreements and come up with a good Doha deal for our farmers and ranchers, but also to be sure we are enforcing our laws and enforcing international obligations, which is what the WTO is. So we will be aggressive with that. We have been.

We filed a case against the Europeans recently on Airbus-Boeing, which is the biggest WTO case ever filed. Where we can work it out outside of litigation, we will, because I think often that makes more sense. But where it is necessary to litigate, we will not hesitate to do so. Some of these other cases, just quickly, beef hormones, we won that case in 1996. We are retaliating now against the Europeans. Japan apples, we had a big victory in August of this year. Just a couple of months ago Japan changed their regulations to conform to the WTO decisions. Again, a lot of these are SPS issues that we talked about earlier. We need to use the WTO to our advantage with regard to SPS and other trade barriers.

The high fructose corn syrup case many of you have followed and corn country follows carefully. We got a victory there back in August of this year, a few months ago. We are working with the Mexicans on implementing that decision now. Even GIs, geographical

indications, we had a victory in the WTO on that. We remind the Europeans of that when they bring up GIs, as they did again, in the context of their latest proposal. Canadian dairy, the United States won back in 2003. Canada eliminated their export subsidies on dairy above its WTO commitment level. Mexican rice anti-dumping. The EU biotechnology suit. I want to mention that because this is a case we brought in August of 2003. We are eager for that decision to come out and we expect the interim report to come out on January 6, 2006. I wish it would come out even sooner. It is a tough case, case of first impression. The panel is taking their time. I hope that is good news for us because we believe we have a very strong case. This is the GMO issue with which many of you have been involved, with regard to Europe and the first big decision point will be in January, since that case was brought.

With that, Mr. Chairman, again, I thank you for letting me come before the committee and give you an update on Doha and several other activities at USTR and look forward to your questions.

[The prepared statement of Ambassador Portman appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, Mr. Ambassador, and I will start with the questions. Today is November 2; the WTO ministerial is scheduled to begin on December 10. We have an offer from the EU that has been described by them as a final offer. You say, and I agree, and I know the ranking member agrees and many members of this committee agree that it is not sufficient market access for the United States, among other things. If we are to have a successful WTO ministerial by U.S. standards, when must we see improved offers from the EU on market access? And I will ask the Secretary to answer that, as well as the Ambassador.

Ambassador PORTMAN. As the Secretary said, we will be in Europe on Monday meeting with the EU, also meeting with the Brazilian, Australian, Indian and Japanese trade ministers and agriculture ministers. And Mr. Chairman, my frank assessment is if we can't pull it together next week at our meeting in London or our subsequent meetings Tuesday and Wednesday in Geneva, then I think it is very difficult to see how we can pull together the other issues like services and then non-agricultural market access issues I talked about in time for a successful Hong Kong meeting. So the pressure is on.

I had a telephone conference call this morning with some of these same trade ministers and made that point as directly as we could. The clock is ticking. And again, this is not just about U.S. access to Europe. This is about the promise of Doha, which is reducing barriers all around the world; not just our products, but everybody's products, which all the economists who have analyzed this show will have a tremendously beneficial impact on world economic growth. In fact, those who look at it say this is the most likely for us to see real gains in terms of economic growth globally, especially in the developing countries. And the Europeans are talking about their interest in development. This is a way to show their interest to be sure the Doha Round can be completed successfully.

The World Bank economists have indicated 300 million people could be lifted out of poverty if we can reduce these barriers, not just in the developed countries, but in the developing countries, for

south to south trade. So this is an opportunity we should not let pass.

The CHAIRMAN. Mr. Secretary.

Secretary JOHANNES. There isn't much I can add, because I agree with the assessment. If we don't see this thing coming together by next week, we start to run out of time. Now, things can come together pretty quickly. When we put forward the proposal we did a few weeks ago, all of a sudden two out of three pillars were taking shape. Our proposal is contingent on market access. So it can happen, but it will require the really diligent effort by all members and it will require a better proposal by the EU, in my opinion. But it can happen.

The CHAIRMAN. A number of critical market access issues appear to be off the agenda of the Doha Round. For example, the EU approval process for bio-engineered products and its failure to allow access for U.S. beef, pork or poultry. Is there anything in the emerging Doha Round agreement that would facilitate resolution of these kinds of issues?

Ambassador PORTMAN. Like you said it well earlier, Mr. Chairman, the Doha Round ought to have as one of its goals that we do stick with science and that we not allow ourselves to backtrack on these SPS issues. As you know, there are proposals to do that. The U.S. has fought them and we will fight them successfully. But on the other hand, as you said, the Doha Round is about reducing tariffs and reducing trade distorting subsidies. It is not about reducing these SPS issues, which are bilateral issues, so we have got to fight them country by country and issue by issue. I mentioned the biotech case for that reason because it is right on point of what you are talking about with regard to corn and soybean exports to Europe. As you know, some of our corn is now going in. Some strains have been approved, but we still have a major problem.

And we have a major problem with regard to beef hormones. We are retaliating on that. The EU has countersued us on that, but the retaliation continues, so they are absorbing increased tariffs that we now have on their products because of beef hormones. We hope we can resolve that issue with them. We are talking to them about it, of course. And then on the processing issues you talked about with regard to pork and poultry. That is something that the Secretary can probably address better than I can, but these are issues that we are working very hard on because they do affect real market access. Even if you reduced tariffs and other barriers to our trade that are directly trade related, if you still have these sanitary and phytosanitary issues out there, our farmers aren't getting the access.

The CHAIRMAN. Let me put it in a different way, Mr. Ambassador. Even if we achieved our goals in the proposal that you put forward in the negotiations, our five largest agricultural exports, corn, soybeans, beef, pork and poultry would have no significant access to the European market, the largest consumer market in the world, of relatively affluent consumers. Mr. Secretary, would you care to address our concerns on this because it is going to be difficult to marshal the kind of support we need in this committee and in this Congress from the agricultural sector, from rural America

for a WTO agreement if they don't have confidence that even with the agreement they are not going to get access to critical markets.

Secretary JOHANNES. Mr. Chairman, to respond directly to your question, and this predates most of us, but when the Doha framework mission statement was put together, it was about development, but SPS issues really were not part of the structure of the Doha Development Round. Therefore I will just be very candid. I don't see SPS issues being dealt with extensively in the Doha Round. Now, having said that, that doesn't, I hope you don't take that as an indication that I am playing down these issues. These are huge issues. As you point out with the European Union, five of our largest commodities don't have access in any meaningful way to this market.

We do have tools out there. They are not as fast as we would like them, but we are retaliating relative to the European Union's action. We make an assessment as to whether we should file a complaint, if you will, through the WTO process. Sometimes it makes sense just simply because there is no other approach. Other times we make a decision that we can negotiate and work our way through the process. We went through that with the issue relative to Japan and beef. But my point is this, it is not like we are completely without tools, it is just that they are cumbersome. I won't promise that when we come back from Hong Kong, even with a successful round, that we will have this massive breakthrough on SPS issues. We are going to have to continue to work those issues.

The CHAIRMAN. My time has expired, but Mr. Ambassador, I want to explore one other issue with you before I turn the questioning over to Mr. Peterson. I wrote to you in July regarding the need for a sectoral initiative in the Doha Round for the forest products industry including wood and paper products. As you know, competitive pressures on this important industry are tremendous and they are unlikely to benefit from a simple formula reduction in tariffs. I would like to know whether you have made any progress in proposing a sectoral initiative for the wood and paper industry and if not, why not?

Ambassador PORTMAN. We agree with you, as you know, and we think that the sectoral approach makes sense, not just in wood and forest products, but a number of other products, as well. It would take a critical mass of countries to work with us where there is a mutual interest in this. We have done it before. We have done it in telecommunications. We are announcing something this week, incidentally, in the high tech front that is similar to this sectoral approach. And it is a way to make larger gains than you can make, I think, through just reducing the tariffs through a formula. As you know, this is something that we hope to get to in a more constructive way once the agriculture issues are resolved.

From the U.S. point of view, to get to industrial tariffs, to get to the NAMA issues and non-agricultural market access issues, it is very much our interest and we are pushing hard for that and we are making some progress with regard to the sectoral approach, including wood and forest products. We also want to get to services, because that is a huge interest of ours. But other countries are saying we are willing to move on the issues where you have a big comparative advantage, but let us also talk about these agricultural

issues first and get those resolved because many developing countries believe they have at least a future comparative advantage in agriculture, so that is one reason, despite what the EU and the United States may wish, in terms of moving on to some of these other issues in parallel, it is tough to get to them until we can resolve this agriculture issue.

And agriculture remains as it was at the outset, as the Secretary said, central to Doha, and we need to resolve them. And we are close enough to resolve them. Let me just mention one thing about SPS. You spent a lot of time talking about this precautionary principle idea of the EU. I just would warn you there are other countries that want to go the other way on SPS and that is what we will continue to fight and I believe we will be successful in fighting that. And in the meantime we will be very aggressive at dealing with these SPS issues one at a time, country by country because they do affect market access. But it puts all the more pressure on tariffs, also, Mr. Chairman. If the EU is not willing on its own, unilaterally, to deal with these SPS issues and we have to go through these lawsuits and all the hard work we are doing, all the more reason for them to keep these tariffs down, because if they do, we can't get access for many of our important agricultural products and as you say one of our very important markets around the world.

The CHAIRMAN. I have additional questions, but I will submit them to you in writing and ask you to respond. The gentleman from Minnesota is recognized.

Mr. PETERSON. Thank you, Mr. Chairman. Ambassador Portman, reading your testimony, you mentioned in there that exports have expanded, I think, quoting you now, "an astounding 29 percent from 1994 to 2003." I don't know if that is astounding or not, it is about the same rate, it looks to me, as our economy is growing, but we had this discussion before. There is nothing in the testimony again, about how many imports are coming into the country, and my staff tells me that during that same period of time that we had the exports increase 29 percent, agriculture imports expanded 74 percent, is that correct? And why do we only always talk about how exports increased and we never talk about the other side of things, which we need to take into account, I think, if we are going to figure out how we are doing with these things.

Ambassador PORTMAN. Yes, I agree with you and although we do have a slight surplus in agricultural trade, it is a very slight surplus. Next year we will have another record level of exports in agriculture, but we also have more imports coming in. We still think there will be a slight surplus. I would just say two things. One, and this goes to your philosophy and people will differ on this, but my focus is exports. If the U.S. consumer can get something for a lower price and a better product, I am not sure we should be standing in the way, as long as it is fair, as long as we get a shot at sending our exports overseas.

And you know, what I don't like about the situation now, not to keep picking on Europe, but they have about a \$12 billion surplus with us and it is primarily processed foods, wine, cheese, some of which some of you on the committee may enjoy from time to time. But they ought to then be willing to open up to our commodities

and our value added products like pork and beef and poultry, so I am less concerned about those imports than I am about the exports. I think the key is to open up these markets to our products and we can compete. We can win, I believe, if we level this playing field, our farmers and ranchers are the most productive in the world. I am not afraid of that. But we have got to have the ability to have more access.

Mr. PETERSON. Well, yes, I just think that we need to have all this on the table. You know, at one time we had a pretty big surplus in agriculture and it has eroded away and that concerns a lot of folks, at least in my area. You know, we have been talking about, some of us, about where this is all heading. I think it is hard to say exactly what is going to happen in this Doha Round, whether, I mean in Hong Kong and whether this thing is going to move ahead or not.

Like a lot of folks concerned in my district, a lot of folks in the commodity groups that are concerned about this offer that you put on the table and what happens if we get up to writing the farm bill and we still haven't got a deal, are we going to have to try to write a farm bill without knowing what the potential outcome is going to be? We are, have been putting together, and are close to introducing a bill to say that we should not rewrite the farm bill until we actually get the implementing legislation from the president so we know exactly what we are dealing with.

Now, according to your timeframe here, maybe that is not going to be an issue because TPA expires and all that sort of thing, but I can see a scenario where we could be sitting here in the summer of 2007 and this thing could still be dragging on. The Uruguay Round drug on way beyond what anybody thought it was going to and so if we did something like that, introduced a bill, is that helpful or hurtful to what you are trying to accomplish in Hong Kong?

Ambassador PORTMAN. Well, again, you and I discussed this last night briefly, but I hope we will keep to this timetable for a lot of reasons. One, as you said, is the fact that Trade Promotion Authority expires and as you recall, Collin, it took us 9 years last time to reauthorize TPA. I hope that wouldn't happen again. I hope we do it immediately, but it is a big risk, frankly. So my goal at this point is to keep pressure on all of us, including USTR, but also our foreign partners, our trading partners, to say let us meet this deadline. We can do it, we know the general outlines of what has to be done here. It is a matter of leveling the playing field and so I would hope that is what we would do. I don't know if it would help or hurt if you did it now. I think you will have plenty of time to make that decision because a year from now we still will be in a position where we are still negotiating, I suspect.

Mr. PETERSON. My time is probably over. What happens if we get to the end of TPA and we don't have a deal? Are we just going to say we are not going to do anything?

Ambassador PORTMAN. Well, I don't know. There have been various approaches taken over the years. You could see a reauthorization of TPA, as a whole. Right away you could see it for a limited purpose. You do have to submit the legislation in advance, as you know, 90 days in advance. So the key is to be able to sign that agreement before TPA expires. Again, I would hope we wouldn't get

into that situation. I would hope that we would be in a position of pulling this together. It has been 4 years.

Mr. PETERSON. Well, I just hope that everybody understands that, at least people in my part of the world, are very uncomfortable with this offer we made and they are very uncomfortable with the idea that they might be asked to jump into a new farm bill without knowing what the heck is going on and that is, I think, a legitimate concern and you know, we are, I think, responding to what we are hearing from our constituents, so I just hope you take that under advisement.

Ambassador PORTMAN. Well, thank you. I will.

The CHAIRMAN. I thank the gentleman. The gentleman from Nebraska, Mr. Osborne, is recognized.

Mr. OSBORNE. Thank you and Secretary Johanns, thanks for being here. Nice to see you again. Ambassador Portman, my work-out partner, it is good to see you and I appreciate very much what you are attempting to do here. The question I have is this, when you look at the European Union and the United States, we are talking about roughly equivalent economies. I think the European Union's about \$9 trillion, we are about \$11 trillion. And given that situation, why should they be accorded any advantage? I know you are saying well, we want the have the European Union reduce trade subsidies amber box by 83 percent and we are going to go down 60 percent. But as Mr. Peterson mentioned, that is still a disparity of \$15 billion to \$7.5 billion. So it still seems that they are carving out some protected products to a larger degree than we are and so I know where you are headed and I know what you are trying to do, but why not just say hey, we want a straight across even break and that is what we are shooting for.

Ambassador PORTMAN. That is what we are shooting for. As you know, our proposal includes total elimination of all subsidies in the second stage after 15 years, and so it is in our proposal. But that first 5 years, it would be nice to get them from $4\frac{1}{2}$ to 1 down to 2 to 1. You all are legislators and you deal with the art of the possible every day, but my point to the farm community, when I talk to them and we are getting a lot of support, as you know, from a lot of groups, farm groups, for our proposal, in fact, some enthusiastic support is that it is better than the status quo in a lot of ways.

One is on the subsidy side that you mentioned, how else are you going to get the Europeans and the Japanese to reduce their subsidies to the point that there is more fair competition? This is our forum to do it and as you know, they don't want to go to 2 to 1. Their proposal is to go to about, as I read it, about $3\frac{1}{2}$ to 1. They are at $4\frac{1}{2}$ to 1 now, but they actually use 3 to 1. But second is market access. How are we going to get the market access if we don't do this? How are we going to get the export subsidies eliminated, which is totally in our interest. About 87 percent of that is used by the EU against us, often, in third country markets.

Finally, how are we going to get more protection for our farmers and our commodities on the litigation? We saw what happened with the cotton case, some of you have been very involved in that. We need some protection and so the status quo exposes us on litigation. It doesn't get us market access, doesn't get us the subsidy

cuts, it doesn't get us eliminating the export subsidies. I would like to take a shot at this. This is worth doing, as the chairman said at the outset and I agree with you, we ought to have not just parity, but elimination of these subsidies over time and that is part of the proposal, part of the president's vision.

Mr. OSBORNE. Well, thank you. And I understand what you are up against. We were, in Europe, we dealt with this problem to the same degree that you have.

Ambassador PORTMAN. Thank you for your statement last night, by the way.

Mr. OSBORNE. Well, did the best I could. I have a couple of other questions. If we somewhat unilaterally disarm and the European Union would, for some reason, go along with us, what about Brazil, places where land very comparable to our best land is \$300, \$500 an acre, labor is 50 cents an hour. I would have a strong belief that they are very much in favor of seeing this happen to us and to the European Union and then a follow-up question is that how do we ensure compliance because we have had a lot of agreements that look pretty good on paper, but in actual practice hasn't worked out very good and of course, we have talked about the European Union and beef and all these things, so those are, I guess, my two closing questions if either of you would care to comment.

Secretary JOHANNES. Your observation about Brazil is correct. They are a world class competitor, not just in soybeans, but in other commodities, also, and you know, we can't hide from that. We raise a lot of soybeans in this country and we have to take that issue head on. I think the Ambassador's comments generally are absolutely right on target. There are some who argue, somehow this is going to turn out and the world will be fine if we don't get a result from the WTO process, but the reality is the world isn't fine today. We are getting challenged on our programs. We saw that with cotton. Uruguay is looking at rice, Canada is looking at corn. The subsidies in Europe are about at least what they are authorized, four times what we do and what they are actually using is about three times.

It truly is the art of the possible and it is moving a big step forward in the first 5 years. We take about 5 years to assess and reassess and then we have another 5 years where we literally bring these subsidies down to, and tariffs down to, open market access. I maintain this, if we are given the opportunity to compete, we will compete with anyone. We are efficient, we have an agriculture system that really is truly second to none, Brazil or anyone. Our difficulty these days is that the playing field isn't very level in many parts of the world and so you will only get to these issues through the world trade negotiations. You don't get the subsidies in bilateral discussions. It is only by this global approach that we have a shot at this in really bringing about world reform in terms of how agriculture is treated in a different way depending upon where you are at, what country you are in.

The CHAIRMAN. I thank the gentleman. The gentlewoman from South Dakota, Ms. Herseth, is recognized.

Ms. HERSETH. Thank you, Mr. Chairman, and I would like to thank the Secretary and the Ambassador for being here today and if I could begin with you, Ambassador Portman, I appreciate your

commitment to taking a shot at this and I appreciate the points that you made to me a few days ago about the Doha Round being really the only way we can get at the Canadian wheat port, the only way we can get at the state trading enterprises in Australia, but if your meetings next week in London and Geneva do not result in an improvement of what the EU has put on the table, do we have the commitment of the administration to withdraw the offer of a 60 percent cut in AMS or amber box support?

Ambassador PORTMAN. Well, first of all, I differ a little bit from some of the observers on this. I don't think it is, maybe this is not the right approach for negotiating, but I don't think it is so much waiting for another EU offer. I think it is getting the EU to come to a reasonable proposal because most of the rest of the world is behind us, in other words, building a consensus, so my hope is not necessarily based on the EU coming up with a great offer; I don't know that that is possible, frankly.

But I think it is important that we continue to do what we have done, I think, very effectively over the last 3 weeks, which is to make the point that to meet the requirements of Doha, not the U.S. requirements, but the requirement of Doha, which are significant improvement, substantial improvement in market access. Substantial improvement in market access is not the EU offer. It is a 39 percent average tariff cut, so that is not high enough, but more importantly to me are these exceptions that Collin talked about earlier.

And so the goal next week is to continue to work with these G-20 countries I talked about in the developing world, with our trading partners around the world, like Australia, Brazil, Canada and New Zealand, all of which have stuck with us, with our proposal, by the way and they should be commended for that, and to try to be sure that European Union and others who are blocking this understand that they are risking the loss of tremendous benefits to their economies and to the world economy and as long there is a serious discussion out there that the U.S. proposal ought to be on the table, if at the end of the day we can't get an agreement that makes sense for our farmers and ranchers, we won't agree to it.

Ms. HERSETH. I agree and hope that the pressure coming from the other countries that have been behind our proposal results in what we all hope will be the outcome here as it relates to the EU, but let us shift from the EU and if you might, Secretary Johanns, in response to Mr. Osborne's question did address Brazil, if you could explain to the committee how developing country offers on market access particularly offers from the advanced developing countries of Brazil, China, even India, do they meet the level of ambition called for by the United States in its October modalities proposal?

Ambassador PORTMAN. Was that for me, Stephanie?

Ms. HERSETH. Yes.

Ambassador PORTMAN. I have to be careful about this because a lot of the developing country proposals aren't on the table yet and in our own proposal, we do not flesh out the developing country proposal in the way we flesh it out for developed countries because under the WTO there is this rule about special and differential treatment and special products for developing countries. I have

said, I am not sure publicly yet, but I will now, that I am disappointed that the G-20 proposal, which is the proposal that you are talking about, I believe, does not go far enough in terms of developing countries. And I say that for the simple reason that these tariffs are extremely high in many of these developing countries. You saw this on the chart, 114 percent average tariff in India, for instance.

Then there is a lot of what they call water in the WTO, which means buffer between what they are allowed and what they actually apply. And so if you cut from the allowed rate, which is what the WTO tradition has been and what Doha will be again, whether it is subsidies or whether it is tariffs, often you will see no new market access for our products or for that matter, for products from other countries around the world. So to answer your question, I was disappointed with that offer as I told you the other day; you follow this stuff closely. You also noticed on the G-20 proposal on the developed countries it was more ambitious and that is the part of the G-20 proposal that we have said was a very constructive offer and we have said that the solution we believe lies somewhere between that G-20 offer and the U.S. offer that I talked about earlier.

Ms. HERSETH. Thank you. Mr. Secretary, just one question here. I think my time is about up. Our negotiators have made it clear to their counterparts that the offer of a 60 percent cut in U.S. farm support would require fundamental changes in U.S. farm programs, so to follow up on Mr. Peterson's questioning and the thoughts that he shared with you about how those from his part of the country that are similar to those in my part of the country would support extending the current farm bill. In the event that we didn't do that, Mr. Secretary, if you were writing the next farm bill, what types of changes would you intend? Sharp reductions in marketing loan rates or elimination of those programs or could you just maybe share some of your thoughts there at this time to the extent that from the listening sessions, which I commend you for, for hosting around the country, have shed some light on what types of fundamental changes you might recommend out of the Department?

Secretary JOHANNES. We haven't made any specific proposals yet and I would say we are still months away from that. We are assembling information from the farm bill listening sessions, but I did give a speech recently to the commodity groups here in Washington and just outlined some general visions and I will make sure that a copy of that is sent to you. I hear some overall impressions that I can offer as we have made our way through these listening tours.

We have done now about 40 States. We will do, when it is all said and done, I think about 48 States. The only two that we are not going to do at this time is Louisiana and Mississippi for hurricane reasons. They have got their hands full. We have been from coast to coast. It is an interesting debate that is going on out there relative to the commodity programs and here is why, here is the basis for that debate. Two-thirds of American farmers really receive no subsidies. Ninety percent of our payments to the farm bill go to five crops; corn, soybeans, cotton, wheat and rice, five crops.

Now, I won't say that when I was out in California those who grow fruits and vegetables want to become a program crop, but they are saying that we have real needs here. We have needs for research, we have needs for emphasis on market promotion, we have needs for SPS enforcement and so they raised a lot of very, very interesting issues. If you examine the discussion about the safety net, that raises another issue. I made the statement recently that the risk is that staying with the current program is a greater risk than examining how best to approach the new farm bill. I supported the 2002 farm bill as a governor. I believed it made sense for the economic times, but times do change.

I would strongly advocate to this committee, you are going to write a farm bill. We are going to do everything we can to offer our thoughts and proposals, maybe even a specific piece of legislation, but I hope that there is focus on writing the farm bill in 2007, setting aside what we may or may not get done through the WTO process, we really, really owe it to agriculture in the United States to have a discussion about farm policy and where we should be headed and what best serves all of agriculture in the United States.

And then, last thing I would mention, Congresswoman, is that how we address world trade should also be a factor. I am not saying the WTO should write our farm bill or it should be written in Geneva or whatever, I am just saying 27 percent of our agriculture receipts do come from trade. Like it or not, debate it, discuss it and cuss it, but the reality is 27 percent of our receipts come from trade. How do we best deal with our support for agriculture recognizing that and then, if there was one very important point to make, as your Secretary, I will always argue that an economic investment in agriculture makes a tremendous amount of sense for another whole half hour of reasons I could give you. How we do it, I think, is really important and how we craft this farm bill and how we provide for that support, I believe, is just enormously important, but I will always make the case that investment in agriculture is a wise Federal policy, but we have to be thoughtful about how we do it.

The CHAIRMAN. Thank you. The gentleman from Louisiana, Mr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman. Secretary Johanns, Ambassador Portman, good to see you again and thank you for your prodigious work in trying to open markets for U.S. farmers and producers. Ambassador, I was pleased to hear your announcement that we are filing against Turkey at the WTO for unfair restrictions on rice exports and along those lines, as well, I understand that Uruguay is considering a challenge to the U.S. rice program within the WTO and it seems to me that challenging another commodity program so soon after the cotton case and so close to the Hong Kong ministerial sends a very negative signal or message to our U.S. agricultural sector and so could you outline what steps that you might be taking at this time to convince Uruguay not to file a case or do you plan to address this in Hong Kong?

Ambassador PORTMAN. Thank you first for your help on that case and helping us with a rice industry petition and your support of U.S. rice. With regard to Uruguay, it has been helpful to have a

proposal out there. In the last 3 weeks, in my view, there has been a change in attitude in Uruguay. We have had consultations with them on this very issue you raised and the fact that we can say our trade distorting support is on the table, not all of it, but some of it and that we are willing to make some reforms so long as the rest of the world goes along with the other two pillars; export competition, which is the export subsidies being eliminated and the market access we talked about, has led them to take a different approach.

So at this point, I will tell you that although I think they have preserved their right to move forward, they have indicated that they are not moving forward. But there is some exposure here, obviously and that is one reason I like the idea of resolving some of these issues of the Doha Round, not just on the export competition and market access side, but also on the subsidy side and also on providing some more certainty to our farmers regarding the programs that we have.

Mr. BOUSTANY. Thank you. I also understand that Korea has yet to implement its commitment to increase market access for rice that was already negotiated, while at the same time now Korea is asking to move forward with a free trade agreement. Could you give us an update on that situation?

Ambassador PORTMAN. Thank you for that. You know, we are in discussions with Korea about the possibility of launching a free trade agreement, as I said earlier, and among the issues we are discussing with them are beef and BSE. They currently have a ban in place. We think it is important that that ban be dealt with in a responsible way and in a science-based way. This is not something new. We have been advocating this ever since the ban was instituted and we are also talking to them about rice. I believe they are moving forward with some legislation, as I understand it, before the end of the year in that regard, but I will double check on that and get back to you, Charles.

Mr. BOUSTANY. Thank you very much. That is all I have.

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

Mr. COSTA. Thank you very much, Mr. Chairman. I thank you for holding the hearing this afternoon in continuation of trying to ensure America's farmers and ranchers have the opportunity to weigh in as it relates to not only to current trade issues, but certainly the 2007 reauthorization. Question to the Secretary and to the Ambassador, you described, and let me just make a comment on your previous statement; I don't think we should write the 2007 farm bill in reaction, necessarily, to our trade issues, but because of the very important aspect of those trade issues, I think we would be derelict if, in fact, we did not take those into account. And for those of us who are suggesting that possibly in the event that these timelines that run concurrent are not met, that in fact, we give an opportunity.

So I think I don't necessarily, maybe these are strategies, but certainly, we have to write a 2007 farm bill that looks at the long term wellbeing of U.S. agriculture and not the short term. Unfortunately, we are not talking about, we won't have the testimony of specialty crop growers in here today and I noted that to the chairman, but hopefully in the future we will. As you know, Mr. Sec-

retary, as a result of the success of NAFTA, there has been a tremendous amount of export, especially in California, on fruit products, tree fruit products to Mexico. Two years ago it was 2.3 million boxes and then last year it dropped to 1.3 million. And I know in your comments you talked about the rough tools that you have to deal with, but as we all know, in the case of Mexico, it was phytosanitary standards that was the issue that they raised.

I want to know to what degree the USDA is prepared to deal with whether they are rough tools or not in which fair trade is being bypassed for provincial reasons, as I believe was the case last year with this export to Mexico.

Secretary JOHANNIS. We are prepared to do everything we can, working with you, Congressman, working with your constituents, working with the trade associations to be as aggressive as we possibly can. The most visible case that we have dealt with, of course, is the beef issue relative to Japan.

Mr. COSTAS. Right.

Secretary JOHANNIS. But these issues, as you know, they pop up in a given commodity on a fairly regular basis and you know, if I were to articulate a perfect world, it would be that we would have good trade agreements and then the ability to aggressively enforce those agreements. I applaud the Ambassador's decision to pursue this rice issue. I just think that is exactly the kind of thing we need to do and with some countries, the relationship is such that we can just deal with the issues informally. We can solve problems very quickly, we engage quickly and many of these never rise to the surface. We get the problem handled even before maybe it comes to your desk. In other situations, like the one you have mentioned, it percolates and we just need to be as aggressive, but we are absolutely committed. My direction is don't let these issues fester. Get on top of them, deal with them and do everything we can to enforce.

Mr. COSTAS. I think whatever the country may be, in this case it was with Mexico on phytosanitary standards, but I think they have to understand that we are prepared, based on sound science, to stand up for American farmers and ranchers because if fair trade is going to work, free trade is going to work, it has to be fair trade.

Ambassador PORTMAN. To touch just briefly on that one, I was just checking with the team here, because I remembered that we had had some discussions with Mexico on stone fruit, I think is what you are talking about.

Mr. COSTAS. Right.

Ambassador PORTMAN. That is the plums, peaches.

Mr. COSTAS. Yes.

Ambassador PORTMAN. And we do have, as you know, I think, a protocol now for next season and we think we have fixed this particular problem.

Mr. COSTAS. Good.

Ambassador PORTMAN. And you know, the leverage we had included those tools in the toolbox.

Mr. COSTAS. Right.

Ambassador PORTMAN. We didn't have to pull out and use litigation and in this case I think we have solved it.

Mr. COSTAS. Mr. Ambassador, before my time runs out, quickly, a question to you as it relates to the framework and the negotiations and it is a follow-up of Congressman Peterson's question on strategies. I mean, goals and strategies, I think we all share the same goals and that is to make sure this free trade is fair trade and that, in fact, we look at the long-term interests of American agriculture. As it relates to the strategies, what is the harm? It seems to me and outside of the Congress and Congress being meddlesome, and of course, I suspect when you were sitting here with us, you didn't think probably we were being meddlesome, but in terms of the good cop/bad cop strategy, to let those folks know whether it is in Europe or whether it is in Hong Kong, that these folks in Congress are very serious and they are frustrated and they don't like being taken advantage of when they have to go home and talk to their farmers and ranchers, in delaying and not putting the cart before the horse and saying we want to see what you are going to do, we have made our offers, we want to see what you are going to do.

Ambassador PORTMAN. I think it can be quite effective and I think it is sincere. I think you do have legitimate frustrations that you hear back home and you bring to Washington and sometimes express for a resolution or a bill Jerry Moran has done this on beef in Japan; it has been helpful to me, frankly, I believe, and so I appreciate that. And I know you have got a special interest in this and you said no specialty crop folks are testifying. You are testifying, so since you are a grower—

Mr. COSTAS. In lieu of.

Ambassador PORTMAN. In lieu of the experts you can represent them, but you know, you have got a lot of experience and background in this, so when you make a statement, I talked to you earlier about coming to Hong Kong and working on some of these agricultural issues, it does make a difference. I represent your point of view all the time by saying Congress is serious about this and you know, they will respond in kind unless something happens and I am sincere about it, you are sincere about it. I think it is the way our system works. We have a very representative government. Not all countries have that. Some countries don't understand the power of our legislature. I would point to China as an example, where sometimes they don't appreciate the ability of Congress to take action and the inability of the administration to stop some of those actions. So I think it can be very effective.

Mr. COSTAS. Thank you, Mr. Ambassador. Thank you, Mr. Secretary. And Mr. Chairman, I will submit questions later on for the record to the witnesses. Thank you.

The CHAIRMAN. I thank the gentleman and in response to the gentleman's observation about the witnesses on the ensuing two panels, let me just say to the gentleman that the hearing has been on the calendar since October 13, nearly 3 weeks and during that time we did not ever hear from anybody in the fruit and vegetable industry requesting to have a witness on either panel. We certainly value their input and in future hearings they would like to participate, they simply need to let us know. Both the majority and minority's panel of witnesses did not include them, but that certainly not a reflection of any feeling on what kind of contribution they

could make. It is just that there are scores and scores of different commodity groups that are interested in trade and we can include them in the future, but they do need to speak up and let us know when they see something on the—

Mr. COSTAS. Well, thank you, Mr. Chairman, and we hope in the future we will be able to include them. They do play an important role in America's exports.

The CHAIRMAN. I thank the gentleman. The gentleman from Michigan, Mr. Schwarz, is recognized.

Mr. SCHWARZ. Mr. Secretary, Mr. Ambassador, thank you very much for being here this afternoon. The members of the committee received a letter communication dated October 25 from the Ambassador of Japan regarding beef exports and talking about what I interpret as saying that there is no greater danger from bovine spongiform encephalopathy from American beef than there is from domestic beef in Japan and then a list of six caveats which, having lived in Asia for almost 5 years, I understand that lists of caveats are sometimes nuanced ways of stalling.

So I would like your comments, Mr. Ambassador and Mr. Secretary, on whether or not you feel the letter, and I believe you have seen the letter, have you not? Whether the letter from the, His Excellency the Ambassador of Japan, is a positive step, is just kind of holding the line or finally going to break through and allow American beef, they are finally going to break through and allow American beef to be exported to Japan, which I believe is what, about \$1.5 billion, \$1.6 billion a year in business for American beef producers?

Secretary JOHANNIS. First thing I would say, just again, to be very direct in my response to your question, it is a positive step. Japan has signaled that after months of analysis, that our beef is equivalent to theirs, relative to BSE safety issues. That statement alone is worth applause and it is a positive step. The conditions, I don't have the letter right in front of me, but the conditions raised in that letter, we feel we can work with Japan. I have reviewed the letter. I really do believe that finally we are seeing the light at the end of this tunnel. We are in a comment period here, I think, for 30 days, but then a decision can be made, as I understand the process. I will also use your question to tell you that our discussions have gone well with Korea and with other countries around the world, so I continue to be encouraged by our progress here, although, as you know, it has been painfully slow.

I would also just offer a comment, and the Ambassador referred to this, your efforts are appreciated. The president's efforts are appreciated. We knew that this was going to have to involve everybody and it has and I think we are making a step here that sends a signal that we are going to trade beef. Last thought, keep in mind, right before I arrived, we agreed to 20-month and under product and so that is going to be somewhat limiting, more than somewhat limiting, but it is a place to start. We will continue to engage Japan on moving that to the international standard of 30 months, but very definitely, I will celebrate the day that we start moving beef into these markets, and it looks like we are getting there.

Ambassador PORTMAN. Dr. Schwarz, I would add very little to what the Secretary has said very well, except to say we have raised this repeatedly and I have been very critical of the Japanese' timing and process and I think they have run out of time. They have now set in motion, through the approval of the Food and Safety Commission of the subcommittee report today, a public comment period and then, as the Secretary said, some conditions that the Secretary believes can easily be met, which means this market should open by the end of the year. If that does not happen, then we have a real problem and you know, I think it is overdue, but I do think it is good news. Then as the Secretary said, the next thing we start working on is over 20 months, but this is a good day after a lot of frustration, that we are seeing progress in the right direction.

Mr. SCHWARZ. I could conclude and the committee can conclude that in some, we have reason to be encouraged. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank the gentleman. The gentleman from Washington, Mr. Larsen, is recognized.

Mr. LARSEN. Thank you, Mr. Chairman. Mr. Ambassador and Secretary, thanks for being here today. Mr. Ambassador, this month the president is going to Korea for APEC, if I am not mistaken. Do we expect a position from APEC to come out with regard to the Hong Kong ministerial and what do we expect that position to be, perhaps?

Ambassador PORTMAN. Good question. I hope we will get a strong statement from the APEC countries through their trade ministers as part of this meeting. There will be a meeting of the trade ministers of the 21 countries. As you recall, 3 months ago we had a similar meeting and came out with a very strong statement on these non-agricultural market access talks saying we ought to adopt a, what is called a Swiss formula, which reduces highest tariffs the most and is a proposal, frankly, the United States has been advocating for the last few years, so it could be very constructive to have the APEC countries once again undertake that kind of an initiative and we will certainly be promoting that.

Second, the last APEC meeting, we made some progress on intellectual property protection. As you know, that region of the country, or the world, APEC, which is the Pacific Asian region is the most dynamic economic region in the world. Over half the trade in the world is conducted by these 21 countries and yet, it is also a region of the world where there is a lot of piracy and so I am hoping that in addition to the Doha focus, we can also make another strong statement with regard to intellectual property protection and getting into the countries in that region. We are focused on this. It could have a major beneficial impact to our exports because our knowledge-based exports, in my view, are disproportionately affected by the theft of intellectual property that is currently going on in that region.

Mr. LARSEN. To be more specific, do you expect an APEC position on the agricultural proposals?

Ambassador PORTMAN. That is a good question. I am not sure.

Mr. LARSEN. I must be full of good questions.

Ambassador PORTMAN. Yes, yes. You know, we didn't push it that last time in part because you have such divergent interests at that meeting. As you know, you have Japan there and China and Korea and Malaysia and it is a group of countries, some of which have more defensive interests in agriculture, like Japan, and others, like Korea, have defensive interests in terms of rice. So I will say that those countries in APEC, in my view, understand the bigger picture perhaps better than some countries.

In other words, they are supportive of Doha to a country and supportive of the idea of enhancing trade, in part because they have made a lot of progress in their economies over the last couple decades doing precisely that. In some cases unilaterally and in other cases through bilateral regional agreements they reduce their barriers and it has worked for them. Korea is a great example. People talk about should the United States pull up a ladder and should we be more protective and I can point to two very contrasting examples. One is North Korea, that has done the ultimate in that. They don't trade with anybody and it is a country that has been impoverished.

And look at South Korea. In the last two decades, they have gone from truly being a lesser developed country to, I would argue, very close to a developed country, although for their purposes they still like to be considered a developing country for the WTO definition, but truly, it is an incredible story and it is based on trade, so that area of the world has been helpful and I think we can make a strong statement on Doha. Whether we can come up with a consensus on agriculture would be difficult, but possible. I will work on that now.

Mr. LARSEN. Thank you. I want to understand just a few things. The cuts that we are proposing, the cuts that EU has proposed, are basically from allowed levels as opposed to actual levels and you said that is sort of the standard procedure.

Ambassador PORTMAN. That is correct. That is why the 83 percent cut, we think it is important for the European Union because it is coming from their WTO allowed amount.

Mr. LARSEN. And that would, the 83 percent cut, then, get them down to a—

Ambassador PORTMAN. A 2 to 1 ratio with the United States.

Mr. LARSEN. Would it start to get into the actual—

Ambassador PORTMAN. Yes. Good point. Another good point.

Mr. LARSEN. Yes.

Ambassador PORTMAN. You are on a roll, Larsen.

Mr. LARSEN. It is a great day, great day. Just to clarify, my last, the amber box here. The last thing with regard to the developing countries, the G-20 proposal. I think it to clarify Stephanie's point for me, you said it is a positive with regard to south to south relationship, not so much as north to south, south to north relationship?

Ambassador PORTMAN. Well, what I said was with regard to the developed countries, the formula, we think, is a positive and constructive step. With regard to the developing countries, we don't think it is ambitious enough and as you know, in the Doha Round, there is a distinction between developing countries and developed with regard to these tariff reductions in all areas. And our interest

is not just in these more mature markets like the European market, as important as it is, but is also being in making sure that we have a fair shake in these emerging economies in the developing world. India and China and Brazil might be good examples of that.

Mr. LARSEN. Thank you very much. I will quit while I am ahead. Thanks.

The CHAIRMAN. The gentleman from Texas, Mr. Conaway, is recognized.

Mr. CONAWAY. Thank you, Mr. Chairman. Secretary and Ambassador, thank you all for being here today. I appreciate that. China, we can export about 4 billion bales of cotton each year to China with about a 1 percent tariff. Anything over that has upped to a variable rate of up to 40 percent. Can we expect any kind of help with China through this round of negotiations in that regard?

Ambassador PORTMAN. Yes, and this would be within the overall framework we are talking about. China would be required, just as the United States would be required, to reduce tariffs and they would be able to select some sensitive products, as we said earlier. The United States would like to keep that sensitive product exception very limited. The G-20 proposal, by the way, on developing countries with regard to sensitive products, we think is a very good proposal. It only has 1.5 percent of tariff lines, so it is more the tariff issue that I was talking about on sensitive products. It is actually very positive and China would be subject to that. They could choose to take cotton and use it as one of their sensitive products, but still they would have to base it on a TRQ that would be relatively generous. So we are hopeful there. China, I think, is the world's biggest importer of cotton now, so that would be important for our markets, for our market access.

Mr. CONAWAY. Could you talk to us a little bit about the specifics on the U.S. proposal in terms of perhaps moving the counter-cyclical payments out of the amber box and realistically pushing the EU to give up their export subsidies by 2010?

Ambassador PORTMAN. We are still negotiating on all these issues, but in 2004 there was an agreement to describe the blue box type payments in the framework agreement, itself, and that was quite helpful to us in terms of identifying where counter-cyclical payments might be appropriately lodged. I talked about the three boxes before, because it described the program that we have on counter-cyclical to the point of talking about how the price structure works. Our view is that it is eligible for blue box treatment and right now it is technically not amber box, it is in one of the two categories outside of amber called de minimus and specifically, it is in the area of non-product specific de minimus where we have the ability to have up to \$10 billion worth of subsidies today under the WTO. We don't use all of it. We use, I think, about \$7.6 billion in counter-cyclical payments, but it would move from there to a blue box. The blue box would be limited, so the Secretary can speak to this much better than I can, but there would have to be some changes in order for counter-cyclical to operate as it does today.

Mr. CONAWAY. The EU, getting away from their export subsidies by 2010? They have agreed.

Ambassador PORTMAN. Yes, this is, again, a decision that has already been made that we will eliminate these export subsidies. I often refer to the comments of Prime Minister Tony Blair, who has said that they ought to be eliminated by 2010, which is the U.S. proposal. It is not the EU proposal at this point. Again, we commend the G-20 proposal because they call for elimination of those export subsidies by 2012, which again, assuming this agreement gets going in 2008, would be relatively soon. We commend them for that. We think 2010 is a better date, but the Europeans have yet to come up with a date and that is one of the things that would come out of a comprehensive agriculture agreement, that we would establish a date and it should be done sooner rather than later.

Mr. CONAWAY. And one final question. Any progress on naming an agricultural negotiator for your shop?

Ambassador PORTMAN. Yes, we have got a great negotiator behind me, Jason Hafmeister, who does a great job for our farmers and ranchers, and he is a terrific advocate for us. But we have also got somebody coming through the process, being cleared, who is a very senior level person who had agriculture experience before. He has actually been a negotiator before and had this job before, when it was at USDA. And I think you will be very pleased. He is also associated with one of the commodity groups now, and has a good feel for our commodity programs and how they work and how they could work even better under trade rules that are more to our benefit.

Mr. CONAWAY. OK. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman from North Dakota, Mr. Pomeroy.

Mr. POMEROY. I thank the chairman, and I want to observe that this has been a very timely and important hearing, and we appreciate very much the senior leadership and the articulate presentations made by the panel this morning.

I will start with you, Ambassador Portman. Peter Algyre, who has recently taken over as U.S. Ambassador to the WTO, was quoted, well, I know that sometimes these quotes don't come out quite as you mean them. This is a very disturbing quote and I want you to respond to it. He indicated that, "In looking at having discussions that look across all negotiating areas," he states, "members will not make compromises in areas that will cause them pain, like agriculture for the United States, unless they know they will be gaining in other key areas such as services."

Now, this looks to me an awful lot like a replay of prior trade rounds, where we in agriculture feel that we have, as a sector, been, frankly, taken at the neck to advance the trading position of the United States in other sectors. Now, the Doha Round, by our view, was supposed to be the agriculture round, and this is the one where we were supposed to get our due. And so to say the least, that quote is disconcerting. Does it reflect the position of the U.S. Trade Representative that, once again, agricultural will be swapped off in order to secure gains in other sectors?

Ambassador PORTMAN. No, and I am sure he was misquoted. But let me just say, if you are from the perspective of a country that does have high tariffs and high subsidies, 25 come to mind, which is the EU, not all 25 of them, but many of them, Japan comes to mind, you may view it that way, because there is not much in the

agriculture area that is going to be beneficial to your political constituency. I would argue, it is beneficial to the economy to have more free trade, actually. But it is a tough decision, isn't it? I mean, if you look at the Doha Round, if you are from Europe, it is, you can have fewer subsidies. You take a hit there in terms of your political constituency, fewer tariffs, lower market access and export subsidies. So I think his statement is accurate in the sense that some other countries in the world are looking at it that way. Now, they have to look at—

Mr. POMEROY. Well, I think he was referring, and the quote made it appear as though he was talking about U.S. agriculture taking a loss.

Ambassador PORTMAN. Yes. But that is not our approach. We are, I think, blessed in the sense that I can see gains for us in all areas, every single one of the areas, including agriculture, where, as I said earlier, we have tremendous opportunities here to expand market access, which is the key to us being able to expand our agricultural exports. And a relatively mature market here in the United States is great, but our growth is going to be in these other markets. And so if we don't have the Doha Round, we don't get. Second, reducing other countries' subsidies more than ours, we are not going to get that without Doha.

Mr. POMEROY. Mr. Ambassador?

Ambassador PORTMAN. So I think we have some real benefits here.

Mr. POMEROY. I am your Democrat fan club in the U.S. House, so this isn't personal at all. But you know, we have been on a free trade track that has us almost in that importer for agriculture for the United States, as you noted. And it strikes me that Europe possibly could use their weakness, presently, as a negotiating position of significant strength. You boasted a significant cuts to U.S. agriculture in the anticipation of significant market access gains. Europe is all over the place. They are having great trouble coming to some unified resolution. We need to have a clear signal from you, I think, to have any comfort at all as this round commences, if it commences; that if we don't get the access, your position on the cuts is reconsidered immediately.

Ambassador PORTMAN. Well, as I said in response to Ms. Herseth's question, my feeling is, we need to figure out a way, not to look at a particular country to provide the solution here, but to come together as a group of nations, 148 nations, and provide what makes sense. And as long as that process is continuing in good faith, and as long as it is sincere and we are trying to get there, the United States ought to take a leading role. Cutting tariffs, our proposal is the most aggressive out there, as you know; eliminating export subsidies as soon as possible; our date is 2008; knocking down the barriers that currently exist with regard to, not just agriculture, but these other products we talked about, services and nonagricultural products; and then on trade distorting subsidies, having these other countries, like the EU and Japan, reduce relatively more than us. That is a good combination and I guess all I can say is, I believe so strongly in the benefits of Doha to our farmers and ranchers at the end day, that I wouldn't want to prematurely pull the U.S. proposal back and say, we are going to

pack our bags and go home. It is too important, and it is not just important to us, it is important to the world economy, it is important to the developing countries, as we talked about. This is an opportunity. It is not easy to get there, but it is an opportunity we should not pass up.

So as long as people are negotiating in good faith, and as long as we have got people at the table, being willing to talk about these tough issues, like providing more market access in their countries, and the G-20 proposal is good step in that direction, as I said earlier. And you know, these are countries, like India, that have a tough time sometimes with these market access issues, and yet they are part of the G-20 proposal. I think we are making some progress and we ought to stay with it and do everything we can, as the United States, to try to bring it to a successful conclusion.

Mr. POMEROY. I can't imagine the pressures on your shoulders as this round would commence, but it seems to me, the basic operating principles of any small town lawyer ought to be foremost on your mind. Sometimes you can want to deal too badly, and that getting a deal doesn't mean you have advanced your interests, and I really think that, in this case, we need to have that very clearly communicated to those with whom we will be negotiating, and I think we look a little too hungry for this deal, in my opinion.

Mr. Secretary, taking the chairman's lead, and I know I am going to have to be quiet here, but it strikes me that unilateral disarmament in advance of the trade rounds is probably a bad idea, and I have not observed any of our significant trading partners, our negotiating partners, heading into the WTO round, making unilateral cuts in their farm programs, just as we are going to ask our trade representatives to negotiate these matters. Friday, this committee voted to cut spending in agricultural more than \$3 billion. To me, if that is not unilateral disarmament, I don't know what is. Does the administration have a view of the budget reconciliation package that the House Agriculture Committee voted on on Friday.?

Secretary JOHANNES. Here is what I would offer in that regard. We really support your efforts to try to bring reconciliation about. We might debate with you on some of the details. As you know, we put a proposal out there in January. But just in terms of the effort that has gone into this to try to bring reconciliation forward, we applaud you, we sincerely do. I will also share with you that my discussions with foreign countries about the budgetary process, everything that the United States has done in this Doha Round has been received as a real positive, forward-leaning leadership statement by the United States. And there were questions about the budget issues, but I have to tell you, not along the lines of being negative. It was along the lines of them seeing us as forward-leaning and committed to a Doha Round that would be successful.

If I might offer one other point, Congressman, in references to your last question to the Ambassador, I think it is unprecedented that a Secretary has been invited to participate in trade negotiations to the level that I have been. There hasn't been a single meeting that the Ambassador hasn't been on the phone saying, I hope you can be there. I know your schedule is busy, but I hope you can be there. But most importantly, without exception, the Ambassador

turns to me for my thoughts on agricultural issues, and I will just tell you, I have been very impressed. Your cheerleading is well placed, because this gentleman to my left is very, very capable and competent, and he has stood up for agriculture over and over again. Now, we may debate the final agreement in this, and that is the nature of a democratic process, but I will tell you, I have been very, very impressed with the Ambassador. And the other thing I will tell you, he brings a sensitivity to the issues here in the House and Senate that I think is very important. So he didn't need me to say that on his behalf, but I wanted to offer it, because I do appreciate being at the table.

Mr. POMEROY. He has always enjoyed high praise. I have noticed that.

Secretary JOHANNIS. Yes.

Mr. POMEROY. Thank you both very much.

Ambassador PORTMAN. Thank you.

The CHAIRMAN. The gentlewoman from Ohio, Ms. Schmidt.

Ms. SCHMIDT. Thank you, Mr. Chairman, and I do agree with Mr. Pomeroy, that this ambassador is one of the best ambassadors we could hope for, because he comes from a great State and a great district. And as Ambassador Portman well knows and brought up, in our home State of Ohio, fully one-third, or 1 out of every 3 acres planted, is exported, and I believe that this holds true nationwide as well. And, Ambassador, I like to talk nuts and bolts with my voters back home. Could you please expand on the importance of the Doha to, not just our Nation's farmers, but those farmers in Adams and Brown County; and at the same time, talk about the global economic growth that would occur?

Ambassador PORTMAN. Well, thank you, Congresswoman Schmidt, and welcome again to this committee and to the Congress. Jean Schmidt is doing a much better job than Rob Portman did representing the second district of Ohio. And it is interesting because, now, in this job and learning much more about agriculture than I ever thought I would, because it has been so central to these talks, I do think about how it affects the folks back home in the second district, and it is mixed because most of the farmers back home don't receive any subsidies, as you know. The beef farmers, the cattlemen back home, the pork producers, are not on the subsidy side, so for them, it is a matter of opening markets. And talk about a win-win. If we can get a deal here that creates new opportunities for them to sell their products abroad, they are going to see real markets for their products. But significantly, they are going to see their prices increase, because others, their competitors will also have these new markets.

For the corn and soybean farmers, and there are some, not so much in Adams and Brown, but more in Warren County, as you know, and Clermont County, but you know, what they can see here is, again, three significant things. One is a more level playing field with regard to subsidies. The Europeans and Japanese have more than we do and they compete with us in some third country markets. Second, they will get the market access we talked about. And Mr. Pomeroy was talking about his State, and I think now, more than 50 percent of wheat is exported. And with our corn and soybeans in Ohio, he said about a third of our crop is exported. It is

a significant opportunity for them. And then, with regard to the export subsidies, again, there is direct competition out there, where the European product, after having high tariffs and high subsidies, then gets a boost with export subsidies because the prices are so high, they won't have to deal with that. So there is a benefit that directly contributes to the agriculture economy in southwest Ohio.

But there is a bigger issue here, and that is having a strong economy, generally. All the studies indicate that this could have a very positive impact. There is one out recently that shows that since 1945, the free trade, imports and exports, has resulted in \$1 trillion in additional income to American families. And if the Doha Round were wildly successful, we are able to make the kind of reductions that the president would like to make, the analysis shows that we add another \$500 billion. And it won't necessarily be a total reduction of tariffs, but if we can make substantial progress, even one-third, there is a University of Michigan study out there showing the average family in America will get a couple thousand dollars more per annum income.

So you know, this is because trade is a win-win proposition, in the sense that it helps our economy here at home and it helps the economies abroad, and helps to create a healthier economy generally, which helps, of course, our agriculture consumption and also our agriculture producers. So it is an opportunity, and Mr. Pomeroy said you need to be sure it is a good agreement, but to walk away from an agreement like this, to pack up our bags and say, unless everybody else does exactly what we want, we are not going to stick with it, is in a sense the easiest thing to do, but it is short-sighted. I think we need to stick in there, and the United States ought to take a leadership role and try everything we can to make this work. And at the end of the day it all comes together one way or the other. You all have a vote. You are going to be able to decide whether you think it is a good agreement or not. But in the meantime, we are going to work hard to try to pull together an agreement that works for America's farmers and ranchers.

The CHAIRMAN. The gentleman from California, Mr. Cardoza, is recognized.

Mr. CARDOZA. Thank you, Mr. Chairman. At the outset, I just wanted to associate myself with Mr. Costa's remarks with regard to the participation of the specialty crop industry. I think the committee would, in fact, benefit from hearing from the industry with regard to trade matters, as my questions I think will illustrate. I want to start off as well as saying welcome to Ambassador Portman, who is a great friend and I think a very capable negotiator. We don't always agree, but I think he does a fabulous job for the country, and I am pleased the president chose him for the position.

I want to start off by telling a story, because you mentioned, both of you mentioned Brazil. And I was recently in Brazil and I was at the consulate there, and I was talking to the trade representative at the consulate, and he is a very capable individual. And he was talking to me with regard about what a good job the consulate was doing in promoting and assisting your office to promote trade with Brazil and exports to Brazil, and he showed me, he said, I am sure your district has quite a bit of production that is coming to

Brazil. And I said, I don't think so. And he said, oh, I think so, and he showed me the list of all the congressional districts and he said, now, what congressional district are you, and I told him Congressional District 18, and he couldn't find anything on the list from Congressional District 18. And then I said, well, why don't you try Mr. Costa's district. He is No. 20. And in fact, he couldn't find anything on the list from 20.

And so I went down the list of all the agricultural districts in my area and we couldn't find anything from the agricultural regions that was going to Brazil. And in fact, I asked him to give me the list and he did, and when I went through the list, I looked at what was being exported to Brazil, and it was the means for production. I was tractors, it was assembly lines, it was irrigation systems. We are basically helping them, and which is fine, helping them, thought, compete against us, and I think that we have significant challenges with regard to Brazil and other countries. I think that the equation is a little bit different than what we are talking about. I don't think that we can just look on the export side, but we have to look at what we are importing, and the challenges to American farmers, and the playing field to American farmers. And I just make that observation to you, and if you would like to respond, I would be happy to give you the time to do that.

Ambassador PORTMAN. Yes, I think that is a good point, and I want the Secretary to respond. He said, earlier, Brazil is a first-class competitor and they are. If we have these market openings we are talking about, there will be plenty of room for Brazil and American exporters, because you will see market openings that will give both of us opportunities. With regard to imports, I couldn't agree with you more, and I thought I made that clear earlier, talking about the fact that we need to see a level playing field and fair trade and that means aggressively enforcing our own laws against unfair imports.

But my point to Mr. Peterson was, if you are looking at trade just in terms of the import/export side and not in terms of our growth in exports, then I think you may miss a good story there, which is the fact that, yes, we are bringing in more imports, and I mentioned the European example. There are other examples where we bring in, again, products that we don't even produce here. And I know India has a trade surplus with us in agriculture, and it is in spices and teas and stuff like that that we don't produce. My focus on India is not so much to ban their imports of spices and teas, if they are being traded fairly, but it is to open that market to us in India for our soybeans and for some of our value-added products, including beef and pork and poultry.

So I would just say it is a different philosophy, I suppose, depending on where you come out on that, but I think our focus ought to be fair imports, fair trade, absolutely, I couldn't agree with you more, but let us open these markets. You know, they have far higher tariffs than we do. I said the average tariff there is 114 percent. That is not their applied. Their applied is lower than that. But we have to start somewhere and the WTO starts at that 114 percent and works it down, and that ought to be our goal. But that is an interesting point about Brazil. Brazil does provide preferential access to other Latin American countries, as you know, including Ar-

gentina and the America's countries, and we don't get that same access because we don't have that free trade arrangement with Brazil. Mr. Secretary?

Secretary JOHANN. Trade is complicated business. You know, there is somebody out there, probably in some smaller community in Iowa, who has a job with John Deere, who maybe benefits from those tractors or whatever—yes.

Mr. CARDOZA. I am not criticizing the exports.

Secretary JOHANN. Yes. But Congressman Peterson makes a point and that is that, yes, we have seen a rise in imports, but when you start slicing through it, part of it is what Americans are hoping to get in terms of their diet. You know, when I grew up, you got watermelons in the summer. You know, come September or October, you didn't see watermelons until next June or July or whatever it was. Now people want fresh fruit year round. They want access to that. They want access to foreign wines and specialty meats, and so we have seen a rise, but in some of the commodities that we grow in bulk here, we are doing very well. We are doing well in soybeans. We are doing well in corn. You know, there are some very, very good stories to be told there, too, but the diet of Americans is more diverse than it was when you and I were growing up, and that is likely to continue.

Mr. CARDOZA. Mr. Secretary, if I could follow up, because that is where I am trying to go with this, is that the specialty crop industry is very important to where I come from. It provides, I think, 25 percent of the exports of agriculture from our area. And I want to ask a question with regard to the Doha Round. And, Mr. Portman, I want to understand if I heard you right earlier. I believe you said that the SPS issues would not be considered in that round. The phytosanitary issues, in particular, and the trade barriers, that those bring about two specialty crops, are of grave concern to my farmers, because what happens is, that is where the unfair competition is very hard for them to challenge those. In fact, currently, California is monitoring access issues with plums and garlic in China, apples in Taiwan, and stone fruits in Mexico. And any particular day, you may see new ones pop up, and it is really the crux of the issue in large part for the specialty crop industry.

Ambassador PORTMAN. That is an excellent point, and as I said earlier, I don't want to mislead Members and think that Doha is about SPS. It is primarily about cutting tariffs. That is the idea, and trade distorting domestic support and then this export competition, and that is how it was laid out. That is how the Uruguay Round proceeded as well. I will say the United States has its own SPS issues, and legitimate ones. I do hear from our trading partners a lot about how they can't get their specialty crops or fruits into our market, and other countries, in my view, sometimes unfairly use that. I made the Mexican statement earlier, that I believe we have resolved that particular issue on stone fruit by going to them and consulting and negotiating and working through the issue, and the next season we expect that to be the market that it is to be and should be now. But they will continue to crop up, and every time they do crop up, we have got to be right on it and we have got to deal with it, and sometimes we will have to go all the way to litigation. As I said, sometimes we have been successful.

The Japan apple case I talked about, we won this summer. It took us, what, about a year and a half? About 4 or 5 years from start to finish, but the litigation, probably about a year and a half and we won it now, and now Japan has to open up on this SPS issue with apples, which will help us.

So I just don't want to mislead you to think that the Doha Round, this World Trade Organization round, is about SPS. To the extent it is about SPS, frankly, the United States is in a position to try to keep other countries from going away from science-based analysis, and that is what I talked about earlier, and the chairman has been very active in this area, for a lot of good reasons, including his own poultry production and being sure SPS doesn't keep out our poultry exports. But we are, I think, doing well in that regard. We are focusing on science. We are providing good data to our colleagues. We are being sure that we do not backtrack in terms of the WTO standards as it relates to SPS, because this round is about a once-in-a-generation opportunity to reduce trade barriers. It is also about setting the rules for the next generation, and we want to be sure that those rules stick to the science-based approach, just as we, and the Secretary can speak to this much better than I can, opened up our border to Canada recently on beef. The United States is going to follow science and other countries need to do the same thing, and when they don't, we need to be able to take them all the way to the WTO, as we are doing with regard to Turkey today, and as we have done on some SPS cases.

Mr. CARDOZA. And finally, Mr. Portman, and I know I have gone over my time, but if I could, I know you are traveling to India on the 11th of November and while you are there, I would just ask you to work with the Indian government on California almonds, a \$100 million export from our area to that country, and we want to make sure that California almonds have access to that market.

Ambassador PORTMAN. Well, I thank you very much, Mr. Cardoza. I have no choice to do that, because your colleague, Mr. Costa, just presented me with these California almonds to remind me of this.

Mr. CARDOZA. We are a powerful team.

Ambassador PORTMAN. You are a powerful team. As an almond grower himself, he keeps me up to speed on that. And no, I will raise it and I will raise some other issues, too, frankly, because that is a great potential market for us. And again, I think you can help India in terms of its economic development, in terms of providing lower priced and higher quality goods to Indian consumers. Thank you.

The CHAIRMAN. The time of the gentleman has expired. The gentleman from Kansas, Mr. Moran, is recognized.

Mr. MORAN. Mr. Chairman, thank you very much. Mr. Secretary, Ambassador, thank you for your testimony today. I would be remiss if I didn't take this opportunity to express to Secretary Johanns my real faith in his leadership of the Department of Agriculture, and I am pleased with the direction that things are going and I feel very comfortable with having you as the Secretary of Agriculture, and I appreciate you having one of your listening tours at the Kansas State Fair in my district earlier this year. I also want to thank both of you. And, Mr. Portman, let me thank you,

Ambassador, for the role that you are playing. I held you in high esteem as a Member of the House of Representatives, and in many ways you serve as a role model for what I think is wonderful public service. But I have been extremely impressed with the way that you have hit the ground running as the trade ambassador. I think the issues, the level knowledge required in your position, is amazing and I am greatly impressed by your ability to fill that role and provide leadership at USTR at a very critical time. So it is coming and here we go. And both of you, thank you very much for your help with me and other members of Congress as worked in regard to Japan and the U.S. beef issue. Mr. Secretary, thank you particularly for the consultation I have been able to have with Secretary Penn during this long time in which we had been waiting for action by the Japanese.

Having said that, I do have, I am discouraged about the situation we face in the world. I look at trade, and I listened to Mr. Osborne last night on the House floor, and he reminded me of all the things that the Europeans do to eliminate competition from the United States and keep our products out of their markets. Yes, we have had good news, a good first step, maybe, perhaps, a second step in regard to Japan, but I look at the future and think that we are still a month or two away from actual import of U.S. beef. And then I am uncertain as to what happens next in regard to beef that is 24 months old, 28 months old, 30 months old, and what happened to the market that should be there in totality. And then I look at the European reaction to Mr. Portman, or Ambassador Portman's proposals in WTO talks, and their total rejection. I recognize that they are in negotiating mode, and so I wouldn't say that the necessarily mean everything they say, but their reaction is very discouraging, as far as our ability to accomplish something in the round scheduled in Hong Kong.

A couple of questions. We will be in Hong Kong in a short period of time, a matter of weeks. I am interested in knowing what your thoughts are, that should there not be success in Hong Kong, what is the game plan then? What is next? What do we do to operate in this world where trade is so important to agriculture? And second, a more, perhaps, philosophical question. But as I look at, in our subcommittee's work at the next farm bill, obviously trade is important for the price my farmers in Kansas and American farmers and other producers receive. But what happens if we would have total market access? What is the effect upon commodity prices if you are successful in negotiating total market access for American agriculture? Is it still possible that we would be exporting our agricultural products at a price less than the cost of production? And, Ambassador, this goes back in part to my conversation that I had with you and President Bush back several months ago, is, I think there is absolutely nothing wrong in negotiating trade agreements that increase market access and reduce barriers, tariff barriers, but what is our plan over time? How do we compete in this world in regard to labor, land value, chemical costs, environmental rules and regulations? Do we have a long-term strategy that keeps American agriculture, not only efficient, but technologically advanced and capable of competing in today's markets?

And I was in California and visited with specialty crop producers, and when they tell me that 80 percent of their costs are labor, how is it that American agriculture, American producers, can compete in this world if 80 percent of your costs are labor? My question is a broad one, as I try to think about what the next farm bill should look like, and perhaps my concern is highlighted today with the Kansas Association of Wheat Growers delegation in my office reminding me of what circumstances we face as producers in light of ever-increasing input costs related to fuel, fertilizer, and natural gas. How do we compete in this world? So what do we do if it fails in Hong Kong? And second, the broader question, what is the strategy for us to be a competitive agricultural producing and exporting country into the future? Thank you.

Ambassador PORTMAN. I would be interested to hear the Secretary's answer to this longer range questions. Just let me give you my thoughts, and they are not, again, as well informed as his will be. But you know, I am actually very optimistic about it for three reasons. And one is, we are blessed with some great land in this country. We have some of the most productive land in the world, as I said earlier. That is not true everywhere. Some countries that have a very large population to feed don't happen to have the arable land to be able to feed those populations. And the United States, I think, has wisely turned to innovation and research in a way that leads the world, and that is the second advantage that we have. Not only do we have great land to be able to farm, we have put a lot of resources and time and effort into being sure that we are on the cutting edge, and we still are, by the way. Other countries pick up our innovations pretty quickly.

But I was out in the Dakotas and I told Congresswoman Herseth this a couple weeks ago, actually, and Mr. Pomeroy's State, and you know, the innovation just keeps on coming. And in terms of the labor costs, you are right, our labor costs are relatively high, although the rest of the world is starting to catch up to us. But our labor costs in the specialty crops may be that high. It is certainly not that high in terms of our major commodities that we export, because labor costs are being taken out, which is a problem in terms of farm employment, but it makes us more productive. And so, I guess, in terms of the land, in terms of the research and innovation that we have, and then finally, in terms of our productivity, I am very hopeful that we can get our fair share of these growing markets around the world.

The world's population is increasing dramatically, and 95 of the consumers live outside the United States. Their diets are improving. They like our products. They want our products. In Japan, when that market opens up, thanks to your efforts, Mr. Moran, and others, even for 20 months and under, you are going to see people flocking to the steakhouses, as they did when that one steakhouse opened with its inventory of American steak that was left. People like our products because of their high quality and relatively low cost. So I think we have a future here, and I think it is a very hopeful future, if we have a more level playing field. So that is my view.

Hong Kong, all I can say is, it is a milestone in this Doha Round. It is not the end of it and never was meant to be. We still have

another year to go. In my view, we should end by the end of 2006, for all the reasons that Mr. Peterson and others talked about. But this is an important milestone, because you will have the opportunity for, I believe, all 148 countries to be represented, and some of you to be represented, and so we need to make the most of it and I think we need to use it, frankly, to put pressure on the system right now so that in the next couple of weeks, even, we can make some quantum leaps in terms of agriculture and then get onto these other areas that I talked about. But if Hong Kong is not as successful as we would hope it would be, we just keep pushing. I think we set other deadlines, and I think we keep pushing the process, and I think it is worth it. It is worth it for our farmers and ranchers and I think it is worth it for our economy.

Secretary JOHANNIS. To address your second question. These farm bill forums have been a great opportunity for me to see American agriculture and to hear from farmers and ranchers, really, from coast to coast. It has been great and I appreciate you hosting me in your district. It was a great forum and as you know, it was standing room only. We have had unbelievable turn outs at these forums.

I would offer this thought. We tend to think about the farm bill every 5 years as defining farm policy, and it is important, believe me, it is important and I know how important it is. But good farm policy is so much more than a piece of legislation that is passed, typically every 5 years. It is good tax policy. I appreciate the debate on the tax cuts, but it left \$4 billion in the pockets of farmers and ranchers in the United States each year. Environmental policy. You don't have to go very far into cattle country before somebody is talking to you about Federal environmental policy, if you can imagine, how we manage our environment, how we invest in conservation programs; very, very important to agriculture. Our trade policy. Just because the facts are fairly obvious, 27 percent of the receipts do come from trade. We ignore it at our peril. We condemn it at great risk. It is very, very important to our farmers and ranchers.

I will just give you one example that I love to cite. We tend to think of the whole cow as going to Japan or Korea; it doesn't. When the cow is processed, it is a bunch of components. And so 70 percent of the hide goes into the export market. What if you don't have the export market for that 70 percent? It is not good. So trade is very, very important.

The farm bill, of course, is important. The right farm policy can make a huge difference. Research, technology, the investment in those programs has paid dollars over time and they will pay dollars in the future. When I grew up, 100 bushels an acre was a big crop in corn. Today, that is a failed crop from where I come from, where I grew up. Roads and bridges and waterways, anybody doubt the importance of trade? Interrupt the flow down the Mississippi for 10 days and see how it ripples across all of America, right into your district and other congressional districts across the country.

Renewable fuels. Twelve percent of our corn crop goes to ethanol now. Biodiesel I think is only getting started. I see a good future for biodiesel. You start putting these things together in good thoughtful agricultural policy and there is a great future here,

there is really a great future. But that is the kind of discussion I think is important as we address the farm bill. If this farm bill were just simply reenacted, I think you would miss a great opportunity to really have a long-term vision for agriculture.

And so I am optimistic. You know, I, often end speeches, with that FFA pledge, I believe in the future of farming. Now they say, I believe in the future of agriculture. But I do. I see a lot of good things going on out there. And then the last thing I wanted to mention, because I believe in this so much, our producers are unbelievable, and I have had an opportunity to meet them in State after State. They are just very good people. They are just really good people, and that is a difference maker over the long-term.

Mr. MORAN. I thank you both for your answers, and thank you, Mr. Chairman.

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

Mr. NEUGEBAUER. Thank you, Mr. Chairman. First, Mr. Secretary, I thank you for coming to west Texas. I thought we had a very well attended, a very, very productive listening session. I am also pleased to hear, and I want to compliment both you and Ambassador Portman about the fact that you are working together through this process, because I think that is a very beneficial thing for these negotiations and beneficial to agriculture in general.

Before I get too far, I want to associate myself with the gentleman from Kansas. I am encouraged by the news from Japan, but I have been encouraged before. And I think sometimes our friends over there know just about the time to drop a little encouragement into the mix to keep the dogs, I think, from barking too loud. But I do want to say to you that I want your resolve to continue, and I know it has been, to send a message to the Japanese government that we have jumped through about as many hoops that we are going to and can, and it is now time for them to open up their market back to U.S. producers.

Along those same lines, we have had discussions, I think, with both of you about the importance through this process of keeping our agricultural groups in the loop here in letting them know where you are headed. And I know that we have a number of groups here today that will be on the panel. Now, it is my understanding that in the next week or two, that you are going to have some dialog with the African countries, and I have to assume, because of the cotton being a part of the framework, that cotton may be a part of those discussions. I would like to here from you one, or two things, really. One is what kinds of, where you see those discussions going, and have you been in touch with the cotton folks to kind of let them know where you are headed with this framework, as it relates to cotton in the African countries?

Ambassador PORTMAN. Yes, thank you, Congressman Neugebauer, and thank you for your help on these issues. I talked to you about this when we were in executive session, and the fact that you have been staying up to speed on the cotton issues, and helping give me some input that has been helpful as we work through the Brazilian case. I will make one general comment, then I want to hear Secretary Johanns' thoughts on it.

Again, after the October presentation on our part of our aggressive proposal and all of the pillars of agriculture, we got a different response from some of those African countries that have been very concerned about our cotton program, and also got a different response from Brazil, frankly, on retaliation under that cotton case that they won. And it is because we are now showing that we are serious about dealing with trade-distorting domestic support overall, which does affect cotton, particularly the marketing loan program and the counter-cyclical program. But we are doing it only if we get the access we talked about. And as you know, we talked earlier about the cotton market in China and elsewhere. There is a big export market out there for cotton, still. So I feel like things are going better with regard to those discussions. We will stay in very close touch with the cotton industry. I have met with the Cotton Council, as you know. As you also know, they have been really helpful in dealing with this issue, and they have not taken the position that we ought to ignore these concerns, because they know that this could lead to real problems in the WTO. Instead, they have been very proactive and have worked with us and directly with these countries, like Benin and Mali and Chad, Senegal, Burkina Faso, which are the five countries most interested. And they have said to these countries we want to help you, in terms of technology, in terms of marketing, and that has been helpful, frankly, to USTR. So I commend them and I commend the industry for being proactive and not just sitting back and being defensive, but rather taking the offense. And I think, in the end, it could be a solution that, because of our overall proposal, it could be more beneficial than many of us have feared even a few months ago. So that is my thought on it and I would like to hear the Secretary's.

Secretary JOHANNIS. We have met with the cotton countries. Just recently the Ambassador and I had a meeting, and I think they call themselves, is it the C-4? The C-4. And the discussions have been good, as the Ambassador has indicated. The meeting was not to hammer out any kind of agreement. It was just simply to continue the dialog, and it was good and they seem committed to seeing the Doha Round to a successful finish.

Our ongoing discussions with the cotton industry in the United States have been positive. They are good to work with. As a matter of fact, I am informed that they are actually going to be at the USDA again tomorrow. The ruling from the WTO, needless to say, no one was celebrating that, but our discussions with them were good. We explained to them what we were going to do administratively and legislatively, and again, I think the relationship there is a good and strong relationship, and we consult with them a lot.

And again, I do want to thank you for your hospitality when I was in Texas. We had a great farm bill forum. So many people were there to testify, as you know, we couldn't get through the whole group, but it was a good forum.

Mr. NEUGEBAUER. Thank you both.

The CHAIRMAN. I thank the gentleman. Secretary, I thank you, and I thank you for your nationwide listening tour to our farmers and ranchers. That is valuable, not only as we look ahead, but it is also valuable in these trade negotiations. Your being there to listen to them is important. I want to thank both Secretary Johannis

and Ambassador Portman for their testimony today, and they both have been very generous with their time, more than 2 hours. And I expect that these consultations will continue and will be in greater depth as the time for the WTO ministerial comes closer. Trade is important to U.S. agriculture, but reaching an agreement in the Doha Development Round is not so important that the United States should dismantle its programs entirely and stop helping our farmers and ranchers. And I believe that the Ambassador wanted to say another word.

Ambassador PORTMAN. Well, I just thank you, Mr. Chairman, again, for giving us the opportunity today to talk about these issues, and I want to thank Secretary Johanns publicly for what he has endured with me, which is countless hours of difficult trade discussions and negotiations. I do call him up and ask him to come whenever I am going to talk about agriculture, because I want his expertise. And as you know, USTR is a relatively small, lean but mean outfit, and we depend on USDA to provide us technical help, and that has also been very helpful. So I want this committee to know that your USDA is very actively involved in and being very helpful in terms of making sure that we have the best case to put forward. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. I will excuse both the Secretary and the Ambassador. In a second, I will ask Mr. Moran, chairman of the General Commodities Subcommittee, to take the chair, but first we would like to invite our second panel to the table: Mr. Cliff Butler, vice chairman, Pilgrim's Pride Corporation from Pittsburg, Texas, on behalf of the National Chicken Council, the National Turkey Federation, and U.S.A. Poultry and Egg Export Council; Mr. Robert Metz, who is producer and president of the American Soybean Association from West Browns Valley, South Dakota; and, Mr. Moran, when he testifies, I would ask you that you allow the gentlewoman from South Dakota to say a word introducing him; Mr. Jon Caspers, who is a producer with the National Pork Producers Council from Swaledale, Iowa; Mr. Wythe Willey, who is a producer and past president of the National Cattlemen's Beef Association from Cedar Rapids, Iowa; and Mr. Gerald Tumbleson, who is a producer and president of the National Corn Growers Association from Sherburn, Minnesota. I will now turn the chair over to Mr. Moran.

Mr. MORAN [presiding]. I welcome the panel and we turn our attention to Mr. Cliff Butler. You may begin your testimony, sir.

STATEMENT OF CLIFF BUTLER, VICE CHAIRMAN, PILGRIM'S PRIDE CORPORATION

Mr. BUTLER. Thank you, sir. Mr. Chairman and committee members, thank you for the opportunity to present our views and recommendations of the U.S. poultry industry regarding the very important agricultural trade issues involved in bringing the World Trade Organization's Doha Development Round of negotiations to a timely and successful conclusion. Mr. Chairman, Congressman Peterson and the committee members, your strong interest in and support of the current round of multi-lateral trade negotiations is very much appreciated.

My name is Cliff Butler, and I am vice chairman of the Pilgrim's Pride Corporation. Our company has been in the poultry and egg business for 59 years. We have operations in Virginia, Texas, Alabama, Arkansas, Georgia, Kentucky, Louisiana, North Carolina, Tennessee, West Virginia, Arizona, California, Iowa, Mississippi, Utah, and Wisconsin. Pilgrim's Pride is a publicly traded company and listed on the New York Stock Exchange. At Pilgrim's Pride, more than 40,000 employees and 5,000 dedicated farm families work hard each day to help us produce and process chickens, turkeys and eggs that we need to serve our customers here at home and abroad.

When you combine all the Nation's poultry and egg companies, the employees total over 440,000 and the farm families are more than 40,000. In addition, there are hundreds of thousands of other workers directly employed supplying our industry, and they are highly dependent on the continued success of the U.S. poultry and egg industry.

I, like my fellow poultry producers, am proud to market poultry that is unsurpassed by any other country in quality and food safety. The tremendous trust and confidence consumers have in U.S. poultry is a critical component in successfully addressing the current avian influenza concern. I can assure this committee that individual companies, the poultry industry, and the Federal, State and local governments have stepped up safeguards and firewalls to minimize any avian influenza problems in this country. We, in the poultry industry, do not accept the notion that it is inevitable that the Asian verity of avian influenza will come to the United States. And if it does, we will successfully limit and control it.

In September of this year, the Ag Trade Coalition issued a set of principles and trade policy objectives that should be used in the Doha Round of negotiations. U.S. poultry organizations and more than 50 other groups support these principles. A copy of these principles is attached to my statement. Most important for U.S. producers and exporters as an outcome of the Doha Round is achieving greater, improved market access. Cutting high tariffs is not the only solution. Import quotas, tariff rate quotas, and other non-tariff trade barriers must also be reduced and eliminated.

Improved market access also encompasses the appropriate application of the provisions of the Sanitary and Phytosanitary Agreement. As trade barriers have come down, unfortunately, non-trade—non-tariff trade barriers, mostly predominantly SPS barriers, have gone up. One example of not following the SPS Agreement is the European Union's prohibition against the use of chlorinated water as an antimicrobial during the processing of poultry. In 1997, U.S. poultry was shut out of 15 countries, but since then, with the expansion of the EU to 25 member countries, that number is now 25 countries that we are shut out of.

Rather than follow proper risk assessment based on good science as required by the SPS Agreement, the EU blocks our poultry shipments based upon this unfair interpretation. Also, we cannot overlook the way some of our trading partners have used worldwide concern about avian influenza as an excuse to improperly close their borders to U.S. poultry. These nations keep their borders closed long after a region where the strain appeared has been cer-

tified as free of avian influenza. It is vital that United States ensure our trading partners conform to the OIE guidelines with respect to avian influenza.

Mr. Chairman and committee members, U.S. poultry producers and exporters appreciate your support and continued strong interest in achieving a more fair and open international market for our products. We look forward to you achieving this goal. Thank you, sir.

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

Mr. MORAN. Mr. Butler, thank you, sir. The chair recognizes the congresswoman from South Dakota, Ms. Herseth.

Ms. HERSETH. Thank you, Mr. Chairman. It is my pleasure to welcome Bob Metz to the Agriculture Committee. While he is a constituent of mine in South Dakota, he is quite nearly a constituent of Mr. Peterson's in Minnesota as well. That is how close he is to the border. But he and his wife, Karen, I count as good friends. I know Karen is combining today, Bob told me earlier, and so given his extensive experience with South Dakota agriculture and really agriculture throughout our region, and now nationally as president of the American Soybean Association, I want to welcome him and commend his testimony to my colleagues here on the committee. Thank you.

Mr. MORAN. Thank you, Ms. Herseth, and the chair recognizes President Metz.

STATEMENT OF BOB METZ, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. METZ. Thank you. Good afternoon, Mr. Chairman and members of the committee. ASA very much appreciates the opportunity to appear before you today. With your permission, I would like to summarize my written testimony.

The outcome of the current negotiations of a new WTO agreement is critically important to U.S. soybean producers. One-half of our annual soybean production is exported either as soybeans, soybean oil, or soybean meal, or in the form of livestock products. World demand for soybeans is increasing rapidly as developing countries improve their standard of living and diet. Improving market access in developing countries through meaningful tariff reductions is the key priority to enhancing the profitability of the U.S. soybean farmer.

Our industry is also facing rising competition from South America, particularly Brazil and Argentina. Over the past decade, these countries have emerged as world-class exporters, with mature agricultural research, production, and processing infrastructures and improving transportation systems. Both Brazil and Argentina use a variety of incentives to encourage production and exports of soybeans and other crops. They have been allowed under the Uruguay Round Agreement to designate themselves as developing countries, and to avoid the disciplines of their domestic support and export programs. It is critically important that in any Doha agreement, require advance developing country exporters to be subject to the same rules and disciplines as developed countries.

I would like to comment briefly on a proposal advanced by Ambassador Portman in Zurich last month. We agree with the administration that the status quo in international trade is unacceptable. In addition to significant improvement and real market access, we need a farm program safety net that is beyond WTO challenge. Following the WTO cotton case and expiration of peace clause at the end of last year, the current situation is not a viable alternative to a new agreement.

ASA recognizes the proposal advanced by the administration as a credible signal to the rest of the world that the United States is prepared to make substantial cuts in trade-distorting domestic support if market access barriers are greatly reduced and export subsidy practices are eliminated. The proposed cuts in domestic support would require fundamental changes in the structure of U.S. farm programs, including the marketing loan, which has been important in supporting soybean producers' income when prices fall. In order to support restructuring current programs, we need assurances that the next farm bill will provide U.S. farmers with an adequate safety net, and that the current imbalance in crop production benefits will not continue to distort market signals.

On market access, the U.S. proposal does not specifically address the need for ambitious improvements in market access by developing countries. Developing countries are the markets of the future. The administration has pointed out that 95 percent of the world's population lives outside our borders. We note that 81 percent of this population is in developing countries. Of the 16 priority countries targeted by ASA for major improvement in market access, 14 of those are in developing countries.

U.S. negotiators must ensure that preferential terms for developing countries, including special differential treatment, identification on special and sensitive products, and use of special safeguard mechanisms do not restrict meaningful improvements in market access. The U.S. must ensure adequate market access to developing country markets through negotiation of meaningful TRQs, with phased reductions in quota tariffs.

In addition, the administration's proposal does not include specific language requiring world-class developing country exporters undertake disciplines in the three pillars of domestic support, market access, and export subsidy practices. Recent studies indicate that Brazilian farmers benefit from a national program that offers credit at an interest of $8\frac{3}{4}$ to $12\frac{3}{4}$ percent, compared with the prevailing commercial rate of 35 percent. Credit provided under this program increased 48 percent in 2004–05 to \$13 billion. Subsidized credit to modernize Brazil's farm machinery doubled in the same year to \$5.5 billion. In addition, Brazil has frequently rescheduled farm debt for up to 25 years at 3 percent interest rates, which in times of high inflation amounts to giving Brazilian farmers free money. Finally, Brazil has a land tax system that encourages farm land expansion by taxing undeveloped land at higher rates. ASA believes strongly that these policies must be subject to discipline under Doha negotiations.

We are pleased that the administration's proposal called for elimination of differential export taxes which have trade-distorting effects similar to export subsidies. Both Argentina and Malaysia

are major competitors in the export of soy oil, and make extensive use of differential export taxes to build up their local processing industries.

The EU's latest WTO proposal on agriculture advanced last week, falls well short of the ambition of the U.S. proposal advanced last month. In addition to putting forth unacceptably low reductions in tariff levels, the EU continues to insist on exempting 8 percent of its individual tariffs from cuts that would be required by reduction formulas. The EU is also trying to—allowing the U.S. counter-cyclical payment being included the blue box. It is insisting on further disciplines on export credits and on food assistance. ASA will not be able to support a new WTO agreement that includes these conditions.

Mr. Chairman, the U.S. soybean farmer would benefit greatly from a good Doha Round Agreement; however, we will not support a poor or lopsided agreement that would require substantial cuts in U.S. domestic supports without making significant gains in market access in developing countries, and unless domestic and export practices in world-class developing country exporters are subject to discipline similar to developed countries. It would be most helpful if developing countries, that have so much to gain from opening global markets, would define their priorities in terms of their own self-interest rather than as part of a broader confrontation with developed countries. We very much hope that this message will prevail as we approach the ministerial meeting in Hong Kong. Thank you, Mr. Chairman.

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

Mr. MORAN. Thank you, Mr. Metz. The chair recognizes Mr. Caspers.

STATEMENT OF JON CASPERS, PRODUCER, NATIONAL PORK PRODUCERS COUNCIL

Mr. CASPERS. Mr. Chairman and members of the committee, my name is Jon Caspers and I am a pork producer from Iowa and a past president of the National Pork Producers Council.

No trade agreement under negotiation is more important than the Doha Round negotiations. The average global tariff on pork is 77 percent. We fully support the administration's recent proposal which has put the focus of the negotiations where it rightfully belongs, on the refusal, to this point, of the EU, Japan, and other high-tariff countries to offer major improvements in market access. For U.S. pork producers, increased market access is our top WTO priority.

The best example of the importance of tariff cuts to the U.S. pork industry is Japan. Japan is the largest market for U.S. pork exports, however, Japan imposes high duties on pork imports if they fall below a pre-established gate price. The highest single market access priority of the U.S. pork industry in this trade round is obtaining a major reduction in the level of the gate price that Japan applies to pork imports, combined with a major reduction in the import duties which Japan applies on pork imports that are priced below the gate price. In addition, it is important that the special safeguard that Japan applies to pork imports be eliminated in this

round. That safeguard creates substantial volatility in the Japanese market, and has in recent years acted as a serious obstacle to U.S. pork exports.

We expect that many countries will want to make use of the sensitive product designation for pork. For this reason, we fully support the new U.S. proposal, that the sensitive product designation should be limited to no more than 1 percent of tariff lines, and that compensation for the sensitive product designation should be required in the form of significantly expanded tariff rate quotas. We also support the United States proposal for a 75 percent tariff ceiling in developed countries.

The application of special and differential treatment for all countries that meet the broad definition of a developing country, could have a very detrimental effect on the agricultural market access negotiations. For example, NPPC does not believe that Brazil, a middle income country that has seen explosive growth in its pork exports in recent years, should be allowed to receive special treatment when it comes to market access liberalization for pork.

The U.S. pork industry faces restrictive tariff rate quotas in many of its primary markets around the world. Under the existing framework agreement, if a country designates a product as sensitive, it will be obliged to expand tariff rate quotas, or TRQs. Because of the prevalence of TRQs in agricultural trade, it is important that all existing TRQs, regardless of whether or not they are designated as sensitive, be substantially expanded through these trade negotiations.

By far the best example of the restrictive impact of TRQs on U.S. pork exports is the European Union. During the Uruguay Round, the EU established TRQs on pork that represented far less than 1 percent of domestic consumption. Measured as a percentage of domestic consumption, even developing countries, like the Philippines, did a far better job of offering TRQ opportunities in the Uruguay Round than the European Union. Such limited access to the EU pork market is particularly frustrating for our industry, given that the United States is one of the best markets that EU has for its own pork products.

Of course, U.S. pork producers face more than just TRQ restrictions in the European Union. The EU maintains onerous residue testing requirements as well as other unneeded disease-related testing requirements that add significantly to the cost of exporting pork to the EU. Needlessly difficult and costly, EU planned approval requirements pose yet another major obstacle to U.S. pork exports. NPPC believes many EU SPS requirements operate in direct violation of the principle of equivalence, as that term is defined in the WTO SPS Agreement.

In 1985, the EU accounted for 20 percent of total U.S. pork exports. Today, it accounts for less than 1 percent. Almost all of this decline can be attributed to unfair EU SPS barriers to trade. It is imperative that U.S. negotiators move quickly to address the EU SPS issues in an aggressive and systematic way, in order to ensure that this trade round results in real trade liberalization in the EU.

If price competitiveness and product quality were deciding factors in selling to the EU, Europe would be one of the largest markets in the world for U.S. pork exports. With the EU's recent ex-

pansion, it now represents a market of over 400 million mostly high-income consumers; however, U.S. pork sales to the huge EU market remain negligible due to a combination of tight TRQ restrictions and completely indefensible SPS barriers. Thank you.

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

Mr. MORAN. Thank you very much. Mr. Willey, good afternoon.

Mr. WILLEY. Mr. Moran, Mr. Peterson and members of the committee, before I start, I would like to thank Mr. Moran for his leadership and efforts on the Japanese beef issue. You made the cover of the Cattlemen's magazine.

Mr. MORAN. Oh, I didn't know that, but I am not so sure I am pleased that you are saying that in front of Mr. Caspers. There is a little bit of rivalry in this issue between pork and beef.

Mr. WILLEY. Well, we get along pretty well. We are from the same State, as Mr. King knows.

Mr. MORAN. Thank you very much.

STATEMENT OF WYTHE WILLEY, PRODUCER AND PAST PRESIDENT, NATIONAL CATTLEMEN'S BEEF ASSOCIATION

Mr. WILLEY. Members of the National Cattlemen's Beef Association appreciate the opportunity to present our international marketing priorities as negotiators prepare for the critical and final phase of the Doha Round of world trade negotiations, and as you consider trade in the context of the next farm bill. My name is Wythe Willey and I am a cattle producer from eastern Iowa, where I own and operate a cow, calf and feedlot operation. I had the privilege of being the National Cattlemen's president in 2002 and 2003, and I am currently on my second term of the president's advisory committee for trade policy and negotiations. That committee, as you probably know, works closely with your former colleague and the trade ambassador, Mr. Portman.

I would like to focus on our priorities for the WTO negotiations. And I might say parenthetically that, as I listened to the testimony of Ambassador Portman and the Secretary this morning, we agree with just about everything they say, and so I will try to shorten my remarks, because we are very much on the same page.

But basically, our members in our organization feel very strongly about the benefits of trade, and we think it can be best obtained through the WTO multi-lateral process. U.S. grain-fed beef has a unique place in the global food economy, and U.S. beef producers know, as a result of the investments in technology and science-based animal health and inspection, that we produce the highest quality and safest beef in the world.

The goal of our agriculture trade policy should be to make our product as competitive as possible on the world market. The core mechanism for increased market access is tariff reduction so that we can better our place in the global marketplace. For our industry, this depends on the amount of tariff reductions. U.S. beef receives no domestic supports or export subsidies. Our litmus test as to whether we would consider these negotiations a success or failure is really quite simple. A successful outcome mandates a drop of Japan's 50 percent bound to air freight, and South Korea's 40

bound tariff freight on beef imports, and some opening of the European market.

The U.S. proposal, Ambassador Portman's proposal on market access would meet our goal of bringing Japan's tariff on beef down to approximately the same level as the 12 percent duty on beef negotiated as part of China's WTO accession package. If China can reduce tariffs on beef from 45 percent to 12 percent, we believe the EU, with a tariff of 57 percent and a 20 percent in-quota tariff, Japan, with a current applied tariff of 38 percent, and Korea, with a current applied tariff of 30 percent, should also be able to reduce their tariffs to 12 percent.

I would like to address subsidies for a minute. We favor efforts to significantly reduce worldwide domestic supports and export subsidies when it comes to beef. The level of government support for beef globally actually increased from the early 1990's through 2001. In 2002, the European Union alone accounted for 78 percent total support levels on beef, with European beef producers getting most of their gross returns from government rather than the value of beef and world prices. In 2003, Japan had 30 percent subsidy, South Korea had 60 percent, and the EU, 78 percent, stand in stark contrast to the U.S. beef support of about 4 percent. Those supports stand as a monument of failure of persistently relying upon taxpayer dollars rather than the market.

American cattlemen remain concerned about the possible recourse the EU may have in its ability to limit reductions in domestic supports for beef producers via livestock payments to be made on a fixed number of head. One of the most dramatic changes in recent history of the global beef trade has occurred in the EU. That group of countries used to be a net exporting region. They are now a net importing region. They project for this year to import at least 250 metric tons, with forecasts of the next few years of it being at least a half-million tons of beef imported. As a result, we have been working with U.S. negotiators to seek a resolution to longstanding non-tariff areas in that market, as well as an expansion of the 11,500 metric ton tariff rate quota. We also seek the elimination of 20 percent in-tariff quota rate.

Right now, beef exports are big part of our business. And as you know, our three biggest markets, Japan, Korea, and the European Union are all close to us. Think of what this business could be if we could only open it up. I would also like to mention that we do, and I know it is not a major part of the negotiations in the Doha Round, but we feel very strongly that a comprehensive package that provides for additional market access, eliminates export subsidies, and substantially reduces production subsidies, along with greater assurances on the part of our trading partners to eliminate sanitary, phytosanitary barriers to trade. Simply stated, we need to follow the science.

Mr. Moran, you asked a very good question a little while ago, how do we compete in this future global market? From the standpoint of the cattlemen, I think we can say that we would choose to compete. And I would add to the Secretary's remarks that never underestimate individual Americans, and particularly, never underestimate individual American farmers and ranchers. They will figure out a way to compete. If we can just get these export mar-

kets open, they will be competitive and it will be better for our own economy. And thank you.

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

Mr. MORAN. Thank you, sir. Mr. Tumbleson.

**STATEMENT OF GERALD TUMBLESON, PRODUCER AND
PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION**

Mr. TUMBLESON. Good afternoon, Chairman and committee members. My name is Gerald Tumbleson and I live in Sherburn, Minnesota and I serve as president of the National Corn Growers Association. I would like to thank the committee for giving us the opportunity to testify today regarding the Doha Round.

Trade is vital to corn producers. It is important in the traditional sense that the percent of commodity corn that is exported, provides a good market for our industry today. But the future for trade is in the realization that the world is short of two commodities, energy and protein. Corn can provide both. Our corn-based ethanol industry had doubled in the past 4 years. We are in the energy business and we will be an important source of energy for our Nation. That energy will replace petroleum imported from other countries; that is important to our trade policy and our Nation's economy.

Trade is important because the world needs protein, and we can provide that by adding value to corn in the form of beef, pork, poultry, dairy products, and co-products from our energy program. Our trade—adding value to corn in rural communities, and turning it into protein, and having access to the world marketplace is the future of our industry. Our trade policy must provide market access to the products that the world needs and our Nation's needs, and those products should be added in a rural America.

Our organization supports trade agreements that will open markets for U.S. farmers by reducing and eventually eliminating trade-distorting subsidies; therefore, we believe that success in the Doha Round negotiations is vital to create new business opportunities for U.S. agriculture. We commend Secretary Johanns and Ambassador Portman for their leadership in energizing the WTO negotiations. The new proposal announced by the United States recently was a bold and significant move. It made it clear that the United States is willing to show the flexibility necessary to get an agreement if, and I repeat, if our trading partners are willing to do the same. The U.S. proposal has applied pressure where it is needed, on the EU and other countries that have resisted market access liberalization.

At the same time, we must emphasize that our support is conditional. The U.S. proposal on domestic support would require fundamental changes in U.S. farm programs. We can only agree to such changes in the context of an agreement that offers substantial improvements in market access for U.S. exports, the elimination of export subsidies, sustainable reductions in trade-distorting support by our competitors, and preserving an effective safety net for U.S. producers.

U.S. negotiators must demand a market access package for agricultural products that is ambitious as the emerging package on do-

mestic support, one that requires real liberalization in both developed and developing countries. Countries like China, Brazil, and India must be disciplined through the outcome of negotiations so that they can be effective players in the world marketplace. We need a commitment from the administration to support effective alternative WTO complaint domestic policies in the 2007 farm bill. Such policies should include an adequate income safety net, as well as the programs for infrastructure modernization to improve U.S. export competitiveness. We need to place more emphasis on programs that increase opportunities in rural America to add value to basic commodities and to stimulate economic development.

Of course, tariffs are not the only impediments to U.S. corn exports. We also face an array of non-tariff measures, many of which are related to our planting of corn improved through biotechnology. The EU's moratorium on approved new biotechnology trades is blatantly WTO inconsistent because it lacks scientific justification. We must aggressively defend current and future market access by insisting that trade partners respect WTO rules.

In conclusion, we are pleased that the administration is aggressively pursuing trade liberalization through the Doha Round. We are prepared to consider changes in U.S. farm policies, but only as part of an agreement that involves significant, tangible improvements in market access. In addition, we need a commitment from the administration to support the development of alternative WTO-complaint domestic policies in the 2007 farm bill, and a more energetic effort to protect U.S. interests, ensuring compliance with WTO trade rules. Thank you for your attention and I would be happy to answer any questions.

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

Mr. MORAN. Mr. Tumbleson, thank you very much. Would you expand on what you just said, kind of the last two or three sentences of your testimony, the WTO-compliant farm policies in the farm bill that we ought to be looking at, and I think you called for, perhaps, a more aggressive, that wasn't your word, but effort in regard to the non-tariff trade barriers.

Mr. TUMBLESON. Well, in the non-tariff trade barriers, where they are, like the biotechnology and those things, those things are limiting our farmers drastically in our production.

Mr. MORAN. What are you calling on your government, the United States government, to do in behalf of corn growers in that regard?

Mr. TUMBLESON. Is to follow the scientific justification, so that we produce something through these new technologies which all the farmers in every country I have visited want. So by following through with those, so those scientific justifications are followed, then we will be able to produce in that form.

Mr. MORAN. I am curious as to, and this could be a question for anybody, but what leverage we have in our dealings with other countries in regard to these non-tariff barriers. Are we using every tool we have to break down those barriers? Anyone?

Mr. CASPERS. Well, Congressman, we face those barriers in many countries, and I have sat here before at different hearings and heard a lot of sad stories. I guess one that comes to mind imme-

diately to our south is Mexico. It just takes a phenomenal effort, at least on the behalf of pork, anyway, it seems to keep that border open, although, in our case, I guess we have been pretty successful. I have heard a lot of sad stories in other commodities.

Mr. MORAN. My question is this, I too have heard lots of sad stories, and I want the assurance from you, you who represent those who are affected, who have those sad stories to tell, are we doing everything possible, our trade negotiators, our Department of Agriculture, our Secretary of State, is our Federal Government doing everything that it should be doing in regard to breaking down those non-tariff barriers?

Mr. CASPERS. I guess, from our standpoint, I think they are doing as good a job as they can under the current rules. I think the Secretary stated here earlier that they would like to take a look at better SPS enforcement issues in the future. And I think, as we can implement better actions that are more timely, that part of the problem, and I think you heard him testify that it takes—if you take 4 or 5 years to resolve some of those problems, that is really not a very good solution, and I think that there needs to be more action in the enforcement methods to get those things done on a more timely basis.

Mr. MORAN. Mr. Willey, thank you very much for your association working with a number of Members of Congress in regard to the dispute we had with Japan in regard to U.S. beef. How do you categorize the announcement today, and what do you foresee in the future? I have concerns that this is, clearly, everyone wants to claim success, but I worry about what happens next. How do we get to the 30 months and ultimately to open trade with Japan?

Mr. WILLEY. Well, as I heard earlier today, we have all been excited and optimistic about Japan and then we have been disappointed. But I do think that the announcement today, having the Subcommittee on Food Safety meet and then the full committee approve their report, we do have a set number of days, I understand, 28 days for comments and then the government will be taking that issue up. So frankly, I am more optimistic than I have ever been.

But going back to your earlier question, these things take a long time and we have lost a lot of trade. And you know, there is really some concern about the good faith that some of our customers have indicated this kind of an issue, and we have had about as much help, talking about the beef industry, from you, Congress, the administration and just to every part of the administration that anybody could get, and it is a tough process, but I am optimistic.

Mr. MORAN. Is there a belief within your association, within the industry, that now South Korea is soon to be an available market? Does this lend itself toward that occurring?

Mr. WILLEY. Yes. For some reason, South Korea kind of depended on whether Japan came in. That is what we always heard. And they have made some very supportive announcements. So I would expect that they will follow pretty closely.

Mr. MORAN. Good to hear. Mr. Metz, my question earlier to the Secretary and to the Ambassador is one I want to raise with you, because soybeans in Brazil seem to be the poster child of our competitiveness, our ability to compete, and Mr. Willey indicated, as did Secretary Johanns, has great faith in our producers and that

we can compete in this world. But what is it, what policies—let me ask this differently. I assume that the Soybean Association, on behalf of your producers and your growers, believes that we can compete in the world. If we break down these trade barriers, you have access to greater markets around the world. But is there a point in which we have to worry about the competitiveness with a country that has lower land values, lower labor costs, less chemical expense, less environmental regulation? What is it that we can do as policymakers to make certain that farmers in Kansas and across the country have the opportunity for those markets, even when the tariffs are gone?

Mr. METZ. Well, certainly, as you know, Brazil does have much lower land costs. Their labor is approximately \$6 a day. It is a huge misconception that there are small farms in Brazil. These are huge mega-farms and they use very cheap labor to operate these farms. I believe that leveling that playing field, though, and we hear how the United States has all these subsidies for American farmers. We really need to take a good look at the subsidies that Brazil has as well, and really call them on the carpet. When the going rate of interest is 33 to 35 percent, and their farmers are getting it at 7½ to 12, obviously that is a subsidy no matter how you look at it. And I think, when we make the level playing field, then we will have the opportunity to compete with them very well. As you know, the world's economy is growing and that is very good. And the first thing that people do when their economy grows is put more meat into their diet, and they want to eat better. And so, obviously, it is a growing market. It is actually a concern, we will be able to produce enough soybeans for the growing world economy? And as that continues to grow, obviously, I think we will compete very well.

Having said that, I am always very concerned that we lose our safety net. We saw the disruption of grain flow for just a couple of weeks with Katrina. What would happen if we would lose a lock or a dam, either through a terrorist or through just plain old age and lose one for 2 to 3 months? What would happen to this country's agriculture? We need to make sure that we have a safety net.

Mr. MORAN. I actually thought that was one of Secretary Johanns most important points, at least one that resonated with me. For those who don't think trade is important, look what happens when we lose our ports in Louisiana and the consequence. It is a story that has implanted in my head as far as defending the opportunities for American farmers to export around the world. We have seen grain piled on the ground. We have seen prices diminished, all in response to the—all in reaction to the difficult circumstances that we have in unloading barges and getting our grain to market through the ports of New Orleans. My time is expired. Ms. Herseth?

Ms. HERSETH. Thank you, Mr. Chairman. And I want to thank all of those on the panel today. Mr. Butler, I have had a chance to be in Pittsburg, Texas a couple of years ago. And of course, it is always nice to hear the testimony of folks from our neighboring States of Iowa and Minnesota, and from South Dakota.

Just a question for all of you and that is let us just say things go remarkably well in the next few weeks, and that under a more

open, liberalized international trade environment, I would be interested to know from each of you where you anticipate the greatest opportunities for your particular sector. And depending on your answer there, are you particular concerned with Ambassador Portman's response, that the market access issues, as it relates to the developing countries, have not been quite as ambitious under the proposal they are going to be evaluating in the coming week, couple of weeks? How much concern does that cause you, based on where you see the greatest opportunities for your particular sector?

Mr. BUTLER. Well, I will start from the chicken side. Our greatest opportunity would be to be able to have access to the European community, a large economy there, where we are just shut out now because of their sanitary SPS interpretations, that chlorine is not good enough for them, but it is good enough for 300 million people in the United States. And the second part of your question, you will have to restate for me.

Ms. HERSETH. My understanding from Ambassador Portman is that, under our proposal, we were pretty ambitious, both as it relates to the EU and market access there, but also as it relates to market access in the developing countries. And given that, for some commodities, many view the Asian marketplace as a really prime market for increasing opportunities, but certainly some of the countries throughout that Pacific rim might still be categorized, within the next WTO meeting, as developing countries. So perhaps, and certainly I know the EU is of greatest opportunity for the poultry industry, but perhaps as you look at some other markets, given that where we are with market access in developing countries right now, fall short of the ambition that I think Mr. Portman had at the outset. Does that cause you particular concern?

Mr. BUTLER. I don't think so. We are already shipping into those developing countries. And as they develop the foreign exchange to purchase, we will be ready with a very economical protein source for them.

Mr. METZ. Certainly from a soybean point of view, Europe is a very key market and always has been, but we see the opportunity in those developing countries. As I indicated earlier, about 81 percent of the population is in those developing countries, and as their economies grow, they want to put meat in their diet.

If I can relate a quick story. While traveling in China with my wife, on our way out to the Great Wall, I asked the gentleman that was the head of the tour bus, what is the greatest change you have seen in China in the last 10 years? And he said, the ability to eat meat. When you think about all the changes in China, the ability to eat meat was his greatest change, and I think that is going to be true of the entire world. And certainly soybean protein will be part of that diet.

Mr. CASPERS. I guess I would reiterate. I think our biggest opportunity is certainly in the EU, because it is a developed country and it is a market that we are virtually locked out of today. In regard to the developing country question, I do believe there is more to be fleshed in the U.S. proposal, and it is a concern to us, and I think that will come. This is a development round and that will certainly be a focus of this. But what we have seen, and I could use Mexico as an example, Mexico, in 2004, was our largest market in terms

of tonnage, and that was brought about really from the benefits to their economy, a growing and more affluent middle class, as the NAFTA agreement was further implemented.

So I think, as you see economies expand around the world in developing countries, their ability to purchase and trade becomes greater and significantly so. In a short period of time, relatively, they have become great markets. Another example would be China. We have tremendous growth rates of pork variety meats there today. And frankly, the possibilities are—it almost looks like that is a black hole as far as a destination for pork products from this country. And it really is brought about by the agreements leading up to their accession into the WTO.

Mr. WILLEY. From the beef standpoint, we would expect Japan and South Korea and the European Union to be our biggest customers if things really were as good as you project there in your hypothetical question. In fact, if it were there good, we would have trouble meeting the demand.

But the second part of your question, developing countries, I think one problem is, the developing countries, in the trade area, can define themselves. And I think, when I hear talk about Brazil, to me, in agriculture, Brazil probably isn't a developing country. So I think probably some rules apply to the United Nations rules or something to a country like Brazil so they can't define themselves as a developing country to their own advantage. On the other hand, we would see a lot of trade with less developed countries because beef is such a varied product. There are a lot of parts of the carcasses, as the Secretary talked about, we just don't use here anymore or much of, and livers to Egypt and Russia and many part of the animal to Asia that add, really, to the value of our production. Thank you.

Mr. TUMBLESON. As far as the corn growers, it is amazing because, really, the world is short two things and that is energy and protein. And if you take the corn and convert it to energy and protein, whether it is pork, beef, poultry, whatever it is, it is an amazing thing what happens in that. We import a billion a day in oil, 1 billion. If we took that to this trade thing and turned that to a half a billion and then we turned around and converted what we, when we change our energy, we can have a 60 percent protein on the backside of that when we take the energy off. The world has a glut of starch. We do not want to spend \$3.50 fuel moving starch around the world. That is a very high cost.

OK, and then in the developing countries, they can grow starch. We will supplement that with protein. Now you are not talking a monster. They are building their economy with their starch and we are supplementing the protein. We are also converting what we have to energy at home, which we are short of. So this whole trade thing could be solved and the incentive package that we get from our committee here, as they do the farm bill to protect the safety net, it all adds into one.

Mr. MORAN. The gentleman from Iowa.

Mr. KING. Thank you, Mr. Chairman, and I thank the witnesses before this panel. I want to raise, I hope, some good news and that is that having been one of many that have sat around the round table in Brussels and negotiated with the members of the Euro-

pean Parliament on Trade and watched how difficult they may be to get to a common ground of reason and having watched them diligently working to establish the United States of Europe through the EU, changes that have been made along the way. This will be our first ministerial conference at the WTO with the European Union, that for the first time really doesn't see a constitution ratification on the horizon. I suspect that that is going to weaken their resolve to bind together, especially considering the lack of growth that they have in Europe and I am optimistic that we will be able to make some significant gains in Hong Kong.

With that in mind, I direct my first question to Mr. Tumbleson and listening to your testimony, there is a segment there that fit the pattern pretty closely that I think we are prepared to consider changes in the domestic farm policies and also, I believe you said export subsidies in exchange for market access and then I listened a little more carefully and then I heard some conditions there. As long as provided we reserve an effective safety net for U.S. corn producers, adequate income safety net was another phrase; opportunities in rural America was another and then, but you know, as I listen to that, I am thinking is that bar too high? When you start defining those terms, is it so high that we really can't get there together? Because don't we know that if we are going to reduce domestic subsidies in exchange for market access, eliminate export subsidies and we get to this ideal world of trade, with these kind of conditions here, don't we have to accept some risk with regard to the producers in exchange for the market access and the reduced competition from Europe?

Mr. TUMBLESON. Thank you for that. It is interesting because this has been a discussion for a long time. You suggested that we reduce. They were saying cut amber box. There is a whole difference in that, what we determine that. The farm bill is not a subsidy to a lot of farmers. The farm bill was an opportunity to develop rural America. I have two sons farming because of the farm bill. We have pigs. They would not be farming if it wasn't for the farm bill because that safety net has allowed them to come back and invest in pigs and invest in agriculture. That safety net does not have to be in the amber box. If you know how the other big businesses like petroleum, those are incentives. This committee, and I have total confidence in this Agriculture Committee, of adapting to incentive programs instead of amber box programs that will work the same as the petroleum industry and we will be able to do the same thing.

We are not saying cutting, we are saying changing this and what it does, it develops rural America and the sun is now shining on a green leaf. That is photosynthesis. Brand new money to the United States. That is a printing press for money. Any time somebody wants to lay money on the table like that sun does, we want to use it. That is where the incentive package becomes very valuable. Now here is an example of that. In Minnesota we did the dry grind ethanol plants and farmers owned them, our legislators in Minnesota were willing to spend \$30 million to each plant. Now, that is 20 cent a gallon for the first 15 million gallons. They spent \$30 million for a plant that costs \$40 million.

Now, if you were a taxpayer in Minneapolis, would you accept that? Not likely. Except they had the wisdom to know that when they spent the \$30 million, Minnesota gained \$400 million back and we have that documented. That was over 10 years. The second 10 years they got the \$400 million without any investment. So investment in the United States through agriculture is what the farm bill is. That is how we are going to do this.

Mr. KING. In exchange for market access there is going to be profit with regard to that. That profit that comes from market access, do you see that as in any way a savings for the taxpayers of the United States, get their return on their previous investment in that fashion?

Mr. TUMBLESON. Yes. When we sell pork, when we sell poultry, whenever we sell beef, that is going to be the return and we employ the people as we make the pork and the beef and the poultry and the protein. We employ the people and in employing the people, pays the taxes and we are building rural America. This is a circle that works out very well.

Mr. KING. Thank you, Mr. Tumbleson. Mr. Willey, I appreciate your testimony and I thought I knew you, but I read through your bio here and now I really know you. It is quite a long history in Iowa and I, living as closely as I have, I didn't realize that resume was there. But this maybe a little bit off topic, but I want to direct this question to you because I know you will know the answer to it and it looks to me like in about 5 to 6 months the Canadians are going to have a radio frequency cattle slaughtered up there and it appears to me that in that period of time, all they need to do now is segregate those RFID cattle and they are going to be able to also segregate by age and they will be able to open up a different kind of a trade negotiation with the Japanese and the Koreans, more directly, the Japanese, than we have. If we had a livestock ID plan in place a year ago, can you imagine us not doing business with the Japanese today?

Mr. WILLEY. Well, as stubborn as the Japanese have been on this, I don't think that would have helped that much, but we do have to acknowledge that the Canadians are ahead of us. They have a mandatory program; with more serious BSE problems, they worked a lot harder. But we do have very substantial numbers of source-identified ID cattle. In your home State, the electronic identification system, back in 1995-96, you might have been in the Iowa legislature when that passed and became part of the brand law. So it is official identification, at least in your State. And I think there are programs in place to put substantial numbers of cattle in that system, as well as other livestock.

Mr. KING. I would just that I am interested in accelerating that process. I think it needs to be turned up to the max. I wanted to save a quick question for Mr. Caspers here and I guess I don't have too many members of this committee that are waiting to ask any questions, so I want to make a comment first and then pose a question. That is, it appears to me that livestock doesn't have a lot to give and you want to reduce the tariff barriers that are there and the artificial barriers that are there, and I am not saying that it is necessary because there isn't a lot on the other side of this, except for the 4 percent or so, so what are you, do you have anything

to give in these trade negotiations from a livestock perspective, either pork or beef?

Mr. CASPERS. It is probably difficult to identify, since we are essentially unsubsidized. I think that is an issue, but I think the intent they agreed to in the framework last summer, is that countries in general, and agriculture in general, is going to lower the trade distorting domestic supports in return for better market access. And obviously, our pork industry stands in line and I think the beef industry, also. That is our No. 1 goal, is better market access because consistently, I think the markets where we have made major inroads and high growth markets today are all brought about by better access, whether it is through the Uruguay Round, whether it is through NAFTA or other, new countries assenting to the WTO and on and on and on. All the countries that we made export inroads into were all brought about by trade agreements or better market access into those countries that demand our products.

Mr. KING. I was quite pleased with the Australian free trade agreement and as I look at the chart here on the acceleration of the pork exports to Australia and then there in early summer, it dropped dramatically because of the case of bio-security of Australia's pork. I think the basis of that was that we would disagree with them on the science of it. Do you see that as an artificial barrier?

Mr. CASPERS. Well, we long thought it was and there was a risk assessment that was going on and on forever and finally, was able to be brought to resolution during the FTA negotiations and they found in our favor, Australia bio-security and so yes, you mentioned the court case and that has been, at this point, overturned and so I think we would expect, and I haven't seen any data because the case is too new, but I think with the overturning of that finding, I would expect to see imports in Australia accelerate again and it is becoming a tremendous market. I think our economists had estimated about a \$50 million a year market and then without the interruption of the court case, I think we are already up to about \$46 million just this year alone, so it has proven to be a tremendous ark of a lot of potential.

Mr. KING. Australia, like really all countries in the world needs a little help with American sausage, so I thank all the panelists, thank the chairman. I yield back.

Mr. MORAN. Mr. King, thank you very much. I appreciate the testimony of our panel, second panel this afternoon

I would now call upon our third panel to join us. Mr. Peter Kappelman is a producer and chairman of Land O'Lakes in Wisconsin and he is here on behalf of the National Milk Producers Federation. Mr. Christopher Shaffer is a producer from Walla Walla, Washington. He is here on behalf of the Wheat Export Trade Education Committee and the National Association of Wheat Growers and U.S. Wheat Associates. And Mr. Don Phillips is a trade adviser to the American Sugar Alliance of St. Leonard, Maryland.

Gentlemen, welcome. We would begin with the testimony of Mr. Kappelman.

**STATEMENT OF PETER KAPPELMAN, CHAIRMAN, LAND
O'LAKES**

Mr. KAPPELMAN. Mr. Chairman and members of the committee, my name is Pete Kappelman. I am a dairy farmer from Two Rivers, Wisconsin. I currently serve as the chairman of the Board of Land O'Lakes, Incorporated and I serve as a board member of the National Milk Producers Federation. National Milk Producers Federation works closely with the members and staff of the U.S. Dairy Export Counsel on issues of trade policy that promote U.S. dairy exports. I am pleased to appear before you today representing National Milk Producers Federation to testify on the status of the WTO Doha Round negotiations. While historically the U.S. dairy industry has not been heavily independent on exports, our foreign sales have been on an upward trend for the past few years. U.S. dairy producers still watch import levels with caution. However, given the recent export growth, the U.S. dairy industry believes that with bigger opportunities overseas, this WTO round could result in a positive outcome for us.

Unlike some other U.S. agricultural sectors, the U.S. dairy industry could face higher levels of sacrifice in each of the three pillars, whether it is the Dairy Export Incentive Program, DEIP; our relatively low tariffs; or our price support program, the U.S. dairy industry has a significant amount to lose from these negotiations. As you can see, the U.S. dairy industry could be giving up a very important part of our price support system in each of the three pillars. This is why dairy negotiations must be carefully examined by this committee to ensure that any concession by the United States is matched with not only reciprocal movements by other members, but in many cases we must also see additional concessions from more protective markets.

If there is one message that the members of the House Agriculture Committee should take away from this testimony, it should be that the U.S. dairy industry, although supportive of the direction our negotiators are leading us in, we will never commit to unilateral disarmament or an inequitable level of concessions. Markets need to be opened overseas before we commit to sizeable new openings in our own domestic market. Similarly, other countries must commit to reducing their heavy subsidies and lower their much higher tariffs before we take on further commitments.

In order to make the most of market possibilities abroad, we need a good agreement from our negotiators, one that will usher in a world without export subsidies, one with equity in tariff barriers and greater access for our products, and one with more equal levels of domestic support between the United States and the EU. Any disparities beyond the 2 to 1 ratio are unacceptable. In addition, it is crucial to maintain high enough levels of funding to support U.S. agriculture in both amber and blue WTO colored boxes. Although a successful Doha Round may require some changes to U.S. domestic support, the U.S. dairy producers remain interested in keeping our price support program as the primary dairy safety net at this time.

U.S. dairy producers will be closely monitoring developments in the negotiations. Any special treatment given to a foreign country's dairy sector will be unacceptable if that special consideration is not

provided to the U.S. dairy producers. We just want a fair deal. We support an agreement without any special treatment for dairy, but we must warn Congress and our negotiators against granting any non-reciprocal special concessions to other nations.

In addition to crucial issues related to the three pillars of export competition, market access and domestic support, one side issue is of particular importance to the dairy industry, that of geographical indications. The creation of a worldwide geographical indications registry, as the EU has proposed, would be devastating for the U.S. dairy industry. I would urge all members of this committee to vocally communicate their opposition to a global GIs registry to our negotiators in order to underscore the importance of standing firm on this issue in the face of strong EU support for its creation.

The Doha Round remains the single best shot we have at trying to improve the situation our industry faces here and abroad. In order to best support your agricultural industry's interests, I urge the members of this committee to monitor the developments of this round closely and to communicate their priorities and concerns for their producers to our negotiators to underscore the messages they are receiving from industry organizations.

Mr. Chairman, committee members, I appreciate this opportunity to present comments on this issue. Thank you.

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

Mr. MORAN. Mr. Kappelman, thank you. Mr. Shaffer.

**STATEMENT OF CHRISTOPHER SHAFFER, WHEAT EXPORT
TRADE EDUCATION COMMITTEE, NATIONAL ASSOCIATION
OF WHEAT GROWERS AND U.S. WHEAT ASSOCIATES**

Mr. SHAFFER. Thank you, Mr. Moran. Thank you, Mr. Peterson. I am Christopher Shaffer and I grow wheat and garbanzo beans on my farm in Walla Walla, Washington. I currently serve as elected grower/spokesman for the wheat industry to trade talks. I am past chairman of Wheat Export Trade Education Committee and the U.S. Wheat Associates. Today I am also speaking on behalf of the National Association of Wheat Growers.

Producers must look to every tool available to make a profit in agriculture today. One of the sets of tools that receives little attention day in and day out are the trade rules that create opportunities to develop markets around the world. Let me highlight two points that are important to wheat producers in regard to this. First, 96 percent of the world's consumers live beyond our border and second, we consistently export 50 percent of our total production. As you can imagine, our success or failure hinges on the ability of the U.S. wheat industry to export around the world.

I believe without question that the Doha Development Round offers us the greatest single opportunity to expand our customer base. However, at the same time, it poses several challenging dilemmas to you in the legislature and to the U.S. wheat producers. It is no secret that Trade Promotion Authority clock is running and the world recognizes the importance of concluding the WTO negotiations before TPA expires. I believe our negotiators want to bring you to an agreement that is good for agriculture and the entire U.S. economy.

While the U.S. wheat industry has a number of concerns with the bold approach taken by our negotiators, it is clear that further progress in this round rests with the European Union and a few other members. It is amazing that these developed countries are apparently willing to jeopardize these important negotiations in order to protect their producers from fair market practices. Our market is open. We ask for fair access in return. The U.S. wheat industry has long held a clear set of goals for these negotiations. Today I appreciate the opportunity to review them briefly. Each of the three agriculture pillars under the negotiations is important to the United States wheat industry.

We rely heavily on our domestic support programs and are extremely concerned that other subsidy users are disciplined. To gain new markets, we must have aggressive action in the market access tariff lowering pillar. The issues in the export competition pillar state trading monopolies, food aid and export credit programs all impact our ability to be competitive. This offer to remove such a large portion of support programs comes at a universally difficult time for American farmers and ranchers. However, it is difficult to see how we, as growers, can prosper unless we can open markets and expand our customer base with those beyond our borders.

The U.S. wheat industry has been a strong supporter of the administration's ambitious agenda to expand world market access, but we must also be realistic and recognize that there is a need for access to safety net programs that keep the industry viable. However, one thing is for certain; the U.S. wheat industry is going to accept painful changes in the U.S. domestic support program, it must see major results in other areas of the negotiation that are important to us. It should be apparent from my comments at this point that obtaining major and proven access to world markets is a very high priority for us in this area.

The wheat industry is watching closely to make sure the Doha negotiations result in reform of the trade distorting practices used by our competitors. Real measurable and parallel benefits must be achieved in market access along with true disciplines that remove the monopolistic practices of export state trading enterprises, just as the Canadian Wheat Board and Australian Wheat Board. U.S. food donation and useful export credit programs must be protected. Lowering tariffs is only part of the picture. We not only need greater market access via lower tariffs, but we must also eliminate the unfair and nontransparent practices of these monopolistic traders that undercut us to our market share.

Finally, another critical element that we are very pleased to see in the new proposal is a demand for litigation protection for programs that stay within their commitment. No further agreement will have any meaning unless there is predictability against future WTO challenge to programs that meet commitments. There must be a safe harbor for those countries that abide by their commitments.

In conclusion, I would like to say that we are in a very unique position where we have the opportunity to change how we look at agriculture in this world and how we support agriculture in this country. And I think, as we bring those together with the conclusion of the Doha Round, we truly can set up agriculture to be

strong and prosperous in this country for the next 50 years and longer. Thank you.

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

Mr. MORAN. Thank you, Mr. Shaffer. Mr. Phillips.

STATEMENT OF DON PHILLIPS, TRADE ADVISOR, AMERICAN SUGAR ALLIANCE

Mr. PHILLIPS. Thank you. The American Sugar Alliance is grateful for the opportunity to testify today. The ASA represents 146,000 American farmers, workers and their families in 19 States engaged in the growing, processing and refining of sugar beets and sugarcane. ASA strongly supported the launching of the Doha Round. Like other American farmers, we can compete against foreign farmers, but not against foreign government subsidies and predatory trading practices.

Our objective in Doha is a fundamental reform of the world's sugar market, which can only be achieved if all the policies significantly affecting sugar production, direct and indirect, in developing, as well as developing countries are effectively disciplined. This requires a comprehensive sector-specific approach. We have, however, serious concerns about the current state of the Doha negotiations and its future direction. At this point, it is difficult to see how the fundamental reform we seek can be achieved and in our view, U.S. commitments to modify our sugar program, both with respect to imports and domestic support must be linked to the achievement of such reform.

We believe our position closely parallels that of other agricultural producers who are prepared to accept changes in their programs only if their ambitious objectives in market access and other areas is achieved. The world sugar market is grossly distorted by a vast array of trade distorting policies, which induce growers to overproduce and dump their surpluses on the world market. As a result, the world's sugar market has been transformed into a dump market. The EU system is the most familiar example of such policies, however, it is just one of many and no longer the most troubling. Fueled by a subsidized and government mandated ethanol program, massive debt forgiveness and persistent current devaluation, Brazil has increased its sugar exports by more than tenfold over the past decade.

Among the many other trade distorting policies prevalent in the sugar sector are state trading enterprises' internal arrangements which foster dumping and government ownership and bailouts. Most of these policies are indirect, nontransparent and not easily dealt with in the traditional WTO negotiating framework. There is little reason to believe that the Doha Round, which is focused exclusively or almost exclusively on broad formulas will be effective in dealing with these diverse policies. The administration indicates that sectoral approaches can be pursued after modalities are agreed, but what leverage will be left to do so?

Perhaps even more troubling, the pervasive emphasis on special and differential treatment for developing countries has persuaded most of them that they need do little or nothing and if developing countries, which account for three-quarters of sugar production and

trade around the world do not undertake obligations comparable to those of developing countries on sugar, any reform will fail.

As prospects for true reform of the world's sugar market recede, we are paying particular attention to the treatment of sensitive products, in which category we believe sugar must be placed by the United States. The recent U.S. proposal on sensitive products would prove devastating to our industry. The proposed expansion in TRQs would force 750,000 tons of sugar onto the U.S. market that is already chronically oversupplied and faces disruptive increase of import as a result of existing CAFTA and NAFTA commitments.

We also find the administration's recent proposal to make drastic cuts in domestic farm support, cuts which would require fundamental changes in U.S. programs very troubling. The administration has stated that this proposal is contingent on a very large and ambitious Doha market access package. But will the administration pare down or withdraw this offer if, as is inevitable, the market access package falls far short of the administration's demand? Already there are calls for even greater cuts in domestic support.

We, like other farm groups, are also concerned about the lack of clarity as to the administration's intentions. What new or revised programs would be put in place to comply with the WTO commitments it proposes and how would these commitments affect or foreclose the prerogatives of Congress in developing a new farm bill?

In conclusion, the U.S. sugar industry supports global WTO negotiations with the objective of effecting a fundamental reform of the grossly distorted world sugar market. However, the current state direction of negotiations gives us little reason to believe that this goal will be achieved. We have very serious concerns about the impact of proposals being considered in the WTO on the future viability and prosperity of U.S. agriculture, as well as on the U.S. sugar industry and our domestic programs. Our sugar beet and sugarcane farmers have made wrenching adjustments over the past decade. More than a third of mills and refineries have closed; growers have invested heavily in processing facilities. In Louisiana and Florida they face the added burden of recovery from severe hurricane damage.

It is getting more and more difficult to explain to them how the Doha negotiations will benefit them and not make it impossible for Congress to write a fair and effective new farm bill. Thank you.

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

Mr. MORAN. Thank you. I recognize the gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman, for letting me—well, first I have got to run and do another deal. Mr. Phillips, in your testimony, you have this chart and apparently, now there is 40 tariff lines for sugar products that are protected as sensitive products, is that correct?

Mr. PHILLIPS. Well, there are 40 tariff lines of TRQ products and we would think they would need to be designated as sensitive in order to protect the program.

Mr. PETERSON. Right. And as I understand it, under the U.S. proposal they are going to limit this to 17, is that true?

Mr. PHILLIPS. That is the way the proposal has been explained to us.

Mr. PETERSON. Well, then how many of those would be available for sugar?

Mr. PHILLIPS. Well, that is a very good question, since there are about 200 lines covered by TRQs and there another 200 tariff lines that have been designated as import sensitive under a report done by the ITC.

Mr. PETERSON. So we have 400 now?

Mr. PHILLIPS. Four hundred that have been designated as import sensitive or under that initiative.

Mr. PETERSON. And the proposal is to limit them to 17?

Mr. PHILLIPS. Yes.

Mr. PETERSON. So and then also in their proposal they are going to raise the TRQ from 1.25 to 2 million tons, is that, do I understand that right?

Mr. PHILLIPS. Yes. The proposal that has been made by the United States is to increase TRQs by 7.5 percent of consumption. That works out to 750,000 tons in the United States.

Mr. PETERSON. In addition to that, then, so in addition to that extra access, the likely outcome would be that there would be even more sugar because these lines are not going to be protecting everything, sugar-containing products and so forth?

Mr. PHILLIPS. Yes, if they stick with these 17 lines, it is hard to see how they could have an effective program and wouldn't have all sorts of circumvention problems.

Mr. PETERSON. And if they have a 2 to 1 goal, if they are going to let the Europeans have twice as much subsidy as us, I suppose that doesn't necessarily mean it is going to be 2 to 1 on every commodity, but could be. So if the Europeans were allowed to have a system that is twice what ours is and they do this other stuff, They are basically going to put us out of business.

Mr. PHILLIPS. Well, I think we not only need to look at Europe, though. Clearly, Europe is a big problem, but when we look around the world, I think we find trade distorting policies in many other countries and they are not being dealt with, at all. The European program may be reformed, but we see little evidence that any of the programs—

Mr. PETERSON. Well, I guess what I was getting at, at bottom line, the dump market is not going to go away, probably.

Mr. PHILLIPS. Exactly. From what we see now, it is hard to see how it will change.

Mr. PETERSON. Well, if you still have a dump market and we do this other stuff, it is big trouble.

Mr. PHILLIPS. Exactly. We think it would be devastating to the industry.

Mr. PETERSON. Mr. Shaffer, I have been meeting with some wheat growers from my area and other parts of the country and with these energy costs and everything, some of these guys are telling me they are not going to be able to grow wheat next year. Their bankers are telling them can't grow wheat next year. Is that—

Mr. SHAFFER. Well, I think that in the—at the present day today, I think there is some correctness in that. I think that things do cycle and quite obviously, at \$3 a gallon diesel and \$3 wheat,

things don't work real well. But I think that also brings up the conversation of the safety net and how agriculture has changed and is changing and we have a unique opportunity to maybe take a new look at a farm bill and maybe some matters that we haven't looked at in the past in order to supply that safety net there that will work without breaking the bank.

Mr. PETERSON. Yes. Well, I think you are exactly right. So I take it, from that answer, that you are not comfortable that you don't think that exports are going to be the total solution?

Mr. SHAFFER. Well, I don't think that that is the total solution, no. I mean, we do have a domestic market. I think that as you take a look at where I come from. I grow soft white wheat, Pacific Northwest. We export 85 percent of that wheat. They are just basically, the soft white wheat market in the United States is supplied by Canada because it is on the East Coast where the mills are, so from a transportation standpoint, we can't compete, so we export.

Our problems and when you get to the Midwest, where they are exporting 50 percent of theirs, our biggest problems are state trading organizations because they are a closed, monopolistic system that can undercut us and we are an open system that they can look and see what our prices are and see what we are doing. The other spin-off of that, from a state trading standpoint is that they use quality of their product in order to undercut the market and gain market share. And I think, as you take a look at a bulk commodity like wheat, one place that we could possibly look at some increased value in value added is with quality. Certain quality characteristics, if you take a look at the Hard Red market and the Winter and Spring market, it is paid for quality.

Well, there are intrinsic qualities in different wheat grown in different areas that supply specific end-use products in the quality manner that the consumer wants it. But as long as the STEs are out there undercutting the market, gaining market share by giving away quality, it is really tough for us to set up a market where we can charge for quality. So I think that is another avenue that is available to us through this conversation on Doha that we are having now and there seems to be a lot of reception in the world to take a look at the disciplines on the STEs.

Mr. PETERSON. Well, my experience, half of the farmers in Canada agree with you, that they would just as soon get rid of the Canadian Wheat Board. The ones closest to the border would just as soon eliminate it. So we have some allies up there. Thank you. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Peterson. Mr. Phillips, do you have the sense that your concerns about sugar are being addressed, heard, that you have an open opportunity in dealing with USTR in regard to the Doha Round?

Mr. PHILLIPS. No, I don't believe that, for example, this proposal, that we were consulted before the proposal was made and it seems to really not take into account the concerns we might have and I think for that matter, certain other sensitive products might have.

Mr. MORAN. I appreciate knowing that and if we can help you in regard to a better ear at USTR, I would offer that assistance to you.

Mr. PHILLIPS. Thank you.

Mr. MORAN. Mr. Kappelman, you were particularly concerned about the global GI registry. Your concerns, do you have the sense that USTR is aware of those adequately interested in addressing that concern?

Mr. KAPPELMAN. Well, they have been informed. The question is will they adequately address it? It is in the eleventh hour and that is what we want to all be aware of.

Mr. MORAN. A number of witnesses, as well as Kansas farmers, have talked about unilateral disarmament. Do we, and I think, Mr. Phillips, in particular, talked about this, that do we have the sense that our administration and USTR is really proposing a unilateral disarmament or do we understand that the caveats are there and firmly understood about all the things that need to happen before, I think, certainly Congress would agree to alter in a significant way the safety net. Has your message been told and has it been received? That is addressed to anybody who wants to answer it.

Mr. PHILLIPS. Well, I could comment. I think with respect to sugar, that is not the case, that we have identified a list of barriers and trade distorting policies throughout the world that we feel needs to be addressed and that any changes in our program need to be contingent on what is achieved in addressing it. The administration has more or less taken the view that that can be done, perhaps, after modalities are agreed. So I don't think that is the case.

With respect to the more general picture, I think the administration has laid out the notion that there must be a big market access package, but I think it may not be that easy to pull away from the 60 percent and frankly, I think it is going to be virtually impossible to get the kind of market access package that the administration keeps saying they must have. Now, whether that means a complete deadlock or something else, it is hard to say at this point.

Mr. SHAFFER. I think, from the wheat standpoint, the administration has been very receptive. We have been involved since day 1, before this administration, putting together what was papered at the Doha Round at the United States Government and I think that one of the keys things to look at as we look at the Doha Round and what they are negotiating and what the paper that the United States just tabled is that yes, they have tabled talking about cuts blue box and cuts in amber box, but that doesn't mean that we can't come up with new programs to still maintain the safety net that is needed there.

They may not be the program that we have today, such as the countercyclical payment or such as some of the other payments that we have, but that doesn't mean that we can't craft a safety net, that Congress can't craft a safety net for agriculture that is there. I mean crop insurance payments. Wonderful mechanism even though we struggle with it and keep rewriting it, it is a good program. And there are other programs out there that can fall into the green box which has no limit on dollars that are spent and I get a little, I think it is a little interesting sometimes when everybody is talking about cuts in the blue box, cuts in the amber box, they think that is cuts in the farm program and I think there is probably some in Congress that want to believe that, too, because they are looking for money to go somewhere else with, but I don't

necessarily think that that is what it has to mean. It doesn't have to mean that, at all.

Mr. MORAN. Mr. Shaffer, your colleagues from Kansas were in to see me today, the Kansas Association of Wheat Growers and in large part we talked about the circumstances that farmers in Kansas and across the country face in regard to increasing input costs with fuel and fertilizer. I would like to raise my question with you that I raised with Secretary Johanns.

Can we expect that if we are successful in negotiating a satisfactory trade agreement that allows Kansas wheat farmers, American wheat farmers, market access around the world with the countries that we are negotiating with, that domestic subsidies are altered in a satisfactory way, leveling the playing field, export assistance is altered in the same manner, you can assume what Mr. Phillips tells me is not going to happen, happens, do you have a concern about the competitive nature of the business you are in; do we have to worry about, then—I guess my question is, what is the consequence to the price of a bushel of wheat, in that kind of environment, you expect the price of wheat to go up, to go down? Can't tell?

And second, what about the cost of production? Do we have to worry that the price we received for our bushel of wheat will be less than the cost of producing that bushel of wheat?

Mr. SHAFFER. Well I think that if we achieve all the things we need to achieve, obviously there is going to be some changes in how the wheat industry looks in this country, as well as there will be changes in the pork industry and every part of agriculture. There will be some changes, the status quo is not going to stay the same. It will not look 2 years, 5 years from now the way we look today. I don't think that is necessarily bad. I think that we are a country that is driven by supply and demand and that is our economy and agriculture has been very good at adapting.

Now, does that mean that there is still going to be 3.5 million farmers out there? Maybe not. Maybe under the competitiveness and introduction of technology, which has always given us our leg up, there may only be 2 million farmers out there. But I think that agriculture is probably one of the best industries at adapting, making changes and understanding how to make it work, and I still believe in that concept.

Mr. MORAN. It is an interesting point, Mr. Shaffer. As we look at the next farm bill, it causes me to think what is the goal? Are we trying to draft a farm policy in this country that keeps the 3 million farmers farming or are we trying to draft a farm policy that allows for greater profitability by a smaller number of farmers? Are those things mutually exclusive? I think there is a broad question as ultimately, I suppose, much of the farm bill comes down to politics, but I think there are some real economic issues here, but before you even get to the economics, it is what is the goal of farm policy in this country? Is it something different than what we are pursuing today or is it what you just described?

Mr. SHAFFER. Well, I guess, and I would offer maybe a third position there. Is farm policy a mechanism to keep the fabric, rural fabric of our society profitable and functioning in rural America? So

I think I would offer a third to your question and I am not sure what it is. My sense is it is probably a little bit of all three.

Mr. MORAN. I appreciate the comments of all three of you and I appreciate the testimony and the time that you have taken to join us and provide—the gentlemen from California.

Mr. COSTA. Thank you very much, Mr. Chairman. I would like to direct this question to Mr. Kappelman. In reading your testimony, with regard to any concessions by the United States is matched not only by reciprocal movements by their members, but in many cases we must see additional concessions from protective markets. I think we all conceptually agree with that and you talk about the domestic support efforts that are there in place currently to try to provide that safety net; in this case, for the American dairy industry. My question to you is—I was going to ask it to Secretary Johanns, but time didn't allow. I intend to submit it to him. But the effect of the current reduction from 19.1 billion to, and this includes both dairy and sugar, to 7.6, if additional market access is required under a new trade agreement, I am wondering what the dairy industry's position will be and I want to ask what USDA's position will be in terms of what they believe will be a reasonable level of support to protect or provide that safety net to industries? Do you care to comment, Mr. Kappelman?

Mr. KAPPELMAN. Yes, certainly, Congressman. Well, first of all, by creating more market access, while that grants increased market access in our nation, we have the greatest opportunity for access to world markets right now, so what we see is a tremendous opportunity for us to export products where we currently have no access. And the unique situation—

Mr. COSTA. Primarily, the EU?

Mr. KAPPELMAN. Well, the EU, yes. There is some of the Oceania countries that are difficult to get into. One of the—

Mr. COSTA. That is the greatest potential.

Mr. KAPPELMAN. It is, and the unique thing we have going right now is there are not huge surpluses, stockpile of nonfat dry milk powder or butter in the United States. Currently, there are none, almost none and in the EU they are greatly diminished, so the world market is really fairly close to supply and demand. So as we see opening markets across the world, there is not going to be an influx of cheap product coming from any certain nation because there isn't a lot of surplus right now.

We also believe that our dairy price support program, even though it may not be likely to be contained in its current version; as the world changes, I don't know if you can continue to keep programs exactly the same.

Mr. COSTA. Nothing ever stays the same.

Mr. KAPPELMAN. But if it were to exist in its current form, we believe we could fit into the proposed \$7.6 million spending criteria that you mentioned.

Mr. COSTA. All right. Thank you very much, Mr. Chairman. I lost the balance of my time and I intend to submit questions to the various witnesses.

Mr. MORAN. Mr. Costa, you are welcome to do so. I believe that concludes our hearing of the three panels today. I am very appreciative of all of our witness' testimony, including Secretary Johanns

and Ambassador Portman. I expect that the consultations with you and the people you represent, as well as our own Government officials will continue as the time for the WTO Ministerial draws closer. Clearly, trade is important to U.S. agriculture and reaching agreement is a useful thing, but it is not so important that the United States should dismantle its programs entirely and stop helping our farmers and ranchers.

Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from witnesses to any question posed by a member of the committee. The hearing on the House Committee on Agriculture is adjourned.

[Whereupon, at 5:30 p.m., the committee was adjourned.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF HON. RICK LARSEN, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF WASHINGTON

Mr. Chairman, I appreciate the opportunity to provide additional comments for the record. I want to first thank U.S. Trade Representative Rob Portman and Secretary of Agriculture Mike Johanns, for the work they have done on behalf of U.S. agriculture trade interests. Much work remains to be done on agriculture negotiations between WTO member countries. I am confident that USTR Portman and Secretary Johanns will successfully achieve the best results possible for U.S. farmers and ranchers.

Although I felt the November 2 hearing was a successful one, I was concerned by the lack of specialty crop industry representation. I want to provide the committee with some additional information on the importance of specialty crops to the Washington State and U.S. agriculture export industry. In 2004, Washington State exported nearly \$1.9 billion worth of products to foreign markets. Over half of these exports were fruits, vegetables and other specialty crops.

- Specifically, in 2004, specialty crops exported from Washington State included:
- \$533 million in fruit and fruit products, or 14 percent of all U.S. fruit and fruit product exports
- \$522.3 million in vegetables, or 10 percent of all U.S. vegetable exports

Washington State leads the U.S. in production of red raspberries, apples, pears, sweet cherries, and Concord and Niagara grapes. Washington State also ranks in the top five States in production of strawberries, cranberries, fall potatoes, all grapes, apricots, green peas, sweet corn, asparagus and others. Increased foreign exports of these products are vital to Washington State producers and the state agriculture industry as a whole.

Mr. Chairman, thank you for your work on behalf of agriculture and your continued interest in the importance of a sound, effective U.S. agriculture trade policy. I look forward to continuing to work with you, USTR Portman, Secretary Johanns and the entire Agriculture Committee to promote U.S. agriculture trade.

STATEMENT OF HON. JIM COSTA AND HON. DENNIS A. CARDOZA

Mr. Chairman, we appreciate this opportunity to provide additional information to the committee illustrating the value of California specialty crops to U.S. agricultural exports.

California leads the Nation in agricultural exports, sending \$9.2 billion worth of products abroad in 2004. This total accounts for 15 percent of all U.S. agricultural exports. Chief among these exports are specialty crops of vegetables, fruits, and nuts which compose 70 percent of all California agricultural exports.

In 2004, specialty crops shipped from California included:

- \$2.42 billion in vegetables, or 47 percent of U.S. vegetable exports
- \$2.09 billion in fruits and fruit products, or 55 percent of U.S. fruit exports
- \$1.73 billion in tree nuts, or 92 percent of all U.S. tree nut exports

In addition to a significant economic contribution, the producers of specialty crops are innovative leaders in issues that confront 21st century agriculture. Pest management practices, conservation efforts and research nationwide benefit from the cutting-edge commitment of California producers. For example, the California Table

Grape Commission has funded twenty-nine projects with world-renowned researchers exploring links between fresh grapes and preventing diseases such as cancer and heart disease. Also, the commission has invested more than \$9 million to fight plant diseases and pests as well as developed new varieties that can be grown in the most environmentally responsible ways possible.

Thank you again for your ongoing commitment to agriculture and continued interest in issues of concern to our agricultural community.

STATEMENT OF MIKE JOHANNIS

Thank you, Mr. Chairman, for this opportunity to meet with you and members of the committee to discuss the agricultural negotiations in the Doha Development Round and our expectations for the WTO Hong Kong Ministerial. I am pleased to be here with USTR Ambassador Portman today. We have spent quite a bit of time together and have logged many miles working with other countries to push the Doha talks forward.

As you know, agricultural policy and trade policy are intrinsically linked. Our joint appearance today reflects that close relationship as well as the one that exists between USDA and the Office of the United States Trade Representative.

IMPORTANCE OF TRADE FOR U.S. AGRICULTURE

As we meet for these hearings today, U.S. agriculture continues to enjoy robust economic health. And, working with you, our objective is to make it even stronger. Production is near all-time record levels for some commodities such as corn and soybeans and overall utilization continues to be relatively strong. The reality is, however, that our domestic market is mature—it is big, to be sure, but it is growing very slowly. We can supply it effectively. To grow and prosper—America's farmers and ranchers must look elsewhere—to the foreign markets where over 95 percent of the world's potential consumers reside. And, more and more of these people are becoming able to buy our products—their incomes are rising and their standard of living is moving higher—and we must be in a position to capture a big share of that growing market.

Let's be clear. The world wants U.S. agricultural products. In 2004, we set a new record for U.S. export sales of \$62.4 billion. When all the figures are in for 2005, we expect the total to reach \$62 billion. And, our forecast for 2006 now anticipates yet another record of \$63.5 billion.

But we cannot afford to rest on our laurels. Competition is stiff and it is essential for us to expand economic opportunities for our farmers and ranchers. The reality is that the world marketplace is becoming more dynamic and American agriculture must continue to adapt to compete. The solution to keeping our farmers and ranchers competitive in an increasingly global economy is not to withdraw from it. It is to do what Americans have always done—adapt, innovate, and lead. That is why the President, Ambassador Portman and I believe that trade liberalization will enormously benefit American agriculture. In fact, expanded trade is critical to the future of agriculture in this country.

DOHA DEVELOPMENT ROUND

When the United States helped launch the Doha Round in 2001, we knew that all countries would face political difficulties as the negotiations moved forward. However, despite those difficulties, we cannot settle for insignificant changes, especially in global agricultural trade. We must keep our eye on the goal of freer markets for both developed and developing countries.

From the beginning of these negotiations, the United States has advocated fundamental agricultural trade reform that would increase significantly market access, reduce trade-distorting domestic support and eliminate export subsidies. This will be beneficial for U.S. agriculture. It also is the best means for growing the economies of the developing world, for lifting hundreds of millions of people out of poverty, and for improving the living standards for all of the world's people.

For example, at the AGOA meetings in Senegal in July, I emphasized that the United States looks forward to a time when independent, financially secure African countries participate as full partners in the global community. I reiterated our belief that freer, fairer trade offers the promise of lifting all of our nations economically.

I have personally taken an active role in these negotiations because I understand how high the stakes are for our agricultural industry. I have traveled to Europe several times and will be returning to push these negotiations forward. In addition, I

have visited China, Africa, Central and South America, Australia and New Zealand to advance our trade liberalization agenda.

BOLD PROPOSAL ON DOMESTIC SUPPORT

Recently in Geneva, in order to get the deadlocked WTO talks moving again, the United States introduced a comprehensive proposal that clearly revealed our ambition in both the domestic support and market access pillars. This bold proposal calls for aggressive tariff reductions ranging from 50 to 90 percent and it restricts to no more than 1 percent the number of products that could be termed "sensitive" and subject to smaller tariff cuts. And, we also proposed that no tariff could exceed 75 percent of value. This proposal indicated the level of market access that we would require in exchange for substantial cuts in trade distorting domestic support.

The United States proposed to cut the United States' amber box Aggregate Measure of Support (AMS) by 60 percent. This proposal addresses the primary concerns of our trading partners with significant cuts in the amber and blue boxes. When the other reductions in trade distorting supports are included, overall U.S. levels of allowable trade distorting domestic support would be reduced by 53 percent.

The United States looks for other WTO members to match this level of ambition. We have shown our leadership, but we cannot do it alone. And we will not settle for a package that does not increase real market access. To be frank, a new global pact is in jeopardy unless Europe shows still more flexibility. We are working with other WTO members and like-minded EU member states to encourage the EU to come forward with a more ambitious tariff cutting proposal.

Unfortunately, we only have some 40 days to complete the necessary preparatory work before the WTO Hong Kong Ministerial to make meaningful progress. We must level the playing field. Our agricultural tariffs average 12 percent; the EU's average 31 percent; Japan 51 percent; the world average is over 60 percent. For India it is 114 percent; and for others, it is even higher.

There also is wide disparity in levels of trade distorting domestic support. This must be reduced and harmonized. It's not acceptable for Europe to have four times the allowable support we have when our agricultural economies are of equivalent size.

EXPORT COMPETITION

We have made good progress in the export competition pillar, with the EU's agreement to eliminate all export subsidies. The remaining issue is when, and we have proposed 2010. Furthermore, the talks are addressing specific disciplines on export credit programs with a repayment period of 180 days or less. On State Trading Enterprises, we are seeking disciplines on special financing privileges and underwriting of losses as well as an end to monopoly export privileges. Finally on food aid, we have agreed to create disciplines that will avoid commercial displacement, while ensuring that in-kind food aid will continue to be an important mechanism for meeting growing global food aid needs.

DETERMINED TO GAIN MARKET ACCESS

We are pushing on multiple fronts internationally to ensure that the Doha Round is a success and that U.S. agriculture reaps market access benefits. We recognize that U.S. agriculture cannot accept the status quo. In the Brazil cotton dispute, some of our farm programs have been found not to be compliant with the current WTO rules. We have taken significant steps to bring our programs into conformance, and are working with interested members of Congress on additional measures.

All of us in agriculture recognize the importance of gaining greater access to foreign markets and of being competitive in these markets. It is incumbent on us to work together to develop a U.S. farm policy that maximizes economic opportunities for our producers. In an era of globalization we cannot afford to turn inward. We must not cede markets to others.

This administration is determined to expand economic opportunities for our agriculture. We are aggressively pursuing free trade agreements where it is strategically advantageous to do so. In addition, we continue to vigorously monitor and enforce agreements that are already in place. We have heard your concerns loud and clear and share your frustration that too often unjustifiable sanitary and phytosanitary trade barriers are used to block market access. I assure you that at USDA, both in Washington and in our attache offices around the globe, we place top priority on enforcing existing agreements.

Clearly, the most difficult cases have involved access to Asian markets, particularly Japan, for U.S. beef due to BSE. We must insist that other nations follow

science-based, internationally recognized guidelines for trade. Nations that continue to use unjustified safety regulations as an excuse to disrupt trade should expect the United States to defend its interests.

2007 FARM BILL

As many of you know, I have been traveling throughout our great nation to conduct farm bill forums to hear concerns directly from our farmers and ranchers. So far, I and my staff have held forums in 26 States. While I don't have all the answers, one message has come through loud and clear—we need to develop a farm bill for the future. For U.S. agriculture to succeed, we need to export. More than a quarter of farm cash receipts depend on trade.

I have encountered almost unanimous support for rural development and conservation programs. Our cooperative conservation programs provide farmers and ranchers with financial support, while protecting our natural resources for today and the future.

At the same time, the Farm Bill Forums have demonstrated that we must be bold. Currently, program crops represent a quarter of production value, yet they receive virtually all the funding: ninety-two percent of commodity program spending was paid on five crops—corn, wheat, soybeans, cotton and rice. The farmers who raise other crops—two-thirds of all farmers—receive little support from current farm programs. Interestingly enough, it is these farmers, the two-thirds without current support, who are looking to the future and asking for more focus on research and promotion, increased sanitary and phytosanitary systems, and access to new markets.

As Secretary of Agriculture, I look forward to working with you to craft a farm policy that provides a meaningful safety net for our farmers and better positions them to compete effectively in selling their products into expanding markets around the world.

Let me conclude by reiterating that our goal in the international arena is free and fair trade. Our preference is to achieve this objective through a successful conclusion to the Doha Round that brings us additional real market access commensurate with our bold proposal on domestic support. However, as we have made clear in Geneva, absent a meaningful outcome on market access, we will not unilaterally disarm with regard to substantial cuts in domestic support.

In the meantime, we will continue to pursue our trade goals through new free trade agreements and enforcement of agreements already in place.

We very much appreciate your continued support and close cooperation and look forward to working with you in the future.

That concludes my testimony, Mr. Chairman. I would be pleased to respond to questions.

STATEMENT OF ROBERT PORTMAN

Thank you Mr. Chairman and members of the committee for the opportunity to testify today. I am pleased to be here with Secretary of Agriculture Mike Johanns to discuss the World Trade Organization (WTO) agriculture negotiations for the Doha Development Agenda (DDA). As we sit here today, the negotiations are at a critical stage in the lead up to the WTO ministerial meeting in Hong Kong, China in December.

Dismantling trade barriers multilaterally holds immense potential for the United States. From 1994, when the Uruguay Round Agreements were implemented, to 2003, the world economy expanded at an average rate of about 2.6 percent, but U.S. exports grew at more than double that pace—about 5.5 percent. Even more impressive, U.S. agricultural exports expanded an astounding 29 percent during that same time period, suggesting real benefits realized from the Uruguay Round for America's farmers and ranchers.

The WTO's Doha Development Agenda is an integral part of President Bush's strategy to further open markets, reduce poverty, and expand freedom through increased trade among all countries in the global trading system, developed and developing. U.S. leadership in the WTO is a part of this strategy.

The main focus of the negotiations is in six key areas: agriculture; industrial market access; services; trade facilitation; WTO rules (i.e., trade remedies, regional agreements and fish subsidies); and development. The goal of the DDA is to reduce trade barriers so as to expand global economic growth, development and opportunity.

The DDA provides us with historic opportunities to achieve agriculture reform and greatly diminish current market distortions that present barriers to American

farmers and ranchers. We are also aiming to achieve significant new market access for our manufactured goods through broad tariff cuts, while working to reduce non-tariff barriers to exports of these goods. We are also pressing for ambitious global market opening for our services industries, where we have a comparative advantage. The WTO negotiations on trade facilitation will result in less red tape, more efficiency and predictability for moving goods across borders, and less corruption in customs activities.

LOOKING AHEAD TOWARDS HONG KONG, CHINA—DECEMBER 13–18

We have been pursuing a strategy of moving negotiations forward by building upon the July 2004 Framework Agreement. This has involved putting in place the negotiating parameters and “modalities” to enable final negotiations to begin during the first quarter of 2006. Our objectives for the Hong Kong meeting has been to have: an agreement on the “modalities” (i.e., detailed negotiating parameters) for negotiation in agriculture and non-agricultural market access; an effective negotiating framework for a significant result in services; directions to ensure that WTO rules remain effective and in some cases are strengthened (e.g., by adding new disciplines to subsidies to deal with overfishing); and the outlines of an agreement on Trade Facilitation.

WTO Director General Lamy suggested that we need to be two-thirds of the way to finishing the DDA negotiations by the time members meet in Hong Kong. We are not likely to meet that objective for Hong Kong unless much greater progress is made.

With that as background, I would like to describe for the committee the current situation in the negotiations, focusing on the key to these negotiations: agriculture.

AGRICULTURE

I think it is fair to say that the fate of the DDA hangs in the balance because of the lack of progress in agriculture, where much of the responsibility for this lies with the European Union. The Doha mandate concentrates the negotiations in agriculture in three main areas or “pillars”: export competition, domestic support, and market access. Our view and that of the other delegations in Geneva is that the shape of an agreement in the first two pillars can be achieved by Hong Kong. This is not true for the third and most important pillar, market access.

Last month, the United States did what many WTO members had asked: we identified in clear and precise terms—with numbers—our level of ambition for the agriculture negotiations, particularly with respect to real reform in the domestic support pillar. Many of our partners suggested that without a “signal” from the United States, they would not be able to move forward on the market access pillar.

Building on Uruguay Round commitments and the July 2004 Framework agreement for agricultural modalities, on October 10, 2005, the United States presented a proposal for bold reform in global agricultural trade to move the WTO agriculture negotiations forward and unleash the full potential of the Doha Development Agenda. The proposal is not unilateral. It is contingent on comprehensive reform in all pillars and meaningful commitments by all WTO members, except least developed countries.

The U.S. proposal calls for reform in two stages:

- Stage 1: Substantial reductions of trade-distorting support measures and tariffs, along with the elimination of export subsidies, to be phased-in over a five year period.
- Stage 2: An additional five year phase-in period that delivers the elimination of remaining trade-distorting agricultural subsidies and agricultural tariffs.

MARKET ACCESS

The United States calls for WTO members to aggressively reduce tariffs. Using a “tiered formula” identified in the July 2004 framework and building on the elements proposed by the G-20, the U.S. calls for the following to be phased-in over five years:

- Progressive tariff reduction: Developed countries cut their tariffs by 55–90 percent. Lowest tariffs are cut by 55 percent, with cuts ranging to 90 percent for highest tariffs.
- Tariff rate caps: Establish a “tariff cap” ensuring no tariff is higher than 75 percent.
- Sensitive products: Limit tariff lines subject to “sensitive product” treatment to 1 percent of total dutiable tariff lines. For these lines that have lesser tariff cuts, full compensation would need to be provided through large expansion of tariff rate

quotas, where they exist, and use other means to address sensitive products where TRQs are not in place.

- Special provisions for developing countries: Create special and differential treatment provisions for developing countries to provide real improvements in access, while ensuring import-sensitive sectors in those countries are afforded appropriate protection.

This proposal is consistent with the July 2004 Framework which calls for progressive tariff reductions delivering deeper cuts to higher tariffs. The Framework committed members to substantial improvements in market access for all products, including sensitive ones, to be granted through a combination of tariff quota expansion and tariff reductions. Further, the Framework identified negotiations over a tariff cap to be part of further discussions and it notes that developing countries will not be expected to cut tariffs as aggressively as developed economies.

EXPORT COMPETITION

The United States has made clear our strong commitment to rapidly eliminate of export subsidies. Under the U.S. proposal, the following rules would be phased-in by the year 2010:

- Export subsidies: Eliminate all agriculture export subsidies.
- Export credit programs: Establish specific disciplines on export credit programs to bring them in line with commercial practice, including a maximum repayment period of 180 days.
- Export State Trading Enterprises: Install new disciplines on export state trading enterprises, such as the wheat boards in Canada and Australia, that end monopoly export privileges, prohibit export subsidies, and expand transparency obligations.
- Food aid: Continued use of food aid, while establishing disciplines on food aid shipments that guard against commercial displacement while ensuring emergency shipments and deliveries to countries with chronic food aid needs. Establish an objective test to identify commercial displacement in other circumstances.

The July Framework commits all members to ensuring parallel elimination of all forms of agricultural export subsidies by a credible end date. Specifically, members agreed to eliminate all agricultural export subsidies, eliminate export credits of more than 180 days, discipline credits of less than 180 days, and eliminate the trade-distorting practices of state trading enterprises. It was also agreed that additional disciplines on food aid will be negotiated. The Framework states that the future use of monopoly powers by state trading enterprises will be subject to further negotiation.

DOMESTIC SUPPORT

The United States calls for substantial reductions in trade-distorting domestic support, with deeper cuts by countries with larger subsidies. The United States proposes the specific elements to be enacted within 5 years:

- Overall goals: Reduce overall levels of trade-distorting support by 53 percent for the United States and 75 percent for the European Union.
- Amber box: Cut Aggregate Measurement of Support (AMS) by 60 percent for the United States and 83 percent by the European Union, with product-specific AMS caps based on 1999–2001 period.
- Blue box: Cap partially decoupled direct payments at 2.5 percent of the value of agricultural production.
- De minimis: Cut “de minimis” allowances for trade-distorting domestic support by 50 percent (from 5 percent of the value of production to 2.5 percent).

In the July Framework, members agreed to substantially reduce trade-distorting domestic support, with caps on support levels for specific commodities. Members agreed to harmonization in the reductions so that countries with higher levels of subsidies will be subject to deeper cuts. Under the Framework, in the first year of implementation, the overall level of trade-distorting support will also be reduced, with an initial cut of 20 percent. The Framework also requires the blue box support to be capped at five percent of a Member’s total value of agricultural production, with further negotiation over criteria to ensure blue box programs are less trade-distorting than amber box programs.

The U.S. agriculture proposal changed the dynamic of the negotiations dramatically and positively. It is generally recognized throughout the WTO that our proposal put the second pillar—domestic support—in “negotiating shape,” to use the phrase of Director General Pascal Lamy. The attention of the negotiations has moved unmistakably to the third pillar—agricultural market access.

The G-20 has responded by elaborating on its earlier market access ideas, limiting substantially the number of "sensitive" products that would be subject to lesser tariff reductions. The G-20 recognizes that this is essential if deep tariff cuts are to have real meaning. Specifically, the G-20 offered to limit sensitive products to no more than one percent of tariff lines for developed countries and 1.5 percent of tariff lines for developing countries. This proposal is one that the United States can endorse. Australia underscored its support for this approach, and we welcomed its contribution.

On the other hand, our partners in the EU have come up short. Last Friday, the EU presented a revised proposal on agriculture that was disappointing to us and other members seeking an ambitious result in the Doha Round. While in some ways the EU proposal is a step in the right direction, and we acknowledge the efforts of Commissioners Mandelson and Fischer-Boel, we believe that much more needs to be done. For example, the tariff reductions proposed by the EU appear to be lower than the proposals from the G-20 developing countries and are far lower than the U.S. proposal. In addition, the EU' proposal to allow up to eight percent of tariff lines to be identified as sensitive products subject to reduced tariff cuts could threaten any real market access that might be provided. Frankly, the EU' proposal does not meet the mandate of Doha, and we look to the EU to come forward with a stronger market access offer.

My focus today has been on the EU and developed country market access. Developing country members of the G-20 have signaled their readiness to move ahead in the negotiations and to set the targets for reduction for developing countries once the broad outlines for developed countries are established. Without question, more work needs to be done to improve the G-20' proposal to increase market access by developing countries, but we will also need to be sensitive to the concerns of developing countries with subsistence farmers. Nevertheless, we will never be able to proceed if the EU doesn't quickly show substantially more flexibility on market access and help us set an overall parameter for the agriculture negotiations. We are now just 6 weeks away from the ministerial meeting in Hong Kong, and without very quick progress on this issue, the outcome of the ministerial meeting, and the entire Doha Round, may be at risk.

BEYOND AGRICULTURE

EU Commissioner Mandelson rightly observes that the negotiations on agriculture are only a part of the Doha negotiating agenda and the "single-understanding" where nothing is agreed until all subject areas are agreed.

We have learned that while agriculture may be the engine for negotiations, success requires us to secure strong results across the broad range of issues in the Round. Working with members of this committee we believe we can secure results that provide new opportunities for America' farmers, ranchers, workers, service providers, and consumers, and, at the same time, secure a result that strengthens the rules of the global trading system to meet America' trade interests.

We know that the global trading system is not perfect, and remains—and perhaps always will remain—a work in progress. But through American leadership within the WTO, the core U.S. objectives of promoting open markets and the rule of law remains the core agenda of the global trading system. The United States, which is the world' largest agricultural exporter and is strongly dependent on export sales to support farm profitability, has been well served by the global trading system. We will continue to pursue our interests in the DDA with this in mind.

The DDA provides us an historic opportunity that we cannot afford to waste. We can set a vision for the global economy for the next decades to come and make a major contribution to development. The United States is already leading by example, and we are firmly committed to our objectives. In making these commitments, however, we must be certain that we receive the benefit of the bargain by securing real gains and market opportunities for our farmers and ranchers into the future.



U.S. Trade Agenda and WTO Update

AGRICULTURE

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Presentation of United States Trade Representative
Ambassador Rob Portman

House Committee on Agriculture
U.S. House of Representatives

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November 2, 2005

2005/2006 TRADE AGENDA

Benefits for Agriculture on All Fronts

- 1) Global Trade Talks**
 - WTO Doha Development Agenda**
- 2) Bilateral and Regional Agreements**
- 3) Enforcement and Compliance**

GLOBAL TRADE TALKS: WTO Doha Development Round

Timing: End of 2006

Ministerial: Hong Kong, December 2005

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Three Core Negotiating Areas:

- Manufactured Goods
- Services
- Agriculture

3

Agriculture and Trade

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

Doha Agriculture Agenda:

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

WTO Subsidy Categories

- highly trade distorting (encourage production, price depressing)

- **Blue Box**

- Less trade distorting (production-limiting programs)
- Example: Acreage set-aside programs

- **Green Box**

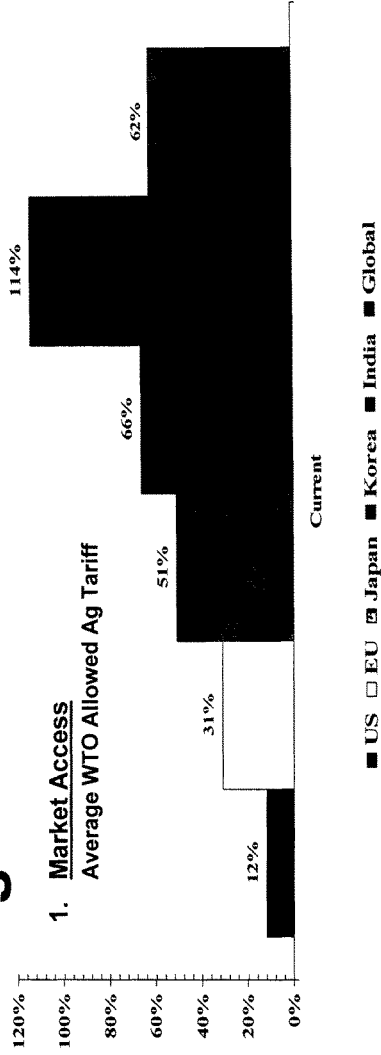
- Minimal or non-trade distorting
- Example: Direct payments, environmental, research, food stamps

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

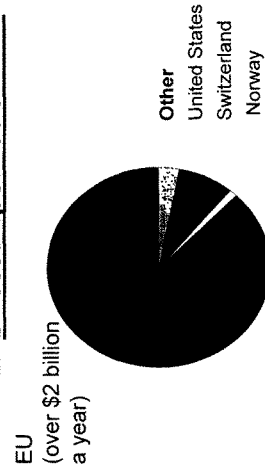
➤ **Green Box Unlimited Under Doha**

5

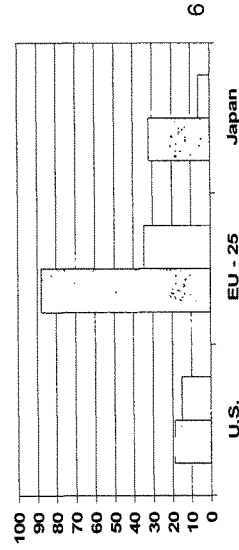
Agriculture: Three Pillars



2. Direct Export Subsidies



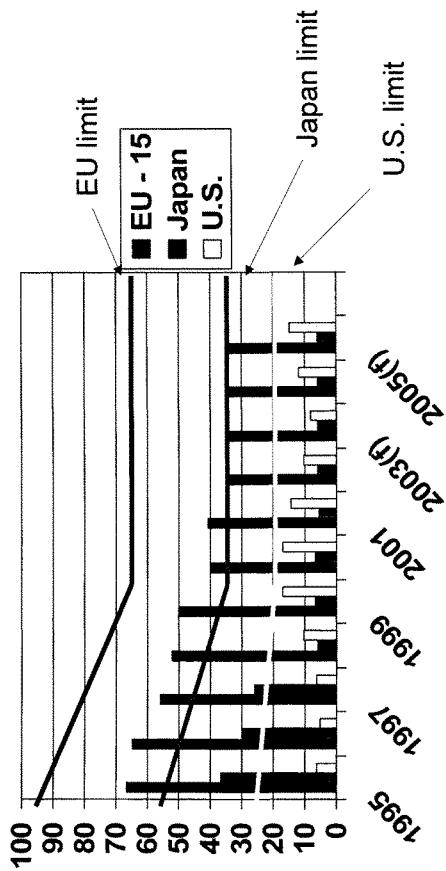
3. Domestic Support – amber box: WTO allowed () and Projected () 2005 Aggregate Measurement of Support (AMS) Levels. Billion \$ at current x rates



Box Support

(Most Trade-Distorting Subsidies)

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



Billion U.S. Dollars – 2001 Exchange Rate

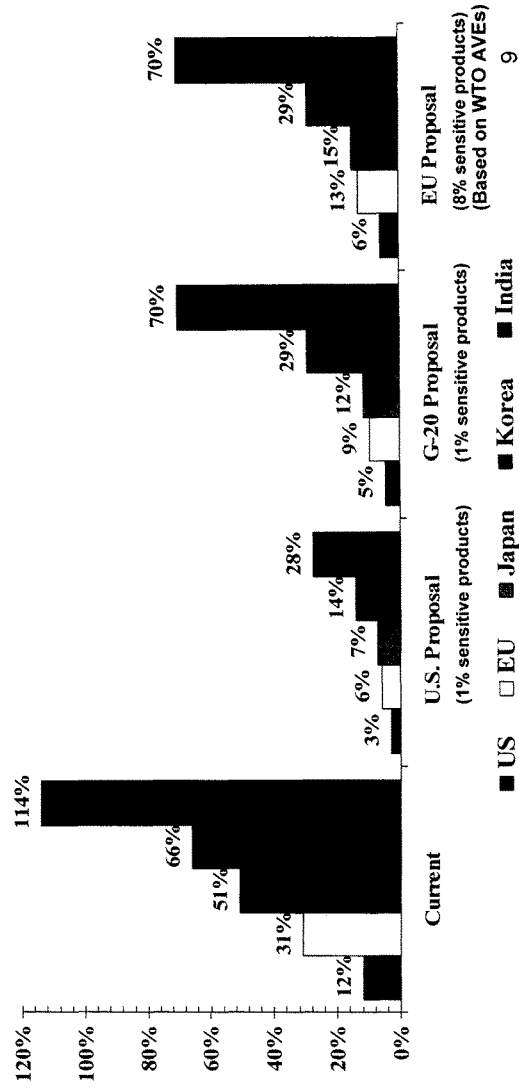
Key Elements of U.S. Proposal

- **Stage 1 (5-year implementation):**
 - Substantial reductions in trade-distorting domestic support (“Amber Box”: 60 percent cut for U.S., 83% cut for EU and Japan)
 - Substantial reductions in tariffs, with deeper cuts for higher tariffs
 - Developed countries: tariff cap and cuts ranging from 55% to 90%
 - Developing countries: slightly lesser cuts, focus on emerging markets
 - Limits the number of “sensitive products” eligible for smaller tariff cut to only 1% of total tariff lines, and ensures meaningful access through large quotas.
 - Total Elimination of export subsidies by 2010
- **Stage 2 (5 years after Stage 1 implemented):**
 - Phase out remaining tariffs and trade-distorting support measures over 5 years

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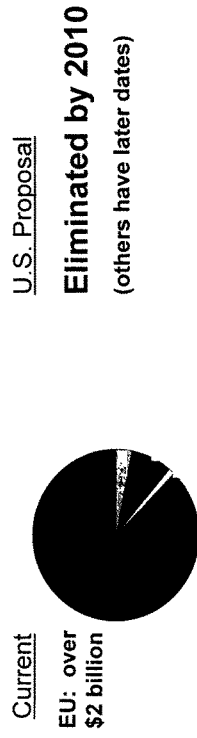
Agriculture: Proposals for First Stage of Reductions

1. Market Access: Average WTO Allowed Ag Tariff

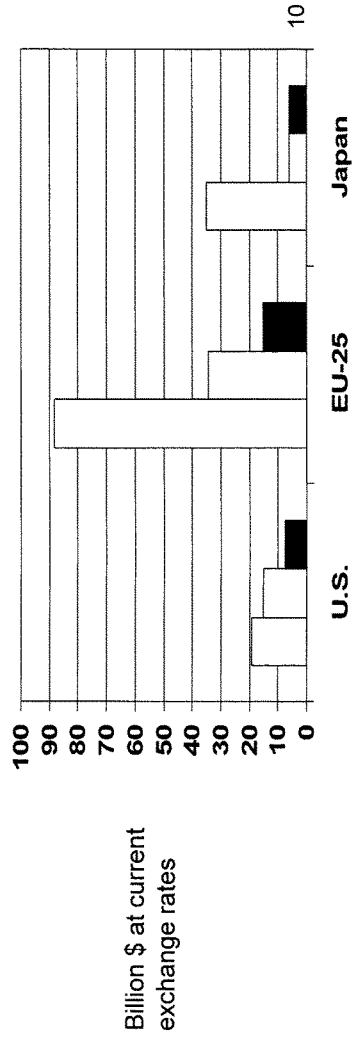


Agriculture: U.S. Proposal for First Stage of Reductions

2. Direct Export Subsidies



3. Domestic Support: WTO allowed (), Projected () 2005 Aggregate Measurement of Support (AMS) Levels, and new (brown) AMS Caps under U.S. Proposal



Doha Agriculture Negotiations: Timeline and Key Events

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

FTAs:

CAFTA-DR - Benefits for U.S. Agriculture

- *Population of over 40 million people*
- *Current agricultural trade is large -- \$1.7 billion in U.S. exports (2004)*
- Top U.S. exports in 2004:

Corn	\$290 million	Tobacco	\$80 million
Wheat	\$218 million	Dairy products	\$67 million
Rice	\$184 million	Cotton	\$67 million
Soybean meal	\$137 million	Poultry meat	\$55 million
- *Current average allowed tariffs under their WTO commitments*

Costa Rica	42%	Guatemala	49%
El Salvador	41%	Honduras	35%
Dominican Republic	40%	Nicaragua	60%
- *CAFTA-DR will eliminate these high tariffs for us and give U.S. exporters preferences over third country suppliers, including those in Canada, Europe, and South America.*

Ongoing FTA Negotiations Will Benefit Ag Exports

NEAR COMPLETION:

1) *Panama*

Top U.S. Exports (2004):

Corn (\$31 million), Snack Foods/Other Consumer Prods (\$27 million), and Soybean Meal (\$18 million)
Total: \$162 million

2006 CONCLUSION?:

1) *Thailand*

Cotton (\$188 million), Wheat (\$98 million), Soybeans and Meal (\$93 million)
Total: \$685 million

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2) *Andean* (Colombia, Ecuador Peru, and Bolivia*)

Wheat (\$281 million), Coarse grains, (\$270 million), Cotton (\$127 million),
Total: \$1 billion

3) *UAE*

Horses (\$86 million), Almonds (\$60 million), and Soybeans (\$42 million)
Total: \$350 million

CONTINUING: SACU and FTAA

* Observer

Bahrain FTA

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

Potential New FTA Partners

South Korea:

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

Egypt:

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

Malaysia:

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

Switzerland:

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

Enforcement and Compliance: Agriculture is a High Priority

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

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

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

ANSWERS TO SUBMITTED QUESTIONS TO SECRETARY JOHANNIS AND
AMBASSADOR PORTMAN

Today is November 2 and the WTO Ministerial is scheduled to begin on December 10. We have an offer from the EU that is described by them as a final offer—that you say is not sufficient market access for the United States. If we are to have a successful WTO Ministerial—by U.S. standards—when must we see improved offers from the EU on market access?

The EU must come forward with an improved offer as soon as possible. Commissioner Mandelson says that the EU will not improve their offer on agriculture before Hong Kong. I hope the EU will work with WTO Members in the weeks that remain to produce a new offer in Hong Kong that meets the level of ambition agreed in Doha.

A number of critical market access issues appear to be off the agenda of the Doha Round, for example, the EU approval process for bioengineered products, its failure to allow access for U.S. beef, pork, or poultry. Is there anything in an emerging Doha Round agreement that would facilitate resolution of these kinds of issues?

The Doha negotiating mandate does not include negotiations on new rules regarding sanitary and phytosanitary (SPS) measures. As such, the Hong Kong agenda will not address SPS and other non-tariff barriers. We are, however, working diligently to address these issues bilaterally within the existing WTO framework. I have raised, and continue to raise, SPS issues with my counterparts, including in recent meetings with my colleagues from the EU. We continue to keep all options open in our efforts to resolve these issues.

In the WTO, countries seem to reach decisions, in the course of negotiations or in other matters, that reflect a consensus and by that definition can be ambiguous—constructive ambiguity is what it is called. The recent decision by the WTO Appellate Body, in the case brought by Brazil against the U.S., seems to fly in the face of the agreements reached in the Uruguay Round. My conclusion is that the current negotiations will have to be much more specific or Members will be reluctant to agree, fearing a panel or Appellate Body decision that does not reflect the consensus agreement. Will you comment on this matter?

The U.S. proposal has clear objectives on all three pillars of the agriculture negotiations. If adopted by WTO members, it would require policy changes in the United States and in other countries. Key to our proposal is the objective of providing discretion to U.S. policy makers in designing farm programs while at the same time ensuring significant reductions in trade-distorting domestic support. Our proposal aims to deliver both the discretion and the reductions by calling for substantial cuts in the amber and blue box allowances and establishing provisions to protect countries that make these reductions from WTO litigation.

The WTO agricultural negotiations and the Doha Development Round assume a preference for developing countries known as special and differential treatment. For example, reductions in levels of tariffs and domestic support over a longer period of time for developing countries than that required of developed countries. Additionally, there are special exemptions from domestic support limitations that are given to developing countries but not to developed countries. What role will this special and differential treatment take, especially with countries such as Brazil and India?

The Doha mandate includes the use of special and differential treatment for developing countries, including countries such as India and Brazil. As you have seen in the U.S. proposal, we envision special and differential treatment providing some flexibility for these countries, such as longer staging and lesser cuts on market access, but a final agreement should not exempt these countries from making market access commitments. The final structure of the special and differential treatment provisions will need to be negotiated once the framework and formulae for developed countries have been agreed.

Geographical indications are a means by which producers of a product, including an agricultural product, can identify such a product as originating from a particular region and a product's quality or characteristic is attributed to that region. Many countries, including the United States, offer protection for geographical indications. However, the EU recently offered a proposal, described by them as a final offer, in which they demanded an

international register protecting geographical indications in all countries. Will you commend on that part of the EU proposal?

We have significant concerns about the EU proposal for an international registry for GIs, which in effect requires all WTO Members to protect GIs unilaterally registered in an international registry. Indeed, our concerns have increased exponentially as the EU has recently extended its register proposal beyond GIs for wine and spirits to include all GIs for all agricultural products. The EU proposal would impose significant costs on all WTO Members significant costs of examination, registration and protection of thousands of EU GIs but would primarily benefit only EU agricultural producers. Further, it would benefit those EU agricultural producers to the detriment of trademark owners, including U.S. trademark owners, who may have prior rights in the registered terms. The EU proposal would also be to the detriment of producers of food products that have long been marketed under generic names, because those valuable generic names could now be claimed, under the register, as the exclusive property of EU producers. Further, the EU proposal, by mandating protection of registered terms in all WTO Members, would put GIs ahead of any other intellectual property right, including trademarks, which are generally established separately in each Member's territory. It would turn the territorial nature of intellectual property rights on its head. Finally, the EU proposal goes far beyond the mandate established at the WTO for these discussions.

Another important part of the Doha agricultural negotiations concerns food aid and the manner in which countries provide food assistance to needy people in foreign countries. Many have said that the issue of food aid should not be a part of the Doha agricultural negotiations. Nevertheless it is important that when discussing food aid in the context of negotiations, U.S. negotiators must be clear that restricting any country's ability to help feed people in poor countries—in a manner that does not distort trade or inhibit domestic production—must continue.

We have long been concerned about commercial displacement. In fact, U.S. laws governing food aid are designed to avoid it. As such, we are prepared to work with WTO Members to negotiate disciplines that guard against commercial displacement. However, the United States has been clear that we will not accept strict new rules that would limit our ability to provide aid for those in need.

Secretary Johanns, I notice that the recent Conference Report on the 2006 Agriculture Appropriations bill makes reference to the manner in which the U.S. provides food aid and admonishes the executive Branch to refrain from proposals that place in jeopardy the coalition that has served the interest of international food aid programs over the past 50-plus years. I concur with that assessment. Do you have any comment on this matter?

Congressman, first I want to assure you that I, and the Administration, share your commitment to provide the resources needed for the U.S. Government to help meet international humanitarian needs. My Department works closely with the Agency for International Development and the coalition of interests, which have served the interests of international food assistance programs well for more than 50 years, to achieve this goal. We certainly take note of the concerns expressed by the recent Conference Report and will work with Congress to ensure that the United States continues to play its leading role in helping the poorest in developing countries.

QUESTIONS FROM HON. STEVE KING

DR-CAFTA was perhaps the most politically polarized trade agreement vote ever, with only 15 Democrats voting in favor of the agreement. Do you anticipate similar partisanship in future agreements?

No. The benefits of free trade are widespread, and historically, support for free trade agreements has been non-bipartisan. I hope that congressional action on future agreements can mirror the past consensus on free trade. I will work hard to reach out to Democrats and Republicans so that we can hopefully avoid the partisan politics that surrounded DR-CAFTA.

Does the Bush administration have any proposals to make American goods more competitive in the world market, such as tax policies like a national sales tax?

Tax policy issues are the responsibility of the Secretary of the Treasury, not the U.S. Trade Representative.

STATEMENT OF BOB METZ

Good afternoon, Mr. Chairman and members of the committee. I am Bob Metz, a soybean and corn farmer from West Browns Valley, South Dakota. I currently serve as President of the American Soybean Association. ASA represents over 25,000 producer members on national issues important to all U.S. soybean farmers. We very much appreciate the opportunity to appear before you today.

The outcome of the current negotiations on a new WTO agreement is critically important to U.S. soybean producers. Let me give you a brief description of the trade environment we currently face. One-half of our annual soybean production is exported, either as soybeans, soybean oil and soybean meal, or in the form of livestock products. World demand for soybeans is increasing rapidly as developing countries, which have very low per capita consumption of these products, improve their standard of living and diet. Many developing countries have high tariffs on soy and livestock products. As a result, improving market access through meaningful tariff reductions in developing countries is a high priority to enhance the profitability for soybean farmers and our industry.

U.S. soybean farmers also are facing rising competition from South American producers, particularly in Brazil and Argentina. Over the past decade, these countries have emerged as world-class exporters, with mature agricultural research, production, and processing infrastructure and improving transportation systems. Both Brazil and Argentina use a variety of incentives to encourage production and exports of soybeans and other crops. However, they have been allowed under the Uruguay Round Agreement to designate themselves as developing countries and to avoid disciplines on their domestic support and export programs. ASA believes that it is critically important that any Doha Round Agreement must require that advanced developing country exporters, or their world-class export sectors, be subject to the same rules and disciplines in all three pillars as developed countries.

THE U.S. WTO PROPOSAL

I would like to comment briefly on the proposal advanced by Ambassador Portman in Zurich last month. We agree with the Administration that the status quo in international trade is unacceptable. In addition to sharply reduced tariffs and disciplines on advanced developing country exporters, we need a farm program safety net that is beyond WTO challenge. Following the precedent of the WTO cotton case and expiration of the Peace Clause that protected our farm programs from challenges under the Uruguay Round Agreement, the current situation is not a viable alternative to a new agreement.

ASA recognizes the proposal advanced by the Administration as a credible signal to the rest of the world that the U.S. is prepared to make substantial cuts in trade-distorting domestic support if market access barriers are greatly reduced and export subsidy practices are eliminated. The proposed cuts in domestic support would require fundamental changes in the structure of U.S. farm programs, including the marketing loan, which has been important in supporting soybean producer income when prices fall. In order to support restructuring current programs, we need assurances that the next farm bill will provide U.S. farmers with an adequate safety net, and that the current imbalance in crop program benefits will not continue to distort market signals.

On market access, the administration's proposed cuts in tariffs by developed countries are substantial, and could expand soy and meat exports to these markets. However, the U.S. proposal did not specifically address the need for equally ambitious improvements in market access by developing countries. Developing countries are the markets of the future. In making the case for trade liberalization, the Administration has pointed out that 95 percent of the world's population lives outside our borders. We would note that 81 percent of this population is in developing countries. Of the 16 priority countries targeted by ASA for major improvement in market access, 14 are developing countries.

U.S. negotiators must ensure that modalities that provide preferential terms for developing countries, including Special and Differential treatment, identification of Special and Sensitive Products, and the use of the Special Safeguard Mechanism, do not restrict meaningful improvements in market access. The U.S. must ensure adequate market access to developing country markets through negotiation of meaningful TRQs with phased reductions in in-quota tariffs. ASA will monitor and work closely with USTR and USDA on this important part of the negotiations.

In addition, the administration's proposal does not include specific language requiring world-class developing country exporters to undertake disciplines in the three pillars of domestic support, market access, and export subsidy practices, simi-

lar to those required of developed countries. Recent studies by Informa Economics and the USDA's Economic Research Service indicate that Brazilian farmers benefit from a national program that offers credit at interest rates of from 8.75 to 12.75 percent, compared to the prevailing commercial business rate of 35 percent. Credit provided under this program increased by 48 percent in 2004-05, to \$13 billion. Subsidized credit to modernize Brazil's farm machinery doubled in the same year, to \$5.5 billion. In addition, Brazil has frequently rescheduled farm debt for up to 25 years at 3 percent interest rates, which in times of high inflation amounts to giving Brazilian farmers free money.

Brazil also exempts or provides refunds for agricultural exports from its interstate movement tax, and from social welfare taxes, amounting to 21.25 percent of the value of the exported product. Finally, Brazil has a land tax system that encourages farmland expansion by taxing undeveloped land at a higher rate than land brought into production. ASA believes strongly that these policies must be subject to discipline under the Doha negotiations. As with improving market access to developing countries, aggressive proposals and agreements in this area are key to ASA support for a WTO agreement.

We were pleased that the administration's proposal did call for the elimination of differential export taxes since they have trade-distorting effects similar to export subsidies. Argentina and Malaysia, both major competitors in the export of soy and oil, make extensive use of differential export taxes to build-up their local processing industries and to provide the equivalent of an export subsidy to their processed product exports.

THE EU'S WTO PROPOSAL

The EU's latest WTO proposal on agriculture, advanced last week, falls well short of the ambition of the U.S. proposal advanced last month. The EU proposes to reduce its domestic support by 70 percent, while the U.S. would require the EU to reduce by 83 percent. On market access, the EU would reduce the highest tariffs by 60 percent, compared to 90 percent proposed by the U.S. While the EU claims its proposal would cut its average tariffs by 46 percent, a more accurate assessment would place the average reduction at 39 percent—barely more than the 36 percent achieved in the Uruguay Round Agreement. Moreover, the EU continues to insist on exempting 8 percent of its tariff lines from the cuts that would be required by reduction formulas. The EU's proposal has been criticized by all participants in the negotiations, and will not encourage other developed as well as developing countries to make significant offers on market access.

The EU is also targeting the U.S. counter-cyclical income support program, claiming it is "the most trade-distorting" U.S. farm payment and should not be eligible for inclusion in the Blue Box. This is not only incorrect, but it represents a complete reversal from the EU's position prior to the Cancun Ministerial, when they agreed to include the counter-cyclical program in exchange for U.S. support for continuing the Blue Box. In addition, the EU is insisting on further disciplines on export credits and on food assistance, including requiring non-emergency food aid to be made in the form of cash grants. Unless these conditions are withdrawn, the U.S. agricultural community will not be able to support a new WTO agreement that contains such conditions.

Mr. Chairman, U.S. soybean farmers would benefit greatly from a good Doha Round agreement. However, they would not be served well by or support a poor or lop-sided agreement that would require substantial cuts in U.S. amber box domestic support, but would not result in substantial market access gains to developing country markets, and that did not make world-class developing country exporters subject to similar disciplines as developed countries. It would be helpful if developing countries that have so much to gain from opening global markets would define their priorities in terms of their own self-interest rather than as a broader confrontation with developed countries. We very much hope this message will prevail as we approach the Ministerial meeting in Hong Kong.

Thank you, Mr. Chairman.

STATEMENT OF WYTHE WILLEY

Producer-directed and consumer-focused, the National Cattlemen's Beef Association is the trade association of America's cattle farmers and ranchers, and the marketing organization for the largest segment of the nation's food and fiber industry. Chairman Goodlatte and members of the committee: the National Cattlemen's Beef Association (NCBA) appreciates the opportunity to present our international mar-

keting priorities as our negotiators prepare for this critical phase of the Doha Round of World Trade Organization (WTO) negotiations. I am Wythe Willey, a beef producer from Eastern Iowa where I own and operate a cow-calf and feedlot operation. I had the privilege of serving as NCBA's President in 2003, and am currently serving my second term as a member of ACTPN, President Bush's Advisory Committee for Trade Policy and Negotiations.

On behalf of NCBA's 25,000 individual members and 230,000 affiliate members through State and breed association affiliates, I would like to focus on our priorities for the WTO negotiations. NCBA's members have long believed that the greatest trade liberalizing benefits to our industry can be obtained via the multilateral WTO negotiating process. U.S. grain-fed beef has a unique place in the global food economy and U.S. beef producers know, as a result of our investments in technology and science-based animal health and inspection systems, that we produce the highest-quality, safest beef in the world. The goal of U.S. agricultural trade policy should be to make our product as competitive as possible in the world market. Increased market access via tariff reduction is the core mechanism by which U.S. beef producers can better their position in the global marketplace. Ultimately, for our industry, this depends on the percentages of tariff reductions in the agreement, as U.S. beef producers receive no domestic supports or export subsidies.

NCBA's litmus test as to whether we would consider these negotiations a success or failure is actually quite simple. A successful outcome mandates a significant reduction in Japan's 50 percent bound tariff rate and South Korea's 40 percent bound tariff rate on beef imports. The inability to significantly reduce these tariffs constitutes a failure of these negotiations in the eyes of U.S. beef producers.

Unlike free trade agreement negotiations, where Japan's 38.5 percent applied tariff rate would be reduced to zero over time, the WTO negotiates down from bound tariff levels. Again, Japan's bound tariff on beef is 50 percent. NCBA is most pleased with the U.S. proposal on market access that could potentially reduce Japan's tariff to around 7.5 to 12.5 percent, assuming Japan would not insist on sensitive product status for beef.

As a result, the U.S. proposal on market access would meet NCBA's goal of bringing Japan's tariff on beef down to approximately the same level as the 12 percent duty on beef negotiated as part of China's WTO accession package. If China can reduce tariffs on beef from 45 percent to 12 percent, NCBA believes the EU, with a current tariff at 57 percent and a 20 percent in-quota tariff; Japan, with a current applied tariff at 38.5 percent; and Korea, with a current applied tariff at 30 percent, should also be able to reduce their tariffs to 12 percent. In fact, the U.S. offer is the only market access proposal that meets our criteria. Every effort must be made to prevent this noteworthy proposal, which provides a real and substantial increase in agricultural market access, from being watered down. As such, the proposal set forth by the European Union last week is unacceptable from our standpoint.

Also of critical importance in the U.S. market access proposal is the one percent limit on the number of tariff lines eligible for "sensitive product" status. NCBA cannot emphasize enough how critical it is that the integrity of this provision be maintained. For an explanation as to why this is so important, an analysis by the World Bank indicates that any real gain in market access would be lost if the agreement grants "sensitive product" status for as few as three percent of agricultural tariff lines. The EU proposal maintains that eight percent of these tariff lines be protected, a drastically unambitious proposal.

As the painfully slow—22 months and counting—process of reopening the Japanese market to U.S. beef continues, we are also reminded that the reintroduction of U.S. beef will undoubtedly trip Japan's "snapback" or volume safeguard provision. Once triggered, Japan's tariff on all beef imports will automatically be kicked up to its 50 percent bound rate for the remainder of Japan's fiscal year, ending March 31. The fact that the total volume of Japanese beef imports will still be significantly below 2003 levels will be irrelevant. Japan's "snapback" provision on beef is arguably the most egregious use of such a mechanism anywhere on the planet. NCBA asks that Congress and our negotiators seek any and all remedies in the WTO that might move Japan to rescind this ill-conceived obstruction of trade.

Our second priority is to reduce South Korea's 40 percent bound tariff rate on beef. Achieving our goal in this instance will undoubtedly be more problematic as South Korea continues to designate itself as having "developing country" status. NCBA believes the continued ability by many countries such as Brazil and South Korea to self-designate their status is detrimental to the cause of global trade liberalization. This appears to be one of the most significant fundamental problems of the WTO's organizational structure. The WTO is the only global entity that allows for self-designation. (The United Nations and the Organization for Economic Co-

operation and Development (OECD) provide guidelines for graduation of status. The WTO does not.)

Another domestic policy that must be addressed by the WTO is Argentina's use of differential export taxes that encourage the exportation of beef rather than grains and oilseeds.

Research consistently shows that all economies, regardless of their economic stature, actually benefit more from tariff reductions, which lead to increased market access opportunities, than by reductions in agricultural domestic supports or export subsidies. More importantly, developing countries stand to gain the most from improved market access in global agricultural trade.

Despite the critical importance of gains in market access for developing countries and the ironic fact that these negotiations are being referred to as the Doha Development Agenda, we have yet to see a serious market access proposal for developing countries. As a result, we have no ability to evaluate whether or not U.S. beef producers have the ability to achieve our second priority in these negotiations. Our interpretation of an alternative market access formula put forward by the G20 actually provides for almost no additional market access in beef beyond today's applied tariff levels in the case of Japan and South Korea. As a result, we categorically reject any such proposal that does not provide for real improvement in market access for U.S. beef.

This is not to say that we do not greatly welcome efforts to significantly reduce domestic supports and exports subsidies when it comes to beef. The OECD calculated that Producer Subsidy Equivalents (PSE's), which are a measurement of the level of government support to an agricultural commodity sector, for beef farmers globally actually increased from 61 percent in 1996 to 79 percent in 2001. In 2002, "the European Union (EU) alone accounted for 78 percent of OECD total support levels on beef with EU beef producers getting most of their gross returns from government programs rather than the value of beef at world prices." (Source: The Magellan Report.) In 2003, Japan's PSE of 30 percent, South Korea's 60 percent and the EU's 80 percent stand in stark contrast to the U.S. beef PSE of about four percent.

These EU domestic supports for beef stand as a monument to the failure of persistently relying upon taxpayer dollars rather than the marketplace as a means to prevent the decline of a once proud industry. NCBA remains concerned with the possible recourse the EU may have in its ability to limit reductions in domestic supports for beef producers via livestock payments that are made on a fixed number of head.

One of the most dramatic changes in the recent history of global beef trade occurred in 2003 with the EU's transition to a net beef importing region. In 2005, the EU is projected to be a net importer of at least 250,000 metric tons (mt) with forecasts for the next few years suggesting that the EU could well be a consistent 500–600,000 mt net beef importer. As a result, NCBA has been working with U.S. negotiators to seek a resolution to long-standing non-tariff barriers in that market as well as an expansion of the 11,500 mt tariff rate quota (TRQ). We also seek the elimination of the 20 percent in-quota tariff.

In meat trade, high tariffs/TRQs account for more market distortions than domestic support. There are currently 247 TRQs for meat products—second highest after fruits and vegetables—and the average global tariff rate on beef is 85 percent. This compares to 77 percent for poultry/pigmeat and a 66 percent overall average of agricultural tariff lines. (Source: FAO)

Beyond reform in the EU's Common Agricultural Policy, however, WTO members and particularly developing countries must get beyond this ironic contradiction that trade liberalization is somehow good for developed countries' agricultural support mechanisms but is somehow not appropriate policy for the developing world.

The United States is currently the least restricted and largest beef import market in the world. While many beef markets around the world remain closed or essentially closed to U.S. beef due to non-tariff sanitary and phytosanitary (SPS) barriers, the United States has granted other countries 696,420 mt of TRQ at practically zero duty with a 26.4 percent tariff becoming effective in the almost non-existent instances when countries filled its allocated share of the TRQ.

NCBA will support continued movement towards reduced tariffs and expanded TRQs, but only as part of a comprehensive package that provides for real and additional market access for U.S. beef exports, eliminates export subsidies and substantially reduces production subsidies. In addition, for U.S. beef producers to get maximum benefit from tariff reduction, greater assurances must be made on the part of our trading partners to eliminate unjustified sanitary and phytosanitary (SPS) as well as technical barriers to trade.

Lastly, we believe the United States must continue its strategy of simultaneously pursuing multi-lateral and bilateral trade agreements. NCBA supports the Administration's efforts toward 12 new free trade agreements (FTAs), and we anxiously await the potential benefits of a South Korean FTA that should mitigate any shortcomings of the WTO negotiations. We also applaud efforts to bring new countries into the WTO and we see Saudi Arabia's accession agreement as a unique, new and completely untapped opportunity for U.S. beef producers.

U.S. beef producers understand that the future ability to grow our business depends upon the ability to market our product to the 96 percent of the world's population that does not live in the United States. We also believe the WTO is the only mechanism capable of generating the political force necessary to move the agricultural trade liberalization process forward. Without forceful U.S. leadership in this multilateral context, U.S. beef producers will undoubtedly suffer under the trade distorting forces of mercantilism and protectionism. We are now at a critical juncture in this process.

I would like to thank the Chairman and committee members for the opportunity to present our views on this important topic here today, and I look forward to answering any questions at the appropriate time.

TESTIMONY OF CHRISTOPHER SHAFFER

Good morning Chairman Goodlatte, Ranking Member Peterson and members of the committee. I am Christopher Shaffer. I grow wheat and garbanzo beans on my farm in Walla Walla, Washington. I currently serve as the elected grower spokes person for the three wheat organizations for the World Trade Organization negotiations. I am also the past Chairman of the Wheat Export Trade Education Committee and U.S. Wheat Associates. Today I am also speaking on behalf of the National Association of Wheat Growers.

Like most producers, I must look to every possible avenue to find ways to not only break even but hopefully, in some years, to show a profit and buy-down my farm debt. This is becoming harder and harder—and like so many in agriculture, I am constantly looking for new and creative ways to market my products.

Producers must look to every tool available. One set of the tools that receive little attention, day in and day out, are the trade rules that create opportunities to develop markets around the world. We in the wheat industry are more closely tied to our international customers through the overseas offices of U.S. Wheat Associates, than some other sectors. We strongly support agreements that are fair and expand our market opportunities.

Let me highlight two points that are important to wheat producers in the United States when we look at world market opportunities:

- First, 96 percent of the world's consumers live beyond our border. The four percent within the United States cannot consume enough wheat to sustain a viable wheat industry that offers the variety and quality of products that are now available to our customers.
- Second, we consistently export nearly 50 percent of our total production.

As you can imagine, our success or failure hinges on the ability of U.S. wheat to be exported around the world. Trade is a vital component for ensuring the financial viability of U.S. wheat farmers. Fair and open trade agreements are key to reaching customers outside of the U.S.

I believe without question that the Doha Development Round offers us the greatest single opportunity to expand our customer base. However, at the same time it poses several challenging dilemmas to you (the lawmaker) and me (a U.S. wheat producer).

As a trade-dependent commodity, the success or failure of my industry hinges on our ability to expand U.S. wheat export markets. At the same time I must be able to convince my banker that there is a reliable safety net if the markets fail.

The U.S. wheat industry has consistently supported an aggressive approach in all trade negotiations that remove trade barriers worldwide. Multilaterally through the World Trade Organization (WTO), the Hemispheric Free Trade Area of the Americas and current and future bilateral Free Trade Agreements provide global opportunities to solve trade problems. With these opportunities come responsibilities. Each of us, and the organizations we represent, must find ways to cooperate and bring workable solutions to the table. And I cannot stress strongly enough that NOW IS THE TIME to make the WTO work for us. The clock is ticking.

It is no secret that the Trade Promotion Authority clock is running and the world recognizes the importance of concluding the WTO negotiations before TPA expires.

I believe our negotiators want to bring you an agreement that is good for agriculture and the entire U.S. economy before TPA expires.

The U.S. has made aggressive attempts to keep the WTO Doha Round alive. It was the U.S. that caused a viable framework to be developed during the last Ministerial meeting in Doha, Qatar. Once again our negotiators have pushed forward with a proposal that put the world on notice that the U.S. is serious about these negotiations and about opening the world's markets. They are also serious about our trading partners coming forward with proposals that would provide true market liberalization both in the developed and the developing countries.

While the U.S. wheat industry has a number of concerns with the bold approach taken by our negotiators, it is clear that further progress in this round rests with the European Union and a few other members. It is amazing that these developed countries are apparently willing to jeopardize these important negotiations in order to protect their producers from fair market practices. Our market is open, we ask for fair access in return.

Creating trade is a critical step to improving developed and stabilizing developing economies. I know of no study that shows growth results when markets are closed, quite the contrary is true. Our Smoot-Hawley Act taught the United States this valuable lesson.

The U.S. wheat industry has long held a clear set of goals for these negotiations. A copy of our issues paper is included in the written testimony. Today I appreciate the opportunity to review them briefly. Each of the three agriculture pillars under negotiation is important to the United States wheat industry.

We rely heavily on our domestic support programs and are extremely concerned that other subsidy users are disciplined. To gain new markets we must have aggressive action in the market access, tariff lowering, pillar. The issues in the export competition pillar, state trading monopolies, food aid and export credit programs, all impact our ability to be competitive.

By its magnitude the administration's proposal to cut 60 percent from the U.S. trade distorting domestic support or Amber Box programs, and a cut of 2.5 percent to the Blue Box cap, certainly surprised the wheat industry. We had been conditioned to think more in terms of a possible 50 percent cut, and even that level did not have our unqualified support.

This offer to remove such a large portion of support programs comes at a universally difficult time for American farmers and ranchers. It is difficult to envision giving up any programs when faced with yet unknown highs in fuel and other input costs and low market prices coupled with continued trade challenges from our competitors. However, it is difficult to see how we as growers can prosper unless we open markets and expand our customer base with those beyond our borders.

The U.S. wheat industry has been a strong supporter of the administration's ambitious agenda to expand world market access. But, we must also be realistic and recognize that there is a need for access to safety net programs that keep the industry viable.

We recognize the complexity of creating a new Farm Bill, which can only be written by Congress, and reaching an agreement with our trading partners to open markets that is written in an international arena. Everyone is pulling and pushing in different directions and some are fighting to hold on to what they have always known. It will take a lot of intestinal fortitude by all and faith that the good of the industry is at the heart of any negotiation.

The wheat industry recognizes that there must be change. We depend on our farm support programs and at the same time we desperately need the opportunity to increase our share of the world market. To make this happen we know that we may have to accept changes in some of our programs in exchange for others lowering their tariffs and other barriers that they want to maintain. This may be challenging to all sides, but it will be necessary if all of us in the WTO are going to have a chance to grow economically. We look forward to working with you Mr. Chairman to ensure that whatever changes have to be made will ultimately be good for producers.

However, one thing is for certain: if the U.S. wheat industry is going to accept painful changes in the U.S. domestic support system, it must see major results in other areas of the negotiation that are important to us. It should be apparent from my comments to this point that obtaining major improvement in access to world markets is a very high priority for us in these negotiations.

With the U.S. having made such a bold move on domestic support, I must say we were frankly disappointed in the EU response, made public on Friday, October 28, as it relates to market access. The new EU market access proposal does not come close to the kind of tariff cuts proposed by the United States. In fact it does not even match the tariff cuts proposed by the G 20, a group of developing countries.

Most disturbing of all is the EU proposal to allow for 8 percent of tariff lines to be designated as sensitive products. Such a large sensitive product designation would effectively wreck chances for any real trade liberalization as part of the Doha Development Agenda. If the EU wants to these trade negotiations to succeed, in our view their agricultural market access current proposal is simply inadequate.

The wheat industry is watching closely to make sure the U.S. Doha negotiations result in reform of the trade distorting practices used by our competitors. Real, measurable and parallel benefits must be achieved in market access along with true disciplines that remove the monopolistic practices of export state trading enterprises. U.S. food donation and useful export credit programs must be protected.

I am very pleased that the U.S. put forward a comprehensive proposal and remains focused on a single undertaking. There is call for a strong response to the U.S. proposal on domestic supports. Most of the focus is on market access, but it is critical remember that all pillars of the negotiations are dependent on the components of the others. This is especially true for the wheat industry.

Lowering tariffs is only part of the picture. We not only need greater market access via lower tariffs but we must also eliminate the unfair and non-transparent practices of monopoly traders that under cut us to gain market share.

The wheat industry also needs very strong disciplines that eliminate trade-distorting practices that are only practiced by export state trading monopolies. Until this happens U.S. wheat always stands the risk of being undercut in markets even if the tariffs are lower. We have no way to counter monopolistic practices that are illegal here

I also must say a word about food aid and the continued call of the EU for cash only programs. It is unconscionable for the EU, Canada and others who have never come near the level of humanitarian aid given by the U.S. to demand that we end programs in the name of eliminating export subsidies. Since the late 1980's the U.S. has given nearly 60 percent of all global food aid donations. The average share of EU donations has slipped from 22.5 percent in the late 1980's to just over 17 percent in 2000-02.

- The U.S. is the most generous food aid donor by far. Our programs are not subsidies.
- We strongly support programs that distribute food aid to those in need without distorting local markets in the recipient countries.
- More not less food aid is needed. One way to make this possible is to repeal the cargo preference requirements and use the saved transportation dollars on more food purchases.

We believe that the number of hungry people would only increase if cash only donations were to become a reality. There would be less support from those in the U.S. who traditionally support our humanitarian programs. We must keep the food in food aid or more will go hungry.

Finally, another critical element that we are very pleased to see in the new proposal is a demand for litigation protection for programs that stay within their commitments. No future agreement will have any meaning unless there is predictability against future WTO challenge to programs that meet commitments. There must be a safe harbor for those countries that abide by their commitments. The cotton case has proven that there is nothing reliable in an agreement if compliance does not protect a country's programs.

In conclusion, the industry depends on export markets for up to fifty percent of all sales and supports the WTO negotiations as the most effective way to remove trade barriers. However, it will be impossible for the industry to unilaterally disarm. In order to accept any package that causes changes in our domestic support structure U.S. wheat growers must see success and harmonization in the all three trade pillars.

The wheat industry looks forward to working with you and the administration as the WTO debate, hopefully, moves forward and as the new farm bill is structured to continue to provide a reliable safety net.

Thank you for the opportunity to appear before you today and I look forward to your questions.

STATEMENT OF CLIFF BUTLER

Thank you, Chairman Goodlatte, for the opportunity to present the views and recommendations of the National Chicken Council, the National Turkey Federation, and the USA Poultry and Egg Export Council regarding the very important agricultural trade issues involved in bringing the World Trade Organization's Doha Development

opment Round of negotiations to a timely and successful conclusion. Mr. Chairman, Congressman Peterson, and committee members, your strong interest in and vital support of the current round of multi-lateral trade negotiations is very much appreciated. Today's hearing will serve to help achieve a beneficial outcome of the trade talks.

Mr. Chairman, I respectfully request that my entire testimony, including the Ag Trade Coalition 2005 WTO Policy Statement, be included in the written record of the hearing.

My name is Cliff Butler and I am vice chairman of Pilgrim's Pride Corporation. Our company has been in the poultry and egg business for 59 years. We have operations in the States of Virginia, Texas, Pennsylvania, Alabama, Arkansas, Georgia, Kentucky, Louisiana, North Carolina, Tennessee, West Virginia, Arizona, California, Iowa, Mississippi, Utah and Wisconsin. Pilgrim's Pride is a publicly traded company and is listed on the New York Stock Exchange under the symbol PPC. More than 40,000 employees and 5,000 dedicated chicken farm families work hard each day to help us produce and process the chickens, turkeys, and eggs we need to serve our customers here at home and abroad.

When you combine all the companies together in the poultry and egg industry, employees total over 400,000 and farm families are more than 40,000. In addition, there are hundreds of thousands of other workers indirectly employed by our industry, and are highly-dependent on the continued success of the U.S. poultry and egg industry.

The National Chicken Council (NCC) represents companies that produce and process about 95 percent of the chickens in the United States. NCC works very actively with Congress and the administration to help promote an expanding export market for U.S. poultry. Increasing overseas poultry sales builds a stronger, more robust market for not just poultry producers but also for farmers who supply corn, soybeans, and other necessary feed ingredients. The National Turkey Federation (NTF) represents more than 95 percent of the turkeys produced in the United States, including all segments of the turkey industry from breeders and hatcheries to growers and processors. Like the other poultry organizations, NTF has strong membership support from companies allied to the poultry business. USA Poultry and Egg Export Council represents companies involved in exporting all types of poultry and egg products. Members include producers, processors, further processors, export brokers, shipping companies, port authorities, and other related businesses that benefit from expanding poultry and egg exports.

I, like my fellow U.S. poultry producers, am proud to market poultry that is unsurpassed by any other country in quality and food safety. The tremendous trust and confidence consumers have in U.S. poultry is a critical component in successfully addressing the current avian influenza (AI) concern. I can assure this committee that individual companies, the poultry industry, and Federal, State, and local governments have stepped-up safeguards and firewalls to minimize any avian influenza problems in this country. We, in the U.S. poultry industry, do not accept the notion that it is inevitable that the Asian-variety of AI will come to the United States.

EXPORTS ARE VITAL

It is vitally important that consumer confidence not be jeopardized with respect to U.S. poultry, whether the consumer is here in the United States or abroad in the more than 100 countries that receive U.S. poultry exports. Exports are critical for my company, like they are most major poultry companies. Being able to export helps companies better balance the supply and demand for the front of the chicken with the back half of the bird. Analysts have calculated that at least 40 percent of the chicken leg quarters produced must be exported if the U.S. chicken industry is to have a reasonable opportunity to make a fair return on our investment. For the turkey industry the experience and situation are similar. About 95 percent of all turkey exports are in the form of cut-up parts, and the overwhelming majority of those parts are leg meat. To export this level of leg quarters, leg meat and similar products, each and every export market must be fully-serviced so that marketing opportunities are not diminished nor lost. U.S. consumers overwhelmingly prefer chicken and turkey breast meat while the rest of the world has a great preference for the back half of the bird. So, exporting leg quarters and other leg meat is critically important in balancing supply with demand.

RECOMMENDED TRADE POLICY OBJECTIVES/MARKET ACCESS

In September of this year the AgTrade Coalition issued a set of principles or trade policy objectives that should be used in the Doha Round of negotiations. U.S. poultry

organizations and more than 50 other groups support these principles. A copy of the principles is attached to my statement. Most important for U.S. poultry producers and exporters as an outcome of the Doha Round is achieving greatly improved market access. Cutting high import tariffs will better assure U.S. poultry of having improved opportunities to compete in world markets. But, high tariff trade barriers are not the only issues to be addressed. Import quotas and tariff-rate quotas must also be reduced and eliminated.

Improved market access also encompasses the appropriate application of the provisions of the Sanitary and Phytosanitary Agreement (SPS). Any restrictive measures on trade with respect to veterinary and food safety issues are to have a sound scientific basis, according to the SPS Agreement. As tariff trade barriers have come down, unfortunately, non-tariff trade barriers, most predominantly SPS barriers, have gone up.

One example of not following the SPS Agreement is the European Union' prohibition against the use of chlorinated water as an antimicrobial during the processing of poultry. Since 1997 U.S. poultry has not been permitted to be exported to the EU. In 1997, U.S. poultry was shut out of 15 countries, but since then with the expansion of the EU to 25 member countries, U.S. poultry is shut out of 25 countries. Next year, if there is no resolution of this issue, U.S. poultry will be shut out of two additional countries, Romania and Bulgaria, when they join the EU. Permit me to note that EU compensation to U.S. poultry exporters for not being allowed to continue to export to the ten new EU member states reportedly reached a very unsatisfactory resolution last month. Although the EU

acknowledged the United States is due compensation for being damaged due to loss of markets in the ten new EU member countries, the compensation package from the EU provides little, if any, value in the form of potential, future U.S. poultry exports.

Rather than follow proper risk assessment based on good science as required by the SPS Agreement, the EU apparently prefers to apply the precautionary principle for the issue of antimicrobials during the processing of poultry. The fallacy of the precautionary principle is that no product nor process can be scientifically proven to have absolutely no risk.

Another example of a market access problem is Canada' supply-management program for poultry. Since 1980 Canada has overly-protected its 2,400 chicken farmers by limiting domestic production and tightly limiting imports of poultry. Illustrating how distorted the supply management system has become for Canadian poultry is to note that quota for the license to produce a chicken north of the U.S. border costs over \$50 per bird. Thus, if a farmer has production quota for 50,000 chickens, the value of the quota is more than \$2.5 million. Of course, the quota cost does not include the investment needed for the land, farm buildings and equipment necessary to grow the chickens. It is time WTO negotiations address programs that have become so overly trade-distorted.

Also, we cannot overlook the way some of our trading partners have used world-wide concern about avian influenza as an excuse to improperly close their borders to U.S. poultry. The Office of International Epizootics (OIE), utilizing overwhelming scientific evidence, has determined that only H5 and H7 strains of avian influenza are of concern. Some countries, however, are shutting their borders when a low pathogenic AI H3 strain appears in a poultry flock, and these nations are keeping their borders closed long after the region where the strain appeared has been certified as free of avian influenza. H3 influenza poses no human health threat whatsoever and it should not be used as a trade barrier. It is vital that the United States ensure all our trading partners conform to OIE guidelines with respect to avian influenza.

Another issue that needs full attention by trade negotiators is the issue of special and differential treatment for developing countries. It is obvious that many developing countries have very developed and advanced segments of agriculture. For example, Brazil' poultry industry has world-class production and processing with costs among the lowest in the world, if not the lowest. It is time the WTO rules recognize that just because a country has determined itself to be developing country, it does not necessarily mean all segments of its agriculture are in the developing stage. More than two-thirds of the 148 member countries of the WTO consider themselves to be developing countries. At the same time, it is recognized that the general theme of the Doha Round is a "development" round so that more international trade can help less-developed countries become more advanced. Developing countries have fewer obligations under WTO policies, but that lower standard of obligation should not be used to tilt the playing field when such preference is unwarranted.

Breakthrough U.S. Proposal on Agriculture

Proposals by the United States last month that are somewhat more aggressive than envisioned even following the July Framework Agreement may provide the necessary and sufficient momentum to carry agricultural negotiations to a point where certain outstanding issues can be successfully resolved prior to or during the ministerial meeting in Hong Kong next month. For this prediction to prove valid, a number of other countries, especially the EU, must meet the ambitious offering of the United States with equally ambitious proposals. Although the market access aspects of the U.S. proposal is most troubling for the EU, it is also the area where much progress must be made to gain U.S. agriculture support for the outcome of the Doha Round.

When the Hong Kong ministerial meeting was first arranged it was envisioned that the convening would be an end point, not another milestone. If the meeting proves to be just an important milestone on the pathway toward an unspecified end to the Doha Round, there may be no end point on the horizon. The President's trade promotion authority (TPA) expires in mid-2007. It would be accurate to characterize the U.S. poultry industry's belief that if TPA is re-approved by Congress it will not happen without a major, and, perhaps, prolonged effort.

Thank you, Mr. Chairman and committee members. U.S. poultry producers and exporters appreciate your support and continued strong interest in achieving a more fair and open international market for our products. We look forward to working with you to achieve that goal.

STATEMENT BY CONSTANCE E. TIPTON

Mr. Chairman and members of the committee, the International Dairy Foods Association (IDFA) would like to thank you for this opportunity to comment on the potential we see for the U.S. dairy industry as a possible result of the World Trade Organization (WTO) Doha Development Agenda negotiations. IDFA and its constituent organizations—the Milk Industry Foundation, the International Ice Cream Association and the National Cheese Institute—represent more than 500 companies that account for over 80 percent of the dairy products produced in the United States.

Agreement among the 148 WTO member countries on an ambitious and comprehensive agricultural package holds great promise for the U.S. dairy industry. We believe open consumer driven global markets, both abroad and at home, offer the best promise for our industry. Accordingly, we view the WTO Doha Development Agenda as a huge opportunity to position the U.S. as a global dairy supplier meeting the needs of not only the U.S. consumer, but consumers around the world. We are bullish on the opportunities for U.S. dairy foods and the dairy farming industry if we are successful in the Doha Round. Accordingly, we strongly support a very ambitious agriculture package that dramatically opens markets, eliminates exports subsidies and greatly reduces trade distorting domestic support. We therefore applaud and support the recent offer by the administration to reignite the Doha Round. Only through a broad agreement that accomplishes these objectives will we enable our industry to become the global supplier we believe possible for the U.S. industry. Within the scope of the WTO agricultural negotiations, IDFA wishes to emphasize that continued agricultural reforms should be comprehensive, covering all products, policies and countries.

If the Doha Round, however, does not achieve an ambitious outcome, we believe that Congress still needs to reform dairy programs in the upcoming Farm Bill to position U.S. dairy farmers and processors to take advantage of global market opportunities. Our current complex and antiquated system of government regulation, price intervention and competing support programs stifles growth and inhibits innovation.

In addition to our obvious interest in dairy reform, our milk processors, yogurt and ice cream manufacturers also have strong interests in liberalizing sugar trading rules within the context of the current WTO discussions, and domestically in the upcoming Farm Bill debate. Sweeteners are an important cost factor in the manufacture of flavored milk beverages, yogurt and ice cream products.

INCREASE MARKET ACCESS

For the U.S. dairy industry and other sectors to benefit from the WTO Doha Round, substantial new commitments on market access are required. Accordingly, we are pleased that last month, the U.S. offered a bold proposal in the WTO agricultural negotiations to cut developed country tariffs by 55–90 percent, and establish a "tariff cap" ensuring no tariff is higher than 75 percent.

Improvements in market access for U.S. dairy products overseas are of critical importance in the Doha Round. While the Uruguay Round did marginally improve market access around the world, most major dairy consuming countries have tariffs which preclude the import of dairy products above the minimum access requirement of 5 percent of domestic consumption. For example, the average over-quota tariff on dairy products in Canada is over 100 percent ad valorem, while in the U.S., the average is under 50 percent.

We are also extremely supportive of the U.S. position to limit tariff lines subject to "sensitive product" treatment to 1 percent of total dutiable tariff lines, and to expand tariff-rate quotas where they exist. We believe that this will severely limit WTO Member countries' ability to designate dairy and sugar products as "sensitive" and keep their domestic market protected from U.S. dairy exports. In addition, we urge the elimination of all in-quota tariffs on products subject to tariff-rate quotas (TRQs). We also support substantial expansion of all tariff-rate quotas and improved administration of tariff-rate quota disciplines to ensure that TRQs do not restrict trade.

Last week, the European Union (EU) submitted a new proposal for the WTO agricultural negotiations. From our early analysis, we are disappointed that EU proposal did not match the U.S. offer. The proposed tariff reductions are far lower than what the U.S. requested. We are also extremely concerned that the EU would like a large number of exceptions for "sensitive products." We urge policymakers to remain committed to the U.S. proposal and to insist that the EU improve its offer on market access.

We firmly believe that both developed countries and developing economies need to open their markets to U.S. dairy foods. We understand that as part of the negotiations, the U.S. will also have to open its markets. However, we firmly believe that in an open global system, the U.S. advantage in dairy productive capacity and processing technology will enable our country to be a principal player in the global dairy market.

REDUCE DOMESTIC SUBSIDIES

IDFA supports continued reduction and eventual elimination of all trade-distorting domestic programs. We believe that domestic support policies which artificially stimulate or restrict production or ensure inefficient production will ultimately fail to be advantageous to U.S. production, will have significant detrimental effects on international market conditions and are not sustainable because they fail to adequately take into account the needs of consumers. Thus, we support the recent U.S. proposal to cut "amber box" subsidies by 60 percent and to limit "blue box" spending at 2.5 percent of the total value of agricultural production, instead of 5 percent as set in the July 2004 Framework for the WTO Doha negotiations.

We understand that the EU has proposed to reduce their amber box support by 70 percent. In last month's proposal, the U.S. had requested that the EU reduce its amber box spending by 83 percent to harmonize the disparity between what the two countries are permitted to spend in amber box subsidies. In addition, the EU has stated that it is not willing to reduce "blue box" spending by 2.5 percent. We urge policymakers to continue to demand that the EU reduce its domestic subsidies.

Under the WTO Uruguay Round rules, the U.S. is permitted to spend no more than \$19.1 billion in so-called "amber box," trade-distorting domestic support a year. In its most recent WTO notification for the 2001 marketing year, the U.S. reported a total of \$14.4 billion in total amber box support spending. The dairy price support program accounted for 30 percent those payments. In contrast, the EU is permitted to spend \$60 billion in amber box support of which 14 percent of its payments are spent on dairy. This is approximately double of what the U.S. spends on its dairy industry.

With regard to "blue box" spending, currently, the U.S. does not have any programs that fit into this category. On the other hand, a large amount of EU programs are considered "blue box" subsidies and currently, there is no limit to how much the EU can spend in this category. Thus, it is critically important that the Doha Round significantly reduce the ability of the EU to fund domestic agricultural programs at such high levels.

We would like to highlight that the U.S. has not notified the WTO of its Milk Income Loss Contract (MILC) payments, which averaged over \$500 million annually from 2002-05 and are likely to be categorized as "amber box." Congress allowed the program to expire on September 30, 2005. If efforts underway to resurrect this program succeed, its enormous government costs will greatly increase the percentage of amber box payments dedicated to dairy. As the U.S. works to lower trade barriers for agriculture commodities through multi-lateral trade negotiations, it makes no

sense to continue this costly and controversial dairy program. We need a more comprehensive review of dairy programs and the creation of one rational safety net program that promotes innovation and growth and positions the United States dairy industry to take full advantage of our production, processing and marketing capabilities. For example, dairy policy could be modified so that payments would be considered blue box, or even green box

ELIMINATE EXPORT SUBSIDIES

We are pleased that the U.S. has proposed to eliminate export subsidies within a five-year period. The U.S. dairy industry's competitiveness in international markets has been greatly hindered by EU export subsidies, which have unfairly enabled its dairy industry to capture a large percentage of world dairy trade. Without export subsidies, world market dairy prices would be higher and more efficient dairy producers, including the U.S. dairy industry, would enjoy a larger share of international markets.

While the previous Uruguay Round required cuts in export subsidies for all countries, the EU was permitted to continue using this tool to distort world markets to a much greater degree than any other country. This was especially true for dairy products; for example, the EU spends on average over \$1 billion on dairy export subsidies per year, while the U.S. has spent on average less than \$0.025 billion on the Dairy Export Incentive Program (DEIP).

It is critical that the elimination of export subsidies be synchronized with the reduction in tariffs and increased market access. As prices increase due to the removal of subsidized dairy products in the international arena, there will be an incentive for more dairy exports to enter the global market. To avoid an excess of dairy products flowing to already liberalized markets, countries that maintain high tariff barriers, such as Canada, must also reduce their duties.

Export subsidies need to be eliminated to bring greater opportunities for market and consumer driven forces to drive global dairy trade and the related domestic dairy production. Our industry knows how to respond to consumers. We want to be given that opportunity by governments around the world and at home.

Oppose Expansion of Geographic Indications

Finally, IDFA members are extremely concerned that the EU's current proposal to extend to foods, the geographic indication (GI) protections, or its synonym, Protected Designation of Origin (PDO), that were established exclusively for wines and spirits in the Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). IDFA is adamantly opposed to extending GI protections to food products and we urge U.S. policymakers to resist making any concessions to the EU on this issue.

The EU's PDO directive restricts the use of certain names (i.e. Parmigiano Reggiano, Feta, Gorgonzola, etc.) to cheese made or processed in a defined geographic area of Europe. The EU's PDO concept is currently being debated at the WTO level. Presently, under the 1994 WTO TRIPS agreement, there is a provision which protects GI for wines and spirits. The EU is now demanding that the TRIPS Agreement also include GI protection for the following cheeses: Asiago, Comte, Feta, Fontina, Gorgonzola, Manchego, Mozzarella di Bufala Campana, Parmigiano Reggiano, Pecorino Romano, Reblochon, and Roquefort.

Should the EU obtain recognition of its GIs at the WTO level, it is likely that it and other countries would wish to expand protection to other cheeses such as Edam, Emmental, Gammelost, Greyere, Mozzarella, Muenster, Neufchatel, and Swiss. As a result, U.S. cheese manufacturers would be prohibited from using these names in their exports, or in the U.S. domestic market. U.S. companies would be forced to develop new and confusing names for their traditional cheese products. We see this as nothing more than an attempt to limit legitimate trade and protect certain producer interests at the expense of market based competition, which only hurts consumers here and abroad. Why reduce market access barriers and then take away that opportunity with the expansion of GIs?

We cannot emphasize enough that we are on the verge of a great moment for the U.S. dairy industry. If we handle the Doha negotiations carefully, not only will we open new markets around the world for U.S. dairy producers, but we will position our industry in a policy environment that can ensure we meet the needs of consumers around the world.

Mr. Chairman, you have taken great steps on behalf of U.S. agriculture by having this hearing and weighing in on the progress of the negotiations. We urge you to continue to work closely with the administration and with us to make the most of this opportunity and start us towards a new era of dairy industry prosperity. With the current WTO discussion and the upcoming farm bill, we have an opportunity

to transition our support programs/safety nets towards greater market orientation. This is one way to support farmers moving forward that is trade compliant and promotes sustainable agriculture.

An essential part of this will be your work during the Farm Bill debate to review and revise domestic dairy policies to ensure that they provide the opportunity for innovation and growth in U.S. milk production and processing. The U.S. can and should be a leader in supplying dairy products and ingredients throughout the world. Combining our ability to produce an ample supply of high quality milk with policies that encourage investments in U.S. processing and manufacturing of innovative products and ingredients will truly be a win-win-win scenario for U.S. dairy farms, processors and consumers. We look forward to working with you to achieve these important goals.

STATEMENT OF GERALD TUMBLESON

Good morning, Chairman Goodlatte, Ranking Member Peterson and members of the committee. My name is Gerald Tumbleson. I live in Sherburn, Minnesota and raise corn and soybeans, and feeding hogs. My wife, Joanne, and I live on the same farm where I was born and raised.

I serve as President of the National Corn Growers Association (NCGA), a producer-directed trade association headquartered in St. Louis, Missouri, with a second office in Washington, DC. Its mission is to create and increase opportunities for corn growers.

NCGA is a federation of state organizations, corn boards, councils and commissions, which develops and implements policies and programs on a State and national level to help protect and advance the corn producer's interests. NCGA represents over 32,000 individual members in 45 States. NCGA has 25 State affiliated corn grower associations and 20 State checkoff boards that it works with directly.

I would like to thank the committee for giving us the opportunity to testify today regarding current agriculture negotiations in the Doha Round and our expectations from the Sixth WTO Ministerial Conference to be held in Hong Kong in December.

Let me begin by saying trade is vital to corn producers. Corn is the most widely produced feed grain in the United States, accounting for more than 90 percent of total value and production of feed grains. Around 80 million acres of land are planted to corn, with the majority of the crop grown in the Heartland region. Most of the crop is used as the main energy ingredient in livestock feed. Corn is also processed into a multitude of food and industrial products including starch, sweeteners, corn oil, beverage and industrial alcohol, and fuel ethanol. But one out of every five rows of U.S. corn is exported. Add to that exports of value-added corn and co-products and livestock products raised on U.S. corn, and you get an idea of the importance of foreign markets to the corn industry. NCGA supports trade agreements which will open markets for U.S. farmers and increase market development opportunities throughout the world.

NEW U.S. WTO PROPOSAL

For that reason, we would like to commend Secretary Johanns and Ambassador Portman for their outstanding leadership in the WTO. The new proposal announced by the U.S. recently was a bold move. It was also a necessary move if we are to have any hope of a successful Ministerial meeting later this year in Hong Kong. It made clear that the U.S. is willing to show the flexibility necessary to get an agreement if our trading partners are willing to do the same. The result of the U.S. proposal was to put apply pressure where it is needed: on the EU and other countries that have resisted market access liberalization. We are pleased that the U.S. is showing such strong leadership.

At the same time, I must emphasize that NCGA support is conditional. The U.S. proposals on domestic support would require a fundamental changes in U.S. farm programs. We can only agree to such changes in the context of an agreement that offers substantial improvements in market access for U.S. exporters, along with the elimination of export subsidies and substantial reductions in trade-distorting support in competitor countries.

U.S. negotiators seem to be in a good position to achieve their goals regarding subsidies. The U.S. proposal calls for the elimination of export subsidies by 2010, and for a partial leveling of the playing field in the domestic support area through harmonizing cuts in amber box limits. These would be significant accomplishments. However, negotiations on market access are nowhere near as far advanced. Last

week in response to international pressure the EU revise its market access offer, but the result still falls far short of an adequate level of ambition. They increased somewhat the proposed level of tariff cuts for developed countries, but they undermined the potential value of that increase by continuing to demand the right to designate up to 8 percent of its tariff lines as “sensitive products” that would be exempt from the normal tariff cuts. That 8 percent would almost certainly include most products with the greatest market access potential. Moreover, under the formula they propose for TRQ expansion, the higher the tariff, the smaller the level of expansion. Clearly, they are aiming to avoid any significant liberalization.

The G-20 group of developing countries have proposed tariff reductions for developed countries that are closer to being acceptable—45 percent for the lowest tier, rising to 75 percent for the top tier. They would also limit the sensitive products category to only 1 percent of tariff lines. However, their proposal is blatantly self-serving. Reductions for developing countries would range between just 25 percent and 40 percent. Since the WTO bound rates for many developing countries is much higher than their current applied rates, these reductions would in many cases be all but useless. Other developing countries, such as the members of the G-33, are offering even less.

U.S. negotiators must demand a market access package that is at least as ambitious of the emerging package on domestic support, one that requires real liberalization in both developed and developing countries.

In addition, we need a commitment from the administration to support the development of alternative, WTO-consistent domestic policies in the 2007 Farm Bill. Such policies should include an adequate income safety net as well as programs for infrastructure modernization to improve U.S. export competitiveness. We look forward to working with you and your committee, Mr. Chairman, and the administration to develop such programs.

MARKET ACCESS PRIORITIES

Now let me turn for just a minute to market access. I would like to focus on barriers in a few key markets and thereby give you an idea of the type of market access agreement we are looking for and the potential gains for corn growers from such a package.

In an effort to provide useful input to U.S. negotiators, NCGA worked with the U.S. Grains Council to identify market access priorities for the corn industry. In the developed world, the best example of the potential impact of tariff cuts in developed countries is the European Union. The EU market is now closed to us because of biotech related issues, a problem I will address later in my testimony. However, assuming we are able to solve that problem in the future, we believe that a meaningful reduction in the import duties now applied by the EU could generate a significant increase in EU corn imports. Certain non-EU European countries also offer potential opportunities.

In the developing world, where the potential for increased demand is even higher, the U.S. faces high import duties in a number of key markets. Examples include Turkey, Indonesia, Tunisia, Malaysia, and Nigeria. Many of these countries actually apply import duties that are lower than their extremely high WTO-bound tariff rates. It is critical that the WTO market access negotiations result in cuts in WTO-bound tariffs that are large enough to force real reductions in applied import duties in developing countries. This is especially important in “middle income” developing countries, where

we believe a large part of the growth in foreign demand for feed grains is likely to take place over the coming decade.

In a number of our top export markets, we face tariff-rate quotas or “TRQs”. These TRQs are a mixed blessing. They offer access at a reduced rate of duty for a specific quantity of corn, but impede or prevent additional imports beyond that quantity through out-of-quota duties that are often extremely high. For example in Japan, our largest single export market for corn, we face a TRQ of 3.75 million MT for industrial-use corn, with a prohibitively high out-of-quota rate. This TRQ significantly constrains the very substantial demand for industrial-use corn in Japan. We also face TRQs in China, India, Venezuela, the Philippines and many other potentially large developing-country markets for U.S. corn. For this reason, it is very important that, as a part of the current WTO trade negotiations, we obtain a significant expansion in the size of TRQs for corn in both developed and developing countries.

It is also extremely important that in-quota import duties be eliminated in this trade round. High in-quota duties restrict access to several markets—India, for ex-

ample, where the 15 percent duty applied within a 500,000 MT TRQ has blocked any prospect of U.S. corn exports to that country.

NCGA also supports the development of rules in the Doha Round that would lead to improvements in the administration of TRQs. If TRQ concessions are to have value, it is important that the TRQs be administered in a way that does not place a further restriction on imports.

Corn growers can also benefit from any market access gains for our exports of value-added products from corn processing. Today we export nearly \$1.4 billion of value-added food and feed products produced by industries processing our corn into starch, sweeteners and ethanol. As with whole grain, we need to seek meaningful reductions in bound tariffs for these products. For example, we now export nearly \$300 million of high quality, 60 percent protein gluten meal to growing world markets in the poultry, swine and aquaculture industries. Lower tariffs, especially in Southeast Asia and Latin America will ensure greater exports and strengthen these industries' demand for our corn.

Finally, I want to add a word on the importance that the NCGA attaches to obtaining improved market access for U.S. livestock products as a part of these negotiations. Any increase in international demand for U.S. meat and dairy products is obviously a good thing for U.S. corn producers, since corn is a major input in U.S. production of animal products. And it is in the livestock and dairy sectors that trade barriers remain the highest and potential for demand growth is the greatest in many markets.

U.S. corn growers know how valuable tariff cuts can be. For illustrations, we only have to look at NAFTA. Following the implementation of NAFTA, the value of U.S. corn exports to Mexico increased by 90 percent, from \$383 million in 1995 to \$728 million in 2004. Moreover, U.S. exports of pork increased by 918 percent, beef by 619 percent, poultry by 102 percent and dairy products by 211 percent. None of these gains would have occurred without the tariff reductions under the NAFTA.

BIOTECH-RELATED TRADE PROBLEMS AND ENFORCEMENT ISSUES

Of course, tariffs are not the only impediments to U.S. corn exports. We also face an array of non-tariff measures, many of which are related to our planting of corn varieties that have been improved through modern biotechnology. As you know, Mr. Chairman, biotechnology has produced many important benefits—for corn growers, for consumers and for the environment. Moreover, extensive scientific research has demonstrated that the biotech products on the market are as safe as they are effective. Nevertheless, several countries around the world have put in place regimes that restrict imports of certain biotech products.

Here again the problem begins in Europe. Since 1998 the EU has not imported any U.S. corn because of the use in the U.S. of biotech traits that are not approved for sale in the EU. This effective ban, which has cost U.S. corn growers over \$300 million in annual sales, is the result of the EU moratorium on the approval of new biotech traits. That moratorium is blatantly WTO-

inconsistent because it lacks a scientific justification. We were pleased that the administration eventually decided to challenge the EU actions under the WTO. Unfortunately, the dispute settlement panel that is hearing the case has delayed issuing its findings several times, and we now do not expect to see the initial ruling until after the first of the year.

Nevertheless, we are confident of eventual success. We fully expect the administration to use the results of the case to reopen the EU market for U.S. corn and to prevent other countries from implementing similar restrictions.

In the meantime, however, the EU has erected a new barrier to trade—the so-called traceability and labeling regime. These new rules require documentation regarding the presence of biotech traits in commodity shipments. This requirement could prove to be as effective a trade barrier as the current ban. In addition, the rules mandate the labeling of all products containing biotech ingredients. Since food companies believe that European consumers would perceive such labels as health warnings, they have reformulated their products to avoid having to label. Therefore, even if the U.S. is successful through the current WTO case in forcing the EU to implement a WTO-consistent regime for pre-market approval of biotech traits, access to that market will be seriously impaired by these new measures. Moreover, we are concerned that other countries might follow the EU example and adopt similar legislation, as they have done in the past.

The U.S. has the tools to address this issue. The traceability and labeling rules violate the EU' obligations under the WTO Agreement on Sanitary and Phytosanitary Measures and the Agreement on Technical Barriers to Trade. A number of groups representing U.S. agricultural producers and processors have called

on the administration to initiate a second WTO case challenging the EU regime. However, the administration has not yet responded.

I might add that we and European farmers see eye-to-eye on this issue. In our meetings with European producers they express their frustration that their own access to the new tools of biotechnology has been blocked by their governments. They are, after all, farmers like us and in this any many other areas simply want the freedom to operate in a competitive environment without undue government interference.

Tariff reductions and subsidy disciplines through trade agreements are the crucial, initial step towards providing access to foreign markets for U.S. producers. However, once the U.S. has secured market access, we must aggressively defend it by insisting that trading partner respect WTO rules. Otherwise, U.S. producers will be unable to take advantage of many of the benefits that trade agreements are supposed to deliver.

Let me mention one more enforcement issue that is not related to biotechnology. U.S. corn growers are suffering from unfair competition from the Chinese government in certain Asian

markets. Between 1995–96 and 2002–03, the U.S. share of the South Korean corn market fell from 95 percent to 4 percent, and the Chinese share increased from 0.5 percent to 89 percent. Over the same period, the U.S. share of the Malaysian market fell from 48 percent to 0.4 percent, and the Chinese share grew from 3 percent to 90 percent. There is good evidence that the China uses export subsidies put surplus corn into these markets, in direct violation of its WTO accession commitments. We are currently consulting with the administration on this issue, and we look forward to seeing them take decisive action to enforce WTO rules and protect the interests of U.S. growers.

In conclusion, Mr. Chairman, NCGA is pleased that the administration is aggressively pursuing trade liberalization through the Doha Round negotiations. We are prepared to consider changes in our domestic farm policies, but only as a part of a broader agreement that involves significant, tangible improvements in market access. In addition, we need a commitment from the administration to support the development of alternative, WTO-consistent domestic policies in the 2007 Farm Bill, and a more energetic effort to protect U.S. interests by ensuring compliance with WTO trade rules. Congress can help the administration in this regard by ensuring that the trade and agriculture agencies have the necessary resources to investigate and resolve non-tariff trade barriers. Thank you for your time and attention. I would be happy to answer any questions.

STATEMENT OF PETER KAPPELMAN

Mr. Chairman and members of the committee, I am Pete Kappelman, a dairy producer from Two Rivers, Wisconsin; chairman of Land O'Lakes, Inc. (LOL); and a Board Member of the National Milk Producers Federation (NMPF). NMPF works closely with the members and staff of the U.S. Dairy Export Council (USDEC) on issues of trade policy that promote U.S. dairy exports. I am pleased to appear before you today, representing the National Milk Producers Federation, to testify on the status of the World Trade Organization Doha Round negotiations.

I applaud the chairman and the ranking member of the House Agriculture Committee for having this hearing today. The scheduling of the hearing is, as you know, incredibly timely. If adopted, the current negotiating proposals from the U.S. or the G-20 would have a major impact on current U.S. programs and on the future of U.S. agriculture, as well as global agricultural markets.

America's dairy industry is the second largest agricultural commodity sector in the United States, as measured by farm cash receipts. There are 70,000 dairy producers in the U.S., farming in every State, from Vermont to California, Oregon to Florida, as well as in Alaska and Hawaii. Dairy is one of the top three agricultural sectors in fully half of the States, and almost two-thirds of the members of the House hail from one of these dairy States. Internationally, the U.S. is the world's largest single-country producer of cow's milk.

Impressive as those numbers are, they represent only the milk production side of the industry. Dairy processors, the companies that turn milk into yogurt, cheese, ice cream and milk powder, also add overall strength and employment to the impact of the industry as a whole on the country's economy. In addition, we know that our ability to increase production, which in turn impacts employment in both the producing and processing sectors, is almost unconstrained.

While historically, the U.S. dairy industry has not been heavily dependent on exports; our foreign sales have been on an upward trend for the past few years. U.S.

dairy producers still watch import levels with caution; however, given the recent export growth, the U.S. dairy industry believes that with bigger opportunities overseas, this WTO round could result in a positive outcome for us.

Unlike some other U.S. agricultural sectors, the U.S. dairy industry could face high levels of sacrifice in each of the three pillars. Despite the fact that in recent years USDA has not used the Dairy Export Incentive Program (DEIP) in a satisfactory manner that would allow us to even begin to counter EU subsidies, DEIP has been the only U.S. export subsidy used during that time. On market access, the U.S. dairy market is the most desirable and easiest to enter when compared to that of any other desirable dairy market around the world. Unlike Europe and other countries that raise spurious WTO claims to prevent imports (e.g., non-tariff barriers), the U.S. has used only its tariffs to moderately protect our market from unfairly subsidized imports. Finally, our domestic price support program has been a vital part of the U.S. dairy industry and the safety net on which our producers have counted. As you can see Mr. Chairman, the U.S. dairy industry has a significant amount to lose from these negotiations. We could be giving up a very important part of our support system in every single sector of the three pillars. This is why dairy negotiations must be carefully examined by this Committee to ensure that any concession by the U.S. is matched with not only reciprocal movements by other members, but in many cases we must see additional concessions from more protective markets.

For these reasons and the potential for huge reforms in the U.S. and globally, the National Milk Producers Federation is following closely all of the developments related to international trade agreements, but particularly those of the Doha Round, given its primary importance. We welcome every opportunity to provide input to Congress and to our trade negotiators. If there is one message that members of the House Agriculture Committee should take away from this testimony, it should be that the U.S. dairy industry, although supportive of the direction our negotiators are leading us in, will never commit to unilateral disarmament or an inequitable level of concessions.

Markets need to be opened overseas before we commit to sizable new openings in our own domestic market. Similarly, other countries must commit to reducing their heavy subsidies and lower their much higher tariffs before we take on further commitments.

With those concerns noted, however, it's important to recognize that we've reached a point we've been working towards for the past ten years. Since 1995, the U.S. dairy industry, and in particular the U.S. Dairy Export Council, has worked hard to develop dairy exports with great success. Our exports have changed from primarily government-assisted to market-driven. We've seen success abroad, particularly with table and foodservice cheeses, and whey proteins and lactose. More recently, of course, non-fat dry milk has surged under favorable market conditions, as well as commitment by U.S. suppliers to serve the export market. This success was evidenced by record-high exports last year of \$1.5 billion, with exports this year on a similarly heated pace.

NMPF's Cooperatives Working Together (CWT) program has further complemented the boost to producers' bottom lines that our exports have helped to support. CWT is a voluntary producer-led program that costs participating producers a nickel per hundredweight of milk to fund programs intended to help stabilize milk prices. These programs currently consist of a carefully structured herd retirement program and an export assistance component. CWT has been instrumental in helping to contribute to the solid prices producers have enjoyed for the past few years. It is also expected to continue to work hand in hand with the price support program to provide a greater degree of predictability and sanity to milk prices.

Though the situation facing the U.S. dairy industry has sharply improved in recent years, it would be a disservice to U.S. dairy producers to continue the inequities in the global markets. That's because two things are certain: (1) our industry will continue to experience great change and (2) the volatility of the world dairy market has not yet diminished.

This requires action on the industry's part. We must continue to innovate and develop new value-added products, including ways to utilize dairy ingredients in a wider array of products. We also must better explain the benefits of dairy. Our industry must also step up to the plate and fight for market share against traditional dairy exporting powerhouses such as the EU, Australia and New Zealand, as well as and up-and-coming dairy industries in countries such as Argentina, Chile and Uruguay. Both groups are innovating and are eager to participate in the expected growth in world-wide dairy consumption. Moreover, we must be especially ready to seize opportunities likely to arise on the world market as a result of a successful Doha Round.

In order to make the most of these possibilities, however, we need a good agreement from our negotiators: one that will usher in a world without export subsidies; one with equity in tariff barriers (greater access for our products) and more equal levels of domestic support between the U.S. and the EU, while maintaining high enough levels of funding to support U.S. agriculture in all manner of WTO colored boxes. Although a successful Doha Round may require some changes to U.S. domestic support, the U.S. dairy industry remains interested in keeping our price support program as the primary dairy safety net.

The obvious benefits to the U.S. dairy industry from a successful Doha Round are why we have been supportive of U.S. negotiators' positions with respect to the direction needed in the Doha Round. We strongly support the drive to swiftly eliminate export subsidies. We believe that movement towards harmonization of market access levels will be beneficial for our industry. And finally, we recognize that domestic support is one of the three main pillars of these negotiations and as such, its allowed levels must be reduced. What is vital with respect to this pillar, however, is that others with higher trade-distorting subsidies than the U.S. be asked to cut more and that the U.S. is able to continue providing a strong safety net for its producers. This safety net must be able to go beyond simply providing green payments to include the ability to fund the dairy price support program.

U.S. dairy producers will be closely monitoring developments in the negotiations. Any special treatment given to a foreign country's dairy sector will be unacceptable if that special consideration is not provided to U.S. dairy producers. We just want a fair deal. Countries where dairy is heavily protected should not be allowed to have special treatment for their dairy industries, if the U.S. does not obtain the same privileges. We support an agreement without any special treatment for dairy, but we must warn Congress and our negotiators against granting any non-reciprocal special concessions to other countries.

EXPORT SUBSIDIES

By removing excess product from the global market, the elimination of export subsidies would help allow our products to compete with the artificially distorted world price. Because of this, the U.S. dairy industry is an ardent advocate for swift and complete elimination of export subsidies. Throughout the elimination period, the EU should not be allowed to shift its subsidy allowances from one product to another. Furthermore, phase-out commitments must apply to both value and quantity in order to assure greater fairness during the implementation period.

MARKET ACCESS

Lower tariffs and higher quotas would also increase export opportunities and introduce more consumers to U.S. dairy products. That's provided that import levels are expanded in a fair manner. While we recognize that we will be asked to accept more imports into the United States, it is only fair that others with more closed markets make a proportionately larger contribution.

In order to be able to take advantage of market access opportunities, though, it's vital that other non-tariff regulations do not stand in the way. We recognize the possibility that new challenges might arise for our industry in the form of sanitary and phytosanitary (SPS) issues. SPS issues are often used as non-tariff barriers to block exports in ways even more effective than prohibitive tariff levels. Countries cannot be allowed to negate their market access commitments by throwing up SPS barriers that are not based on sound science in their place.

DOMESTIC SUPPORT

Finally, with respect to the third pillar of negotiations, it is imperative that our government preserve the ability to provide a strong safety net for U.S. dairy producers. We can support reducing the current levels of allowed subsidies under the Amber box as long as it is done in a manner that brings some equity into the current scenario. The Blue box provisions should be always available to all U.S. producers (including dairy) if they are available to other countries. Green box payments should remain unrestricted in order not to discourage countries from moving in the direction of greater use of these non-trade-distorting payments.

Most importantly, however, the United States should only accept reductions in domestic support as part of a package that includes elimination of export subsidies and proportionally larger market access through some form of harmonization. Unless negotiations reduce serious disparities in the levels of government support and offer significant market access in all countries, developed and developing, the

United States must continue its current levels for internal programs that counter heavy subsidization by Europe and other OECD members.

GEOGRAPHICAL INDICATIONS

In addition to issues related to the three pillars, one “side” issue is of particular importance to the dairy industry—that of geographical indications (GIs). The creation of a world-wide geographical indications registry, as the EU has proposed, would be devastating for the U.S. dairy industry. We urge our negotiators to continue to vigilantly fight to protect the well-known product names in which so many companies here have made significant investments.

However, we are aware that GIs continue to be a priority for the EU. Moreover, domestically, the EU continues to propose changes on this topic and to challenge EU member countries that refuse to comply with its internal mandate. This is an approach that has divided the European continent between those who want to capture and monopolize generic names versus those who believe that generic names, as well as trademarks, are protected both by laws and by years of marketing and development.

We must remain vigilant to ensure that the EU does not seek a trade-off between the elimination of export subsidies and further access in agriculture in exchange for an unprecedented expansion of GIs protection in the international realm. I know that Chairman Goodlatte, in particular, is quite well-versed on the dangers of this proposal by the European Union and is strongly in opposition to it. I would urge all members of this committee to vocally communicate their opposition to a global GIs registry to our negotiators in order to underscore the importance of standing firm on this issue in the face of strong EU support for its creation. Under no terms should the U.S. government agree to a trade-off between GIs and progress in the agricultural negotiations.

Finally, I would like to comment briefly on the latest developments in the WTO negotiations. At the end of last week, the EU released a new agriculture proposal. Although a lot of focus has been placed on their new market access offer, we must first point out that the EU’s domestic support offer to maintain the high level of disparity between the U.S. and the EU in Amber box support is unacceptable.

We view the reduction percentages for developed countries—in the new EU proposal as at least a starting point for negotiations. However, it is the details of the expansion on markets that are unacceptable from the basis of the U.S. offer.—The sensitive products aspect of the EU proposal would maintain the inequities that currently exist in the world dairy trade, especially between the EU and the US. Their new formula is irrational at best; TRQs would be expanded less for the products subject to higher tariffs, rather than the other way around.

Members of the House Agriculture Committee must focus very carefully on what the U.S. is prepared to give in both domestic support and market access compared to what it gets in return. The EU proposal with respect to domestic support and market access does not reflect a balanced proposal when compared to the recent U.S. offer.

Also important to note in the EU’s new proposal is its reiteration of the importance of GIs to the Europeans. Again, the U.S. dairy industry will not tolerate a multilateral GI registry that attempts to “claw-back” the generic product names in which we have invested so much throughout their many years of use. We hope to gain new export opportunities from this round, but stringent GI regulations would impose a tremendous cost on U.S. producers and processors. It would force us to reject such an agreement because of the strong net negative result which would occur.

While we continue to work with U.S. negotiators and Congress on all of these issues, the U.S. dairy industry will strive to further encourage our industry to become more efficient. Even as we become more competitive, however, we will need to work hard to ensure that we have a solid dairy producer community that is dedicated to producing quality dairy products both for domestic and international markets. The Doha Round remains the single best shot we have at trying to improve the situation our industry faces here and abroad. American dairy producers and processors remain deeply engaged in its negotiations.

In order to best support your agricultural industries interests, I would urge all members of this committee to monitor the developments of this Round closely and to communicate their priorities and concerns for their producers to our negotiators to underscore the messages they are receiving from industry organizations. I appreciate the opportunity to provide comments on this important issue to this committee. Thank you.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

Farm Bureau believes that the World Trade Organization (WTO) is important to the future of agriculture in the United States and around the world. The trade negotiation, standard-setting and dispute-settlement functions of the WTO strive to provide a stable and predictable world trading environment for U.S. agriculture. With the production of one-fourth of U.S. cropland destined for foreign markets, U.S. agriculture is strongly export dependent. Our farmers and ranchers know that the best place to receive the end price for the crops we raise and the livestock we nurture is the marketplace. A marketplace void of the ability to export our goods will lead to higher consumer prices and higher risks in our ability to provide consumers around the world with the highest quality of goods.

Because exports are so critical to U.S. agriculture, we must have a structure to address the many trade-related issues before the U.S. The 148-member WTO operates to provide that structure through a rules-based environment for continued growth in markets for America's farmers and ranchers. At this time, the WTO is our best chance at resolving differences in global trade.

The recent discussions around the October 10 U.S. proposal have given direction to the current WTO agriculture negotiations. The proposal seeks to achieve meaningful market access through major reductions in tariffs while reducing spending on trade-distorting domestic support programs and incorporates crucial linkage between these areas.

Real trade reform must include substantial, ambitious and quantifiable expansion in access to markets. We recognize that to achieve a successful outcome the U.S. must do its share in reforming trade distorting domestic support programs while developed and developing countries must do their share in expanding market access opportunities. Farm Bureau will weigh the outcomes of these negotiations to determine if they provide an overall economic benefit to U.S. agriculture.

Market Access

The world average tariff on agricultural imports is 62 percent while the U.S. average agricultural tariff is 12 percent. The July 2004 Framework Agreement supports the use of a formula for reducing all agricultural tariffs so that high tariffs would be reduced more than low tariffs, thus reducing the gap between high-tariff and low-tariff products. The U.S. proposal includes a cap on tariffs of 75 percent and progressive cuts with the highest tariffs being reduced 90 percent. A final agreement on tariffs must result in significant percentage reductions that provide commercially meaningful access.

Sensitive Products—The framework agreement allows all countries, developed and developing, to negotiate a number of sensitive products that will be subject to smaller tariff cuts. Our goal is to assure that the number of sensitive products is limited so that meaningful market access is achievable as a result of these negotiations. The recent U.S. proposal to limit the number of tariff lines to one percent would achieve that result.

Tariff-Rate Quotas—A method to expand market access is to have a nation agree to a tariff-rate quota (TRQ) for a specific product. A TRQ is a reduced tariff on a specified amount of imported product. The U.S. would gain increased exports if countries actually filled their TRQs. The U.S. proposal would provide compensation through expanded TRQs if countries did not reduce tariffs. This negotiation must result in a requirement that nations fill their agreed upon TRQs in order to help accomplish the goal of commercially meaningful market access.

Special and Differential (S&D) Treatment—Developing countries, and in particular least developed countries (LDCs), have received S&D treatment to give them more time to adjust to competition. While the LDCs clearly require greater protection, the agricultural sector in some developing countries, such as Brazil, are actually highly developed and competitive. It is unreasonable to provide those countries special treatment. Those countries must assume greater obligations to increase market access.

DOMESTIC SUPPORT

U.S. agriculture will negotiate reductions in trade-distorting domestic supports as part of an overall agreement that increases market access in both developed and developing countries. Under the framework agreement, countries must commit to "substantive reduction" in domestic support levels. The recent U.S. proposal could lead to changes in domestic support programs that will create economic challenges for some commodities. In the long term, U.S. agriculture will overcome these challenges through the expanded opportunity for exports created by specific and measurable improvements in market access.

The WTO categorizes domestic support into the amber, blue and green boxes.

Amber Box—The amber box is composed of domestic support programs that are used to support prices or are directly related to production and are viewed as trade-distorting. An example is the U.S. marketing loan program. The framework agreement calls for substantive reduction in trade-distorting domestic support. The U.S. proposal adds greater specificity with a 60 percent reduction for the U.S. and an 83 percent reduction for the European Union (EU) and Japan. Any reductions in domestic support must be balanced against improvements in the area of market access in order to advance export prospects for our farmers and ranchers.

Blue Box—The blue box includes agricultural support programs that are not related to production and are considered less trade-distorting. The July 2004 Framework Agreement includes criteria that will allow U.S. countercyclical programs to be included in the blue box. We support the framework blue box changes but oppose any further criteria which would limit U.S. utilization of the blue box. The recent U.S. proposal includes a cap of 2.5 percent of agricultural output for programs that meet the blue box criteria for the U.S., EU and Japan.

Green Box—No caps should be placed on non-trade-distorting support. U.S. green box programs include research, extension, conservation and part of the crop insurance programs. Farm Bureau supports the U.S. proposal which does not include any changes in green box criteria.

Market access and domestic support negotiations must be directly linked for any substantive agricultural trade liberalization. While the U.S. uses domestic programs to assist producers, most nations use high tariffs. Many tariff lines exceed 100 percent to provide import protection for agricultural producers. Both mechanisms of support tariffs and domestic programs must be addressed together to achieve a successful negotiation.

EXPORT COMPETITION

We support the complete elimination of export subsidies as contained in the framework agreement. The EU spends from \$3 billion to \$5 billion a year on export subsidies and is allowed to spend as much as \$8 billion under the current WTO agreement. The EU accounts for about 88 percent of the world's export subsidies and uses them to market products of export interest to the United States. Farm Bureau also supports the framework agreement to phase-out and eliminate of the trade-distorting practices of state trading enterprises, such as the Canadian and Australian wheat boards.

The U.S. proposal supports disciplines on food aid to help minimize commercial displacement and opposes converting all food aid to a cash-only basis.

Reduction in the subsidy component of existing export credit programs should be implemented in a parallel manner with the phase-out of export subsidies and the elimination of the monopoly powers of state trading enterprises.

Geographical Indicators

There must be no extension of geographical indications beyond wines and spirits. Issues of product labeling should be dealt with by the intellectual property system and not as a part of the Doha negotiation.

Farm Bureau believes completion of a successful WTO Doha agriculture negotiation is the best way to achieve progress in a wide variety of international agricultural trade concerns. A final agreement must build on the July 2004 Framework Agreement, which calls for substantial improvement in market access, trade-distorting domestic support and export competition. The U.S. proposal adds the specifics necessary to have a successful WTO ministerial meeting in Hong Kong in December 2005. Any proposals offered by other nations must match the ambition set by the U.S.

Statement Of

Jon Caspers

National Pork Producers Council

**Before the
House Agriculture Committee**

On

**Status of World Trade Organization
Negotiations on Agriculture**

November 2, 2005

Mr. Chairman and Members of the Committee:

I am Jon Caspers, Past President of the National Pork Producers Council (NPPC) and a pork producer from Swaledale, Iowa. I operate a nursery-to-finish operation, marketing 18,000 hogs per year.

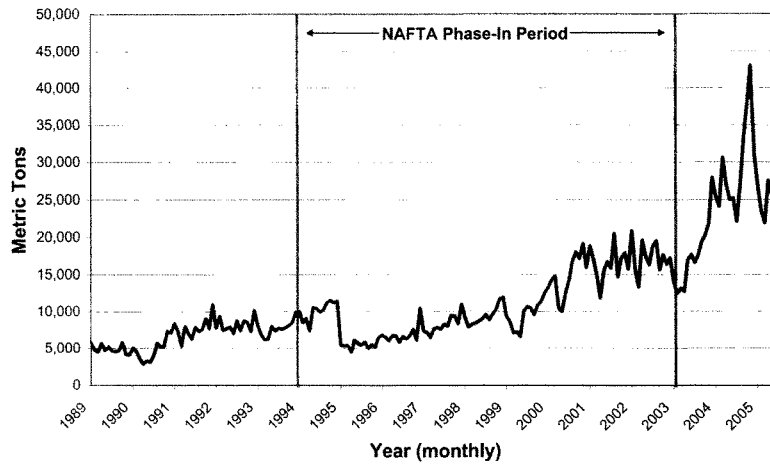
Mr. Chairman, I greatly appreciate everything that you and other members of this Committee have done to advance U.S. agricultural exports. I strongly believe that the future of the U.S. pork industry, and the future livelihood of my family's operation, depend in large part on further trade agreements and continued trade expansion.

The National Pork Producers Council is a national association representing pork producers in 44 affiliated states that annually generate approximately \$11 billion in farm gate sales. The U.S. pork industry supports an estimated 565,761 domestic jobs and generates more than \$83.6 billion annually in total economic activity. With 11,492,000 litters being fed out annually, U.S. pork producers consume 1.093 billion bushels of corn valued at \$2.404 billion. Feed supplements and additives represent another \$2.393 billion of purchased inputs from U.S. suppliers which help support U.S. soybean prices, the U.S. soybean processing industry, local elevators and transportation services based in rural areas.

Pork is the world's meat of choice; it represents 44 percent of daily meat protein intake in the world. (Beef and poultry each represent less than 30 percent of daily global meat protein intake.) As the world moves from grain based diets to meat based diets, U.S. exports of safe, high-quality and affordable pork will increase because economic and environmental factors dictate that pork be produced largely in grain surplus areas and, for the most part, imported in grain deficit areas. However, the extent of the increase in global pork trade – and the lower consumer prices in importing nations and the higher quality products associated with such trade - will depend substantially on continued agricultural trade liberalization.

In 2004, U.S. pork exports set another record; exports totaled 1,023,413 metric tons (MT) valued at \$2.2 billion, an increase of 35 percent by volume and 41 percent by value over 2003 exports. 2005 is shaping up to be another record year. Much of the growth in U.S. pork exports is directly attributable to new and expanded market access. U.S. exports of pork and pork products have increased by more than 337 percent in volume terms and more than 293 percent in value terms since the implementation of the NAFTA in 1994 and the Uruguay Round Agreement in 1995. The top 7 export markets in 2004 are all markets in which pork exports have soared because of recent trade agreements.

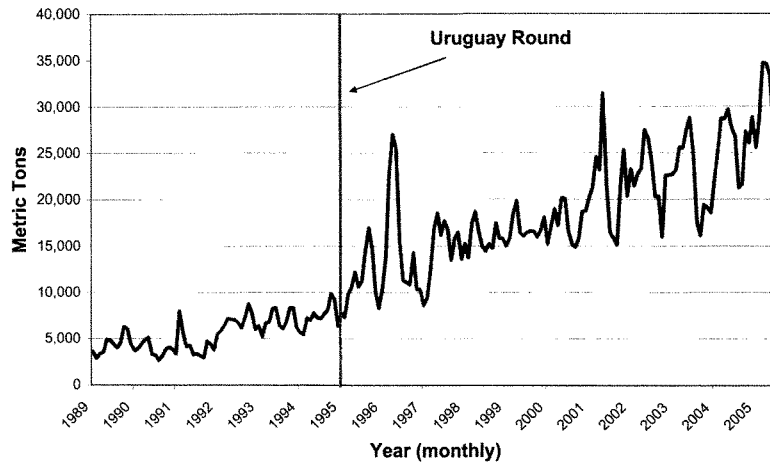
U.S. Pork Exports to Mexico



Mexico

In 2004 U.S. pork exports to Mexico totaled 361,587 metric tons valued at \$566 million. Without the NAFTA, there is no way that U.S. exports of pork and pork products to Mexico could have reached such heights. Mexico is now the number one volume market for U.S. pork exports and the number two value market. U.S. pork exports have increased by 279% in volume terms and 406% in value terms since the implementation of the NAFTA growing from 1993 (the last year before the NAFTA was implemented), when exports to Mexico totaled 95,345 metric tons valued at \$112 million.

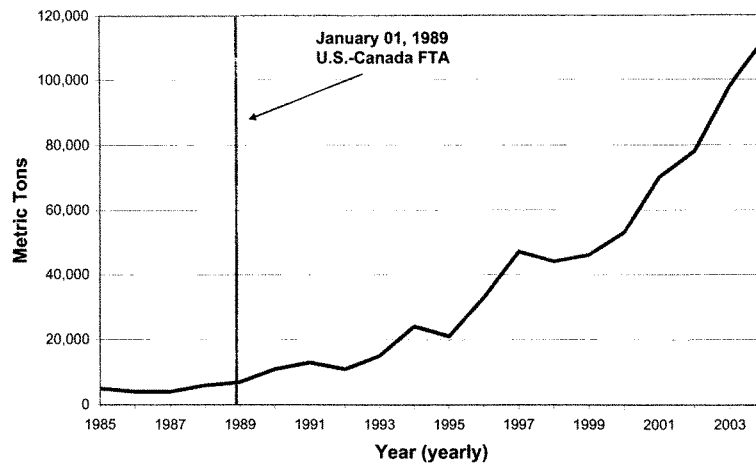
U.S. Pork Exports to Japan



Japan

Thanks to a bilateral agreement with Japan on pork that became part of the Uruguay Round, U.S. pork exports to Japan have soared. In 2004, U.S. pork exports to Japan reached 313,574 metric tons valued at \$979 million. Japan remains the top value foreign market for U.S. pork. U.S. pork exports to Japan have increased by 274% in volume terms and by 182% in value terms since the implementation of the Uruguay Round.

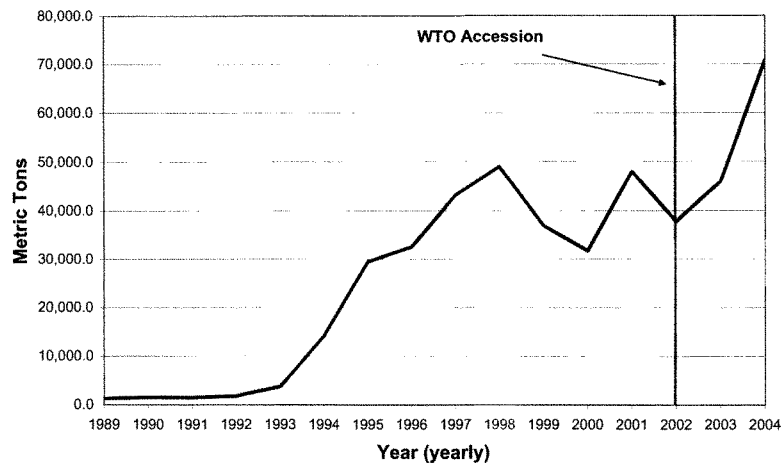
U.S. Pork Exports to Canada



Canada

U.S. pork exports to Canada have increased by 1,773% in volume terms and by 2,429% in value terms since the implementation of the U.S. – Canada Free Trade Agreement. In 2004, U.S. pork exports to Canada increased to 112,360 metric tons valued at \$301 million.

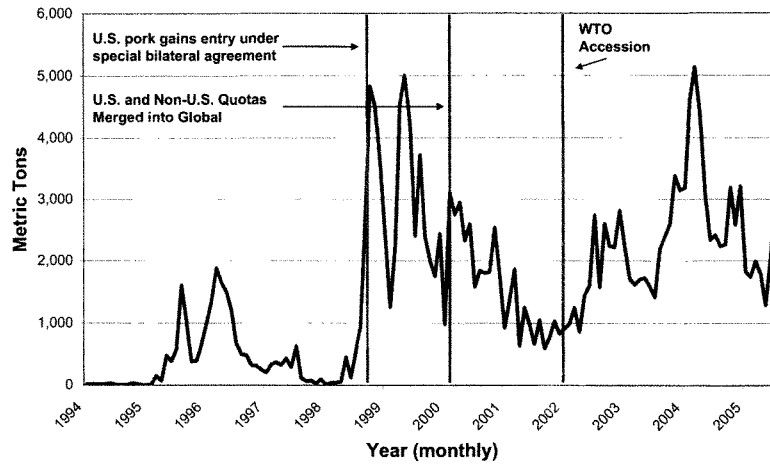
U.S. Pork Exports to China



China

U.S. exports of pork and pork products to China increased 51% in value terms and 41% in volume terms in 2004 versus 2003, totaling \$91 million and 79,701 metric tons. U.S. pork exports have exploded because of the increased access resulting from China's accession to the World Trade Organization. Since China implemented its WTO commitments on pork, U.S. pork exports have increased 38% in volume terms and 38% in value terms.

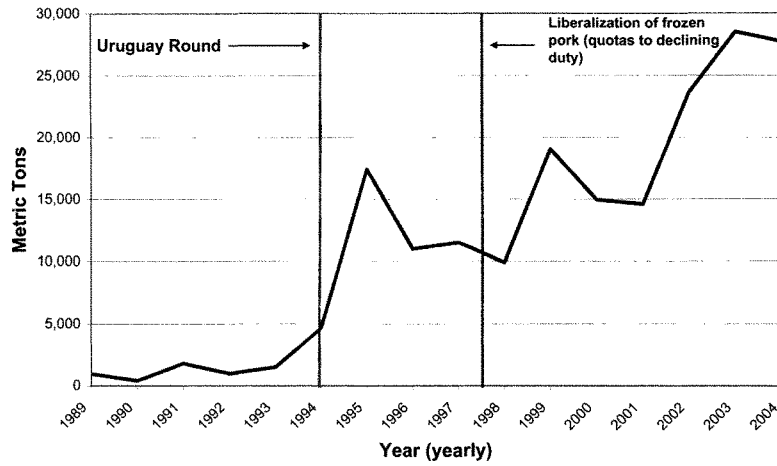
U.S. Pork Exports to Taiwan



Taiwan

U.S. exports of pork and pork products to Taiwan increased to 38,806MT valued at \$56 million. U.S. pork exports to Taiwan have grown sharply because of the increased access resulting from Taiwan's accession to the World Trade Organization. Since Taiwan implemented its WTO commitments on pork, U.S. pork exports have increased 207% in volume terms and 197% in value terms.

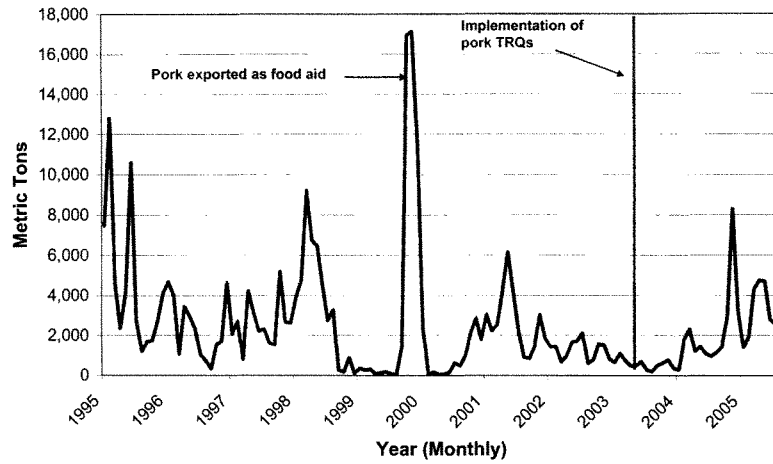
U.S. Pork Exports to Korea



Republic of Korea

U.S. pork exports to Korea have increased as a result of concessions made by Korea in the Uruguay Round. In 2004 exports climbed to 27,876MT valued at \$56 million, an increase of 724% by volume and 558% by value since implementation of the Uruguay Round.

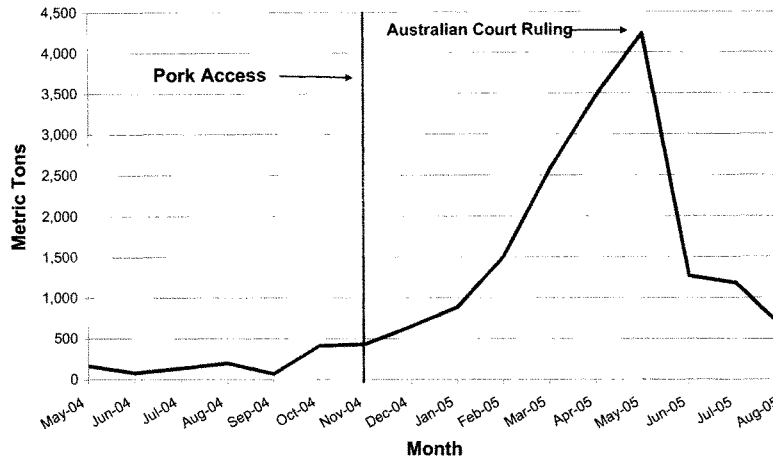
U.S. Pork Exports to Russia



Russia

U.S. exports of pork and pork products to Russia increased 450% in value terms and 270% in volume terms in 2004 versus 2003, totaling 27,152MT valued at \$42 million. The increase in exports is due largely to the establishment of country specific pork quotas which were established by Russia as part of its preparation to join the World Trade Organization. The spike in U.S. pork export to Russia in the late 1990's was due to pork shipped as food aid.

U.S. Pork Exports to Australia



Australia

The U.S. pork industry did not gain access to Australia until recently, thanks to the U.S. – Australia FTA. U.S. pork exports to Australia have exploded in 2005 making Australia one of the top export destinations for U.S. pork. Pork exports to Australia on a value basis during the eight months of 2005 were just under \$46 million. In late May, an Australian Court ruled against Biosecurity Australia's pork import risk assessment which allows processed U.S. pork or frozen unprocessed pork to be exported to Australia for further processing. Without this disruption in the Australian market, U.S. producers would have already surpassed the estimated \$50 million in exports to Australia.

Impact of Pork Exports on Prices

The Center for Agriculture and Rural Development (CARD) at Iowa State University has calculated that in 2004, U.S. pork prices were \$33.60 per hog higher than they would have been in the absence of exports. According to Dr. Glen Grimes of the University of Missouri, through the first 7 months of 2005, cash hog prices were about 15% higher than otherwise would have been the case if there had been no increase in exports in 2005 compared to 2004.

Impact of Pork Exports on Jobs

The USDA has reported that U.S. meat exports have generated 200,000 additional jobs and that this number has increased by 20,000 to 30,000 jobs per year as exports have grown.

Impact of Pork Exports on Economy

The U.S. Bureau of Economic Analysis (BEA) has calculated that for every \$1 of income or output in the U.S. pork industry, an additional \$3.113 is generated in the rest of the economy. The USDA has reported that the income multiplier from meat exports is 54% greater than the income multiplier from bulk grain exports.

Impact of Pork Exports on Feed Grain and Soybean Industries

Each hog that is marketed in the United States consumes 12.82 bushels of corn and 183 pounds of soybean meal. With an annual commercial slaughter of 100 million animals, this corresponds to 1,282 million bushels of corn and 9.15 million tons of soybean meal. At least 11% of this production is exported, and these exports account for approximately 141 million bushels of corn and 1 million tons of soybean meal.

The Importance of the WTO

International trade is vital to the future of American agriculture. As the world's largest exporter of agricultural products we have a critical interest in the development and maintenance of strong and effective rules for international trade. This is especially true for pork. U.S. producers were largely precluded from exporting significant volumes of pork to foreign markets before effective major trade agreements, in particular the WTO Uruguay Round Agreement. Prior to that time, a combination of foreign market trade barriers and highly subsidized competitors significantly limited U.S. pork exports.

No trade agreement under negotiation is more important than the Doha Round negotiations. Ninety-six percent of the world's population lives outside the United States. Agricultural tariffs of countries other than the U.S. average 62 percent. Import duties on pork in these countries are even higher, averaging 77 percent. A successful Doha Round will create very significant new export opportunities for U.S. pork.

People frequently talk about trying to achieve "a level playing field" through the WTO negotiations. The U.S. pork industry is already trying to operate on its own level playing field. The average U.S. import duty on pork is about one percent. We receive no domestic subsidies, and no export subsidies. Because we get no subsidies or import protection, we have to rely on the market to be profitable. That is precisely why the WTO negotiations are so important to us.

A Critical Period for the WTO Negotiations

U.S. negotiators deserve high praise for the work they have done thus far to advance the WTO negotiations. They were successful in ensuring that these negotiations will take place as a "single undertaking", under which all components of the negotiations, agriculture, non-agricultural market access, services, etc., are part of a single negotiating enterprise. This ensures that the more sensitive areas of the negotiations, and agriculture is without question the most sensitive, are not left behind in order to achieve agreements in other areas. In addition, U.S. negotiators have been successful in establishing a broad negotiating mandate in agriculture, covering market access, export subsidies and domestic support.

The WTO negotiations and the agricultural negotiations in particular, are now entering a critical phase. Negotiators have set the WTO Ministerial to be held in Hong Kong in December 2005 as the deadline for achieving agricultural “modalities”, or specific formulas for reductions in tariffs, reductions in domestic support, and the elimination of export subsidies. Achieving a modalities agreement by the end of this year will in turn give countries the time they will need to finalize their specific WTO commitments with respect to agriculture in 2006. The need to finalize the WTO negotiations by the end of 2006 is in turn driven by the expiration of U.S. Trade Promotion Authority (TPA) in 2007.

In our view, the chances that the Hong Kong Ministerial will be successful have increased with the Administration’s recent announcement that it is willing to not only make deep cuts, but eventually eliminate, trade distorting domestic support, in exchange for major improvements in market access from our trading partners. We fully support the Administration’s bold move on domestic support. From recent statements made by WTO Director General Pascal Lamy and other objective observers, it is clear that the U.S. domestic support offer has put the focus of the negotiations where it rightfully belongs, on the refusal to this point of the EU, Japan and other high tariff countries to offer major improvements in market access.

It will take continued strong leadership from the United States, and a tireless effort on the part of U.S. negotiators, to steer the agricultural negotiations to a successful meeting in Hong Kong. Based on my comments to this point, it should be apparent to the Committee that success in this negotiation is of vital interest to the U.S. pork producers.

Zero-for-Zero Negotiating Objective for Pork in the WTO

As already noted, U.S. pork producers have been a major beneficiary of past trade agreements. However, our ability to reap further benefits is severely hampered by the continued existence of trade-distorting policies. Import barriers remain high in many important markets, and the EU continues to use subsidies to capture and maintain market share. The elimination of such unfair trade practices is essential to the future health of the U.S. pork industry.

U.S. pork producers have therefore proposed that the United States adopt as a primary negotiating objective in the WTO trade negotiations the total elimination, in the shortest possible time frame, of all tariffs, all export subsidies and all trade-distorting domestic subsidies for pork and pork products. The U.S. pork industry, in concert with U.S. trade negotiators, is working to gain support for this initiative among other WTO members. The United States should continue to use its negotiating leverage to push this objective with other WTO members, with the goal of ensuring we are afforded the best possible opportunity to take advantage of our natural competitiveness.

WTO NEGOTIATING OBJECTIVES FOR THE AGRICULTURE SECTOR

The U.S. pork industry does not view its zero-for-zero initiative in any way as a substitute for a comprehensive negotiation in agriculture. Fundamental liberalization in the pork industry can be most easily achieved in the context of an ambitious overall agreement. Therefore, NPPC’s negotiating objectives for the agricultural sector as a whole are provided below.

Market Access

Tariff Reductions

Notwithstanding the progress made in the Uruguay Round, tariffs on agricultural products remain very high. As previously indicated, the average import duty for pork in other WTO countries is 77 percent, and the average import duty on all agricultural products is 62 percent. Meanwhile, the average U.S. agricultural import duty is 12 percent, and on pork, only 1 percent. The current inequities that the United States faces on import duties in the WTO can only be corrected through the use of a harmonizing formula that results in larger cuts on higher import duties.

NPPC has been an advocate of the Swiss formula, which would result in deeper reductions in higher tariffs based on the universal application of an arithmetic formula to all tariff lines. Current discussion in the WTO has moved in the direction of a “tiered” approach, under which different tariff ranges would be subject to different size reductions, with the highest ranges of tariffs subject to the highest cuts. NPPC fully supports the new U.S. proposal, issued on October 10, 2005, for deep cuts in high tariffs by developed countries. We believe that cuts of this magnitude will be needed to create significant improvements in market access. While recognizing the need for special and differential treatment, which I will address later in my testimony, we urge U.S. negotiators to seek cuts of similar magnitude for developing countries, other than those that are least developed.

The best example of the importance of tariff cuts to the U.S. pork industry is Japan. Japan is the largest market for U.S. pork exports. However, Japan imposes high duties on pork imports if they fall below a pre-established “gate price”. The highest single market access priority of the U.S. pork industry in this trade round is obtaining a major reduction in the level of the gate price that Japan applies to pork imports, combined with a major reduction in the import duties which Japan applies on pork imports that are priced below the gate price. In addition, it is important that the special safeguard that Japan applies to pork imports be eliminated in this trade round. That safeguard creates substantial volatility in the Japanese market, and has in recent years acted as a serious obstacle to U.S. pork exports.

Sensitive Product Designation

The July 2004 “Framework Paper”, developed by the Chairman of the WTO agricultural negotiations as a benchmark for future negotiations, allows for countries to designate an unspecified number of products as “sensitive”. These products will be subject to more lenient treatment as far as tariff cutting requirements are concerned. Expansion of tariff rate quotas is mentioned as an alternative option for trade liberalization for these products. The number of products that can be designated as sensitive is subject to further negotiation. We expect many countries will want to make use of the “sensitive product” designation for pork. For this reason, we fully support the new U.S. proposal that the sensitive product designation should be limited to no more than one percent of tariff lines, and that compensation for the sensitive product designation should be required in the form of significantly expanded tariff rate quotas.

Tariff Caps

Another issue of importance in the market access negotiations is the question of whether tariffs should be “capped” at maximum levels, in cases where tariffs are currently so high that tariff cutting requirements do not yield commercially meaningful results. NPPC supports a tariff capping requirement. As already mentioned, the U.S. pork industry is forced to deal with excessively high tariffs in countries around the world. To provide one example, Norway has a WTO bound rate of 363 percent for pork. Tariff capping would be the most effective way of bringing such high tariffs down to more reasonable levels. For this reason, we fully support the October 10 U.S. proposal for a 75% tariff ceiling in developed countries.

Special and Differential Treatment

There is another market access issue that, in the view of the NPPC, is of critical importance to the success of the WTO agricultural negotiations. Under the July 2004 Framework Agreement, developing countries will be given “special and differential treatment” when it comes to market access liberalization requirements. This includes more lenient requirements for tariff reductions and tariff rate quota expansion, allowance of additional sensitive product designations, and allowance for the establishment of a special safeguard.

NPPC fully understands and supports the need for special and differential treatment for the poorest, least-developed countries. However, the application of special and differential treatment for all countries that meet the broad definition of a “developing country” could have a very detrimental effect on the agricultural market access negotiations.

For example, NPPC does not believe that Brazil, a middle-income country that has seen explosive growth in its pork exports in recent years, should be allowed to receive special treatment when it comes to market access liberalization for pork. Looking at the impact of this proposal on a regional basis, exemptions for special and differential treatment could have particularly negative impact on market access results in the Pacific Rim, where 56 percent of the growth in world population and 48 percent of world economic growth are expected to take place over the next five years. Allowing key countries in this and other regions of the world to take advantage of special and differential treatment could substantially diminish the trade liberalization impact of the Doha Development Agenda.

NPPC believes it is of critical importance that U.S. negotiators work in coming weeks to achieve objective criteria for special and differential treatment that will exclude countries that are competitive agricultural exporters, as well as middle income countries. In addition, objective economic criteria should be agreed on that will allow for the graduation of countries from developing country to developed country status. In our view, the recent U.S. offer on major domestic support reductions has made a U.S. request for such restrictions on the developing country designation extremely credible.

Tariff Rate Quota Expansion and Administration

The U.S. pork industry faces tariff rate quotas in many of its primary markets around the world. As mentioned earlier, under the existing Framework Agreement, if a country designates a product as “sensitive”, it will be obliged to expand tariff rate quotas, or TRQs. Because of the prevalence of TRQs

in agricultural trade, it is important that all existing TRQs, regardless of whether or not they are designated as "sensitive", be substantially expanded through these trade negotiations.

By far the best example of the restrictive impact of TRQs on U.S. pork exports is the European Union. During the Uruguay Round, the EU established TRQs on pork that represented far less than 1 percent of domestic consumption. Measured as a percentage of domestic consumption, even developing countries like the Philippines did a far better job of offering TRQ opportunities in the Uruguay Round than the EU. Such limited access to the EU pork market is particularly frustrating for our industry, since the United States is one of the best markets that the EU has for its pork exports.

Unfortunately, in some cases, like that of the EU, the administration of TRQ's has also been used as an instrument to thwart imports. These kinds of problems arise from the lack of clear, specific rules on import licensing and the administration of TRQs. In the WTO agriculture negotiations, rules on TRQ administration must be clearly delineated, in a manner that prevents import licensing from becoming a disguised restriction to trade.

In addition, the high in-quota rates on TRQs in the EU and other countries should be either sharply reduced or completely eliminated.

EU SPS Barriers

Of course, U.S. pork exporters face more than just TRQ restrictions in the European Union. The EU maintains onerous residue testing requirements, as well as other unneeded disease related testing requirements, that add significantly to the cost of exporting pork to the EU. Needlessly difficult and costly EU plant approval requirements pose yet another major obstacle to U.S. pork exports. NPPC believes many EU SPS requirements operate in direct violation of the principle of "equivalence", as that term is defined in the WTO SPS Agreement.

The EU has erected the most formidable set of SPS barriers to pork imports of any U.S. trading partner in the world. The vast majority of EU SPS regulations provide no additional protection to EU consumers. In fact, the EU has been unable to enforce its own SPS rules in some EU Member States. So, the EU's daunting list of SPS requirements ultimately serves only one purpose - to restrict imports.

In 1985 the EU accounted for 20 percent of total U.S. pork exports. Today it accounts for less than one percent. Almost all of this decline can be attributed to unfair EU SPS barriers to trade. It is imperative that U.S. negotiators move quickly to address EU SPS issues in an aggressive and systematic way, in order to ensure that this trade round results in real trade liberalization in the EU.

Final Comments on Market Access in the EU

Before I leave the issue of market access I want to again underline the importance of major improvements in market access in the EU. If price competitiveness and product quality were the deciding factors in selling to the EU, Europe would be one of the largest markets in the world for U.S. pork exports. With the EU's recent expansion, it now represents a market of over 400 million mostly high income consumers. However, U.S. pork sales to the huge EU market remain negligible, due to a combination of tight TRQ restrictions and completely indefensible SPS barriers.

It has always been difficult to respond to U.S. producers who ask why the U.S. offers an essentially open market to EU pork, while the EU market remains highly restricted for U.S. pork exports. The Doha Development Agenda offers the perfect opportunity to rectify this situation. The EU has challenged the U.S. to “step up to the plate” in the Doha Development Agenda, by offering major cuts in domestic support. The U.S. has done so, and in a big way. It is now time for the EU to reciprocate, by offering major improvements in market access for pork and other products, and by eliminating SPS barriers that serve only to restrict trade.

Export Subsidies and Other Forms of Export Competition

Export subsidies are universally recognized as being the most trade distorting of all government subsidy practices. Under WTO obligations established during the Uruguay Round, the EU can spend up to \$175 million a year on export subsidies for pork. We commend the EU for its expression of willingness to eliminate agricultural export subsidies, including export subsidies for pork, as part of the current WTO negotiations. Prior to the Hong Kong Ministerial, the EU should take the additional step of committing to phase these subsidies out very quickly.

The EU says that its position with respect to export subsidies is contingent on action by other WTO members to discipline the use of agricultural export credits and food aid. For this reason, we fully support the current U.S. position that would accept new disciplines on the use of agricultural export credits. For the same reason, we would also accept the imposition of new disciplines on food aid, to the extent necessary to prevent such aid from distorting commercial markets in recipient countries.

Domestic Support

NPPC has always believed that for this trade round is to be successful, developed countries, including the U.S., would have to be willing to offer significant cuts in trade distorting domestic support. We have already mentioned the importance to the U.S. pork industry of gaining significant improvements in market access through this trade round. We are convinced that the recent expression of U.S. willingness to not only significantly reduce, but eventually eliminate, trade distorting domestic support will have a direct and highly positive impact on the new export opportunities that we obtain through these trade negotiations. The U.S. domestic support offer should elicit a change in position on market access in both developed and developing countries, with the latter group having established a clear link between their willingness to improve market access, and reduction of trade distorting support in developed countries. To repeat a point I made earlier - in our view, the recent bold movement by the U.S. on the issue of domestic support has put the focus of the trade negotiations where it really belongs, on the refusal to this point of the EU, Japan and other high tariff countries around the world to offer major improvements in market access.

Finally, to reiterate another earlier point, NPPC supports a zero-for-zero initiative on pork, under which all trade distorting subsidies for pork would be eliminated.

The U.S. Must be a Reliable Supplier of Agricultural Products

Trade liberalization is not a one-way street. If we expect food importing countries to open their markets to U.S. exports and rely more on world markets to provide the food they need, we should at the same time commit to being reliable suppliers. Current WTO rules permit exporting countries to tax exports whenever they choose (GATT Article XI.1), and to prohibit or otherwise restrict exports to relieve domestic shortages (GATT Articles XI.2(a) and XX(i) and (j)). These provisions should be eliminated in conjunction with the phasing out of import barriers. Such a move would not affect the ability of the United States to impose trade sanctions for reasons of national security; that right would be preserved under GATT Article XXI.



**Statement of the Grocery Manufacturers Association
before the
Agriculture Committee
U.S. House of Representatives
on the
Review of Agricultural Negotiations in the Doha Development Round**

November 2, 2005

The Grocery Manufacturers Association (GMA) appreciates this opportunity to provide our views to the Committee on Agriculture on the status of the World Trade Organization (WTO) negotiations on agriculture. GMA strongly supports these negotiations and applauds the recent bold U.S. proposal on agricultural reform. We believe the WTO's Doha Development Agenda offers great potential for expanding U.S. processed food exports.

Overview of Processed Foods and Agricultural Exports

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

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

Given that 96 percent of the world's consumers live outside the U.S. and in view of ongoing demographic trends in the U.S. market, future growth for the U.S. agricultural and food complex will be closely tied to our ability to expand export markets. We see enormous potential in emerging markets, due to increases in population size and per capita food consumption. For example, annual growth rates of retail sales of processed

^[1] Anita Regmi and Mark Gehlhar, "Processed Food Trade Pressured by Evolving Global Supply Chains", *Amber Waves*, February 05.

food products in developing countries range from 7 percent in upper-middle income countries to 28 percent in lower-middle-income countries, as opposed to the annual growth rate of 2-3 percent in developed countries.^[2]

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

Impediments to International Trade in Processed Foods

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

Tariff Barriers

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

^[2] New Directions in Global Food Markets, edited by Anita Regmi and Mark Gehlhar, AIB-794, USDA/ERS, February 2005.

^[3]

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

^[4] *Ibid*, p. 7

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

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

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

Goals for the World Trade Organization (WTO) Negotiations

GMA members have developed priority objectives for the WTO agriculture negotiations. These objectives were endorsed by the Processed Foods ATAC and the WTO Processed Foods Coalition. Following please find an elaboration of some of these key points.

Market Access

GMA is primarily concerned with achieving new, commercially meaningful access for food products. For this reason, we strongly support the recent U.S. agriculture proposal which would result in significant tariff cuts in exchange for deep reductions in U.S. domestic support programs. We applaud U.S. leadership in these negotiations and hope that our trading partners will match the U.S. offer with equally bold proposals on market access. We are naturally disappointed with the counter-offer from the EU, which is woefully inadequate on market access both in terms of the overall tariff reduction formula and the enormous loophole for sensitive products. We also object to the EU's insistence that its market access offer be conditional on new negotiations on geographical indications.

GMA supports the U.S. objectives of a tariff reduction of 90% for the highest tariffs and a limit in sensitive products to one percent of tariff lines. As noted above, many key ingredients in processed food production are highly protected and are often deemed as sensitive by our trading partners. For this reason, we also commend the U.S. for developing a proposal to ensure meaningful market access for sensitive products through a combination of tariff reductions and TRQ expansion. We firmly believe that TRQ expansion should be based on a percentage increase in domestic consumption and commensurate with the deviation from the formula. That is, the greater the deviation from the formula, the larger the mandatory increase in the TRQ to ensure substantial market access for all products.

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

Domestic Support

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

Export Competition

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

Geographical Indications (GIs)

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

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

Conclusion

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

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

SWEETENER USERS ASSOCIATION

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Comments to the
Committee on Agriculture
U.S. House of Representatives
Hearing on
“Review of Agricultural Negotiations in the
Doha Development Round”

November 2, 2005

Submitted by:

Lee McConnell
Chairman
Sweetener Users Association

Executive Summary

- **We agree with U.S. farm groups as represented by the AgTrade Coalition about the significance of substantial improvement in market access** in the Doha WTO Round. The U.S. agriculture and food industry have much to gain from more liberalized world trade in this vital sector.
- **We support the U.S. agriculture proposal that calls for deep tariff cuts as well as the substantial expansion of tariff-rate quotas and the limitation of tariff lines for sensitive products.** The U.S. proposal to limit “sensitive products” to 1 percent of tariff lines would benefit U.S. farm exports to a much greater degree than the recent EU proposal to allow 8 percent of tariffs lines to be essentially excluded from any real competition.
- **Tariff-rate quotas should be expanded** to permit the entry of substantially greater quantities, and ultimately abolished. The U.S. and G-20 proposals are consistent with the July 2004 Agriculture Framework text on this issue in regard to expanding TRQs. We support the U.S. proposal on sensitive products, which increases the WTO minimum TRQ by 7.5 percent of consumption.
- Tariffs should be reduced through a **formula approach** that assures coverage of all products. We support the U.S. proposal, which provides for progressive tariff reduction from tiered tariff levels and establishes a tariff cap ensuring that no tariff is higher than 75 percent.
- The Doha Round should lead to **reductions in market access barriers, not increases.** No tariff anywhere in the world, on any product, should *increase*, nor should any non-tariff barrier anywhere in the world, on any product, become *more* restrictive, as a result of the Round.
- **Export subsidies should be eliminated** worldwide as called for in the U.S. proposal. The WTO ruling against the EU Sugar Regime is correct in finding that schemes such as the European Union’s preferential access for former colonies should not be used to justify the continuation of export subsidies.
- **Domestic support** should be provided in ways that permit market forces to set prices. Trade-distorting domestic supports should be reduced substantially, with deeper cuts by countries with larger subsidies as proposed by the U.S. The U.S. proposal to reduce amber box subsidies by 83% for more heavily subsidized countries will help level the playing field for the U.S. agriculture and food industry sector.

The members of the Sweetener Users Association applaud the efforts of Ambassador Portman and the rest of the U.S. trade negotiating team for their aggressive approach in developing a proposal on agriculture to jump-start the World Trade Organization's Doha Development Round. Without such strong U.S. leadership, the Doha Round was destined to collapse. The clock is ticking on this round with prior setbacks in the Seattle and Cancun Ministerial meetings, the upcoming Hong Kong Ministerial in December and Trade Promotion Authority set to expire in June 2007.

The Sweetener Users Association (SUA) represents companies that produce confectionery, grocery products, dairy foods, soft drinks and other products made with nutritive sweeteners, as well as trade associations representing the interests of these companies. SUA is an active member of the AgTrade Coalition and we support its effort to advance multilateral trade in agriculture. We appreciate the opportunity to submit comments to the Agriculture Committee.

We support the elimination of export subsidies, reductions in trade-distorting support and substantial improvements in market access as called for in the comprehensive U.S. proposal on agriculture, which was released in October. Our members believe a successful Doha Round will benefit U.S. agriculture and our nation's food industry by opening up new opportunities for export sales, including sales of the processed foods manufactured by many of our members.

We believe the U.S. proposal represents another significant step to flesh out the July 2004 Framework text on agriculture. Despite EU intransigence in failing to make a meaningful offer on October 28, we are hopeful that negotiators can find a way to move the Doha Round forward. It is still possible for the U.S. to obtain advancements that are consistent with the original agricultural liberalization goals set forth in the Doha Ministerial Declaration: **"substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support."**

For these goals to be achieved, two principles must guide U.S. negotiators as they seek agricultural trade liberalization. First, all products must be subject to negotiation, and the final agreement must actually include all products.

Second, trade-distorting policies must be decreased in every instance, not increased. Undoubtedly there will be variations in how fully liberalization proceeds in different sectors. But in no case should the Doha Round be the occasion for heightened protection – for higher tariffs, more restrictive TRQs, greater export subsidies or more extensive trade-distorting domestic support.

Of course, the Doha Round results will be imperfect, and the United States like other countries will endeavor to secure the most favorable outcome for its interests. That will require movement toward liberalization by many sectors – including our domestic sugar industry – even if perfect free trade is not achieved.

The U.S. proposal positions the United States as leader in liberalizing world agricultural trade. In these comments, we have attempted to provide our thoughts on each of the three agriculture pillars.

Market Access

As recognized by U.S. trade negotiators and the AgTrade Coalition, the United States can only gain access to other markets if it is successful in aggressively reducing tariffs. By using the tiered formula agreed to in the July 2004 Agriculture Framework and taking into account the formula proposed by the G-20 countries, the U.S. proposal provides a phase-in period of five years for WTO member countries to make substantial improvements in market access by implementing real tariff cuts to all commodities, whether sensitive or otherwise.

The July 2004 Framework required that substantial improvement in market access be applied to all products, even those considered sensitive. Tariff-rate quotas (TRQs) should be expanded to permit the entry of substantially greater quantities and TRQ expansion should apply to all TRQs (including those established pursuant to both minimum access and current access obligations under the Uruguay Round).

The expansion of TRQs should not prejudice the operations of any legitimate free trade agreement, including the North American Free Trade Agreement. Preferential quotas under NAFTA are in addition to, not part of, the minimum TRQ, and must remain so.

Tariffs should be reduced through a formula approach that assures coverage of all products and tariffs should be capped at a commercially meaningful level. We support the U.S. proposal on sensitive products, which provides that there should be both a substantial expansion of the TRQ level and a reduction in the over-quota tariff.

The revised EU agriculture proposal calls for 8 percent of tariff lines to be treated as “sensitive products” in contrast with the U.S. proposal of capping such treatment at 1 percent of all agricultural product tariff lines. The EU proposal would allow it to maintain high tariff barriers for about 176 of 2,200 agriculture products. Ambassador Portman has correctly pointed out that the EU’s treatment of sensitive products would remain sheltered under relatively high import barriers. We agree with USTR Portman and our AgTrade Coalition colleagues, who have challenged the recent EU offer as allowing the EU to shield sensitive products from substantial improvements in market access.

The most recent G-20 proposal on “sensitive products” is consistent with the U.S. because it calls for greater expansion of the TRQ as the price for smaller cuts in the over-quota tariff. This is an improvement on a previous G-20 proposal that only required cuts to be made from bound rather than applied tariffs (cuts based on the bound rate would not have allowed any significant market access). We believe the U.S. and G-20 proposals on sensitive products together may help keep the EU in a negotiating corner on this issue.

Export Subsidies

Export subsidies should be eliminated worldwide. In the sugar market, export subsidies – particularly those of the European Union – not only tend to depress prices, but also encourage the maintenance of restrictive border measures as a means of countering their effect.

As evidenced by the WTO ruling against the EU Sugar Regime, schemes such as the European Union's preferential access for former colonies should not be used to justify the continuation of export subsidies. The European Commission has proposed serious cuts of 39 percent in its raw sugar support price and 33 percent in its refined sugar support price to comply with the adverse WTO ruling.

Clearly, the EU – and other nations – should end all export subsidies. Reductions in trade-distorting domestic subsidies to encourage a more appropriate level of domestic production are the means by which the EU should balance its markets.

Domestic Support

The U.S. proposal calling for substantial reductions in trade-distorting domestic support is consistent with the Uruguay Round Agreement on Agriculture, where the U.S. advocated and achieved an agriculture agreement that disfavors domestic support deemed to distort trade.

In general, despite some retrograde motion, agricultural policies in the United States over the past two decades have moved in the direction of direct payments and other mechanisms that, by the standards of the Uruguay Round, are less trade distorting than former policies.

Sugar is the principal exception to this trend. Sugar regularly constitutes approximately \$1.1 billion of the total trade-distorting subsidies notified to the WTO by the United States. Essentially, this level of subsidy represents the price gap between the U.S. support price and the world price. Sugar policy in the United States relies almost exclusively on mechanisms deemed by international standards to distort trade.

The U.S. negotiators should be commended for seeking further substantial reductions in trade-distorting domestic support. The proposed 83 percent reduction in amber box subsidies for more heavily subsidized trading partners will help make U.S. agriculture more competitive. However, such reductions should apply on a commodity-by-commodity basis, not on an aggregate basis. Moreover, mechanisms should be established to ensure that no commodity is allowed to enjoy a level of subsidy in excess of that which presently prevails, or which prevailed during a subsequently selected base period.

Conclusion

U.S. trade negotiators have presented an agriculture proposal that demonstrates just how serious this Administration is in achieving a successful and significant outcome in the Doha Round. These agricultural negotiations represent an important opportunity to secure gains for U.S. agricultural and food industries; to further rationalize market-distorting policies worldwide; and to structure trade policy in a way that considers the interests of all affected U.S. parties, not just currently protected industries.

As we move closer to the Hong Kong Ministerial meeting in December, SUA appreciates the opportunity to comment on these critical negotiations.

Comments on Agricultural Negotiations in the Doha Development Round
Submitted by R-CALF USA
To the House Committee on Agriculture
November 9, 2005

The Ranchers-Cattlemen Action Legal Fund – United Stockgrowers of America (R-CALF USA) appreciates this opportunity to comment on the status of World Trade Organization (WTO) negotiations on agriculture, particularly with regard to the cattle and beef industry.

R-CALF USA is a non-profit association that represents over 18,000 U.S. cattle producers in 47 states across the nation. R-CALF USA works to sustain the profitability and viability of the U.S. cattle industry, a vital component of American agriculture. R-CALF USA's membership consists primarily of cow-calf operators, cattle backgrounders, and feedlot owners. Various main street businesses are associate members of R-CALF USA.

I. The Doha Round

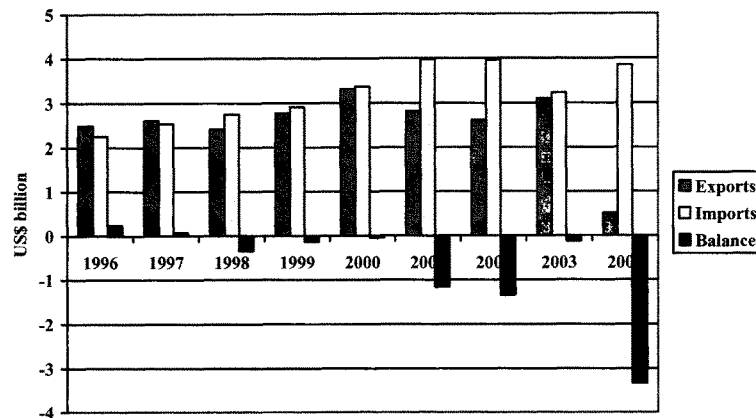
R-CALF USA believes the current round of negotiations at the WTO – the Doha Development Round – provides an important opportunity for the U.S. to address deep imbalances in the global cattle and beef markets. The world market place for cattle and beef is one of the most grossly distorted markets of any sector. Foreign cattle and beef markets are plagued by massive subsidies, including those provided through state trading enterprises; high tariffs and the manipulation of unscientific sanitary and phytosanitary measures to block imports.

These distortions drive down prices for U.S. producers and close markets for U.S. exports. As a result, the American cattle industry suffered catastrophic losses during the 1990s and up until the last two years. While the American cattle and beef market remains one of the most open in the world, markets abroad have slammed their doors shut to American exports. As a result, the U.S. has not enjoyed a trade surplus in cattle and beef trade since 1997, and the deficit in the sector has exploded over the past six years, hitting more than \$3.3 billion in 2004.¹ Over the same period, the U.S. has lost its position as a global exporter of beef. While the U.S. was the second-largest exporter of beef in the world in 2000, accounting for 19.5% of global beef exports, in 2005 the U.S. has regressed to the position of the ninth-largest exporter of beef and is projected to

¹ U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics for HS 0102 (cattle), 0201 (fresh and chilled beef), and 0202 (frozen beef).

account for only 4.1% of world beef exports, falling behind Brazil (the number one exporter), Argentina, Australia, Canada, the EU, India, New Zealand, and Uruguay.²

U.S. Trade in Cattle and Beef



Source: Census Bureau Foreign Trade Statistics for HS 0102, 0201, and 0202.

Since 1994, more than 122,000 cattle ranches and farms have closed down or otherwise exited the beef cattle business.³ During the same period, the inventory of cattle and calves in the U.S. dropped from 101 million to just under 95 million.⁴ The steep decline of the cattle industry – a vital component of America's rural economy – has devastated ranching families and rural communities across the nation. The underlying problems facing the American cattle industry are caused in part by the massive distortions in the global cattle and beef market. The Doha Development Round at the WTO provides a crucial opportunity for eliminating these distortions.

The United States has one of the most open cattle and beef markets in the world, with very low tariffs and no trade-distorting subsidies. Other countries' trade policies in this sector must be harmonized to achieve parity with U.S. levels of openness. The best way to pursue such harmonization in the Doha Round is through a sectoral approach that addresses the variety of trade barriers facing U.S. cattle and beef exports. While the U.S. has reserved the right to pursue sectoral initiatives in the Doha agriculture negotiations,

² U.S. Department of Agriculture, Foreign Agricultural Service, *Livestock and Poultry: World Markets and Trade*, April 2005.

³ U.S. Department of Agriculture, National Agricultural Statistics Service Agricultural Statistics Database, *U.S. and All States Data – Cattle and Calves*, 1994 – 2004.

⁴ *Id.*

the U.S. has not yet pushed trading partners to adopt a sectoral approach for cattle and beef. The U.S. should propose a sectoral initiative on cattle and beef trade as soon as possible. Given the dramatic disparities between U.S. trade policies in this sector and the policies of our major trading partners, the standard negotiating approaches for market access and subsidies disciplines employed in the current round are unlikely to achieve the necessary level of harmonization. A sectoral approach is also merited in light of the extreme perishability of cattle and beef. All major cattle and beef producing and consuming nations should participate in this sectoral initiative, regardless of their level of development. The goal of the sectoral approach should be to greatly reduce or eliminate trade distortions so that U.S. cattle and beef producers enjoy the same access to global markets that foreign producers currently enjoy to the U.S. market.

Specifically, a sectoral approach in the cattle and beef sector should aim for elimination of trade-distorting subsidies in the sector as quickly as possible and harmonization of cattle and beef tariffs to U.S. levels. In addition, it is essential that the current round of WTO negotiations result in special rules for cattle and beef as perishable products within the meaning of the terms in the Trade Act of 2002. America's ability to effectively enforce its trade remedy laws must also be fully maintained in the Doha Round. Meanwhile, given that the Agreement on Sanitary and Phytosanitary Measures has not been opened to negotiations in the Doha Round, the Administration and Congress need to use other means available to insist that unsound sanitary and phytosanitary barriers to American beef and cattle exports be eliminated and bring trade cases to remove such barriers if necessary. These outstanding issues must receive urgent attention if the current round of negotiations is to level the playing field for America's cattle producers.

II. Eliminate Harmful Subsidies

Major cattle and beef producing nations provide billions of dollars of subsidies to cattle and beef producers through export subsidies and domestic support programs. Australia, Brazil, Canada, China, the EU, Japan, Korea and other producers all subsidize cattle and beef production, while the U.S. provides no subsidies to the cattle and beef industry outside of disaster assistance and drought relief.⁵ In addition, countries such as Australia and Canada use state trading enterprises for beef and for cattle feedstuffs such as wheat. Wheat Boards in these countries, for example, are able to guarantee domestic cattle producers artificially low feed prices, further disadvantaging American ranchers. These massive subsidies severely distort the global market for cattle and beef, artificially depressing prices and undercutting American producers.

R-CALF USA believes that these trade-distorting subsidies in this sector need to be eliminated in order to create a truly balanced international cattle and beef market in which the domestic industry can compete and thrive. R-CALF USA welcomes the commitment made in the Doha Development Round to eliminate export subsidies by a

⁵ For a summary of foreign subsidies in the cattle and beef sector, see Office of the U.S. Trade Representative and the U.S. Department of Commerce, *Subsidies Enforcement Annual Report to Congress*, February 2004, at 37 – 43.

date certain because of the overall benefit such elimination would confer on our sector, and believes the U.S. must push aggressively to reach agreement on the earliest termination date possible for these subsidies in the cattle and beef sector. The recent U.S. proposal to eliminate agricultural export subsidies by 2010 is a welcome first step,⁶ and a sectoral initiative on cattle and beef could help achieve the earliest possible date for export subsidy elimination in our sector.

On the issue of domestic support, R-CALF USA believes that an overall sectoral initiative for cattle and beef would provide the best framework for elimination of trade-distorting domestic subsidies in the cattle and beef sector. Given the larger difficulties in reducing and rationalizing domestic support across all of agriculture, a sectoral approach on this matter provides significant advantages to American producers in a sector where the U.S. already provides no trade-distorting support and foreign support regimes severely disadvantage domestic producers. If a sectoral approach is not employed, it may be possible for foreign producers to maintain unacceptably high subsidization rates for cattle and beef under the subsidy reduction formulas and timetables currently being discussed in the Doha round. The goal of a sectoral approach should be to eliminate all domestic support measures for cattle and beef that do not fit the criteria of the so-called permissible "green box" subsidies. Internal support mechanisms for cattle and beef permitted under the so-called "blue box" category should be as narrow and limited as possible, and "amber box" subsidies for cattle and beef should be eliminated entirely. Finally, the U.S. should work in the Doha negotiations to eliminate state trading enterprises (such as wheat boards) that undermine American cattle and beef producers.

III. Expand Market Access

U.S. tariffs on cattle and beef imports are among the lowest in the world. The U.S. has only minimal tariffs, and no quotas, on cattle imports.⁷ In-quota tariffs on beef imports range from 4 to 10 cents per kilogram,⁸ and calculated duties for all beef imports in 2004 equaled less than 2.6 percent of the value of those imports.⁹ In addition, dozens of countries receive duty-free access to the U.S. market for in-quota beef imports, either through bilateral free trade agreements or unilateral trade preference programs.¹⁰ Major U.S. trading partners, on the other hand, apply tariffs rates four to ten times higher than the effective U.S. rate. The European Union, for example, imposes tariffs of at least 12.8

⁶ See, "U.S. Proposal for WTO Agriculture Negotiations," USTR website at http://www.ustr.gov/Trade_Sectors/Agriculture/US_Proposal_for_WTO_Agriculture_Negotiations.html, downloaded Oct. 11, 2005.

⁷ U.S. Harmonized Tariff Schedule at Chap. 1, heading 0102 (live cattle) (supp. 2005).

⁸ U.S. Harmonized Tariff Schedule at Chap. 2, headings 0201 (fresh and chilled beef) and 0202 (frozen beef) (supp. 2005).

⁹ Calculation based on data from the U.S. International Trade Commission's Interactive Tariff and Trade DataWeb for HS 0201 and 0202.

¹⁰ U.S. Harmonized Tariff Schedule at Chap. 2, headings 0201 – 0202 (supp. 2005).

percent on beef imports.¹¹ Japan applies a tariff of 38 percent on beef imports, and Korea's tariffs on beef imports are 40 percent or higher.¹²

In the face of such disproportionately high tariffs in prime export markets, and in light of the already extremely low tariffs imposed on imports into the U.S., a sectoral approach to market access in the cattle and beef sector is needed. Sectoral negotiations on cattle and beef trade will allow the U.S. to seek parity in tariff and quota rates by pushing for harmonization of world rates to the U.S. level.

A formula approach to tariff reductions in the cattle and beef sector would make it much more difficult to achieve parity and thus poses significant risks to U.S. producers. If a formula approach is to be employed, it must be designed to ensure that major cattle and beef producing and consuming countries with the highest tariffs are obligated to make the steepest cuts so that parity with U.S. tariff levels can be achieved. It is not clear that even the most ambitious tariff-reduction formulas proposed to date, such as that of the U.S., could accomplish this critical result.

Less ambitious proposals, particularly the current EU proposal on market access, with its lower tariff cuts and large loopholes for sensitive products, are even more problematic for American cattle producers. Though the EU's proposal does not explicitly state it would designate beef as one of the sensitive products subject to less ambitious tariff cuts, the EU's proposal to maintain the special agricultural safeguard for beef and its call for a relatively large number of permissible sensitive product categories suggests such designation may be contemplated. While inclusion of special safeguard rules for cattle and beef is an important goal (see section V, below), it is vital that countries not be able to designate cattle and beef as sensitive products in order to avoid meaningful market access commitments in this sector. Similarly, current formula proposals that would allow all developing countries to make significantly lower tariff concessions are particularly inappropriate in the cattle and beef sector, where large developing countries – such as Argentina, Brazil, India and Uruguay – are highly competitive in global markets and currently export more beef than the U.S.

Therefore a sectoral approach to cattle and beef trade in the Doha Round presents much greater opportunities and fewer risks for domestic producers who seek to harmonize world tariff levels to U.S. levels. In order to succeed, a sectoral approach to tariff reductions must bring the tariffs on beef and cattle imposed by all major producing and consuming nations into parity with U.S. levels, regardless of the country's level of development. In addition, the U.S. must seek to limit as much as possible any major producing or consuming nation's ability to avoid or delay tariff cuts in cattle and beef by designating them as sensitive products. Trading partners must not be allowed to manipulate the sensitive product designation in order to avoid achieving parity in cattle and beef tariffs.

¹¹ European Union Tariff Schedule at 0201 – 0202 (2004).

¹² U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2005*, at 317 and 359.

IV. Remove Unjustifiable Sanitary and Phytosanitary Barriers

In addition to tariffs, trading partners' abuse of sanitary and phytosanitary standards (SPS) presents a nearly insurmountable obstacle to exports of American cattle and beef. Scores of foreign countries shut their markets to American cattle and beef following the reported first bovine spongiform encephalopathy (BSE) case in the U.S. at the end of 2003, which involved a Canadian animal. Export markets have largely remained closed after the second reported BSE case in the U.S. this year. Currently, 54 countries prohibit some or all imports of U.S. beef, citing concerns about BSE.¹³ The United States has repeatedly expressed concerns that many of these import bans are unjustified because they have been imposed with no science-based risk assessment, with an inadequate scientific basis, and/or on the basis of SPS standards that are inconsistent with international standards.¹⁴

The unscientific BSE bans instituted by U.S. trading partners have drastically curtailed U.S. exports of cattle and beef. The value of U.S. exports of cattle and beef plummeted by more than 83 percent from 2003 to 2004, representing a loss of nearly \$2.6 billion in export revenue for the industry in just one year.¹⁵ These losses come on the heels of other unjustifiable SPS barriers to U.S. beef exports, such as the European Union's ban on imports of hormone-treated beef dating back to 1988. While the SPS Agreement is not open for negotiations in the Doha Round, there are many steps the U.S. can take to push for an end to these bans on U.S. cattle and beef exports, including through bilateral negotiations, trade enforcement, and improvements in the U.S.'s own controls on cattle imports from countries known to have BSE risks. Ultimately, the U.S. must do everything it can to re-open these essential markets for American cattle and beef as quickly as possible.

V. Create Special Rules for Perishable and Cyclical Agricultural Products

In recognition of the unique challenges that producers of perishable, seasonal, and cyclical agricultural products face in international markets, Congress has directed U.S. trade negotiators to:

eliminat[e] practices that adversely affect trade in perishable or cyclical products, while improving import relief mechanisms to recognize the unique characteristics of perishable and cyclical agriculture;¹⁶

¹³ U.S. Department of Agriculture, Animal and Plant Health Inspection Service, *BSE Trade Ban Status as of 09/21/05* at http://www.aphis.usda.gov/lpa/issues/bse/trade/bse_trade_ban_status.html.

¹⁴ See, e.g., U.S. Trade Representative, *National Trade Estimate Report on Foreign Trade Barriers 2005*, sections on Argentina, Brazil, Chile, China, Hong Kong, Japan, Korea, and Taiwan at 11, 32, 65, 91, 257, 320, 364, and 596, respectively.

¹⁵ U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics for HS 0102 (cattle), 0201 (fresh and chilled beef), and 0202 (frozen beef).

¹⁶ 19 U.S.C. § 3802(b)(10)(A)(ix).

ensur[e] that import relief mechanisms for perishable and cyclical agriculture are as accessible and timely to growers in the United States as those mechanisms that are used by other countries;¹⁷

and

[seek to] develop an international consensus on the treatment of seasonal or perishable agricultural products in investigations relating to dumping and safeguards and in any other relevant area.¹⁸

While the U.S. has made an initial proposal to clarify and improve rules on anti-dumping and countervailing duty investigations of perishable, seasonal, and cyclical products in the context of the Rules negotiations at the WTO,¹⁹ the U.S. has also proposed eliminating the special safeguard for agriculture in negotiations on the Agreement on Agriculture.²⁰ The U.S. has suggested that some kind of special safeguard for agriculture could be available for a limited time for less developed countries.²¹

A markedly different approach to special rules is needed in the cattle and beef sector given the highly perishable nature of these products. R-CALF USA believes that the special agriculture safeguard in Article V of the WTO Agreement on Agriculture should be maintained for beef and cattle. If the special safeguard has to be eliminated, it must be compensated for by significant liberalization of trading partners' import restrictions on cattle and beef, as described above, and by the establishment of an effective import relief mechanism for cattle and beef. The Doha Round should establish meaningful special rules for cattle and beef in recognition of their status as perishable products. These rules must include an automatic trigger for import relief and be capable of addressing both volume surges and price collapses. As the U.S. Congress has recognized, such market disruptions are of particular concern in perishable and cyclical product sectors such as cattle and beef, and thus merit the creation of a special relief mechanism.

The U.S. successfully included a quantity-based and price-based beef safeguard in the U.S. – Australia Free Trade Agreement, and this is a model that could be built upon in the Doha Round of negotiations. But where the Australia safeguard was discretionary, any safeguard mechanism for cattle and beef established in the Doha Round should incorporate an automatic trigger. Such a trigger is needed because a petition mechanism would be unworkable in a highly fragmented industry such as cattle and beef. An automatic trigger will also ensure that import relief is not delayed by an onerous petition

¹⁷ 19 U.S.C. § 3802(b)(10)(A)(x).

¹⁸ 19 U.S.C. § 3802(b)(10)(B)(i).

¹⁹ *Identification of Certain Major Issues under the Anti-Dumping and Subsidies Agreements*, Submission by the United States to the Negotiating Group on Rules, WTO, TN/RL/W/72, March 19, 2003.

²⁰ *Proposal for Comprehensive Long-Term Agricultural Trade Reform*, Submission from the United States to the Committee on Agriculture Special Session, WTO, G/AG/NG/W/15, June 23, 2000.

²¹ See, "U.S. Proposal for WTO Agriculture Negotiations," USTR website at http://www.ustr.gov/Trade_Sectors/Agriculture/US_Proposal_for_WTO_Agriculture_Negotiations.html, downloaded Oct. 11, 2005.

process, but instead is available as soon as possible to the producers of perishable products who need immediate relief. In addition, the safeguard should be designed to protect domestic producers from sudden spurts in volumes of imports and from excessive price volatility, both of which pose a particularly severe risk for producers of perishable products like cattle and beef. Finally, the Doha Round should establish a safeguard that recognizes cattle and beef as like products, so that declining prices or rising imports in either product automatically triggers the safeguard for both products.

VI. Preserve and Strengthen U.S. Trade Laws

In addition to negotiations regarding the Agreement on Agriculture, negotiations on the anti-dumping, countervailing duty, and safeguard rules are also a core concern of R-CALF USA members. While establishment of a sector-specific safeguard that recognizes the unique challenges the cattle and beef industry faces is essential, as discussed above, the U.S. must also work to ensure that the overall effectiveness of our trade laws, upon which the industry continues to rely, is preserved and strengthened. Of particular concern are on-going Rules negotiations in the Doha Round. Some countries have seized upon the Rules negotiations to try to weaken U.S. trade remedy laws. The U.S. needs to resist these threats and instead use the negotiations to clarify and improve WTO rules so U.S. trade laws can be preserved and strengthened. Congress has expressed its support for such a position through one of its principal negotiating objectives for trade agreements, which is to:

preserve the ability of the United States to enforce rigorously its trade laws ... and avoid agreements that lessen the effectiveness of domestic and international disciplines on unfair trade, especially dumping and subsidies, or that lessen the effectiveness of domestic and international safeguard provisions.²²

Unfortunately, to date the Rules negotiations appear to be headed in exactly the wrong direction – the very direction that Congress foresaw and directed U.S. negotiators to avoid. Since the Uruguay Round was concluded in 1994, WTO dispute panels and the Appellate Body have made numerous adverse and overreaching decisions regarding U.S. trade laws. Some of these decisions have created new obligations beyond those agreed to by the parties in negotiations, and some panels have reached adverse conclusions by applying a more onerous standard of review than that provided for in WTO agreements. To redress these wrongs, the U.S. should work to clarify and improve the agreements so that adverse dispute settlement decisions can be resolved favorably, U.S. trade laws are protected from further challenge, and the U.S. retains the ability to strengthen its trade laws in the future. The U.S. should also take advantage of the current negotiations to ensure that future WTO panels cannot overreach their authority. While U.S. negotiators have made some positive proposals in the current round of negotiations, much more needs to be done if the problems that have arisen over the last decade are to be resolved.

²² 19 U.S.C. § 3802(b)(14)(A).

In addition, an aggressive reaction is needed to stave off harmful proposals that have been made by foreign countries in the Rules negotiations. Of the more than 180 formal submissions made in the negotiations so far, the vast majority are designed to weaken trade remedy laws and limit the ability to effectively enforce those trade laws. These proposals must be rejected if the U.S. is to preserve its ability to counteract unfair trade practices that undermine American producers.

VII. Conclusion

R-CALF USA believes that the current round of negotiations at the WTO can benefit America's ranchers if the negotiators work to eliminate gross distortions of the global cattle and beef market. In order to achieve an appropriate balance in rights and obligations, and in recognition of the severe imbalance between very low U.S. barriers to cattle and beef trade and very high barriers in other major trading partners' markets, a sectoral approach to negotiations in the cattle and beef sector is required. The U.S. should pursue an aggressive agenda in the cattle and beef sector in the Doha Round to: eliminate subsidies; harmonize market access; preserve the special safeguard for agriculture; establish special rules for perishable, seasonal and cyclical products; and preserve and strengthen U.S. trade laws. This agenda must be accompanied by vigorous efforts to end unjustifiable sanitary and phytosanitary barriers to U.S. cattle and beef exports. America's cattle and beef producers are faced with unfair trade practices, a sharp deterioration in our trade balance, and threats to U.S. trade laws. The industry has lost tens of thousands of farms and ranches in the past decade and stands to lose many more. This decline can be reversed if the Doha Round results in trade that is open, fair, and balanced.

R-CALF USA appreciates this opportunity to present its views, and looks forward to a continued dialogue with the Committee on these important issues.

**Testimony of
Don Phillips
Trade Adviser
American Sugar Alliance**

*Committee on Agriculture
United States House of Representatives
Hearing on the
WTO Doha Round Agricultural Negotiations*

November 2, 2005

The American Sugar Alliance is grateful for the opportunity to provide testimony for this important hearing. The ASA represents the 146,000 American farmers, workers, and their families in 19 states, engaged directly and indirectly in the growing, processing and refining of sugarbeets and sugarcane. The U.S. sugar industry generates nearly \$10 billion in annual economic activity.

Background on U.S. and World Sugar Markets

In some states, sugar is the most important cash crop, or among the most important. Sugar accounts for 44% of crop receipts in Louisiana, 37% in Wyoming, 24% in Hawaii, and 10-20% in Idaho, Minnesota, Florida, North Dakota, Montana, and Michigan.

American sugar growers and processors are among the most efficient in the world, and, like other American farmers, we would welcome the opportunity to compete globally on a level playing field, free of government intervention (*Chart 1*). Like other American farmers, we *can* compete against foreign farmers, but we *cannot* compete against foreign government subsidies and predatory trading practices.

The world sugar market is the world's most distorted commodity market, because of a vast, global array of subsidies and other trade-distorting policies affecting sugar production and trade. These policies induce growers to overproduce and dump their surpluses on the world market, where only 20 percent of world production is marketed, for whatever price it will bring. As a result, the world sugar market has been transformed into a "dump market;" the so-called world sugar price has averaged barely half the world average cost of producing sugar for the past 20 years (*Chart 2*).

ASA Supports Global Trade Liberalization

The ASA supports correcting this distorted dump market through genuine global sugar trade liberalization, which clearly can only be achieved in WTO (World Trade Organization) negotiations. ASA has supported sugar trade liberalization in the WTO context since the initiation of the Uruguay Round of the GATT in 1986. We strongly

supported the launching of the Doha Round and have consistently supported efforts to advance these negotiations.

Our objective in these negotiations has been a fundamental reform of the world sugar market which, in turn, can only be achieved if all the policies significantly affecting world sugar production, direct and indirect, transparent and non-transparent, are addressed and effectively disciplined. We also believe that it is essential that developing countries, which account for three-quarters of sugar production and trade, participate fully in this reform. Moreover, given the widespread prevalence and diversity of governmental policies distorting world sugar trade, we believe genuine reform can only be accomplished with a sector-specific approach, which addresses these policies in a comprehensive and coordinated manner.

We have, however, serious concerns about the current state of the Doha negotiations and its future direction. At this point, it is difficult to see how the fundamental reform of the world sugar market we seek can be achieved. And, in our view, U.S. commitments to modify our sugar program, both with respect to imports and domestic support, must be linked to the achievement of such reform.

In this respect, we believe our position closely parallels that of other agricultural producers who are prepared to accept changes in their programs only if their ambitious objectives in market access and other areas are achieved.

Subsidies, Other Trade-Distorting Policies Widespread

A vast array of subsidies and other trade-distorting policies are employed by virtually every significant sugar producer in the world. To better evaluate this situation and to assist our negotiators, ASA has commissioned studies on such policies by LMC International Ltd (an independent and well-respected commodity research firm) for 19 of the most important “players” in the world sugar market. The results of these studies, which cover indirect and non-transparent policies and practices as well as direct subsidies are outlined in Charts 3 and 4, respectively.

The EU system – which supports prices at levels far higher than those of the U.S., directly subsidizes the export a large part of its surplus production onto the world market, and forces the dumping of the remainder through its “C-Sugar” program – is the most familiar example of such trade-distorting policies. However, it is just one of many such policies and no longer the most troubling one. Fueled by a subsidized and government – mandated ethanol program, massive debt forgiveness, and persistent currency devaluation, Brazil has increased its sugar exports by more than tenfold over the past decade (*Chart 5*).

Examples of just a few of the other trade-distorting policies used by other sugar producing countries include:

- State Trading Enterprises: Australia, Japan, and China
- Internal arrangements which force or encourage dumping on the world market: Colombia, Guatemala, Thailand, South Africa
- Government ownership and bailouts: Mexico, Thailand, Turkey

Many, if not most, of the trade-distorting policies revealed by the study are indirect, non-transparent, and/or not easily dealt with through the “3-pillar” approach – with its focus on broad formulas for the reduction of domestic supports, export subsidies and import tariffs.

Proposed EU Reform. While the EU appears likely to undertake a significant reform of its policies, it is not at all clear, for the reasons outlined below, that most of the other policies affecting sugar production and trade will be much affected or even addressed in the WTO negotiations.

It should be noted, however, that even if the sugar reform proposed by the EU Commission is adopted, EU prices will fall only to about the U.S. level (*Chart 6*), some export subsidization will still be permitted, and sugarbeet growers will receive direct payments in compensation for the price decline. Thus, they will still have an advantage relative to unsubsidized U.S. sugar producers.

Status, Direction of Doha Negotiations: U.S. Sugar Industry Concerns

We have serious concerns about the current state of the negotiations and their future direction – concerns that are, we believe, widely shared within the agricultural community.

Huge Cuts Proposed. Throughout the negotiations, the Administration has offered up major reductions in U.S. domestic support for agriculture in return for the promised achievement of other U.S. objectives, primarily in the area of market access. Several weeks ago, the U.S. made a specific proposal for drastic cuts in agricultural supports – cuts which would almost certainly require fundamental changes in U.S. farm programs.

In putting this proposal on the table, the Administration has stated that it is contingent on acceptance by other countries of a large and very ambitious Doha market-access package. But will the Administration pare down, or withdraw, this offer, if, as is almost inevitable, the market access package falls far short of Administration demands?

Already there are calls by some WTO member-countries for the U.S. to do even more cutting on domestic support and the negotiating dynamic may be such that the U.S. cannot withdraw, or lower, its offer, without being blamed for the unraveling of the negotiations.

We, like other farm groups, are also concerned about the lack of clarity as to the Administration’s intentions regarding the implementation of its proposal to sharply

reduce farm support. It implies that an adequate safety net will be maintained. But how? What new or revised programs would be put in place to comply with the WTO commitments it proposes? And how would these commitments affect or foreclose the prerogatives of Congress in developing a new Farm Bill? Thus far, the Administration has only given the vaguest notion of what it intends.

Indirect Subsidies Ignored? We also have serious concerns with respect to our industry's specific objectives in the WTO negotiations. As noted above, many, if not most, of the policies adversely affecting the world sugar market do not neatly fall into the Doha Round's "three pillars."

The Doha negotiations have thus far focused almost entirely on the broad formulas, or modalities, which would apply in these pillars rather than on specific policies. There is therefore little reason to believe, at this point, the negotiators will be effective in dealing with the many indirect subsidies and other trade-distorting practices characterizing the world's sugar sector. The Administration indicates that such sectoral approaches can be pursued after modalities are agreed – but it is hard to see what leverage will be left to do so.

Developing Countries Avoid Cuts? Perhaps even more troubling, the pervasive emphasis on special and differential (S&D) treatment for developing countries in the Doha Round has persuaded a great many developing countries that little or nothing should be asked of them in the negotiations. This posture is particularly inappropriate in the case of sugar where three-quarters of production and trade are conducted by developing countries, the most important of which have modern, state of the art production facilities. Brazil, which has expanded to take over 40% of the world sugar export market, is a perfect example of a developing country that, with massive government assistance, has developed a modern sugar industry.

If developing countries do not undertake obligations roughly comparable to those of developed countries on sugar, any reform will fail. At this point, it appears likely that many developing countries intend to avail themselves of "S&D" provisions (in particular, by designating sugar as a "special product") to avoid meaningful commitments.

Sensitive Products. As the prospects for true reform of the world sugar market recede, we are paying particular attention to the treatment of sensitive products – in which category we believe sugar must be placed by the United States. Recent U.S. proposals on agriculture, although perhaps advanced for tactical reasons (and unlikely to be accepted by other WTO members), have further heightened our concerns.

The recent, informal U.S. proposal on sensitive products, which would not predicate changes in our import program on success in achieving sugar market reform, would devastate our industry. An increase in the U.S. sugar import TRQ equal to 7.5 percent of consumption would force 750,000 tons of sugar onto to a U.S. market that, most years, has already been over-supplied. The proposed tariff cut of about 45 percent would make it impossible to insulate our market from world dump market prices – prices unlikely to

be much improved, if at all, by other WTO commitments (*Chart 7*). If such a proposal were adopted, it is difficult to see how a viable domestic sugar program could be maintained in the next Farm Bill, and a very large portion of our industry would disappear.

U.S. Sugar Industry Under Stress

Prior to this year, with its severe hurricane damage, sugar prices had been flat or depressed for some time – the raw cane sugar support price has been the same 18 cents per pound for 20 years now, since 1985; prices in 2004 averaged 11% lower than in 2003 and 20% lower than in 1996 (*Charts 8, 9*). Higher wholesale sugar prices that have occurred in some areas following the recent hurricanes are not likely to persist as transportation problems are sorted out and U.S. sugar production returns to more normal levels.

Unlike other program crops, sugar farmers receive *no* income support from the government to compensate for low market prices. This allows scarce federal dollars to be directed toward assisting farmers of export crops.

Sugar farmers have been making wrenching adjustments to survive, or just going out of business. More than a third of all U.S. beet and cane mills and refineries have closed just since 1996, 32 plants in total (*Chart 10*).

As independent beet processors and cane refiners have gone out of business, beet and cane farmers, desperate to retain outlets for their beets and raw cane sugar, have organized cooperatively to purchase those operations. Beet farmers now own 100% of U.S. beet processing capacity and cane farmers own 65% of U.S. cane refining capacity (*Chart 11*).

This vertical integration has helped to increase efficiency, but growers have literally mortgaged the farm to stay afloat and are deeply in debt. Since sugar farmers derive 100% of their return from the marketplace and none from government payments, they are more dependent on, and more vulnerable to, market forces than most other farmers. Sugar farmers are generally unable to switch to other crops because of their commitment to supplying beets and cane to the processing mills they now own.

Sugar farmers based their investment decisions on the promise in the 2002 Farm Bill of volume and price levels that would enable them to remain in business and repay their loans. It is important that the WTO negotiations not jeopardize their future viability.

The costly hurricane damage to cane growing, processing, and refining operations in Louisiana and Florida the past several months is a reminder of the uncertainty of farming operations and has made growers in those regions all the more vulnerable economically. These sugar-producing regions can rebound, and will, unless the market for which they produce has, in the meantime, been given away to foreign producers. U.S. trade

negotiators should be sensitive to the fragile nature of farming and to the economic stress of many American farmers, however efficient, and should work to preserve American farmers' domestic market, rather than give it away.

Conclusion

The U.S. sugar industry supports global WTO negotiations with the objective of effecting a fundamental reform of the grossly distorted world sugar market. However, the current state and direction of negotiations give us little reason to believe that goal will be achieved.

We have very serious concerns about the impact of the proposals being considered in the WTO on the future viability and prosperity of U.S. agriculture overall as well as on the U.S. sugar industry and our domestic programs – and important questions remain unanswered by the Administration.

It is getting more and more difficult to explain to sugarbeet and sugar cane farmers how these Doha negotiations are not going to tie the hands of Congress and make it impossible to write a fair and effective Farm Bill when this one expires.

Thank you.

Chart 1

U.S. Cost of Production Rank Among World Sweetener Producers, 1997/98 – 2002/03		
	U.S. Rank (Lowest = 1)	Number of Producing Countries/Regions
Beet Sugar	3	41
Cane Sugar	26	64

Source: "LMC Worldwide Survey of Sugar and Corn Sweetener Production Costs: 2003 Report,"
LMC International Ltd., Oxford, England, June 2004.

Chart 2

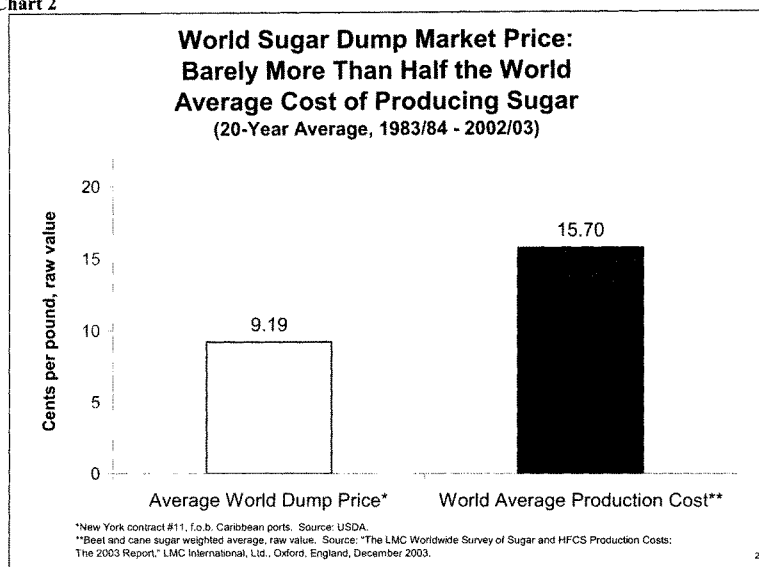


Chart 3

Summary of Support for Sugar Industry in Selected Countries, 2002 – Indirect Supports

	Australia	Brazil	China	Colombia	Cuba	EU	Guatemala	India	Japan	Mexico	Russia	S. Africa	Thailand	Turkey
NON-TRANSPARENT SUPPORT														
Direct Financial Aid (Table 10.1.2.1)			✓		✓					✓				✓
Guarantee Support	✓	✓				✓			✓				✓	
Debt Financing	✓	✓								✓	✓	✓	✓	
Input Subsidies							✓			✓	✓	✓	✓	✓
Indirect Long-Term Support														
Financial Guarantees	✓			✓	✓							✓		
ATC Subsidies								✓				✓		✓
Export Subsidies	✓													
Export Programs/Quotas		✓		✓	✓								✓	
Consumer Payment Subsidies			✓		✓					✓				✓
Domestic Wholesale Sugar Price (cents/kg)	13.5	8.1	16.9	21.1	0.1	30.4	18	12.7	65.4	25.6	16.5	17.3	11.8	27.9
Review of sugar policies in major sugar industries: Transparent and non-transparent or indirect policies © LMC International Ltd, 2003														

Chart 4

Summary of Support for Sugar Industry in Selected Countries, 2002 -- Direct Supports

	Australia	Brazil	China	Colombia	Cuba	EU	Guatemala	India	Japan	Mexico	Russia	S. Africa	Thailand	Turkey
TRANSPARENT SUPPORT														
Domestic Market Controls						✓								✓
Production Quotas						✓								✓
Quota/Import/Export Prices			✓			✓		✓	✓				✓	✓
Export Quotas								✓						
Market Sharing/Sales Quotas				✓			✓			✓		✓	✓	
Import Controls														
Import Quota											✓	✓		
Import Tariff		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Import Licenses			✓										✓	✓
Export Licenses							✓		✓					
Export Support														
Export Subsidies				✓	✓	✓		✓						✓
Foreign Desk Selling	✓		✓		✓							✓		
Import Tariff Level (refined, a.v. or equivalent)	0%	18%	75%	20%	10%	164%	211%	68%	71%	172%	50%	46%	96%	138%
Review of sugar policies in major sugar industries: Transparent and non-transparent or indirect policies © LMC International Ltd, 2003														

Chart 5

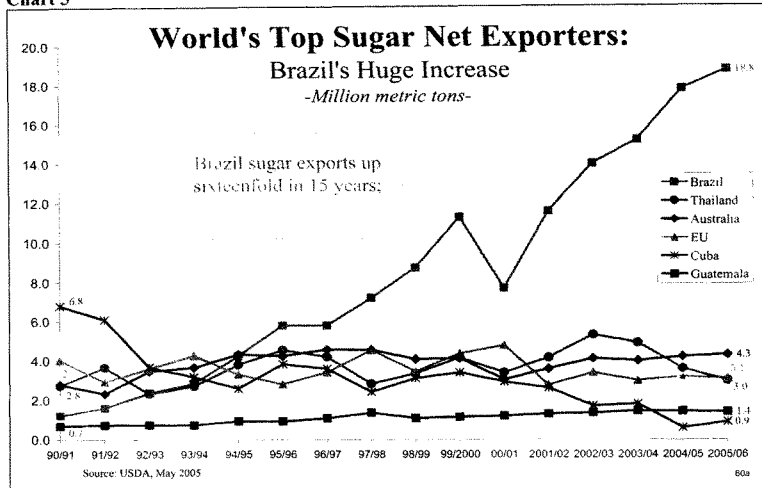


Chart 6

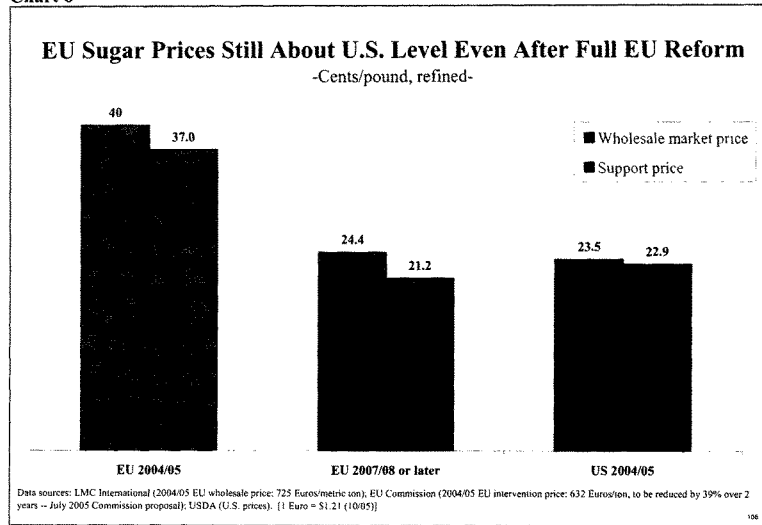


Chart 7

**Possible Effect of U.S. Doha Proposal on
U.S. Sugar Market Access and Domestic Supports**

	<u>Current</u>	<u>Proposed Change</u>	<u>New Level</u>
<u>Market Access</u>			
Sugar Import Tariff	15.36 ¢/lb, raw value	Reduce by 85-90%	1.5-2.3 ¢/lb
<i>If U.S. declares sugar a sensitive product:</i>			
Sugar Import Tariff	15.36 ¢/lb, raw value	Reduce by ~45%	~8 ¢/lb
WTO Minimum Tariff-Rate Quota (TRQ) ¹	1.256 mst	Increase by 7.5% of consumption ≈~750,000 st	~2.0 mst
Number of dutiable tariff lines that can be declared sensitive	~40 lines for sugar products	No more than 1% of all tariff lines	~17 lines for all sensitive products
<u>Domestic Support</u>			
Sugar Aggregate Measure of Support (AMS)	\$1.1 billion	Reduce Amber Box subsidies by 60%	~\$0.4 billion
Sugar Loan Rates ²	18.0 ¢/lb, raw 22.9 ¢/lb, refined		~12.0 ¢/lb, raw ~17 ¢/lb, refined

¹ Other import minimums: NAFTA/Mexico, up to 276,000 st/yr; CAFTA, 120,000 st in 2006, rising ~3,000 st/yr.

² Assuming cut applies to sugar loan rate.

Chart 8

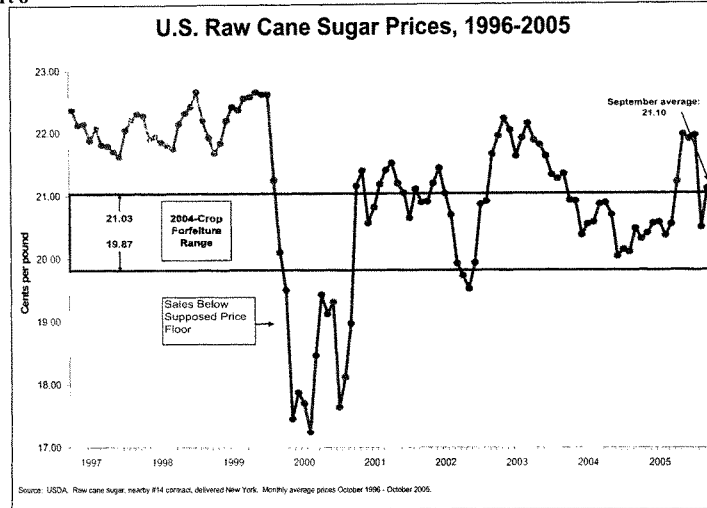


Chart 9

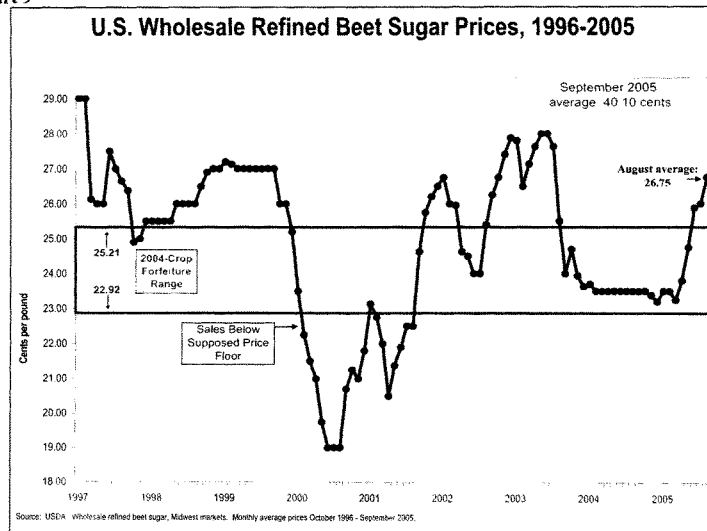


Chart 10

32 Sugar Mill and Refinery Closures Since 1996		
BEET CLOSURES	CANE CLOSURES	
Spreckels Sugar, Manteca California, 1996	Ka'u Agribusiness Hawaii, 1996	Hawaiian Commercial & Sugar, Paia Hawaii, 2000
Holly Sugar, Hamilton City California, 1996	Waialua Sugar Hawaii, 1996	Evan Hall Sugar Cooperative Louisiana, 2001
Western Sugar, Mitchell Nebraska, 1996	McBryde Sugar Hawaii, 1996	Caldwell Sugar Cooperative Louisiana, 2001
Great Lakes Sugar, Fremont Ohio, 1996	Breaux Bridge Sugar Louisiana, 1998	Glenwood Sugar Cooperative Louisiana, 2003
Holly Sugar, Hernford Texas, 1998	Pioneer Mill Company Hawaii, 1999	New Iberia Sugar Cooperative Louisiana, 2005
Holly Sugar, Tracy California, 2000	Talisman Sugar Company Florida, 1999	Jeanerette Sugar Company Louisiana, 2005
Holly Sugar, Woodland California, 2000	Amfac Sugar, Kekaha Hawaii, 2000	U.S. Sugar, Bryant Florida, 2005*
Western Sugar, Bayard Nebraska, 2002	Amfac Sugar, Lihue Hawaii, 2000	Cinclare Central Facility Louisiana, 2005*
Pacific Northwest, Moses Lake Washington, 2003	CANE REFINERY CLOSURES	
Amalgamated Sugar, Nyssa Oregon, 2005**	Alea, C & H Hawaii, 1996	Sugarland, Imperial Texas, 2003
Michigan Sugar, Carrolton Michigan, 2005*	Everglades, Imperial Florida, 1999	Brooklyn, Domino New York, 2004

Note: In 2005, 24 beet factories, 19 raw cane mills, and 8 cane refineries remain in continuous operation.
*Phasing out operations, 2005-07. **Suspended operations for 2005.

Chart 11

