Senate Democratic Policy Committee Hearing

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

National Farmers Union

June 18, 2004

Senator Dorgan it is a pleasure to appear before you today on behalf of the farmer and rancher members of the National Farmers Union to discuss the issue of agricultural trade.

Before I discuss our concerns over the various trade negotiations in which the U.S. is currently engaged, I would like to offer a few general observations concerning agricultural trade.

Observations

I don't believe there is any question but that farmers and ranchers are more concerned about the impact of globalization, market concentration and the results of trade agreements on their operations and on U.S. production agriculture than at any time in recent memory. The reason for increased skepticism, and in more and more cases downright cynicism, is that the results of agricultural trade negotiations and the agreements that follow have consistently failed to match the promises and rhetoric of free trade proponents.

Time and time again, farmers have been told that because of the increased demand created by growing populations and expanding incomes beyond our borders prosperity based on free trade is just around the corner. As producers we never seem to get to that elusive corner. The farmer expectations created by the advocates of the North American Free Trade Agreement (NAFTA), the Uruguay and Doha Rounds and China's ascension to the World Trade Organization (WTO) have not been fulfilled. The prospect that the current WTO Round or myriad of bi-lateral and regional trade agreements will create a different result is just as unlikely.

At times, the proponents of these agreements seem to suggest that without these commitments, no agricultural goods, or at least no U.S. agricultural commodities, would move in world commerce. However, during the five years, 1990-94, before farmers began to realize the costs and the benefits of NAFTA and the WTO, our agricultural exports, which were comprised of a significantly higher proportion of bulk commodities than occurs today, resulted in an average trade surplus over the imports of competitive products of about $23.0 billion. For the five-year period 1999-2003, several years after the agreements were ratified, that surplus declined by nearly 15 percent to $19.6 billion.

From 1985 to 1994, when agriculture was not a focal point of trade negotiations, our farm exports grew by nearly 41 percent, while all agricultural imports rose by about 35 percent. From 1994 to 2003, after agricultural trade became subject to trade rules under the WTO and NAFTA, agricultural exports increased 34.4 percent and imports 86.1 percent, the vast majority of which were comprised of competitive products.

As we tout our increased sales to Canada and Mexico during this 10th anniversary of NAFTA, we must also acknowledge that we are selling proportionately less to the rest of the world than we used to, while at the same time importing increased quantities of products from overseas that we already produce. This is not due to increased tariff or non-tariff barriers in the non-NAFTA countries or a decline in demand, but because we have been displaced in third country and our own domestic markets by our trade competitors.

Agricultural trade advocates, including administration officials from both parties, are always quick to point out the percentage of farm sales that are derived from exports and the amount of cropland utilized to produce these products. Even during the period when our export sales were declining or failing to meet expectations, they continued to suggest that agricultural exports amounted to about 25 percent of the farm gate value of U.S. crops and livestock. For example, in her written statement to this committee last week, Secretary Veneman reported, "We estimate about 27 percent of farm sales will come from exports this fiscal year."

This is an impressive number and would appear to paint a bright picture for the contribution of exports to production agriculture. It also misrepresents the importance of agricultural trade to the economic well-being of farmers. First, the $59 billion or so in agricultural exports for 2004, that purportedly represents the approximate 27 percent of farm sales, is a gross export number. It does not account for the approximately $43 billion of competitive agricultural products we will import this year that displace domestic products in our own market. Second, export values are reported by U.S. Customs on a "free alongside ship" or f.a.s. basis. The quoted value of our exports reflects the transaction price for the product including transportation and other charges to place the merchandise alongside the carrier at the export point. Our trade data, both for exports and imports is more comparable to a wholesale price than to the prices received by U.S. farmers. In all likelihood, American producers receive only about 60 percent of the reported export value as a portion of their total gross income. In 2003, the value of gross exports at the producer level was about $35.7 billion, or approximately 16.8 percent of the value of farm gate commodity sales. Once competitive imports are deducted, net exports account for about $13 billion, just over 6 percent of crop and livestock sales by producers (table 1). Interestingly, in 1994, before agriculture was subject to trade agreements, the producer value of exports was about 40 percent higher than in 2003.

In the case of wheat, the average price received by wheat producers in calendar year 2003 was $126.55 per metric ton. The f.a.s. value for wheat was $155.55 per metric ton, nearly 23 percent above what the producer received for the bulk commodity. As the commodity moved through various levels of processing, while the producer value would have remained constant, other sectors captured an increasing share of the export value.

For beef, the export value in 2003 is estimated to be over double the price received by producers. (table 2)

In terms of volume, trade proponents, including U.S. Trade Representative Zoellick, suggest that the production of about one out of three acres is destined for the export market, which also misrepresents the importance of exports to U.S. farmers. Once again they fail to reduce the volume by the level of competitive imports and then they suggest it represents a percentage of the total crop acreage excluding the over 600 million acres in the U.S. utilized for pasture and grazing of livestock which are an important export sector. The Economic Research Service of USDA estimates that the export share of the volume of U.S. farm production was 21.9 percent in 2002. Furthermore, their data indicates the share has declined each year since 1998 and since 1990, only exceeded 25 percent in one year—1995 (table 3).

Exports are important to farmers and ranchers, however, the misrepresentation of trade data should be curtailed to present a more fair and objective view of trade as it relates to agricultural producers.

Free Trade Agreements

Since the granting of "fast track" Trade Promotion Authority, the U.S. has pursued not only a multilateral trade agenda through the WTO, but also an aggressive approach to bi-lateral and/or regional free trade agreements (FTAs) with a number of nations that are in various stages of progress from the initiation of talks to awaiting congressional action on ratification to the initial stages of implementation.

While some sectors of production agriculture expect to gain market share or expanded sales, other sectors are justifiably concerned that these agreements will simply add to the level of price depressing surpluses in our domestic market. Many of the proposed FTAs are with countries that provide relatively small market opportunities for U.S. farmers even if we gain preferential market access commitments. At the same time these nations may represent substantial competition in our domestic or other foreign markets for specific commodity sectors including, but not limited to sugar, dairy, fruits, vegetables and even beef.

Although we have provided a level of front-loaded protection for individual sectors in specific agreements, we appear to be on a path to opening our most sensitive commodity sectors to substantially increased levels of competition over time if the provisions of all the completed and proposed FTAs were to be aggregated. In effect, the FTA negotiations "pick off" commodities one-by-one while attempting to maintain the necessary threshold of support for each FTA to gain its ratification.

Tariff reductions and equalization in addition to responsible limits on non-tariff border measures are important considerations. However, even successful efforts to address these issues do not mitigate our concerns that the competitive advantage of these countries is in large part based on factors other than tariffs, quotas and sanitary/phytosanitary issues.

Issues that are either not addressed in the agreements at all, or are inadequately dealt with in terms of harmonization and effective enforcement mechanisms. These include exchange rates, environmental regulation and labor standards. both as they relate to production agriculture and agricultural processing and distribution.

In addition, we are very concerned that at least one multi-national trading company, Cargill, is preparing to utilize preferential trade arrangements already afforded some developing countries, such as the Caribbean Basin Initiative, to transship products from third country markets through those countries in order to evade existing tariff rate quotas on agricultural products. While such practices may be designed to meet the technical requirements of the preferences, it appears to us they clearly violate the intent of these agreements and will serve to erode support for special treatment for developing countries in the future.

Finally, FTA advocates, most of whom have never met a trade agreement they didn't fully support regardless of its provisions, have attempted to promote certain FTAs based on an analysis of expected costs and benefits to producers. The analysis extends the misleading data issue identified earlier and also must assume a sort of trade agreement vacuum concerning the likelihood of future trade deals between FTA countries and other nations. Let me illustrate this point with a couple of examples.

First, it is hard to imagine that the expanded sugar quota provided in the Central American Free Trade Agreement (CAFTA), which in all likelihood will be fully utilized, will not be extended to other nations in a future Free Trade Area of the Americas or other FTA negotiations, particularly since Ambassador Zoellick has indicated sugar will not be omitted from any future trade agreements. The losses to our sugar industry are predictable, real and will ultimately be costly to both sugar producers as well as other agricultural sectors while the projected benefits of the agreement are hypothetical and elusive.

Who really believes that increased imports of foreign sugar sold at world "dump market" prices will substantially improve the standard of living in Central America for those who labor in the industry, or will result in lower consumer prices in the U.S. for candy, sodas or other sugar containing products? Remember a sugar free soda costs the consumer the same as one containing sugar. Who believes increased imports will have a positive impact on our domestic sugar production industry or other production sectors that will absorb any displaced U.S. sugar acreage in the form of increased production of alternative commodities?

Second, there are no CAFTA rules that prohibit the participating countries from extending the preferential tariff reductions that are the primary basis for projected U.S. trade benefits, to other countries in South America, Europe or elsewhere erasing the modest trade gains we believe have been achieved.

Finally, within the context of the WTO, it would seem that FTAs such as CAFTA, which provide preferential treatment to its participants, directly contradict the whole concept of Most Favored Nation status and national treatment.

As a general farm organization which represents producers of all commodities, it is difficult for the NFU to support these agreements when the risk of expanded unfair competition to our members is so high relative to any potential benefits. Our problem is compounded because the goal of improving the economic returns to producers has never been mentioned as a priority in any of these negotiations. Why would an organization that is directed by its producer members support trade agreements that pose substantial economic risk to farmers while they cannot demonstrate clear, definable and predictable financial benefits to our membership?

WTO Negotiations

The U.S. is also currently engaged in negotiations to establish new disciplines on agricultural policies and actions through the World Trade Organization. The so-called three pillars of the U.S. trade agenda include improved market access, elimination of export subsidies and tighter controls over domestic agricultural support programs. In addition, some form of special and differential treatment for developing countries in the application of new disciplines is to be expected.

In principle, the NFU supports many of the objectives contained in the U.S. proposal including efforts to move toward greater harmonization of tariffs, greater clarity in the use of non-tariff barriers to trade and the elimination of export subsidies.

We also support efforts to differentiate among developing nations based on the level of development of their agricultural sector. Countries such as Brazil and China should not be the recipients of special trade accommodations for their agricultural sectors.

In addition, we back the position of the administration concerning an appeal to what is likely to be the WTO dispute panel's decision in the Brazilian challenge to our domestic cotton program. However, we believe this issue must also be viewed as a "wake-up call" for all producers, policy makers and negotiators over the operation, scale and purpose of domestic safety net programs. Any action taken through the negotiations on domestic support programs must provide the maximum flexibility for sovereign nations to develop domestic measures they deem appropriate to the extent they do not significantly distort trade. It should be remembered that the majority of U.S. domestic support payments to farmers are reactionary to price and determined well after planting decisions have been made. The U.S. should also insist upon greater clarity in grouping support mechanisms relative to their potential to distort trade, including those support initiatives, such as "blue box" programs which mitigate such distortions.

We are concerned however, that the negotiations have failed to identify the mechanisms to achieve what we believe are the three most important goals of all agricultural trade agreements: first, recognition that agriculture is unique in its economic, social and political importance to each of the sovereign nations that make up the WTO; second, improving the economic returns to farmers worldwide so the need for trade distorting practices of all types are reduced or eliminated; and third, providing policy flexibility and encouraging cooperation among nations to fully address food safety and security, particularly for the world's 800 million people who suffer from inadequate levels of nutrition. To achieve each of these goals, it is imperative that negotiators recognize that the trade rules which may appropriately apply to other sectors may be counter productive to achieving fair and beneficial trade in agricultural goods.

Although many have characterized the Doha Round as being comprehensive in that it covers literally all trade sectors, we would suggest that it seriously lacks scope in the case of agriculture because of major issues which directly impact and may distort trade that are not being negotiated. These include country actions on currency and exchange rate policy, provisions to enhance, harmonize and enforce environmental regulations and labor standards, meaningful consideration of the effects of agricultural integration and concentration on producers and consumers relative to market transparency, competition and subsidies provided to agribusiness to encourage the creation of greater production overcapacity. In addition, we should find ways to accommodate and encourage agriculture's role in achieving other important national social objectives.

The failure thus far to achieve a consensus framework agreement on agriculture when coupled with the likely outcome of the Brazilian dispute panel decision suggests to us that an alternative approach to agriculture is necessary to reduce the trade tensions in the agriculture sector through cooperation to achieve the goals previously identified and address the important issues that have thus far been ignored. We also believe it is critical that all parties acknowledge that no country is likely, or should be expected, to unilaterally undermine its domestic agriculture or place its food security in the control of others regardless of the provisions contained in a trade agreement.

Alternative Approach

Attached is a copy of a PowerPoint presentation (appendix 1) the National Farmers Union developed with Dr. Daryll Ray at the University of Tennessee for an international meeting of farmers held concurrent with the Cancun Ministerial last September. It outlines many of the concerns which affect producers in both the developed and developing world. The document also discusses many of the issues we believe have been ignored in the negotiations and suggests an outcome for the negotiations that could achieve the aforementioned goals for agricultural trade that the vast majority of the world's farmers share.

In summary, our proposal suggests an alternative to the destructive "race to the bottom" in commodity prices 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.

Through a greater level of cooperation, we believe it is possible to achieve a constructive long term balance in supply, demand and producer prices within reasonable parameters that reduce the need for nations to engage in the level of unfair trade practices that exist today.

We believe it is possible to dramatically expand the demand for agricultural products in both the traditional food and fiber markets as well as for industrial products such as renewable fuels. This will reduce the problems associated with increased production capacity that predictably results in commercial surpluses, depressed producers prices and direct or indirect dumping.

We also propose that developed nations, both exporters and importers, agree to establish and maintain limited, strategic reserves of basic fungible commodities in order to meet the humanitarian, food security and growing alternative market needs of the world community in case of production shortfalls.

Finally, should excess capacity continue to undermine the economic stability and sustainability of production agriculture, we propose that the major exporting nations commit to equitably shared responsibilities in the management of production and stocks to maintain the desired supply and demand balance.

Senator Dorgan, thank you for the opportunity to participate in this important hearing

table 1

<u>Estimated Farmgate Value of Agricultural Exports</u>

	CY 1994	CY 2003
U.S. agricultural exports (FATUS, million $)	46163.5	59552.4
Free Alongside Ship (f.a.s.) margin over farm gate value (estimated)	40%	40%
Estimated farm gate value of U.S. agricultural exports (million $)	27698.1	35731.44
U.S. agricultural imports (FATUS, million $)	27023.7	47342.5
Non-competitive imports (FATUS, million $)	6758.3	9346.5
Competitive agricultural imports (million $)	20265.3	37996.1
Customs import value margin over farm gate value (estimated)	40%	40%
Estimated foreign farm gate value of competitive imports	12159.18	22797.66
Farm gate agricultural trade balance (competitive products)	15538.92	12933.78
Total Crop & Livestock Sales (Agricultural Outlook Tables, million $)	181273.9	212700.0
Farm gate agricultural trade balance as percent of total sales	8.6%	6.1%

table 2

<u>Examples</u>

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	CY 2003		
	$ per metric ton	Margin per metric ton	Margin per cent
Wheat -			
Average price received by farmers (Agricultural Prices, per metric ton)	126.55		
F.A.S. export value of wheat (BICO report, per metric ton)	155.55	29.00	22.9%
Wheat equivalent F.A.S. export value of wheat flour (BICO, per MT)	283.54	156.99	124.1%
Wheat equivalent F.A.S. export value of cereal (BICO, per MT)	1169.89	1043.34	824.4%
Beef & Veal -			
Average price received by farmers (cows, steers, heifers) (Agricultural Prices, per MT)	1762.96		
F.A.S. export value of beef and veal (fresh, frozen, prepared, preserved) (BICO, per MT)	3664.09	1901.13	107.8%

table 3

Export share of the volume of U.S farm Production