Senate Democratic Policy Committee Hearing

"A Hearing on Recent U.S. Trade Agreements"

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Senator Dorgan, it is a pleasure to appear before you today to discuss agricultural trade.

I served as a member of the Agricultural Policy Advisory Committee in the Clinton Administration from 1994 to 2000, and as a member of the Agricultural Trade Advisory Committee for Wheat, Feed, and Oilseeds in the Bush Administration since 2000.

If I may Mr. Chairman, I would like to make the following observations after ten years of service on trade advisory committees. I am extremely frustrated with, and deeply alarmed by our current national agricultural trade policy. From a process standpoint, here is my list of process flaws:

- Our trade policy, which now sets the direction of our national farm policy, as well as the legal framework into which it fits, is not set in an open, democratic, accountable, or representative manner as public policy should be. Altogether too many times U.S. based companies with massive international interests, set and determine our national trade policies. That is a fundamental mistake because in my judgment, those corporate players do not, and cannot, differentiate between what is best for their company, and what is best for our country.
- The economic premises on which our agricultural trade policy is based, are fundamentally flawed, and do not work in the real world of agricultural production, which does not operate in the same manner as do industrialized manufacturing, for example.
- The failure to evaluate in an objective and pragmatic way, the economic impact potential trade positions might have on our domestic agricultural producers before positions are taken.
- The failure to evaluate in an objective and pragmatic way, the performance of trade agreements already in place relative to expectations, especially on the most economically vulnerable and fragile sector of our food economy, our family farmers and ranchers.
- The complete disconnect between international trade policies set by the WTO, and the economic, social, environmental, and democratic impacts those policies have around the world on the part of the WTO bureaucracy and negotiators. This hands off attitude is pervasive. As long as they implement the goals of the three pillars to free trade, they believe they are somehow exempt from any adverse

impacts caused. I find this process dehumanizing, and not consistent with our democratic values.

Chairman Dorgan, thank you for allowing me to share my frustrations and alarm over our trade policy process. It is my belief that a flawed policy development process yields a flawed policy.

Our National Farmers Union organization is the second largest general farm organization in the country. We represent all kinds of food producers, from all parts of the country, with all kinds of economic and social views on the issues of the day. Our farmer members range from the very small, to the very large. We are proud to represent the small organic farmers, the large commercial chemical using farmers, and everyone in between. Our members use direct marketing, niche marketing, traditional commercial marketing, cooperative value added marketing, and everything in between.

What does our membership think about current trade policy? First, we believe in the need and benefits of a positive national trade policy that provides real economic benefits to production agriculture. Second, we don't believe we have seen one yet. I think it fair to say that most of our very diverse membership, like most of the ag community, either believes our trade policy goals are plumb haywire, or the folks implementing them have done a lousy job. Our national trade policy simply has not performed as promised for the folks who do the work, take the risk, produce the product, and cannot pass their cost of doing business on to anyone, our family farmers and ranchers. As a result, our farmers are more than a little skeptical about the current national trade policy with its version of corporate driven globalization, increasing ag market concentration and noncompetitive markets, vertical integration, captive supplies, and the corporate takeover of traditional livestock and grain production in general.

Let's take a quick look at the pertinent farm facts to find why farmers are growing more skeptical. According to the latest USDA data, the farmers' share of the consumer food dollar for a market basket of food in 2003 has shrunk down to 20.9%. Trade does not fix the increasingly unfair distribution of the profits in the food economy. USDA data says the average net earnings from farming operations to farm operator households for 2003 was $3,991. Something is wrong with a national farm and trade policy that yields a net earned income at levels that yield our nation's hardworking food producers with enough earned incomes to feed and clothe their own families.

According to the 2002 Census of Agriculture data just released, which is compiled every five years, shows continued loss of family farmers. There were 2,215,218 farmers in 1997, and in 2002, there were 2,128,739, a decline of 86,479, which is 4% in four years. The farms in the 10-49 acre category and the over 2,000 acre category grew, while all other sizes declined. We have more hobby farmers and mega farmers, but the traditional mid sized full time family farmers are being forced out of business. When our national farm and trade policy puts our family farmers out of business, isn't is high time to rethink and re-examine our trade policies?

The first and perhaps most important report card on trade policy performance in our national balance of ag trade. In 1996, when our nation implemented a radically different approach to farm policy that now fits into our trade policy framework and direction, our balance of ag trade was $27.4 billion. In 2003, it collapsed $16.9 billion down to $10.5 billion, which is a 61.6% decline. Comparing 1996 to 2003, ag import values went up 40.6%, while export values actually went down 6%. Before we get too excited about 2004 USDA projections of ag trade values of $59, let us remember than we had $59.9 in 1996, and that our balance of ag trade for 2004 is also projected to shrink even farther because again ag import values will rise faster than ag export values. How deep should we dig this hole before we stop digging?

While free trade proponents would lead us believe that without free trade agreements, there would be no ag trade. However, from 1985 to 1994, ag exports grew by nearly 41%, while agricultural imports rose by about 35%. From 1994 to 2003, after NAFTA and the WTO were ratified, U.S agricultural exports increased only 34.4% while imports rose 86.1%. What I conclude from that data is that our trade negotiators did a great job of giving away our domestic food markets to our competitors.

Free trade advocates are quick to point out the percentage of farm sales that are derived from exports and the amount of cropland utilized to produce these products. For example, in her written statement to this committee last week, Secretary Veneman reported, "We estimate about 27% of farm sales will come from exports this fiscal year."

This misrepresents the importance of agricultural trade to the economic well-being of farmers. First, the $59 billion or so in projected agricultural exports for 2004 does not account for the approximately $43 billion of competitive agricultural products we will import this year. Second, export values are reported on a "free alongside ship" basis, which reflects the transaction price for products including processing, and transportation to place finished goods alongside the carrier at the export point. We estimate American farmers likely receive less than 60 percent of the reported export value on average as a portion of their gross income. Thus in 2003, net farm gate exports accounted for about $13 billion, just over 6% of total crop and livestock sales by producers, not 27%.

Concerning export volumes, the Economic Research Service estimates that the export share of the volume of U.S. farm production was 21.9 percent in 2002, which has declined each year since 1998.

The U.S. is pursuing a multilateral trade agenda through the WTO, and a number of bi-lateral and/or regional free trade agreements. While some sectors of agriculture expect to gain market share or expanded sales, other sectors of production agriculture are justifiably concerned that these agreements will simply add to the level of price depressing surpluses in our domestic market. In fact, many of the proposed FTAs are with countries that provide relatively small market opportunities for U.S. farmers while representing substantial competition in our domestic or other markets for specific commodity sectors.

Much of the cost/benefit analysis of the FTAs appears to have been developed in a vacuum. Let me illustrate this point with a couple of comments about CAFTA. First, the expanded sugar quota provided in the CAFTA, will, in all likelihood, be fully utilized and will also be extended to other nations in future negotiations such as the FTAA. Second, there are no CAFTA rules that prohibit participating countries from extending tariff reductions, the primary basis for projected U.S. trade gains, to other countries erasing the modest benefits we believe have been achieved.

Concerning the U.S. WTO proposal in Cacun, NFU could not support that proposal, which if implemented, would put most full time commercial farmers in our country out of business in short order. While we could support moving towards efforts to harmonize tariffs, we could not support cutting our U.S. domestic tariffs in half when world tariffs average 62%, and our tariffs are already by far the lowest of any major industrialized nation at 12%. It is no wonder ag import values outpace ag export values.

NFU could support efforts to use better discipline in the use of non-tariff barriers and efforts to reduce export subsidies, but could not support provisions to reduce our AMS domestic income supports for our farmers from $19.1 billion to $10 billion. All the discussion in Cancun was about agricultural subsidies, but in our judgment, the best and most positive way to eliminate the unfairness between developed and developing nations on the ag income subsidy issue is to get rid of the need for the subsidies in the first place by raising farmgate prices paid to farmers up to fair and profitable levels.

In fact, we have attached a copy of a presentation the National Farmers Union developed in conjunction with Dr. Daryll Ray of the University of Tennessee for an international farmer meeting held concurrent with the Cancun Ministerial last September. In summary, our proposal suggests an alternative to the destructive "race to the bottom" in commodity prices fostered by current trade rules and practices that is costing developed countries billions of dollars each year and jeopardizing the ability of developing nations to provide an adequate standard of living for their citizens.

We also support differentiation among developing nations based on the level of development of their agricultural sector and we back the position of the administration to appeal the likely decision in the challenge to our cotton program. If the cotton program is successfully challenged, it spells trouble for all the other farm program commodities, which spells disaster for our farmers unless we re-think our farm and trade policy.

We are concerned however, that the WTO negotiations have failed to identify mechanisms to achieve what we believe should be three important goals of all agricultural trade negotiations: first, recognition that agriculture is unique in its economic, social and political importance; second, improving the economic returns to farmers worldwide so the need for trade distorting practices of all types are reduced; and third, providing policy flexibility and encouraging cooperation to fully address food safety and security, particularly for the world's 800 million people who suffer from inadequate diets.

Furthermore, the Doha Round lacks scope in the case of agriculture because of major trade issues that are not being negotiated. These include exchange rate policies, provisions to enhance, harmonize and enforce environmental regulations and labor standards and consideration of the effects of agricultural integration and concentration.

As a general farm organization that represents producers of all commodities, it is difficult for the NFU to support these agreements when the goal of improving the economic returns to producers is not a priority in any of these negotiations and as long as important unfair competition issues are ignored.

Senator Dorgan, thank you for the opportunity to participate in this important hearing. I will be pleased to respond to any questions you or your colleagues may have.