**Testimony Before the**

**Committee on Finance, U.S. Senate**

**Hearing on**
**The Promise and Challenge of Strategic Trade Engagement in the Indo-Pacific Region**

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Chairman Wyden, Ranking Member Crapo and distinguished Members of the Committee, thank you for the opportunity to appear before you today to share my thoughts on the challenges and opportunities for America's farmers and ranchers in the Indo-Pacific region. **Key to enhancing the sustainability of American farms and ranches is investing time, energy and ambition to negotiate new trade agreements to increase our competitiveness and open export markets in the Indo-Pacific, and particularly Asia.**

As we witnessed in 2018 when U.S. agricultural exports to a major market were severely disrupted, not only farmers, ranchers, businesses, and their workers were hurt, but taxpayers as well when the government provided support for those businesses to stay afloat. In 2017 before the trade war, nearly 14% of U.S. agricultural exports were concentrated in China. Despite calls at that time to diversity U.S. export markets, last year in 2021, we were up to nearly 19% or $33 billion of U.S. agricultural exports concentrated in China. Clearly, China is and will remain a critically important export market for U.S. food and agriculture. But, to enhance market stability and resiliency in our food systems, we need to diversify our agricultural export markets. And there is no better place than to focus on the Indo-Pacific region.

With growing populations and fast-growing economies, Indo-Pacific economies are attractive markets for the types of food and agricultural products that the United States produces – whether it be apples, corn, soy, ethanol, cotton, rice, potatoes, wheat, beef, pork, poultry, dairy, or the thousands of other products grown on America's farms and ranches and produced in our food manufacturing facilities. But the unfair barriers to U.S. agricultural exports in the region are many. Just a few examples are:

- Indonesia's import restrictions on feed corn and apples;
- Thailand's ban on imports of U.S. fresh and frozen pork;
- India's restrictions on ethanol and products derived from agricultural biotechnology;
- Vietnam's animal feed certification requirements and its longstanding ban on certain offal; and
- The Philippines restrictive sanitary and phytosanitary measures for a range of products.

The barriers, however, are also tariff related. For example,

- Thailand's average bound agricultural tariff is 39.1% and its applied tariff in 2021 was 29.3%;
- Vietnam's average bound agricultural tariff is 18.8% and its applied tariff is 16.5%; and
- India has one of, if not the highest average bound agricultural tariffs in the world at 113% and its applied tariff is 34%.

Even if non-tariff barriers are resolved, U.S. agricultural exports are also often challenged with being competitive in certain markets, because our products face higher tariffs in countries that already have preferential tariff agreements with U.S. competitors, such as Australia, New Zealand, or the European Union.

**We know that preferential trade agreements benefit our farmers and ranchers**. Thanks to our free trade agreements, Canada and Mexico have long been two of our three largest export markets. U.S. food and agricultural exports to Australia increased 156% since implementation of our FTA in 2005. U.S. agricultural exports to Singapore increased nearly 400% since implementation of that FTA in 2004. More recently, U.S. agricultural exports to South Korea have increased 54% since 2012, and that FTA is still in the process of phasing out tariffs.

Let's compare those growth numbers to overall U.S. agricultural export growth over the past ten years of 24% - both to the world as well as to 15 non-FTA countries in the Indo-Pacific region[1], and that is with a banner export year in 2021. The difference in U.S. agricultural export growth rates between countries with U.S. FTAs and those without is unmistakable.

**Other countries are not standing still**. Countries with which U.S. farmers and ranchers compete have proactive policies to negotiate free trade agreements. The European Union is negotiating with the Philippines, Indonesia, and Australia. Australia already has agreements with ASEAN countries and is trying to negotiate with India. Importantly, the Regional Comprehensive Economic Partnership is being implemented by 10 countries in the region, although it may not be as comprehensive as some of the United States' trade agreements. On top of that, the Comprehensive and Progressive TransPacific Partnership (CPTPP), to which the United States is not a party currently, is lowering tariffs among eight countries. These preferential tariff agreements put America's farmers, ranchers, agribusinesses, and their workers at a competitive disadvantage in these growing markets.

The Administration's recently announced Indo-Pacific Economic Forum (IPEF) provides an opportunity to create a fair and level playing field for our exports in the region. At this time, however, little public information is available as to what is really envisioned by the Administration. USTR's recent *Federal Register* notice identifies agriculture as part of the IPEF, but unfortunately emphasizes that it is not seeking to address tariff barriers at this time. In USTR's 2022 Trade Policy Agenda issued earlier this month, the Administration provides very general concepts for IPEF, for example: 1) sustainable food systems and science-based agricultural regulation; 2) transparency and good regulatory practices; and 3) trade facilitation. Science-based agricultural regulation, transparency, good regulatory practices, and trade

[1] Brunei, Burma, Cambodia, India, Indonesia, Japan, Laos, Malaysia, Mongolia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam. Source: USDA/GATS.

facilitation are standard approaches in U.S. trade negotiations, but will they really open new markets for America's farmers and ranchers?

To have a meaningful impact for fair and resilient trade for U.S. food and agricultural products, the following elements should be considered for IPEF:

**1) Enhanced Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) Rules**: Several of the Indo-Pacific countries have already signed onto the SPS- and TBT-plus rules of the CPTPP, which are similar to the SPS and TBT provisions of the US-Mexico-Canada Agreement. Since the Administration has already identified science-based agricultural regulation as one pillar of IPEF, basing IPEF commitments on CPTPP or USMCA is logical. Some least developed countries may need additional assistance to build their SPS and TBT regulatory infrastructure, but having a harmonized approach for strong, science-based and transparent food safety, plant health and animal health rules can greatly facilitate trade.

Another element of this pillar could be to gain commitments from trading partners to not create new unwarranted trade barriers in the future. U.S. negotiators have been successful in getting countries to agree to recognize the U.S. food safety system, for example, and to accept U.S. Department of Agriculture export certificates. These types of specific commitments help to provide a predictable business environment and facilitate trade into the future.

**2) Resolving Actual Non-Tariff Barriers**: Establishing strong SPS, TBT and other rules, such as transparent and functioning import licensing practices, however, is not enough. Using IPEF to actually resolve unwarranted non-tariff barriers is important up front so that U.S. farmers and ranchers can actually realize improved trading conditions in the near term. U.S. negotiators have been successful using trade agreement negotiations to resolve long standing barriers. For example, the United States negotiated with Australia to open its market to U.S. cooked and processed pork in 2005, now about a $200 million market. Mexico eliminated all of its BSE related barriers to U.S. beef in 2012, when it wanted to join the TransPacific Partnership.

A couple of examples of the types of barriers that need focused negotiations are non-functioning dairy facility registration systems in Indonesia, and burdensome and restrictive import licensing regimes in several southeast Asian countries. In addition, negotiating permanent access in our export markets for U.S. foods with common names (e.g., asiago, parmesan) would help blunt the EU gaining protection for a large number of geographical indications through its trade negotiations. While the U.S. Department of Agriculture, the Office of the U.S. Trade Representative, and U.S. regulatory agencies work every day to resolve barriers, prioritizing this work during a trade agreement negotiation, where incentives and leverage may exist, can reap real results.

**3) Reduce Agricultural Tariffs:** As noted above, many of the Indo-Pacific countries have high Most Favored Nation (MFN) agricultural tariffs, compared to the U.S. average agricultural applied tariff of about 5%. As U.S. competitors gain preferential tariff access in export markets, U.S. exporters lose out. For example, Vietnam has a 10% tariff on U.S. apples, but a zero tariff on New Zealand apples since 2019. U.S. apple exports have dropped 40% to Vietnam, while New Zealand apple exports to Vietnam have increased 76%. U.S. french fries face a tariff of 12 percent into Vietnam, and yet EU fries will face no tariffs by 2025. I recognize the legal limits that the Administration may have in negotiating U.S. tariffs without Trade Promotion Authority (TPA), but even if Congress does not pass TPA in the near term, opportunities exist to negotiate for our trading partners to lower MFN tariffs or to lower tariffs to U.S. levels. Vietnam, for example, recently temporarily lowered its MFN applied tariffs for pork, corn, and wheat to align the tariffs affecting U.S. products with those provided preferentially to other countries. In 2020, with that temporary tariff reduction, U.S. pork exports increased 191% over 2019. When the tariff reduction lapsed, U.S. pork exports decreased 74% in 2021, losing sales to the European Union and Russia, which have FTAs with Vietnam.

In addition to MFN and applied tariff barriers, U.S. exports of almonds, walnuts, apples, chickpeas and lentils still face retaliatory tariffs imposed by India in 2019 due to U.S. section 232 tariffs. Exempting agricultural products from a dispute unrelated to agriculture would provide welcomed relief to U.S. agricultural exporters.

**4) Common vision on agricultural sustainability, sustainable food systems, and food security.** International trade is integral to supporting agricultural sustainability, sustainable food systems and food security. Secretary of Agriculture Tom Vilsack is taking important steps in framing these issues and building coalitions internationally for a common approach. IPEF can be an important forum to build on this work and support food and agricultural trade among countries. Aligning like-minded countries in these areas can also support science-based decision making in the Codex Alimentarius Commission, World Organization for Animal Health, and the International Plant Protection Convention. To advance sustainability, supporting the use of new agricultural technologies with appropriate regulatory systems would be of benefit to farmers throughout the Indo-Pacific region. For example, several countries in the Indo-Pacific region have either no functioning regulatory approval system for products derived from agricultural biotechnology or have cumbersome and slow systems. With the advent of gene editing in the past several years, ensuring that countries allow the import of these new crops becomes increasingly critical for a sustainable and resilient trading system.

**5) Inclusion of as many countries as possible**: International trade is one element in building stronger foreign relations in the Indo-Pacific region. If countries want to be a part of the broader Indo-Pacific strategy, they then should also be a part of the IPEF. If a country is concerned about meeting the obligations of SPS-plus rules, for example, negotiators can be creative to find ways to bring them along. IPEF should bring as many countries together as possible, since the more inclusive the IPEF is, the stronger our economic ties and foreign policy objectives will be in the region.

**6) Enforcement:** An agreement is only as good as it is implemented and enforced. For IPEF to have any meaning or real results, provisions need to be enforceable. Enforcement should emphasize bilateral dialogue to resolve disagreements, but timely and straight forward dispute settlement mechanisms, including mediation, should be a part of any agreement. Of course, USTR will then need to do the follow-on work to actually enforce the agreement.

I have travelled to nearly every U.S. state and am always awed by the breadth and scope of American agriculture.  With more than 20% of American production being exported, our rural communities in all 50 states depend on finding strong, stable, and predictable markets.  U.S. trade agreements do just that, and I believe that with creative thinking and ambition the Indo-Pacific Economic Framework can also have economically meaningful results for a sustainable future.

Thank you.