

**STATUS OF AGRICULTURAL TRADE ISSUES AND
NEGOTIATIONS WITH THE PEOPLE'S REPUBLIC
OF CHINA AND THE EUROPEAN UNION**

HEARING

**BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED SIXTH CONGRESS**

FIRST SESSION

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STATUS OF AGRICULTURAL TRADE ISSUES AND NEGOTIATIONS WITH THE PEOPLE'S REPUBLIC OF CHINA AND THE EUROPEAN UNION

MONDAY, MARCH 15, 1999

**U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.**

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the subcommittee) presiding.

Also present: Senators Baucus, Conrad, and Kerrey.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE

Senator GRASSLEY. I am pleased to welcome everybody to this hearing. I am Senator Chuck Grassley, and this is the International Trade Subcommittee. We are going to examine today the status of agricultural trade issues between the United States and China, and the United States and the European Union.

When the United States helped create the General Agreement of Tariffs and Trades in Geneva in 1947, we helped build a world trading system that has expanded our collective wealth, enhanced our collective vistas, and helped secure the peace.

It is a sign of how far we have come and how much we have accomplished that that original 23 members are now a group of 134 nations, seeking to assure even greater non-discriminatory markets access and to more effectively settle disputes among nations in the World Trading Organization.

Now new challenges confront the trading system that I have described. Today, we will hear testimony on whether China's commitment to the WTO principles of free trade and unlimited market access, particularly in its agricultural markets, are sufficiently strong and comprehensive enough to merit their admission.

Our top trade negotiations have put in enormous efforts with their Chinese counterparts over the past few weeks to see whether we can resolve outstanding agriculture market access issues between our two nations that will clear the way for China to join the WTO.

I understand, and have just talked to Peter Scher, our Chief Agricultural Trade Negotiator, upon his return from China. We eagerly await your report, Mr. Scher.

The World Trading Organization is the ultimate rule-based trading system. It is under enormous pressure already because of the way in which these rules are observed, and, in some instances, not observed. That is why it is so vitally important that all WTO members have confidence in the commitments made by prospective members.

Recent developments in China's trade policies have given me much concern. China has historically protected most of its agriculture sector, and especially its domestic meat industry, from import competition. In 1997, China made specific commitments to permit the importing of meat for its retail market during a 1-year trial program.

Under this plan, China agreed to allow meat imports into the general market from selected plants in three countries, including the United States. Of 36 Chinese companies that were granted permission to import meat under this program, 27 received approval to import poultry, 4 companies received approval to import beef, and just 1 was approved to import pork.

When American Embassy staff in Beijing attempted to learn if there were any quotas on the volume of meat allowed to be imported by this one company. They were told three different stories.

First, they were told, yes, there was a quota. When asked to specify the amount of the quota, the Chinese said that this was confidential information. On a third try, our embassy was told the quota for all 36 companies was more than 125,000 metric tons.

This occurred 5 years after the Chinese agreed to a bilateral 1992 memorandum of understanding on market access with the United States. The very first article in this agreement was a commitment to provide transparency on all laws and regulations regarding the sale, distribution, processing, and other use of imports or exports.

Now, words alone on market access are not enough. We expect China to demonstrate its commitment to unlimited and unqualified market access for American agricultural products.

Now, with regard to Europe, agricultural trade issues have never been more important and, right now, even more contentious. The European Union is the second-largest U.S. market for our agricultural products.

Agricultural trade between the European Union and the United States reached nearly \$16 billion last year, but the European Union's huge direct farm subsidies—which are about 8 times the amount of U.S. direct subsidies—it supports and its market-distorting quotas under the Common Agricultural Policy have made it very difficult to conduct free trade in many agricultural products.

Just last week, the European Union Farm Ministers announced so-called reform of the Common Agricultural Policy that will actually boost total European Union farm spending by about \$4 billion over the 1999 spending levels, and do that sometime between the year 2000 and 2006.

The United States and the European Union are also at odds over biotechnology food safety requirements that appear to be nothing more than nontariff barriers and food labeling.

Finally, we have to address the unfinished business of the Uruguay Round and new multilateral trade negotiations on agriculture. The conversion of the quantitative restrictions to tariff rate quotas left many agricultural products highly protected. Tariffs on agricultural products worldwide are three to four times higher than the rates for most industrial products, with some tariffs reaching 200 percent or more.

We cannot resolve all these problems at once, but I hope that the insight and guidance that we hear from you today will inform our discussions so that we can find the right answers for our country.

Before I recognize my colleagues, I would just like to return a moment to the issue of China. There has been a great deal of discussion in recent weeks about what standards ought to be applied with regard to WTO accession.

I would like to read a portion of a letter that I received recently on this subject from former President Gerald R. Ford. It states, partially, "If economic relations are not resolved constructively," meaning with China, "there will be adverse developments diplomatically and politically between our two nations. That is why I strongly believe that China must make more than a down payment on market access concessions.

"Rather, China should guarantee unconditional and full market access upon entering into the World Trade Organization, and should abide by the same trading rules the WTO applies to any other major industrial nation.

"We have seen too many times over the years when promises of future concessions to open foreign markets are made, and then the promised concessions fail to materialize. The stakes this time are too high to engage China on anything but normal commercial terms."

I will put that entire letter in the record.

[The letter appears in the appendix.]

Senator GRASSLEY. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman. I look forward to the testimony of the witnesses, and I thank you for your statement.

Senator GRASSLEY. Senator Conrad?

Senator CONRAD. Thank you, Mr. Chairman, and thank the witnesses as well.

Let me put up a chart that reflects one of the great frustrations I have, representing a State that is heavily dependent on agriculture, in fact, perhaps no State more heavily dependent on agriculture than mine.

Our chief competitors, obviously, are the Europeans. This is what they are doing in terms of export subsidy a year in the red. The blue, almost impossible to see, is what we are doing. You can see, they are over 100 times as much as we are, what they are spending to promote exports as what we are spending.

On an overall basis, if we looked at what they are spending to support their producers versus what we are spending, it would be about 10 to 1. This creates an impossible situation for our farmers.

I liken it to telling our farmers, you go out and compete against the French farmer and the German farmer, and while you are at it, take on the German Government and the French Government as well. That is not a fair fight.

Now, some have said, we just ought to go to free markets. Now, that would be fine if there were free markets in agriculture. Unfortunately, that is not the condition that we face in the world. Instead, what we face is our chief competitors heavily subsidizing their producers, while we are at much lower levels.

Then we come along with the trade agreement and we say, both sides shall reduce by an equal percentage. Now, that is a good deal if you are in Europe. It is not such a good deal if you are an American producer. The result is lower prices for our producers and what amounts, in my State, to a farm depression.

Gus, nobody knows it better than you, because you have been kind enough to come repeatedly to our major exposition every year, Marketplace, and have a chance to talk to producers. You, I think, heard their frustration and their concern.

Mr. Chairman, these are issues that we must respond to. We cannot be engaged in unilateral disarmament in a trade confrontation. We would never do it in a military confrontation. Why ever we would do it in a trade confrontation eludes me.

So, Mr. Chairman, I am very pleased that we are holding this hearing. I hope that we send a message loud and clear that we cannot leave our producers at a competitive disadvantage. We cannot leave them holding the bag. But right now, they are in desperate circumstances and require a very powerful U.S. response.

I just want to conclude on China. China has been engaged in really a shell game and a charade with respect to using sanitary and phytosanitary standards, not based on science, but based on what is good for their trade position. We have seen them blocking our exports of U.S. wheat based on erroneous claims of being vulnerable to TCK smut. They have no scientific basis for this, but they use it very cleverly to keep us out of their markets. Mr. Chairman, I hope we address these and other issues today. Again, thank you for holding this hearing.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Mr. Chairman, might I just follow on? I associate myself with the remarks of my friend from North Dakota. I see Mr. Eizenstat here, Deputy Secretary of State. It is very important that he is here because, very often, we have Trade Ministers at USTR and agriculture and so forth, and a lot of these issues are dependent upon our foreign policy issues, our National security issues.

Very frankly, I think that too often when we are discussing these problems, these trade problems and trade barriers, that we are just kind of just talking. The reason we are just talking, is because we do not have the right people in front of us.

The right people, frankly, are in the White House, are in the State Department, are in the Pentagon, in addition to—in fact, in many cases even more important than, with no disrespect to our panelists right here—some other people than we have up here.

For example, TCK smut. That has been a problem for 25 years. Beef hormone in Europe, 10, 12 years, at least. Years. And we just talk. All we do is just talk. And we mean well here. We mean very well here, and I know you do, Mr. Chairman. I know that my good friend from North Dakota does.

In fact, no one fights harder for agriculture than the Senator from North Dakota. But I am sure he joins in with me in his frustration that, very, very often, all of our discussions here are trumped by the NSC, they are trumped by the State Department, they are trumped by the Pentagon, they are just trumped by others.

We are going to talk about WTO accession with Ambassador Barshefsky, the committee is, later sometime this week. She's a wonderful woman. She fights hard. But she takes her marching orders from others.

I would just say, Mr. Chairman, if we are going to be effective and not just talk around here, I suggest that we call the right people up here and figure out some way to address these issues directly and frontally, not just peripherally and around the margins. Thank you.

Senator GRASSLEY. It seems to me, Senator Baucus, that we have that opportunity now, as there is a question about China's entry into the World Trading Organization. If there is any time for Congress to show its concern and exercise its constitutional power over international trade issues, now is that opportunity.

Senator BAUCUS. That is right. We talk about it. But, again, the WTO question is going to be decided, not by Ambassador Barshefsky, believe me.

Senator GRASSLEY. Yes. Now, we go to three distinguished witnesses we have. Stu Eizenstat, Undersecretary for Economic, Business, and Agricultural Affairs, U.S. Department of State, and also has worked in previous positions with the European Union very closely. So, we welcome him and his background that he brings with him.

Then Hon. Peter L. Scher, U.S. Trade Negotiator, U.S. Trade Representative. Then the Honorable Gus Schumacher, Undersecretary for Farm and Foreign Agricultural Services, U.S. Department of Agriculture, and a person who is present at every major world trading discussion that involves agriculture.

Now, if any of you are under any particular time constraints, let me know ahead of time. Otherwise, we will just go with Stu, then Peter, then Gus, in that order, and then we will ask you questions accordingly afterwards.

STATEMENT OF HON. STUART E. EIZENSTAT, UNDERSECRETARY FOR ECONOMIC, BUSINESS, AND AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Mr. EIZENSTAT. Thank you, Mr. Chairman. It is a pleasure to be here. I have had the privilege and honor of working with all three of you in many capacities. I would say, Senator Baucus, I have not found in my years with her that Charlene Barshefsky takes orders from anybody, except the President.

Senator BAUCUS. Well, to make a point, she is not calling the shots. I understand about Ms. Barshefsky. She is very, very tough,

and she is very, very good as a negotiator. But we are talking about policy here. Policy is determined by many others in addition to her, in addition not only to the President, but many others in the executive branch that basically she has to listen to and defer to.

Mr. EIZENSTAT. Let me start by saying that agriculture is in my title, and I have taken that seriously. I meet regularly with agricultural groups and feel very strongly that the continued liberalization of world markets and the resulting expansion in trade holds particular promise and vitality for our farm sector, and, indeed, exports are absolutely crucial to the livelihood of America's farm workers.

This promise of continued trade expansion is not something that is going to happen of its own accord. It requires U.S. leadership. One of the best ways to show this is to affirm a set of basic trade principles underpinning the growth of world trade since 1945.

These include the importance of respecting trade commitments, establishing a clear, transparent, and predictable process to govern the regulation of trade, and, crucially, the affirmation of decisions on the environment, health and safety be based on scientific criteria.

These principles have direct relevance to the set of issues we now face in China and Europe. I know that Peter Scher will cover China's WTO accession and related issues in more detail.

Suffice it to say from my standpoint that it is crucially important that China join the WTO on commercially meaningful terms and fully respect the rules of the system.

Principles regarding transparency and the use of scientific-based decisionmaking—precisely what Senator Conrad was saying—have direct relevance to some of the ongoing disputes we had with China over wheat, beef, and citrus.

I would like to spend the bulk of my time talking about Europe, where I spent a great deal of my efforts and tenure in this administration. It is worth remembering that we often let the immediacy of our trade disputes blind us to the real benefits that we each enjoy from access to each other's markets.

Two-way trade and investment flows account for more than \$1 trillion annually. One in 12 industrial jobs in the United States comes from a European-owned factory, and the Europeans are the biggest foreign investors in 41 of our 50 States.

This is also reflected in our bilateral agricultural flows. From 1991 through 1997, U.S. agricultural exports to the EU rose from \$7 billion to over \$8.5 billion, and we have, during that period, consistently run an agricultural trade surplus of \$2–\$3 billion. But there are challenges in front of us and we are now entering a crucial period in our economic and agricultural relationship with Europe.

The EU is engaged in a politically difficult process of reforming its Common Agricultural Policy, with very large implications for the types of subsidies our own farmers will have to compete against in the future. We are also facing a tough set of trade issues on bananas, beef hormones, and in more general areas of biotech.

Although I am sure Peter and Gus will talk about this in more detail in terms of bananas and beef, these issues have broader

ramifications for the future of the WTO dispute resolution system than the products themselves. EU actions undercut critically needed support in Congress and in the agricultural community for the WTO.

The need for a clear and rational trading set of principles is greatest in the area of biotechnology. As U.S. agricultural and related products, everything ranging from tomato paste to vegetable oil, increasing involve biotech.

This issue is one of growing importance to our competitiveness in the 21st century. Within a few years, virtually 100 percent of U.S. agricultural commodity exports will be genetically modified or mixed with GMO products. I have long personal experience with this issue from my time as U.S. ambassador to the EU, with scars to show for it from round-up ready soybeans to BT corn.

We, of course, respect the EU's right to have a system of government oversight of GMOs. No government can advocate its responsibility to have in place a system to ensure that the safety of food, feed, and the environment is in place. But that system, Mr. Chairman and members of the committee, must be predictable, transparent, efficient, and scientifically based. In the case of the EU, it is none of the above.

GMOs in the U.S. go through the same rigorous examination process for safety that all of our food and feed products go through. Since 1994, 20 genetically modified agricultural products have successfully moved through our regulatory system toward commercialization and marketing. The transparency and predictability of our process goes a long way to explain why these products have largely enjoyed general consumer acceptance in the U.S.

But it is different in Europe. Because there is no scientifically-based government system to approve GMO products, the European public is susceptible to ill-informed scare tactics. Public opinion in Europe is, therefore, far more emotional on this issue than in the U.S.

The EU approval process for GMOs is—and let me be very clear—non-transparent, unpredictable, not based on scientific principles, and all too susceptible to political interference.

The EU's weak decisionmaking machinery in this area is also partly to blame, as it often allows a single member state to throw up road blocks and stall progress for reasons unrelated to scientifically-based concern for health, safety, or the environment. We saw this most recently in the summer of 1998 with France, blocking something that was scientifically proven to be safe, and we lost a significant part of a tender we were owed.

The process in Europe is further complicated by the huge amount of misinformation about GMOs in the media. This is so slanted, the European public's views on the issue, that governments are reluctant to undertake perfectly appropriate, but politically difficult, regulatory decisions.

Nowhere is this more evident than in the U.K., where virulent attacks on GMOs in the press, both tabloid and mainstream, have made it difficult to hold a rational debate about the benefits of biotech farm products.

The problems caused by lack of transparency and predictably are most apparent in the beef hormone case. As is the case with bio-

technology, political opinion portrays this as a health and safety issue, despite the broad scientific evidence to the contrary.

In response to the WTO ruling against its ban, the European Commission has initiated 17 separate risk assessment studies on hormones, none of which were called for in the WTO finding.

We have so far been unable to get any information about these studies from EU authorities. We do not know who is conducting them, how the people conducting them were chosen, what evidence they are looking for, what procedures are being followed. The EU cannot be permitted to endlessly use the excuse of needing to conduct just one more study.

We have also been working to break this pattern of confrontation by trying to improve coordination between EU and U.S. GMO regulatory processes and thereby reestablish the importance of the principles regarding transparency, predictability, and scientific-based decision making.

Under our Transatlantic Partnership, Mr. Chairman and members of the committee, we and the EU have set up a biotech working group to address bilateral issues related to GMOs. They have already met in Washington.

We have proposed a pilot project designed to better coordinate our regulatory processes for GMOs on both sides of the Atlantic. We are also using this forum to raise our concerns about the inadequacy of the EU's current GMO regulatory system and how to reform it.

We have also been exploring ways to address the public perception problem in the EU regarding biotech agricultural products. The State Department and other agencies have developed a public diplomacy campaign on the beef hormone issue to make sure the European public understands the facts regarding the scientific studies that have failed to find any harmful effects from U.S. beef.

This kind of campaign should, and can be, broadened to include information about biotechnology, stressing the safety of marketed products and the importance of an open, transparent regulatory system, and, indeed, the benefits biotechnology can bring.

Biotechnology and its related issues are not just a U.S.-EU problem. We faced similar problems just a few weeks ago in the difficult negotiations on the biosafety negotiations in Cartagena.

We and a number of other nations recognize that certain proposals would have created disguised barriers to agricultural trade, would not have improved or protected the environment, and, practically speaking, would have resulted in a protocol incapable of being implemented. This would have led to unnecessary trade restrictions on the world's food supply and limited the ability of other nations to enjoy the benefits of modern biotechnology.

In our view, having no agreement was better than a bad agreement that could not have been implemented. One of the greatest concerns of the Cartagena talks was the degree to which many developing countries, many of whom would be the largest beneficiaries of biotech's promise of greater yields and reduced environmental damage, sided with those who would have used the protocol to restrict trade in food products. In the run-up to the next negotiating session, we will continue to work internationally to bridge these differences.

Before I close, I want to touch on one additional aspect that you, Mr. Chairman, mentioned. That is, the reform of the EU's agricultural policy. This, of course, is an internal EU process, but it is one that has important implications for our interests.

Though the CAP reforms have not yet received final approval, we are able to offer some initial assessments from the package approved by the EU Agricultural Ministers. They took a partial step in the right direction by modifying the CAP, cutting guaranteed prices on cereals, on beef, and on milk.

But the Ministers failed to adopt the commission's proposal to reduce direct payments to large farmers. Overall spending cuts were adopted. That is a critically important step, since CAP spending has grown almost continually since 1962. But they did not decouple internal subsidies from production.

We, of course, welcome any movement toward agricultural reform of the EU, particularly to the extent that they will reduce the use of trade-distorting export and other subsidies that Senator Conrad emphasized.

That said, however, the reforms approved by the Agricultural Ministers did not appear to us to go far enough in terms of reducing the CAP's distorting effects on the world trading system.

We have consistently urged the EU to go further, and made clear our intentions in the next round to limit and/or eliminate those types of farm policies that impose costs on others.

In conclusion, we must continue to advance the basic principles of respecting trade commitments establishing transparent and predictable regulatory processes and using scientific-based decision making on environmental, health, and safety issues.

In the end, we fully realize that our trade agenda has to rest on the solid foundation of public support. If we cannot show Americans that the trade system works for them, that we can avoid these unnecessary hurdles that the Europeans and others are trying to impose on agricultural access, then we will not be able to sustain our policies in the international arena. Thank you.

Senator GRASSLEY. Thank you, Secretary Eizenstat.

[The prepared statement of Undersecretary Eizenstat appears in the appendix.]

Senator GRASSLEY. Mr. Scher?

STATEMENT OF HON. PETER L. SCHER, U.S. SPECIAL TRADE NEGOTIATOR, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Mr. SCHER. Mr. Chairman, Senator Baucus, Senator Conrad, it is a pleasure to appear before you this morning, with Undersecretary Schumacher and Undersecretary Eizenstat.

Let me also say, because I think Senator Baucus referred to it in his opening statement, some of the various players that are involved in our trade policy formulation.

I will say, I have had the opportunity to work with Stu Eizenstat since he has been an ambassador in Brussels, and more recently the Undersecretary. We have received unprecedented support from him.

In fact, when I was in China last week, my counterpart noted that he had met with Stu a few weeks ago in Washington. and Stu

made clear to him that we could not complete a WTO deal without agriculture. It is that type of reinforcement that helps our efforts. So, I am pleased that he is here, and for all of the support that he has provided.

I am also pleased to have the opportunity to discuss the administration's efforts to provide greater access, both in China and in the European Union.

As you mentioned, Senator Grassley, I returned over the weekend from China. In fact, this was my second trip in the last 3 weeks. I did not bring back a deal, I brought back a chest cold. So, I apologize for my—

Senator BAUCUS. I thought that was from yelling at the Chinese.

Mr. SCHER. Well, it is both. We have some people who were here with me, so they can attest to that. We have been involved in very intensive negotiations with China, including negotiations over the agricultural portion of China's effort to join the World Trade Organization. I am pleased to have an opportunity to update you on those negotiations, as well as our efforts with the EU.

First, on China. Mr. Chairman, I believe most of us would agree that a China that is a full commercial member of the international trading community will mean a market of greater opportunity for U.S. agriculture.

Today, we see very high, both formal and informal, trade barriers which have kept China outside of the world trading system. China's membership in the WTO on commercially meaningful terms, as President Ford said, is in our interest, and it is in China's.

Broadly speaking, the principles which underlie the WTO—transparency, openness, public and enforceable commitments—will help China's government as it tries to strengthen its economy and create sustainable long-term growth.

The specific market access and other reforms which are required for WTO accession are no less for China than they are for other members, including, I should say, many of the least-developed countries. Many of those countries have already accomplished those reforms.

I should say, we are beginning to see some progress in our negotiations on WTO accession, including progress in the agriculture sector. Two weeks ago, Ambassador Barshefsky met with the Chinese senior leadership and those responsible for WTO's accession.

During those meetings, China, I think—some may say for the first time—demonstrated a much greater appreciation of what constitutes a commercially meaningful agreement for the United States, and in particular for our agriculture sector. This is something we have not seen to date.

While I do not want to get into the specific details of the negotiations, and as you mentioned, Senator Baucus, Ambassador Barshefsky, I think, will be meeting with the committee in executive session later this week. I think it is fair to say that China now understands that market access for agriculture is essential for any WTO accession.

There is much more that remains to be accomplished in agriculture and, frankly, for industrial products and in services. We are now engaged in a substantial negotiation where, frankly, the details have been, and will be, critical.

Mr. Chairman, as you said in your opening statement, words alone are not enough. We need to assure ourselves that the details are there so that any agreement we reach is not an agreement in principle, but agreement in fact, and it will mean real access.

Our goals in the agricultural negotiations continue to be, first, substantial reductions in tariffs. China's offers range anywhere from 20 percent to 65 percent. These are much too high. We need to bring the tariffs down.

We need to liberalize state-traded commodities through the establishment of a system of tariff rate quotas for many of the bulk commodities.

We need specific commitments to limit China's domestic and export subsidy practices to ensure that, as China becomes a bigger producer, it does not become a menace on the world agricultural trading scene.

Finally, we need resolution of the outstanding bilateral sanitary and phytosanitary agreement issues. As part of these negotiations, my meetings last week in China focused on how to resolve these longstanding bilateral sanitary and phytosanitary issues, in particular those which affect our wheat, as Senator Conrad mentioned, our meat exports, which, Senator Grassley, you have talked about frequently, as well as our citrus exports from a number of critical States.

I had the benefit of having a number of key agricultural industry leaders with me in China who were a big benefit to us in looking at the details of China's proposals and helping us sort through what was commercially meaningful and what was not.

As all of you know, we have been trying to resolve these particular issues for many years and we have repeatedly emphasized, and I know each of you, separately, have emphasized to the Chinese ambassador and to other leaders that we cannot conclude a WTO accession package without resolution of these specific barriers to our exports.

At the end of the day, achieving market access and reduction in tariffs and expansion of TRQs will be meaningless if we cannot eliminate unjustified scientific restrictions.

Again, while we have not sufficiently resolved these issues, it is fair to say that we have made more progress in the last few weeks than we have in several years. But we are still far from reaching what you, and I think our agricultural groups, would consider an adequate agreement.

For example, for wheat, the current ban on imports from the Pacific northwest must be fully removed so that we can ship wheat from that region to China. We need to ensure, again, the details, that we know exactly how China plans to remove the ban.

For citrus, we have to work out detailed protocols and work plans so that we can legally ship citrus into China. For meat, as you mentioned, Senator Grassley, in your statement, last year the Chinese proposed expanding allowing meat from certain facilities to export to China, which simply is not workable.

We have one of the best meat inspection systems in the world which is recognized by over 134 nations. That has to be the basis for which China allows the importation of U.S. meat from all of our

producers who all meet the same standards. That is beef, pork, and poultry that we are talking about.

We are continuing to work to resolve these issues. In fact, several people remained in China over the weekend to try to flesh out some more of the details. But, frankly, the ball is in China's court and they will have to make the decision that their interest in joining the WTO will provide the momentum necessary to eliminate these barriers.

Mr. Chairman, let me just briefly touch on the European Union. As you know, we have been involved in very intensive efforts to enforce WTO decisions on both beef and bananas. We have also been very carefully watching the efforts to reform the Common Agricultural Policy which Senator Conrad talked about, and I think Undersecretary Eizenstat addressed.

Let me just say, as to the WTO issues, because I think these are in many ways the forefront of our efforts with the EU, we have specific rights that were negotiated as part of the Uruguay Round and that were approved by Congress in 1994. We have been clear to the EU in no uncertain terms that we have absolutely no intention of abrogating those rights. That was the basis for which Congress approved our entry into the WTO.

The message is clear, that Europe has a very fundamental choice here. Either it complies with these rulings, as we have done, or it pays the price for it. That is the basic choice. I think the actions that we took several weeks ago in the *Banana* case were an indication that we will protect our rights, as we will in *Beef*.

As to biotechnology, let me just say very briefly, as the United States has already recognized, many of our other trading partners have also recognized the tremendous benefits of biotechnology, not only to farmers, frankly, to consumers and to the environment.

For all of our problems with Canada, we are, in fact, developing close ties with Canada on biotechnology, which I think was very helpful during the biosafety negotiations that Undersecretary Eizenstat talked about.

We face two very compelling and complicated problems in Europe as to biotechnology. First, I think we have seen in many ways what is the effective collapse of the EU's regulatory review process for new genetically-engineered plants. At the same time, we are wrestling with an incomplete and unworkable labeling regulation for foods containing genetically modified corn and soybeans.

Our goal, I think, as Undersecretary Eizenstat said, is not to set the rules for the EU, but rather to insist on a process that is timely, that is transparent, and one that is based on science. We must focus on scientific principles as the guidepost in guaranteeing food safety.

Frankly, I would say, to the extent that these problems with the EU emanate from the lack of consumer confidence in food safety from the mad cow scare and others, I think the best way for Europe to rebuild consumer confidence is, frankly, to get the politics out of food safety, to design a system that is transparent, that has specific rules, that is based only on health concerns, not on protectionism and fear.

Mr. Chairman, let me conclude by simply saying that these are two of the many challenges that face U.S. agriculture as we begin

preparations for a new round of multilateral negotiations which are scheduled to begin later this year.

As we work to enforce existing agreements, to open new markets, to create new opportunities for our producers, it is clear that American agriculture must have access to world markets in order to survive.

We continue to look forward to working with you and members of this committee as we aggressively pursue that goal. Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you, Ambassador Scher.

[The prepared statement of Mr. Scher appears in the appendix.]

Senator GRASSLEY. Secretary Schumacher?

STATEMENT OF HON. AUGUST SCHUMACHER, JR., UNDERSECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. SCHUMACHER. Thank you, Mr. Chairman. I am glad to be here with my distinguished colleagues, Ambassador Scher and Undersecretary Eizenstat. I just want to commend Stu and Peter. Peter, for his extraordinary work overall, and particularly on China. Jim Schroeder, who is sitting behind me, our Deputy Undersecretary, was with him in China over the last couple of weeks. It is coming along.

With Stu, I think one of the things on which I should commend him is the barley issue. The State Department was really muscular, if I may use that term, last year when that subsidy on barley was going to turn up in California.

I just want to publicly commend Stu on his leadership. Certainly, there have been no further barley shipments of that type into the United States. I think a lot of that had to do with Secretary Albright and Stu Eizenstat, so I want to commend him for that. Also, the work that he is leading on sanctions, which we can maybe come back to in the question period.

I want to be very, very brief and just focus on two issues. I think Peter and Stu have covered many of the issues that we will be discussing. One, is on Agenda 2000. We are very disappointed in the progress made to date. Finance Ministers are now meeting on that.

The Secretary last week, March 11, put out a statement in which he indicated that "the Minister on Agriculture had an opportunity in the EU to make the much-needed reforms to their farm policy."

Failing to do so by the Agricultural Ministers makes it even more important that we strive for genuine reform in the upcoming next round starting in November/December under the WTO. We were very disappointed.

I will give a couple of examples, from monitoring this pretty carefully. For example, let us take the question of the big subsidies for the larger farmers. We thought there would be some change in what is technically known as degressivity in terms of the big payments.

That would have certainly reduced subsidy payments and we thought those would be going down by 3 percent a year for the larger farmers. But the EU has chosen not to implement this concept, and that is very disappointing.

The second issue, is dairy. They certainly put that way on the back burner in the EU. There does not appear to have been any reform in dairy policies in several years, and intervention price cuts on dairy are modest, at best.

So I think Commissioner Fischler has been out front on Agenda 2000 in the past, but the Ministers have not acted to implement even his very modest steps to move forward on reforms.

So this failure to act boldly raises serious concerns, particularly as, Senator Conrad, you put up on these tremendous export subsidies that certainly are hurting not only the United States' farmers, but many countries who are in the export and in the CAIRNS group, but also, I think, hurting because they do export taxes 1 year, export subsidies another year, so the Third World is also hurting at that point as well.

They still have an opportunity to move on this. We are just hoping the Finance Ministers will see their way a little more clearly and be a little firmer as the Agenda 2000 discussions move forward.

I was recently in Poland and saw the impact of the EU subsidies in Poland on Polish agriculture. They had blocked every road in the country. The attitude was that this export subsidy issue was really impacting Poland in a very deleterious way and the larger pork farmers, greens, were out blocking all the highways in that very, very important country that has just joined NATO and has just done such a wonderful job in reforming.

Let me just briefly, then, turn to the other big issue that we will be addressing this morning. That is one that both Peter and Stu have raised. That is on the rapidly approaching May 13 deadline on the hormone case.

If I may just take a minute, a minute and a half, to summarize kind of where we are on that very important issue. I think there were three issues on that issue, Mr. Chairman. One, the United States and the international scientific community have consistently determined that American beef, cattle, treated with certain approved growth hormones poses no public health risk and, therefore, the EU's hormone ban is unjustified. Numerous scientific studies and evaluations have supported this U.S. position.

For example, in 1995, Commissioner Fischler announced plans for an EU scientific conference on growth hormones. This conference concluded there was no evidence of health risk from the hormones approved for use in the United States. That was a European conference put together by Commissioner Fischler.

The clear international scientific consensus is that these approved and licensed products are safe when used in accordance with good veterinary practices. This dispute then took a turn in 1996, when the U.S.—Peter Scher and his colleagues—presented this case to the WTO.

After a thorough review of the scientific evidence, the WTO panel agreed with the U.S. position and ruled there was no scientific basis for this ban. After an appellate decision upheld this ruling, the WTO arbitrator gave the EU until May 13 of this year to bring its measure into compliance.

So the consensus on the science and the compliance is there, both the consensus, scientifically, and the compliance issue with the EU.

Now the debate has turned to compliance. With the WTO rulings and the willingness of the EU to honor its international agreements, it is important not to underestimate the significance of this issue for the United States in the multilateral trading system.

Our beef trade has been unjustly damaged for a decade based on a measure that has been proved to be inconsistent with the WTO principles. This issue, however, Mr. Chairman and members, is not just about U.S. beef.

During the Uruguay Round negotiations, the EU, including each individual member state of the EU, signed and committed—each member state, as well as the EU—to uphold the principles of the WTO.

The fundamental principle of using sound science as the basis for a nontariff import restriction is in question by not complying by the EU with these rulings. This principle was not agreed to lightly.

In maintaining its unscientific ban, the EU does nothing to further the objective of protecting public health, but, instead, undermines the WTO sanitary and phytosanitary agreement, and it may invite—I hope not—other countries to take similar steps. So, there is a very important principle here as well.

We certainly appreciate, as Peter said, the political sensitivity of this issue in Europe and wish to work with the community to find a solution. We presented what I thought was a very sound compromise, which was a labeling proposal, to the EU as a way of resolving this dispute.

We would be willing to label all beef and beef products exported to the EU with those labeling statements already approved—already approved—by the Commission under its Beef Labeling Regulation 97-820, which we agreed on, USDA Choice, USDA Select, the grading systems we have. They have approved this.

With this labeling, the EU consumers would be able to identify the U.S.-source product and make the choice themselves as to whether to purchase that product. When the many millions of European tourists come to this country or when they go to the Angus Steakhouse, or the Chris' and others, they certainly enjoy our beef. In fact, some Europeans have said that is the first thing the European consumer does; is to go to an American steakhouse.

So we believe strongly that consumers, and not the government, should make the decision about what kind of food to buy. We think the EU consumers, if given the choice, will purchase U.S. beef because it is a safe, high-quality product.

So that, we think, is the issue. It is the consensus on the international community on the safety of the growth hormones. The issue then is the second issue of compliance with international agreements. Then, third, with our labeling proposal, is a choice for the EU consumers.

Thank you very much for having me here today.

[The prepared statement of Mr. Schumacher appears in the appendix.]

Senator GRASSLEY. Thank you.

First of all, I think, Ambassador Schumacher, you laid out very clearly the gain that agriculture made in the last GATT negotiations, that we have to have sound science. You stated it as well as

anybody could state it, and I do not want to take time to repeat it.

I hope Ambassador Scher and Secretary Eizenstat can say, yes, that is their understanding of what we gained and what is at stake here. The mere fact that the European Community does not let, let us say, the beef hormone or beef in because of the hormone issue is a violation and a challenge of that basic principle. Can you say yes to that, Ambassador Scher?

Mr. SCHER. Yes, I can say yes to that. But, more importantly, the WTO said yes to that, so that is the fact.

Senator GRASSLEY. All right. Ambassador Eizenstat?

Mr. EIZENSTAT. The whole thrust of my testimony was that the EU had failed to put in place a process which would ensure that sound science would be brought forward. Instead, we are faced with emotionalism, political intervention, and press hysteria.

Senator GRASSLEY. Yes. And I did hear you say that, in four or five adjectives you use, that the European Community has not lived up to any of those.

Mr. EIZENSTAT. It is nontransparent, it is unpredictable, it is not scientific-based, it is not efficient. In all of those respects, it fails to employ the scientific requirements that the sanitary and phytosanitary obligations of the WTO impose.

Senator GRASSLEY. The only question, Mr. Eizenstat, was in regard to the relationship to the last GATT negotiating victory for agriculture. That is the only relationship I wanted to create there.

Mr. EIZENSTAT. Sure. Absolutely. That is the whole purpose of the SPS agreement. That is what has been lacking in terms of its implementation by the EU.

Senator GRASSLEY. All right. Now, my first question to you, Mr. Eizenstat, would be in regard to—and I do not question any of the statements you made about the recent agreement and negotiations that Europe had on CAP. In other words, I would accept everything that you laid out in your interpretation of the CAP.

But could I ask you to comment in regard to the fact that I see their spending \$4 billion more on their Common Agricultural Program between the year 2000 and 2006 as not reducing their subsidy of agriculture the way that they should? You said some other ways that they have, but I tried to quantify it in the \$4 billion. Maybe that \$4 billion is not as significant as I see it.

Mr. EIZENSTAT. We would actually quantify it higher. We believe that it is a \$7 billion shortfall from the agricultural budget projections which the European Commission has set to stabilize their spending.

Now, the fact is that they are spending almost half of their \$85 billion Euro budget on agriculture. The result of this has real implications for us, both in agriculture and politically. Let me briefly mention that \$7 billion shortfall.

Number one, is that it maintains the potential for the export distorting subsidies that Senator Conrad, yourself, and others have mentioned. That hurts us.

Second, to the extent that they have maintained a relationship in their CAP reform between price paid and production and not decoupled and severed that, it encourages excess production. The excess production builds surpluses up. The surpluses encourage them

to export the surpluses, and the way to export the surpluses is to use the export subsidies. It is a vicious circle.

Third, it has a real implication politically for us. The political implication is that we believe, as the European Union does, that it is very important that they have enlargement to the east, that Poland, Hungary, Czech Republic, other accession states become members of the European Union as quickly as possible.

If they cannot get their CAP program under control, their capacity to absorb large agricultural producing countries like Poland will be severely delayed and compromised to the disadvantage, we think, of a more stable Europe.

Now, with respect to this \$7 billion shortfall, the next step in the CAP reform process, Mr. Chairman, will be for the Finance Ministers to meet shortly to decide how to resolve this shortfall. How are they going to deal with it?

One suggestion that was made by Germany and some others is to have member states co-finance some of the CAP payments by making payments from their own budget. That is one way to get some discipline. So the CAP reform which was done was a step forward, but it was by no means sufficient. It maintains the overshooting that we have just discussed.

Senator GRASSLEY. The French have refused to pay anything from their own budget towards CAP.

Mr. EIZENSTAT. That is correct. They have objected to this co-payment concept.

Senator GRASSLEY. Yes. What will be the forums that the United States will have over the next few months to raise the concerns that you have just expressed, that the Common Agricultural Policy reform has not gone far enough?

Mr. EIZENSTAT. Well, we will raise them in practically every forum. We will raise them in our so-called senior level group meetings that we have at my level, they will be raised directly at the EU-U.S. summit which will be coming up shortly under the German Presidency.

They will be raised bilaterally by us, by USTR, by USDA, in a concentrated, coordinated effort. It is not gilding the lily to say that Peter and Gus and I talk constantly. There has been virtually no issue in agriculture on which we have not had complete cooperation and transparency among us. So, we will be working very hard together to send this strong message to the European Union.

Last, and the most important forum in the end, is if they cannot reform their CAP sufficiently themselves, this is what the 1999 agricultural negotiations in the WTO will do, and this will be one of our very, very highest priorities, if not our highest priority.

Senator GRASSLEY. My last question would be to you, Mr. Eizenstat. How concerned are you about the lack of progress on the Free Trade Area of the Americas and that lack of progress leaving the United States on the sidelines with harsh consequences for agricultural trade if the European Union and Mercosur enter into, and successfully complete, free trade negotiations, and maybe some indication on your part whether or not you think that that is likely?

Mr. EIZENSTAT. Well, first, with respect to the EU and Mercosur. This is something, Mr. Chairman, that we have been following very

closely. We have no objection to a WTO-consistent regional free trade agreement. That is what NAFTA does, and we can reinforce the international system.

We do, however, have very real problems and will be monitoring very closely any agreement the EU may try to enter into with Mercosur which is non-WTO-consistent. That is to say, it leaves out significant sectors, like agriculture.

Now, frankly, I would be very surprised if the Mercosur countries would be willing to have a so-called free trade agreement. I use the term "so-called" in which the European Union had access to Latin markets for their industrial goods and, in turn, did not give the Mercosur countries access to their markets for agricultural products. It is difficult to imagine the Mercosur countries wanting that, so we will watch that very carefully.

In terms of the FTAA, in general, we are making as much progress as we can in the absence of fast-track authority. But one of the greatest beneficiaries of fast-track authority would be the agricultural community because we would be able to open up Latin markets to a much greater degree for agricultural products. That is why we hope that the Congress will support the President's fast-track negotiating authority.

Senator GRASSLEY. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

I want to, first, compliment all of you. I know how hard you all work at what you do. For example, Stu, I know you worked very hard on the barley issue. I read an article, an editorial, I think, in the New York Times praising you as one of the country's best public servants. I think I wrote you a note congratulating you on that. It was a well-thought-out and very accurate piece. I know all of you work just as hard.

My question, really, is we have all sort of stated the problems pretty well here, lack of transparency. We have been working on these issues for a long time, et cetera. But the deeper question, it seems to me, is, well, what is the solution? How are we going to solve these? We talk a lot about the problems that Europe presents to us. Stu outlined it very, very well, as did you, Secretary Schumacher, and as did you, Ambassador Scher.

So I know you are trying hard. There are not many people brighter than you. I do not know anybody brighter than any of you three, or who work as hard as all of you three.

Senator CONRAD. How about us three?

Senator BAUCUS. Oh, no. They are brighter than we are. [Laughter.] That is pretty clear. So what do we do? That is why we are asking you.

I go back to my comments earlier about, how do we work within the total administration, because there are lots of other issues that do come in here. Take China. The small nuclear warhead secrets that apparently were stolen by China.

Taiwan is a problem. There are theater nuclear defense issues in respect to Taiwan. The Japanese-American Security Treaty and the WTO. I mean, there is a long, long list of issues that we have with China that are not trade-related, but are very important.

With Europe, too. It is NATO. It is NATO expansion. It is Bosnia. It is Kosovo. It is Iraq. Maybe it is the euro. I mean, there is

a lot there that is not directly related to trade where the United States has a very, very direct stake.

So I am wondering, how does all that work into our efforts to try to solve trade problems? Basically, what it comes down to is, how believable is our leverage with respect to these countries?

I have spent some time on trade issues, and it is my personal belief that no country altruistically, out of the goodness of its heart, ever lowers a trade barrier. They just do not do it until they have to. They do not have to until there is leverage.

You need some kind of leverage. Kind of, walk softly and carry a big stick. But you have got to have that stick. It has got to be believable or else countries will not do anything. They will just wait it out. They will wait until another administration comes along, until another Senator comes along. They just hunker down and that is the end of it, in my judgment.

So what is the leverage? What is the believable leverage given to the United States, by far the world's only super power, and therefore we have to deal with these other issues and be responsible to the world and kind of lead the world? What is the believable leverage here?

Why should the European Union believe we are really going to do anything on beef? Are we going to retaliate on May 13 or are we not? My guess is, we will not. My guess is that, come May 13, we are still talking. My guess is that the same is true on some of these other issues.

Because I know that the European Union claims that, under WTO, they can stretch this out past May 13. They claim that they can put together a scientific panel, as directed, they say, by WTO, that they say is perfectly within their rights to make this later assessment, in the next year.

So if we do retaliate May 13, they may come back and say they will counter-retaliate because we are unfair, we are acting improperly under WTO. It is going to spark a little spat, no doubt about it. But it is my judgment that sometimes you have got to act. Sometimes you have to force the issue.

I am sort of goading you. Not really goading you, but I am encouraging you, Ambassador Scher, to tell us that, in fact, we are going to retaliate May 13 in like amount for the damage that they have caused.

Mr. SCHER. Let me say, I think it answers both of your questions because I think the WTO is leverage. I think the question is, are we willing to use the leverage that we negotiate? I think the fact is, as much as people snicker about bananas in the editorial pages of *The Wall Street Journal* and other papers and like to say this is about bananas, this is not about bananas, this is about rules. I mean, this is the first time—

Senator BAUCUS. What are you going to do? What is the solution?

Mr. SCHER. Well, the rules are very clear. They have until May 13. They are not even claiming that they will be compliance by May 13. What the rules say is that, if by May 13 they are not in compliance, then we have the right, within 60 days, to retaliate.

The only question, as in the *Banana* case, becomes whether or not they arbitrate the amount of retaliation. I think what the *Banana* case is going to show us in just several weeks is that you can,

through this WTO that a lot of people had questions about, get an authorization for a specific number to retaliate.

I think that will be a big boost to this system. I think what countries like the EU will see is that, if we are willing to go to the mat on bananas, we are certainly going to go to the mat on beef, and we are going to go to the mat on all of the other cases.

I mean, Senator, you remember, in fact, when I worked for you the first case that was brought in the WTO was against the United States on this *Reformulated Gas*. The United States lost that case and we were very upset that we lost the case.

The administration said, no, we have got to comply with this decision. And we did not like the fact that we were complying with the decision, but the administration made a fundamental political choice that said, look, we have now created this WTO, we have got to comply with the rulings, and we did.

So if I have to come before Congress and explain to you why, in the three or four cases that we lost, we complied with those rulings, the EU has to have the political will to do the same thing.

That is really what it comes down to. If they do not have the political will to change the rules to come into compliance, then we have to exercise our rights, which are very specifically laid out. If the EU does not like that, if the EU does not think our interpretation of our rights is correct, then they can challenge this.

The only thing I would say is, so we are not waiting for the fur to start flying on May 13, is what the rules specify, similar to the *Banana* case, is it is actually 60 days after May 13 we actually get the authorization. But, clearly, we are on a path to exercise those rights in the Beef case, and we are working very closely with the meat industry and the beef industry to ensure that we do that.

Senator BAUCUS. All right. Now, who do you have to work with in the administration? You just, Ambassador Scher, decide what to do?

Mr. SCHER. I do not think there is ever a question. We have interagency meetings with all of the agencies, and we are working on a damage assessment right now to determine what is the level of damages. We work closely with Stu and with others.

But, Senator, I have to tell you, I do not think there is any question inside the administration that we are going to exercise our rights in the *Beef* case.

Senator BAUCUS. Well, we are going to exercise our rights, but those are carefully chosen words.

Mr. SCHER. No, no, no. Well, Senator, that means we are going to retaliate.

Senator BAUCUS. Let me ask this question. What happens if, let us say, Secretary Albright is on the verge of an agreement with NATO troops on how to handle Kosovo, and it is May 13, or July 13 is coming along. Does somebody in the State Department weigh in and say, well, wait a minute here, before we get all upset about the beef, let us make sure we take care of Kosovo? I mean, I am just asking that question.

Mr. SCHER. No, no. And that is a fair question. The fact is, we took action two weeks ago to protect our rights in the *Banana* case. The Secretary has been traveling all over the world, including working very hard to reach an agreement on Kosovo, which is obvi-

ously very important. But the fact is, we do not draw lines like that. We do not say, well, because of this we are not going to deal with the economic issues. I mean, Undersecretary Eizenstat might want to address that.

Senator BAUCUS. My time has expired.

Mr. EIZENSTAT. I would just say, very clearly, Senator, that the decisions which either the Europeans or the United States have to make about Kosovo are completely, totally unrelated to what happens with respect to beef and bananas.

I think everyone understands that those are separable issues and that you cannot tie them. We would not allow the Europeans to tie those two together. They would not expect us to tie the two together, and they are not. They are treated on completely separate tracks.

Senator BAUCUS. Well, I thank the Chairman. My time has expired. I just hope we can make some progress here. It is very important that we do. Thank you.

Senator GRASSLEY. Now, Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman.

Let me, first, say that I do not think there are three finer public servants than the three of you. Secretary Eizenstat, I have long admired your participation in the public arena. Secretary Schumacher, you know I have great respect for you. Ambassador Scher, I could not be more pleased by what I heard from the three of you this morning.

Let me just say, I believe we as a country are playing a losing hand on agriculture, especially with respect to Europe. And it is not your fault, it is a fault that lies right here in Congress.

Let me just say why I believe that. Europe, I think, has a strategy and a plan, and their strategy and plan is to dominate world agricultural trade. Their plan for doing so is to maintain high levels of support for their producers while they see us cutting ours, and then they negotiate when there is a trade agreement for equal percentage reductions in the level of support.

Well, who stays on top in that circumstance? And it is not your fault. There is no negotiator that could win this fight given the circumstance that we have created as a Congress.

~~We cut our support for agriculture in half in the last farm bill, from \$10 billion a year to \$5 billion a year on the predicate—and it was incredible to me at the time—that if we cut, Europe would cut. Well, guess what? We got played for suckers. The result is, Europe is on the move. You look at every trend line, they have moved from being major importers to being major exporters.~~

It is because, as Senator Baucus indicated, we do not have leverage fundamentally. They can read the numbers, they can read the budgets. They understand we have engaged in unilateral disarmament on our side in this trade confrontation. They have got it figured out. They know they are winning, they know we are losing. We have been foolish enough to hand them the keys to the piggy bank. Now, that is not your fault, that is the fault of this Congress and the last Congress.

Now, to follow on, we have got this WTO matter. I hope you do not flinch. I hope you do not flinch, because that would be a profound mistake. These guys want to have it both ways. When they

win, it is enforced. When they lose, then they come up with this sham argument. You have got to hand it to these guys, these guys are good. They are phony, but they are good. We should not let them get away with it.

Let me just go to China, the same kind of thing. In 1992, they agreed that we were not going to have sanitary and phytosanitary restrictions that were not based on sound science.

Now, this TCK smut situation is not based on sound science, but based on an excuse. In the same way, we should not let them off the hook. We should insist that, as part of any WTO agreement, that they are going to end this blockage on what comes out of the northwest. That has got to stop.

I am going to China on the 28th of March and I am going to deliver that message clearly, that I will be here on this committee, and on every committee, fighting every step of the way unless they start playing fair.

Finally, if I could mention Canada. Canada continues to be an enormous problem for my State. We are losing \$100 million a year. It does not sound like much in Washington, but it is huge in North Dakota. It is because of unfair elements of, as I call it, the so-called Canadian Free Trade Agreement.

It is not free trade. It was negotiated trade, and a previous administration lost that negotiation. I would just like to get kind of your reaction to what I have said, and I would start with you, Ambassador Eizenstat. Secretary Eizenstat. I am always wanting to make you an ambassador.

Mr. EIZENSTAT. I was, so that is all right.

First of all, with respect to Canada, after very intense negotiations which Peter, frankly, and Gus, and their colleagues carried out brilliantly, the U.S. and Canada agreed on a package of measures to liberalize bilateral agricultural trade. It provides for improved access to the Canadian market for U.S. grains and live animals by streamlining sanitary and phytosanitary requirements.

Canada also agreed to regular consultations on grain exports, both to the U.S. and third country markets and to help monitor pricing practices of the Canadian Wheat Board and to ensure that exports are fairly priced.

I think it is a fair statement that one of the things we want to achieve in a WTO round is more disciplines on State trading practices, not just in Canada, but in other countries.

Second, I will let Peter deal with the TCK wheat issue. But I know, from our interagency meetings, that this is an issue that is repeatedly raised. I have raised it in my meetings with the Chinese, and it is obviously a very important issue.

Last, I think the statement you made is very important on the WTO and Europe. When one raises this banana issue, we get snickers. How can you let the whole transatlantic relationship, \$1 trillion in trade, blow up over this issue? It is a product that is not even manufactured in the United States.

Our view is that the banana and beef issue go to the very heart of the dispute resolution process, which was the fundamental reason that the United States entered the Uruguay Round and the Congress approved the implementing legislation.

If the Europeans, as they have thrice done, can ignore WTO rulings with impunity and not sit down and seriously negotiate, then it totally undercuts support in the community that is the backbone of support in free trade, and that is the agricultural community.

Now, let me just go back and mention, because you and others have talked about this. We have lost, I think, four cases in the WTO, two *Textile* cases, the *Shrimp/Turtle* case, and the *Reformulated Fuel*. Peter mentioned *Reformulated Fuel*.

In the *Textile* cases, we immediately changed our regulations. In the *Shrimp/Turtle* and *Reformulated Fuel*, we did exactly what the Europeans have not done. When we lost the case, we sat down with the winning countries and we said, let us try to negotiate something we both believe is in compliance with the WTO ruling.

Rather than doing that, the European Union arbitrarily, after losing the third time in the panel, came up with a cosmetic change in the licensing process rather than sitting down, so we have to go through this whole business of retaliation lists, and so forth.

Now, I hope that we have all learned our lesson, and that at least there is the beginning of a process, which Gus and Peter have taken the lead on, with the European Union to begin to discuss how to resolve the beef issue without going to that. But we are prepared, if they will not, to do it because that is the only way to keep the faith in the system.

Mr. SCHER. Let me, if I may, just answer briefly on the question of China. I am glad you brought up the 1992 agreement, because that was one of the episodes that led to the loss of my voice when they offered to do that again. I said we had tried that 7 years ago and we were not interested in agreements in principle, we were interested in specific commitments, not only to open up the Chinese market to the northwest, but to know exactly how it was going to be done.

Senator CONRAD. And when.

Mr. SCHER. The fact is, WTO accession will not happen until we have satisfied ourselves that they have made the commitments that are required. It just will not happen.

In fact, I will say that 2 years ago the Chinese leaders said, go get an international scientific study, so we did. We went out and USDA put together a scientific study. It was peer reviewed by international scientists. It showed that there was no problem with TCK.

There was one remote region in very northern China that could, under the most extenuating circumstances, could grow this TCK. We said we will not ship to that region, if that is the problem. We will agree not to ship to the region.

We have to be able to credibly tell you in Congress that China has committed to abide by scientific principles and, until they resolve the TCK issue, until they resolve the ban on meat, until they resolve the ban on citrus, then there is no way we can do that.

On the WTO, let me just say, briefly. I was in Japan 2 weeks ago during my travels, and we just won a case against Japan, also under the SPS Agreement, a very important case on their varietal testing requirements.

This is the second case that the WTO decided on these grounds. Japan was clear that they wanted some time to review the data,

but then they are going to sit down with us and work out a solution to the thing.

So our message is, if it is good enough for the United States, and it is good enough for Japan, and it is good enough for all of these other countries to be able to comply with rulings, it should be good enough for Europe as well.

Senator CONRAD. My time has expired, Mr. Chairman.

Senator GRASSLEY. Thank you.

Senator Kerrey?

Senator KERREY. Thank you very much, Mr. Chairman. Let me add my praise to the three witnesses, their intellectual capacity and their willingness to serve the public.

May I presume, for the sake of a question, that it is going to be difficult for the United States to lead the WTO ministerial here in November if the President lacks trade negotiating authority?

Mr. SCHER. It does not make it any easier, I can tell you that. Other countries will use it as an excuse not to be forthcoming.

Senator KERREY. So I may presume, if it does not make it any easier, that it will make it more difficult.

Mr. SCHER. I think that is fair.

Senator KERREY. The President, in 1996, when he was campaigning for reelection, did not campaign on this issue, I note. I noted in 1997 that the Congress had to push hard before we got a piece of legislation, and it came up relatively late, and was difficult to get it passed, in my judgment, as a consequence.

I noticed as well the President, in his state of the Union address, indicated that he wanted to have some sort of language, he was very vague on it, dealing with labor and the environment: (a) in your mind, does the President feel strongly about wanting trade negotiating authority, and (b) can we expect to get something specific from the President? Can we expect the President to go out to the American people to explain that our standard of living depends upon our capacity to negotiate these agreements with lower trade barriers?

Mr. SCHER. Senator, I think the President made clear in his state of the Union that—

Senator KERREY. Sir, I praised you to the stars that the President did not make clear. His language was very vague. There was nothing that would deserve the word "clear" when referencing trade negotiating authority.

Mr. SCHER. Well, what I heard him say was that we need to develop a consensus on this issue of labor and the environment. What is clear is that one way or the other is not going to get the votes to pass Congress.

Senator KERREY. Sir, when the President decided how he wanted to handle Social Security, he made a decision and he went to the American people, and he is selling it. I do not happen to like some of the elements of it, but I have been very impressed with his capacity to sell once he decides what he wants to do.

I am asking you, do you expect the President to decide what he wants to do, specifically, announce that decision, and then go to the American people and attempt to sell it?

Mr. SCHER. The only thing I can say to you, Senator, is that the administration, including the White House and USTR, are working

closely with the leadership. In fact, we have spoken to Senator Roth and Senator Moynihan, and I know there are efforts under way in the Senate Finance Committee, to try to develop a consensus that allows us to move forward. I think what we have seen is that the two ways that have been offered for resolving this issue will not work, politically.

Senator KERREY. I can tell you, again, I appreciate very much your answer, but that is not the model the President used on Medicare and Social Security. He made a decision. He did not come up and say, gee, what we lack is consensus and I need to consult with Congress. He made a decision. He chose a course of action and he has been out selling that course of action to the American people.

I am asking you, I am just saying to you, he will not get trade negotiating authority. It will not happen if you presume that what we need to do is just have consultations with Congress and initiate a process that attempts to produce consensus. He will have to make a decision, what he wants. He will have to devote a considerable amount of energy and attention to trying to sell this to the American people, otherwise it will not happen.

You will have a ministerial in November and the President will not have trade negotiating authority. I think you are correct, that certainly does not help, and it is likely to weaken our capacity to lead on these very important trade issues, especially, I must say—and I would like to, Gus, ask you—I look at some of the statements that have been reported, and I think Senator Conrad covered a fair amount of them.

But the Europeans have said—let me see if I can get the exact language. Franz Fischler calls it comprehensive reform, but he says this enables him to come to the ministerial and negotiate for the European model of agricultural supports.

Mr. SCHUMACHER. Certainly protectionist. I think Senator Conrad said it very well. They love to export, especially value-added products with high subsidies. For example, on the issue that we dealt with on barley. I think the issue they talk about, multifunctionality, and then hide behind that.

Senator KERREY. Is there not, Gus, some other elements, though? The protectionist piece is certainly important. As a matter of fact, he said, when he was criticized, "that the suggestion that farmers are being asked to operate at uneconomic world market prices is nonsense," Fischler remarked.

He said that, "This agreement will, in fact, reinforce EU preferences in many areas, thereby ensuring that EU farmers will continue to have priority access for more than 90 percent of the world's most lucrative consumer market in the world."

I presume that statement is not GATT-legal. It certainly implies that he is going to protect 90 percent of the European market for European farmers, and I presume that the impact of that is going to be similar to what we are seeing with beef and in other areas.

But what I am trying to pay attention to a bit is the other side of their model, which is fairly generous subsidies, the direct payments that they provide. Are those, in your judgments, GATT-legal?

Mr. SCHER. Right now, we have not reviewed subsidy violations under the GATT. They have notified the GATT. In terms of new

subsidies, obviously we will have to look at that in relation to new commitments.

Senator KERREY. Well, I am one that, in general, believes that competition will produce higher standards of living and will also produce higher quality and lower prices for consumers, that it is normally beneficial.

However, I am willing to intervene from time to time in the marketplace if there is a public policy objective—clean water, clean air, public safety—that needs to be accomplished. It seems to me that the Europeans are making a declaration here that they want to keep a substantial number of people living in the country.

It is a foundation of their rural development strategy to try to support across the board. I wonder, Gus, if you can convert it. It said that cereal intervention prices were going to fall from about 120 euros per ton. What is the euro at? About 105 to 1. So you can figure that they are going to fall to 100 euros per ton, or about \$100 per ton for cereals. How does that convert into per-bushel price for, let us say, wheat, or corn?

Mr. SCHUMACHER. I think they are at least twice as high on some of the grains.

Senator KERREY. What would that convert to? Let us say I am a French farmer and I am producing wheat. What can I expect?

Mr. SCHUMACHER. You are making my mind work faster here. I will get back to you. But it is certainly double, probably, maybe even more, than what wheat growers are now getting, or corn growers, for example, in Nebraska.

Senator KERREY. So we are having a big debate right now. I say this, because one of the things that we are also debating here is whether or not we should take the cap off of our loan rate that was imposed in 1996 for budgetary reasons, lifting corn, I think, to \$2.25, for example. Do you think the Europeans are providing subsidies at the \$4.50 range for corn?

Mr. SCHUMACHER. Certainly well above \$2.25. Well above \$2.25.

Senator KERREY. Well, I also think one of the things that, in addition to the President asking, and getting, I hope, trade negotiating authority, because I think it is crucial that we provide the President with that authority if he is going to be strong going in this ministerial, I also think we have got to consider our basic foreign program.

Again, in general, I favor a market approach. But we are increasingly looking now at reverting to set-asides under different names, surging back into the CRP and other sorts of things that we use. The Europeans are contemplating going in the opposite direction.

I mean, we could end up with a situation a couple of years from now where the Europeans have no set-asides, paying \$4.50 for corn. We have got a marketing loan under \$2 in the United States, and we are back at set-asides with total agricultural spending of approaching back what we had in the 1980's.

We are going to spend \$18 billion this year on our own program, although the disaster assistance, I understand, is not going to be available until June, fully funded. It seems to me that one of the things the President ought to be doing with this in the consultation process is consulting about our basic foreign program in addition to trying to figure out what kind of language, in this case, the

House of Representatives is going to accept for labor and the environment.

Mr. SCHUMACHER. One of the things I am most concerned about is, as I said earlier, the EU is going in the opposite direction that we had thought they were going to go to. That is why the Secretary put out this strong statement last week.

Senator KERREY. Well, my red light is on. I will tell you, I took my son and daughter over to see Oma Beach last year, and it was quite moving, but it was also quite impressive to drive through the French countryside and see the kind of luxurious affluence that exists in rural France.

I mean, that is part of their policy. Their policy is, they believe it makes sense to have healthy rural communities and they do not believe they are not going to get that done unless they are paying for beef, unless they are paying for pork, unless they are paying for dairy, unless they are paying for wheat, corn, and beans. They have an objective.

It seems to me that their statements are, we are vigorously defend the European model of agriculture and we have got to think about what that European model is, what it is accomplishing in terms of their standard of living and what we are doing in contrast to our own rural communities with our current farm policy.

Mr. SCHER. Senator, may I make one point? I know that your time is up, but I think that this is an important point. If the EU wants to make a policy decision that it wants to take a big part of its budget and support farmers to keep the countryside pristine, to paint the barns, to plow the fields, and to keep the water clean, then in the end, that is a decision that they have to make. The problem is, they are trying to force that cost on us.

Mr. SCHUMACHER. And other countries.

Mr. SCHER. And other countries. It is, frankly, having the worst impact on developing countries, which face sort of the dual frustration of not being able to get into the European market because of high prices, and facing the European subsidies.

So I think, as Secretary Eizenstat made clear in his statement, the key for us is decoupling the support from production so the cost of this is not being forced onto the world market through subsidies.

Senator KERREY. Just briefly, I think one of the things we have to do is observe the comparative status of rural America with that of rural France, rural Germany, and rural Europe. It is stark, in my judgment. Theirs seems to be succeeding and ours does not seem to be much of a success at the moment.

Mr. SCHER. Right. But I think part of it is, we are helping to pay for that French countryside right now through these export subsidies.

Senator GRASSLEY. Thank you, Senator Kerrey.

I would like to have one more question of Mr. Scher, and one more question of Mr. Schumacher, and then I will call the second panel. Maybe the first question is something that Mr. Eizenstat needs to respond to as well.

That is, I understand, Mr. Scher, that you cannot come up here and tell us exactly where we are in negotiations with China on WTO membership, and you describe it as making some progress. That is on the one hand.

On the other hand, we do have the requirements of the last GATT agreement and the law that: "The USTR must consult with this committee before casting a vote in a ministerial conference or a general conference on adopting any decision, interpretation, amendment, waiver, or accession if the matter would substantially affect United States' rights or obligations."

So would China's accession to the WTO fall under this substantially affecting United States' rights and obligations?

Mr. SCHER. To require us to consult with these committees?

Senator GRASSLEY. Yes.

Mr. SCHER. I think, clearly, as I said earlier, I think Ambassador Barshefsky, I think, is scheduled to meet in executive session this week. So, clearly, our plan is to consult extensively with this committee on the accession package.

Senator GRASSLEY. All right.

Mr. SCHER. Before we complete it.

Senator GRASSLEY. All right. Then in regard to that, still on the same subject, does that include the administration submitting its report on the working party negotiations to the committee for review?

Mr. SCHER. I know there is a working party meeting later this week in Geneva. I do not know what the plans are in terms of submitting the report, but I can certainly find out and let the committee staff know later today.

Senator GRASSLEY. Yes.

Mr. SCHER. I just do not know what the plans are normally for submitting those reports. But I think, clearly, we would—

Senator GRASSLEY. It would be obviously before a final decision would be made, though.

Mr. SCHER. Absolutely. Yes.

Senator GRASSLEY. All right.

Mr. SCHER. In fact, there is a working committee meeting in Geneva later this week.

Senator GRASSLEY. All right.

Then, Mr. Secretary Schumacher, in regard to the Chinese buying pork or not, we had a study by the Center for Agriculture and World Development at Iowa State University called the "Chinese Market for U.S. Pork Exports."

It shows that, while there is a large potential for increased pork production in China, the Chinese Government places a strong emphasis upon self-sufficiency in pork and therefore is subsidizing pork production with higher costs of imported grain because China is going to be in a grain deficit pretty soon. Because China seems to place such a high priority upon self-sufficiency in pork, we can probably assume that China's negotiators at the WTO accession talks are trying to maintain China's de facto ban upon pork.

But it also seems to me that the United States is in a position to extract some concessions from the Chinese to open their pork markets. From your perspective in the U.S. Department of Agriculture, what has the United States done to open Chinese pork markets?

Mr. SCHUMACHER. Well, certainly, we are doing actually, up to the last year or so, quite well because we sold about \$125 million

worth of pork and pork products to mainly Hong Kong, and some of it gets into China.

That has been very helpful to our pork industry, because some of the pork that is sold is the types of cuts that we normally do not eat here in this country. It has been very helpful. Similar to the sort of chicken legs and chicken feet we sell to China, the pork bits and pieces have done very, very well in those markets.

I think, in addition, we have work to do. Peter, do you have any more thoughts—you just came back—on the pork? How was their reaction in China?

Mr. SCHER. Well, I think, clearly, our priority on the pork, as you mentioned earlier, Senator, the question is really two questions. One, are they going to recognize all of our pork facilities as meeting the same standards, not pick three or four, but recognize all of the facilities.

Mr. SCHUMACHER. Equivalency argument.

Mr. SCHER. Yes. Well, not the equivalent, because I do not think we are prepared to say that their system is equivalent to ours. Not quite yet.

Mr. SCHUMACHER. They have to recognize ours.

Mr. SCHER. But the second issue is making sure that the tariff is low enough to encourage legitimate export. I mean, right now there is a lot of product that goes through Hong Kong. I think the Chinese recognize that the Government of China has not seen the benefit of that, of what a reasonable tariff would offer.

I think our pork producers—in fact, we had Nick Giardano from the pork was with me last week in China—recognize that if we can get a reasonable tariff, if we can get this ban lifted, there is a very vibrant market for our producers in China.

Senator GRASSLEY. Yes. Before I say a final thank you, let me just express to you what, admittedly, is probably a gut feeling on my part and not anything that I could show you in a documented way.

But I kind of have a feeling that, in regard to China's accession to the WTO, and particularly with the Premier coming here next month, I worry that we think of the Premier of China as kind of a man with a white hat, who is trying to identify and bring about real economic reform within that country. I guess I worry that our President may be wanting to send him home with a major feather in his cap.

I would hope that we do not risk converting the World Trade Organization into kind of a political club, because it is developing into a guardian of free trade that we all benefit from. We should not do anything more for China than any other new member. I know you have all said today that that is our policy, but I still somehow have a feeling that we want to do something extra special for this Premier.

I think if we were to do that, that that would not be good for China or for free trade. For China, I think that we ought to think of ourselves as doing China a favor, because the WTO membership can be a credible incentive, kind of a carrot, for China to bring about the change that is necessary for their own good, as well as for the good of the world, which is this economic reform that I think that they want to develop. If we made it too easy for them,

for membership in the WTO, they might not come around to that point.

So, if you want to comment on that, I would be glad to have you do so.

Mr. EIZENSTAT. I think we each have our own perspectives. I can say, from the agency that would normally be looking at this from a political standpoint, our view is absolutely firm. That is that the Zhu visit is an opportunity for China to come into compliance, not for us.

We are not negotiating, no putting any pressure on USTR or anyone else, to negotiate under a time deadline. The WTO accession on a commercially viable basis is in China's best interests because it will encourage, as you just said, Mr. Chairman, the very types of reforms they need to make.

We are absolutely firm in working with Peter and Charlene and their colleagues as USTR to make sure that the package that is being negotiated is commercially viable, and there is absolutely wall-to-wall agreement with the administration on that. We are not letting the Zhu visit in any way detract us from insisting on a WTO commercially viable package. So, again, our view is, this is an opportunity for China, if they wish to take advantage of it.

Senator GRASSLEY. Thank you for that assurance.

Mr. SCHER. Senator, the other thing I would say, very briefly, is that there have been two Presidential visits in the last 2 years. President Jung Zi Min came here, and President Clinton went to Beijing last June. We did not see either of those opportunities as a chance to, in a sense, do a political deal. We certainly do not see the Premier's visit as any chance—we realize we have to sell whatever agreement we come up with, not only to the Congress, but to the industries that are affected by this.

So, we do not have the luxury, frankly, of anything but a very strong commercially meaningful deal. If China is prepared to do that, I think we are prepared to go the extra mile to work with them. But the decision is theirs.

Senator GRASSLEY. Maybe it would be more fair if my assessment also said that I have some concern and another gut feeling about just big business in America who does business in China maybe pushing too fast for their own selfish gain that may not look at the overall good of our whole U.S. economy.

I thank you all very much. I want you to know that, even though I did not say so, I associate myself with the remarks of my three colleagues who were here complimenting you on your expertise in this area, more importantly, your sincerity as you approach the job and what you are trying to do for free trade. Thank you very much.

Would the next three witnesses please come all at one time? I would introduce Mr. John Hardin, Jr., former president of the National Pork Producers Council; Allen F. Johnson, president of the National Oilseed Processors Association; and Dr. Greg Mastel, vice president and director of Programs of the Economic Strategy Institute of Washington, DC.

I would ask you, as everybody gets seated, to proceed in the order in which I introduced you. So, Mr. Hardin, welcome back to this table, as you have been here many times, Mr. Johnson, and Dr. Mastel.

Go ahead.

**STATEMENT OF JOHN HARDIN, JR., FORMER PRESIDENT,
NATIONAL PORK PRODUCERS COUNCIL, WASHINGTON, DC**

Mr. HARDIN. Mr. Chairman, thank you very much for having us here today. I am John Hardin, a pork producer from Danville, Indiana. In addition to the things you mentioned, I am a former chairman of the United States Meat Export Federation, and a member of the Policy Advisory Group to Secretary Glickman and Ambassador Barshefsky for Trade. I really appreciate the opportunity to appear here today to express our views on these most important issues.

Exports are the lifeblood of the pork industry. MPPC is co-chairing the Agricultural Trade Coalition and urges this committee to continue its bipartisan efforts to get fast-track trade negotiating authority renewed before the upcoming WTO ministerial meeting in Seattle. In China, pork is by far the predominant source of meat protein consumed. China consumes nearly the same amount of pork per capita as is eaten in the United States.

Indeed, China is responsible for approximately 50 percent of the world's total pork consumption and most industry analysts project pork demand in China to increase six to 7 percent annually in the early part of the next century.

While China is the world's largest pork producer, 85 percent of its pork comes from backyard producers. Further, the cost of producing pork is higher in China than in the United States, and this cost gap is expected to widen in the future.

I recognize, as you have mentioned, that in 1997 China lowered tariffs on imported pork from 45 to 20 percent. This development, unfortunately, is not significant because, in addition to the 20 percent duty, there is a 17 percent value-added tax which is unfairly applied only to pork that is imported. Thus, even if many of the nontariff trade barriers applied against imported pork were rectified, high tariffs and taxes would continue to block pork imports.

In 1997, the State Administration of Inspection and Quarantine provided quotas to 11 establishments in Australia, Canada, and the United States as eligible to export meat and poultry to China. As you noted, Mr. Chairman, this pilot agreement has not worked.

The U.S. Government must convince China to make a number of changes with regard to pork importation as a condition to entry to the World Trade Organization.

For the United States pork industry to have meaningful access to the Chinese market, the following changes need to be made: the abolition of the de facto ban on pork importation; the establishment of transparent import regulations and licensing requirements; the repeal of discriminatory value-added tax which has applied to meat imports; the reduction of import duties to minimal levels, again, as Ambassador Scher mentioned, with no tariff rate quotas; unrestricted entry and participation of non-governmental import entities; a protocol governing sanitary issues which, among other things, recognizes the U.S. safety and inspection system as equivalent and permits the export of pork from any FSIS-approved facility; finally, termination of the many subsidies to the Chinese pork industry.

As you know, it will be difficult to persuade China to provide meaningful pork trade liberalization. Therefore, we respectfully request the continued support of this subcommittee in this matter of paramount importance to the U.S. pork industry.

With respect to the European Union, a strong response to EU's treatment of U.S. pork exports is long overdue. I looked the numbers up before I came this morning. In the first 10 months of 1998, we exported about \$32 million of pork and variety meats to the European Union. Prior to the implementation of the Third Country Meat Directive, we routinely did \$400 million of business a year.

Pork should be the centerpiece of the beef hormone retaliation list. While virtually no EU beef or poultry are imported into the United States, 12 of the 15 European Union countries exported pork to the U.S. during the last 5 years.

As I have mentioned, we have tried for almost 15 years to regain meaningful access to the European pork market. We filed not one, but two Section 301 cases which were intended to pry open the EU market to U.S. pork exports.

However, the EU continues to erect non-scientific-based barriers to trade such as the very recently approved ban on the use of many antibiotics in livestock feed. The Danes, the EU's largest pork producer and exporter, were the driving force behind this measure. EU meat and poultry producers know that this antibiotic ban will ensure that U.S. meat and poultry will never, ever be sold in the European Union.

Strong and unequivocal action against the European Union in Bananas and Beef matters will diminish the questions in the minds of U.S. farmers and ranchers about the ability of the U.S. Government to enforce trade agreements and will demonstrate the resolve of the U.S. to take a hard line on agriculture in the upcoming global trade negotiations.

Regarding these negotiations, the U.S. pork industry fully supports the reform of the Common Agricultural Policy in the European Union, and we want the Europeans to end their export restitutions. We call for complete elimination of the "Blue Box" and all private storage funds.

Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you, Mr. Hardin.

[The prepared statement of Mr. Hardin appears in the appendix.]

Senator GRASSLEY. Mr. Johnson?

STATEMENT OF ALLEN F. JOHNSON, PRESIDENT, NATIONAL OILSEED PROCESSORS ASSOCIATIONS, WASHINGTON, DC

Mr. JOHNSON. Mr. Chairman, I appreciate this opportunity to testify on behalf of NOPA on the U.S.-EU trading relationships and China's accession in the WTO. As usual, your timing is impeccable, given that decisions on these issues over the next weeks and months could have a major impact on the face of agriculture for years to come.

I will, first, discuss the EU, then finish with a few thoughts on China. The EU is a very important market to our industry, with over \$2.5 billion in exports of oilseeds and oilseed products, which amounts to about 30 percent of the U.S. total agricultural sales to the EU.

We are very concerned that trade disputes, such as the Banana dispute, have the potential of blocking progress and advancing U.S.-EU relationships, and the longer they remain unresolved the greater the risk they will undermine the rule that the WTO rules and disciplines are key to more open global trade in agriculture.

In biotechnology, unfortunately, the EU does not have an effective and efficient regulatory system that enjoys the trust of consumers. For us, this is a real problem because the soybean harvested in my hometown of Long Grove, Iowa, or anywhere else, cannot be kept out of the export stream.

GMOs that are not approved in our overseas markets cannot be segregated from those that are approved, or conventional varieties. The result is that new GMO varieties cannot be marketed in the U.S. without threatening our exports.

Another EU issue is the threat of labeling for foods and food products produced from GMO crops. Some food companies are already avoiding U.S. soybeans, or soybeans altogether, in order to ensure that they have GMO-free products.

NOPA has encouraged the administration to make resolution of these issues a top priority. If the EU approval system does not function in an efficient, timely, and transparent manner, trade problems are unavoidable. We also need to continue to reinforce that regulatory approval decisions should be made solely on sound science.

Agenda 2000 is another area of particular interest to our industry. Agenda 2000 will lower the oilseed payment and harmonize it with the compensation payments for grains. This is a positive development for our industry and a step in the right direction. However, we need to be sure that all parties know that the Blair-House Agreement, which put strict controls on the EU oilseed production, is still applicable, even with Agenda 2000.

We believe that the 1999 WTO is the best opportunity for the U.S. to achieve a more open trade environment. We have advanced the concept of a level playing field for oilseeds and oilseed products. The general objective of the LPF is the global elimination of all trade distorting practices in oilseeds and oilseed products.

While we know there will be disagreements with the EU in the 1999 WTO, we believe there are also potential areas of cooperation as well. For example, changes in Article 12 to provide more protection for importing countries. Two, establishing objective WTO rules for developing countries. Three, establishing disciplines in State-trading enterprises.

Four, there may even be opportunities and domestic support as we consider options for transition programs from Blue Box to Green Box policies which decouple support from production.

Let me finish with the China WTO. NOPA is a member of the American Oilseed Coalition, which includes the American Soybean Association, the National Sunflower Association, the U.S. Canola Association, the National Cottonseed Products Association, and, of course, ourselves. The views I share here are shared by all of those organizations.

China's WTO accession has become a top priority of the AOC. We must liberalize China's trade while locking in some liberalizing reforms that they have taken unilaterally in recent years. We have

appreciated our access to our U.S. negotiators and their consultations with our industry during the WTO negotiating process, and we made it clear that AOC's overriding objective for access is greater and more equitable access.

The core elements of improved access are tariff rate quotas, size and growth, tariff reduction and harmonization, elimination or equalization of value-added taxes, and no regression in the current terms of trade. The accession agreement with China must improve upon the present terms of trade to have the U.S. oilseed industry's support.

The AOC position of China's WTO accession was carefully crafted to achieve these objectives, bearing in mind that any deviation from the course of eventual liberalization through the LPF initiative could create obstacles to success in the 1999 WTO negotiations.

China should be a full and active part of the 1999 negotiations once it becomes a member. This would include not exempting China from any of the existing WTO rules. China's accession to the WTO, under the terms of a strong accession agreement with no exemptions, would provide a stable trade policy environment for continued growth in U.S. oilseed and oilseed product exports.

Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you, Mr. Johnson.

[The prepared statement of Mr. Johnson appears in the appendix.]

Senator GRASSLEY. Dr. Mastel?

STATEMENT OF GREG MASTEL, PH.D., VICE PRESIDENT AND DIRECTOR OF PROGRAMS, ECONOMIC STRATEGY INSTITUTE, WASHINGTON, DC

Dr. MASTEL. Good morning, Mr. Chairman. It is a pleasure to be here. Obviously, the hearing touches on a number of topics today, but my expertise is mostly on China so that is what I will focus myself on.

In April, China's Premier, Zhu Rongji, is scheduled to visit the United States. Despite some of the assurances that you heard a few minutes ago, according to recent statements by senior U.S. officials, a possible centerpiece of the visit is an agreement to open the way for China to achieve its long-sought goal of joining the World Trade Organization.

Such an achievement would doubtlessly boost Zhu's status at home and, with the proper conditions and arrangements, WTO membership for China could be a major step toward real economic reform.

Unfortunately, a last-minute political deal is far more likely to be a big step in the wrong direction. For China, WTO membership would mean new international recognition and a large measure of protection from the threat of trade sanctions. For the United States, a China that truly abides by WTO rules would be a much better trade partner.

To this point, however, it is China that has stood in the way of its own WTO membership. China has been unprepared to commit itself to observing WTO discipline. Beyond that, there are serious

questions as to whether China is truly willing and able to observe WTO rules.

There is reason for concern that the Clinton Administration may, in its enthusiasm to include a deal in time for Zhu's visit, weaken the requirements for China's WTO membership. This would be a serious mistake.

To appreciate the complexity of the task of intervening China into the World Trade Organization it is important to understand the WTO. The WTO is not merely a club of trading countries, it is a sweeping set of very specific rules on matters such as subsidies, tariffs, and protection of intellectual property. In essence, the WTO is a set of rules on how to conduct a market economy.

The central problem is that China is neither a rules-based country nor a market economy. As the former head of the Chinese People's Congress is fond of saying, "China is a country of strong leaders, not strong laws." This lack of a rule of law has a direct impact on U.S. concerns ranging from human rights to trade.

The United States has concluded a number of bilateral trade agreements with China on matters ranging from intellectual property protection to market access. Unfortunately, China has not fully complied with most of these agreements. In some cases, Chinese ministries have endorsed policy plans that directly violate these agreements by, for example, pursuing policies aimed at reducing imports through import substitution.

In the agricultural sector, China has consistently refused to limit its sanitary and phytosanitary restrictions on agricultural imports to those based on sound science, as it pledged in 1992. This has adversely affected U.S. agricultural exports in a number of products.

If China ignores relatively straightforward agreements on matters such as agriculture and intellectual property protection, is it realistic to assume that a complex multilateral agreement on matters such as services, investment, and other matters could be obeyed or would be obeyed?

In a society in which policies are often set by informal, unpublished ministry decisions, how could complaints of Chinese trade practices be proven before a WTO dispute settlement panel?

Today we talked a lot about the European Union. The European Union, for all of its faults, is perhaps the most transparent and open power in the world, besides the United States. If we cannot enforce WTO rules on the European Union, how do we expect to do it in China, which is perhaps the least transparent system in the world?

Historically, the United States has had some success in influencing Chinese trade behavior by threatening trade sanctions. As China is much aware, membership in the WTO would greatly inhibit U.S. ability to impose unilateral sanctions. It may be that Zhu and his followers are able to bring China further down the path to market economics and that WTO membership could help influence China in this direction.

It is at least equally possible, however, that a recession or a change in Chinese leadership will move China toward increased protectionism and that it would use WTO membership to shield itself from the threat of trade sanctions.

Further, China's WTO accession would have sweeping implications. If the WTO proved unable to police China, the credibility of the WTO as a trade policeman would be greatly undermined. The end result may even be the destruction of the WTO and an increase in global protectionism.

It may be possible to overcome these problems and marry China with the WTO by creating a transition period during which China phased in WTO discipline. In order to enforce WTO provisions, the United States should retain the right to impose unilateral sanctions during this transition period. Quantitative targets for China's imports from WTO members and a special annual review process to judge China's progress would also make an agreement more enforceable.

But such a transition mechanism could only be forged through long, hard negotiations. A quick political deal in time for an April meeting is much more likely to set back the cause of market reform and free trade in China, harm U.S. interests, and undermine the world trading system.

Mr. Chairman, I ask permission that the text of an article that I wrote recently for the Weekly Standard be included in the record after my remarks.

Senator GRASSLEY. Yes. Let me say that for all of you, and I should have said it for the previous panel, that their entire statement will be placed in the record as if read before the committee in whole. We do appreciate your summarization.

[The prepared statement of Dr. Mastel along with the Weekly Standard article appear in the appendix.]

Senator GRASSLEY. I am going to ask questions of specific people, but if any of you want to help answer, respond, or contradict anything, it is your privilege to do it.

I will start with you, Mr. Hardin. I, first of all, thank you for your analysis of the China trial pork import program. We can learn from your experience. You have obviously been on the front lines on this agricultural trade issue, not only as a producer, but also as an advisor to various administrations.

From your perspective, should we view this unfortunate experience that we are having with China as something that we will see more of if China is admitted into the WTO, or do you believe that China can fairly and effectively liberalize its pork market?

Mr. HARDIN. I think the answer is, it depends. It depends primarily on how well structured the commitments are and how enforceable they are. I think, potentially, the B rider legislation might be a way that this side of the Congress may want to look at as a way to bring leverage because, unless we bring leverage to deal with these agreements, they will not succeed.

Senator GRASSLEY. With regard to the European Union's Third Country Meat Directive, I am very concerned about the arbitrary enforcement of the regulation. Once again, it appears that the EU rule is aimed squarely at our country. Do you see any way that the United States can negotiate some type of fair enforcement of this regulation, or is the regulation itself fatally flawed? How can we best make our concerns about a Third Country Meat Directive known to the European Union?

Mr. HARDIN. Well, I tell you, I have been involved with that one since 1991. I think the real problem is that the union, because it has such a cumbersome decision making process and because the equivalent bodies to our food safety inspection service are not in place in a way that makes them effective, that it has been flawed from the beginning.

I think, quite frankly, the only way is to come to the plate and retaliate and make them come forward. I am really disheartened by the way the banana issue and the hormone issue have been portrayed in much of the press. I think the United States finally has to say enough is enough, and make them pay the cost of avoiding meaningful responses to these negotiations. To me, that is the only way to solve this.

Senator GRASSLEY. Do you have any suggestions on what our own U.S. Department of Agriculture could do to assist the U.S. pork industry in its efforts to win fairer treatment from the European Union?

Mr. HARDIN. Well, again, it goes beyond what USDA can do, in the answer I just gave you. But, beyond that, as far as within the department, we need to find career ladder positions that, across the world, deal with these food safety issues and the emerging things with genetically modified organisms, and all the rest, so that we have a cadre of very experienced negotiators with all of the technical background that spend their career track within USDA doing these things.

I have seen time and again where people that have been in place for 6 months or a year find themselves across the table from somebody that has been there 15 years. The level of expertise, while well intentioned and they have all of the degrees, is not enough to get it solved. I am hopeful that we improve the management as to how we attack these negotiations in the future.

Senator GRASSLEY. Mr. Johnson, I will not go into the history of how it took us a long time and we got obstacles from the European Union on the reduction of these export subsidies and domestic farm subsidies.

But, bearing in mind how many problems that we have had in the past, and that the Uruguay Round was almost a failure because the European Union refused to budge from a 30 percent reduction in domestic subsidies, how realistic is it to expect further reductions in the EU farm subsidies as a result of the new multi-lateral trade negotiations?

Mr. JOHNSON. Well, first of all, in the oilseed sector, on the Agenda 2000, they are lowering their per-ton payment rate for oilseeds and putting it on a per-ton basis equal to what it is with grains, which is quite a significant step, at least a step towards some kind of decoupled support.

We always try to make it very clear, it is not decoupled support. They are still required to plant. They have a limited number of options as to what they can plant. That is one of the reasons why I made the point in my statement of saying that the Blair-House Agreement still applies, from our point of view.

We are hopeful, and we have had a lot of dialogue with our counterparts in Europe, on trying to approach the 1999 WTO negotia-

tions in sort of an open-minded way with the unified objective of achieving what we call the level playing field.

We have gotten, in an international forum, through our international organization we are all a member of, a consensus that that is, in fact, what in the oilseed sector, at least, we all want to achieve. So that is the input in the negotiations. I cannot forecast what the output will be. At least we are hopeful that we are on the same song sheet going in, within our industry.

Mr. HARDIN. Mr. Chairman, if I might add, it is very much the same in the pork industry. The problems with export restitutions and other Blue Box subsidies are the only reason why the Danes are competitive in Asia with us.

Unless we can deal with that, I suspect government policy may want to turn in the direction that Senator Conrad was trying to lead you this morning. I really think that would be difficult for the United States to deal with.

I do not think the political will is here to subsidize American farmers to that degree. So, again, what happens within Europe as to how they subsidize their farmers, it is a matter of how much of those exports come on to the world market. That has to be the chief negotiating goal.

Senator GRASSLEY. Also, Mr. Johnson, I strongly agree with your suggestion that scientific, valid concerns by the European Union about the safety of new genetically modified crop varieties be addressed before the product is commercialized in our country. The underlying assumption of your idea is that the European Union would have to be more open in its regulatory process. Do you offer in your suggestion with the idea that it can be achieved, or how it can be achieved?

Mr. JOHNSON. Well, as we said in our statement, it is going to have to be achieved at some point. I am fond of using an expression that Congressman Grandy from our home State used to always use in relation to farm policy, and I use it in relation to biotechnology or GMO issues, which is that the issue seems to subsidize more times than a chromosome. Every time you think you have it in front of you, it ends up moving.

But I do think that there is a certain amount of frustration also on the part of our counterparts in Europe with the lack of progress and the lack of transparency in their own regulatory processes. To that extent, they are also gaining some internal pressure to try to do something to resolve this.

That does not necessarily mean that that is going to create a solution overnight, but the bottom line is that it would be very difficult, if not impossible, to market new varieties in the United States and providing any kind of assurances that those varieties would not be in the export channels. That is cheating not just ourselves, but it is also cheating the Europeans, both their producers and consumers, of having access to the high-quality, low-cost alternatives.

Senator GRASSLEY. The Uruguay Round Agreement tried to dampen the export refund competition by a 21 percent mutual reduction on export subsidies. Has this reduction worked, or do you see a need to make further export subsidy reductions in a new round of multilateral talks?

Mr. JOHNSON. Well, part of our level playing field initiative—which, again, has been brought on by our peers overseas, also in South America, I should add—would ask for the elimination of export subsidies. I should also add that we have been working hard in a coalition that we are now calling the Seattle Round Agricultural Committee. One of the principles of that is also the elimination of export subsidies.

So, from our point of view, yes, that is definitely something we would want to eliminate. It is a concern of ours. As you know, we had within the last round the authority to use export subsidies in the United States as it relates to oilseeds, but we haven't exercised that since 1994.

Senator GRASSLEY. Dr. Mastel, I will just ask you a pretty general question in regard to China coming into the WTO. You heard my statement that I described as a gut reaction, or a gut feeling, about how we need to be concerned about maybe our being too hasty to make the new Government of China, particularly its Premier who appears to be very much interested in economic reform, look very good, that we might give in too much, whether it be on a visit here or some other reason, give in too much to China on their membership in the WTO. Of course, I do respect the opinions, and I do not question the opinions, of the three administration witnesses who were here that that will not happen. But I guess from your study on the outside, do you have any fears like that, like I expressed?

Dr. MASTEL. Well, I guess I do have some of the same fears. I do not question the credibility of any of the witnesses that were here today, but I think, as Senator Baucus alluded to, these kinds of issues are decided by interplay inside the administration.

There are lots of voices, not all of which have the same viewpoint—as the trade negotiators do, especially in terms of setting policy on an issue as important as China's WTO membership.

I think you will hear a lot of voices from the national security world weighing in that have not much of a perspective, so I am not sure that we can be completely relaxed that the commitments made today are going to be able to hold through the upcoming process.

The problem, I think, fundamentally, we have not recognized how difficult this task is. China is not just another country. In addition to its size, it is a country that is neither rules-based nor really a market economy. Those are kind of the underpinnings of the WTO. I mean, it is a rules system that encapsulates how a market economy works. China is neither.

As we have seen, our experience with China in bilateral agreements has been very poor. They have not been able to observe the rule commitments they have made.

Before we begin this process, or at least before we end it, we have to ask ourselves the question, is it any more likely that China will be able to enforce multilateral agreements if it cannot enforce bilateral agreements? It seems to me that question is hard to answer in the affirmative.

Senator GRASSLEY. Yes. Other than the President himself, as you have studied the interaction of this administration on this issue, where would you say the pressure point would be above the people

who were here, and if you were going to express concerns that could be expressed to one or two people?

Dr. MASTEL. Well, obviously I am not in the Clinton Administration, so it is hard for me to name names of people to talk to.

Senator GRASSLEY. No. But, I mean, I thought maybe you might have some idea, just from being an outside viewer of it, where you would expect the pressure point to be.

Dr. MASTEL. Well, historically, having a chance to watch several administrations in action, the tension is usually between our trade and commercial interests on one side, and national security and diplomatic interests on the other.

I think with regard to China, and particularly forces in international security establishment and diplomatic establishment, that they seem to be less concerned, based on their public statements, with a strong commercial agreement. As I said, our negotiators are doing a good job of negotiating an agreement, I think, and are trying very hard to do that.

The problem is, China is a different kind of country. I am not sure that we can do this quickly or easily. I am not sure that the difficulties are appreciated by some in the security establishment who really want a deal.

You alluded to the pressure that a summit creates. I think, historically, with many countries, not just China, but Japan and others, you see when a summit approaches a kind of "deal fever" emerges.

The summit agenda is set, part of it is some kind of trade agreement. Then, as the deadline gets closer and closer, we have to fill that part of the agenda, so there is a real pressure to get an agreement done in time for a summit. I guess my fear is that that same process could take place with regard to China. I think that would be very damaging to U.S. interests.

Senator GRASSLEY. Yes. I agree with you.

Mr. Johnson?

Mr. JOHNSON. Well, I just was going to comment. I think the type of things that you are doing now, you are already holding these types of hearings as well as public statements, helps reinforce those that you know in the administration that are supportive of this view that we have all shared today, which is accession under the right terms, and it strengthens their hand within the administration discussions as they advocate that point of view rather than a deal at any cost.

Senator GRASSLEY. Yes. I have asked my last question. For the benefit of members who were here, as well as who were not here, if anybody submits questions to you or the previous panel in writing, we would appreciate a response in 2 weeks. Thank you very much.

The meeting is adjourned.

[Whereupon, at 12:12 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF STUART E. EIZENSTAT

Mr. Chairman and members of the subcommittee, it is a pleasure to be here today to discuss current agricultural trade issues with China and Europe. In both China and Europe, we are dealing with issues that have enormous implications for our agricultural interests and the world trading system as a whole.

Let me state at the outset that the State Department fully appreciates the importance of international trade and open markets for America's farmers and ranchers. I do not think there is any sector in our nation that is more integrated into the global economy than our agricultural sector. Studies show that farmers and ranchers are twice as reliant on overseas markets than other parts of the economy. The continued liberalization of world markets and the resulting expansion in trade holds great promise for the growth of and vitality of our farm sector.

But this promise of continued trade expansion is not something that will happen on its own accord. It is an effort that we in the United States have to lead. One of the best ways for us to show this leadership is to strongly affirm internationally the set of basic trade principles that has underpinned the growth of world trade since 1945.

One such principle is the importance of respecting trade commitments. Another is the importance of establishing a clear, transparent and predictable process to govern the regulation of trade. A third, crucial principle, has been the affirmation that decisions on the environmental, health and safety aspects of products must be made on the basis of scientific criteria.

It will be all the more important to reaffirm these principles internationally as we prepare for the next round of WTO trade negotiations. And in terms of the topics for today's hearing, these principles have direct relevance to the sets of issues we now face in China and Europe.

Looking first at China, when and on what terms China is fully integrated into the world trading system is an issue that has enormous significance for our farmers. China may have escaped the worst effects of the economic malaise that has struck many of its neighbors, but its economic growth has slowed. Despite this, U.S. exporters have achieved significant gains. Our exports to China recently have had double-digit growth while other regions' exports to China have stagnated. China is our fourth largest agricultural market, with exports more than doubling since 1991.

As China grows and consumer income rises, there will be a huge potential for the expansion of our food exports. However, this potential can be fully realized only to the extent that we are able to implement the trade principles outlined above.

I am sure Ambassador Scher will cover China's WTO accession and related issues in more detail in his statement. Let me simply note that it is extremely important that China join the WTO on commercially meaningful terms and that China fully respects the rules of the system. The principles regarding transparency and the importance of using science-based decision-making have direct relevance to some of the ongoing disputes we have with China over wheat, beef and citrus.

During her recent trip to China, Secretary Albright pressed the Chinese strongly regarding their trade commitments, including on agriculture. She also stressed the importance of making progress on WTO accession. This is not just a narrow trade issue. It is part of a larger effort to help shape the way China interacts with the world trading system and to develop the type of market that future farmers and ranchers will face in Asia in the 21st century.

Turning to Europe, it is worth remembering that we often let the immediacy of our current trade disputes blind us to the very real benefits the U.S. and EU enjoy

from access to each other's market. Two-way trade and investment flows account for more than one trillion dollars. Studies have shown that the relationship directly supports more than six million jobs on both sides of the Atlantic. One in 12 industrial jobs in the U.S. is in a European-owned factory. Europeans are the biggest foreign investors in 41 of the 50 U.S. states.

The strong economic relationship is also reflected in bilateral agricultural flows. From 1991–1997, U.S. agricultural exports to the EU rose from \$7.0 billion to \$8.6 billion; during that period, we consistently ran an agricultural trade surplus of between \$2–\$3 billion. And, over the years, our overall trade with Europe has been largely balanced and based on strong environmental and labor standards on both sides of the Atlantic.

But obviously there are challenges in front of us. We are now entering a crucial period in our economic relationship with Europe. The EU is engaged in a politically difficult process of reforming its Common Agricultural Policy, with large implications for the types of subsidies our own farmers will have to compete against in the future.

The CAP reforms are partially related to EU efforts to admit a new group of Central European, Baltic and other countries into the Union, a process that has important security as well as commercial implications for our interests. We, the EU and others are also preparing for the next round of WTO trade talks, which will certainly focus specifically on some of the very programs—such as export subsidies—that have underpinned EU farm policy.

The U.S. and EU are now facing a tough set of trade issues on bananas, beef hormones and in the more general area of biotechnology. Our disagreement with the EU over bananas and beef hormones has broader ramifications for the future of the WTO dispute resolution system. On bananas the EU has failed on numerous occasions to develop first GATT and then WTO compliant banana regimes following trade body rulings. With regard to beef hormones, it is still not certain if the EU has the political will to comply with the WTO findings against its ban. These actions undercut critically needed support in Congress and the agricultural community for the WTO.

In this environment of internal pressures within the EU and serious bilateral transatlantic trade concerns, it will again be important for us to hammer home the principles of fair and transparent trade rules, of respecting international commitments and of using scientific principles, not politics, to make environmental, health and safety decisions. Relying on these principles is the best way in which to reduce our frictions with the EU and to remove the emotions which so often cloud what should be technical actions. The need for a set of clear and rational trading principles may be greatest in the area of biotechnology.

As U.S. agriculture and related products—everything ranging from tomato paste to vegetable oil—increasingly involve biotechnology, this issue is one of growing importance to our competitiveness in the 21st century. Within a few years, virtually 100 percent of U.S. agricultural commodity exports will be genetically modified or mixed with GMO products. While we recognize a legitimate desire to assure safety in this area, it is important that our trade in these products be based on a framework that allows beneficial trade to grow and develop while allowing fair and transparent procedures to address safety on a scientific basis. I have long personal experience with this issue from my time as U.S. Ambassador to the EU. I still bear scars from the bruising fight we had to obtain EU approval of Roundup Ready Soybeans. We barely had time to recover from that process when we were faced with another bloody battle over Bt corn. Now there are new biotechnology varieties on the way and the prospect for further problems with the EU remains.

We of course respect the EU's right to have a system of government oversight for genetically modified organisms (or GMOs). No government can abdicate its responsibility to have a system in place to ensure the safety of food, feed and the environment. But the system must be predictable, transparent efficient and scientifically based—as the WTO rules require.

Although the U.S. does not have a separate regulatory system for GMOs, they still go through the same rigorous examination process for safety that all of our food and feed products go through. This exam takes place under the “Coordinated Framework for Regulation of Biotechnology” which was articulated in 1986. Under this approach, biotechnology products are regulated using existing statutes, as are other, similar products. USDA, EPA and FDA are the primary regulatory agencies responsible for products of agricultural biotechnology. Under the Framework, some biotechnology products may be regulated by all three agencies and some may be regulated by one or two agencies, depending on whether or not there are issues such as environmental safety, food safety or labeling involved. Since 1994, 20 genetically modified agricultural products have successfully moved through our regulatory sys-

tem toward commercialization and marketing. The transparency and predictability of our process goes a long way to explain why these products have largely enjoyed general consumer acceptance.

In Europe, it is different. Because there is no scientifically based governmental system to approve GMO products, the European public is susceptible to ill-informed scare tactics. Public opinion in Europe is therefore far more emotional on this issue than in the U.S. Not all of the roadblocks our exporters face are the result of poor procedures or trade competition. The European Parliament often reflects this public sentiment.

The EU approval system for GMOs is non-transparent, unpredictable, not based on scientific principles, and all too susceptible to political interference. There are a number of reasons for this. The poor handling of the BSE, or mad cow disease, problem has shaken the European public's faith in its scientific health authorities.

The EU's weak decision-making machinery in this area is also partly to blame, as it often allows single member states to throw up roadblocks and stall progress for reasons unrelated to scientifically-based concern about health, safety, or the environment. This was certainly the case in the summer of 1998, when France for non-health reasons blocked two U.S. GMO corn products that had already been approved by EU scientific bodies. The products were eventually allowed into the EU after heavy pressure was applied all the way up to President Clinton, but in the meantime our corn farmers lost significant sales.

The process in Europe is further complicated by the huge amount of misinformation about GMOs in the media. This has so slanted the European public's views on the issue that governments are reluctant to undertake perfectly appropriate, but politically difficult, regulatory decisions. Nowhere is this more evident today than in the UK, where virulent attacks on GMOs in the press—both tabloids and mainstream—have made it difficult to hold a rational debate about the benefits of biotechnology.

Many of the issues related to biotechnology are also found in other trade disputes we have with the EU.

The problems caused by lack of transparency and predictability are very apparent in the beef hormone case. As is the case with biotechnology, political opinion portrays this as a health and safety issue despite the broad scientific evidence to the contrary. I fear some in Europe continue to try to find the "right" scientific evidence to support a political prejudice against beef produced with growth hormones. In response to the WTO ruling against its ban, the European Commission has initiated 17 separate risk assessment studies on hormones (none of which were called for in the WTO ruling). We have so far been unable to get any information about these studies from EU authorities. We do not know who is conducting the studies, how those conducting them were chosen, what evidence they are looking at, nor what procedures they are following. As far as we can tell, there is no consistent opportunity for public comment. Needless to say, this lack of information heightens our concerns that factors other than legitimate environment, health and safety issues may influence the final conclusions. And we wonder when this process will ever end. The EU cannot be permitted to endlessly use the excuse of needing to conduct just one more study that might, this time, possibly find something to justify keeping trade restrictions in place.

In relation to growth promotant hormones, these substances have been extensively studied over 20 years by international scientists, including the EU's own scientists, and have repeatedly been found to be safe at the levels currently used.

Problems in the regulatory process have led to a pattern whereby every major, new GMO marketed in by the U.S. becomes the subject of a prolonged and bitter battle to gain entrance to the EU market.

But while we have been taking on these specific problems with EU, we have also been working to break this pattern of confrontation by trying to improve the coordination between U.S. and EU GMO regulatory processes and thereby reestablish the importance of the principles regarding transparency, predictability and science-based decision making. Some of this work is modeled on the cooperative relationships we now have with Canadian and Japanese authorities. Under the Transatlantic Economic Partnership, we and the EU have set up a Biotechnology Working Group to address bilateral issues related to GMOs. The first meeting of the group was held in February in Washington, at which the U.S. proposed a pilot project designed to coordinate better the GMO regulatory processes on both sides of the Atlantic. We are also using this forum to raise our concerns about the inadequacy of the EU's current GMO regulatory system and to continue a dialogue on ways to reform it.

We have also been exploring ways to address the public perception problem in the EU regarding biotechnology and other issues. The State Department and other

agencies have been developing a public diplomacy campaign on the beef hormone issue, to make sure the facts are available regarding the many scientific studies that have failed to find any harmful effects from U.S. beef. This type of campaign can easily be broadened to include information about biotechnology, that not only stresses the safety of marketed products and the importance of an open, transparent regulatory system, but also highlights the many benefits that biotechnology can bring. These include the potential for reduced pesticide and herbicide use and hence greater protection of the environment, and larger yields than can help to feed hungry people around the globe necessitating less conversion of land to agricultural purposes. It is also worth keeping in mind the significant efficiency gains brought by use of biotechnology. Given the historical outlook for declining EU support to farmers and increasing reliance on market mechanisms, these potential gains cannot be overlooked. Half or more of this year's U.S. soybean and cotton crop, and one third of this year's corn crop, could be produced with genetically modified seed.

It is not unrealistic to expect that the EU, too, will inevitably move in this direction and that one day Europe will seek to promote its own agricultural biotechnology industry.

Biotechnology and its related issues are not just a U.S.-EU problem. We are facing the problems with lack of respect for certain trade principles in other fora as well. A good example is the recent Biosafety Protocol negotiations in Cartagena, Colombia. The negotiations were suspended when it became clear the parties could not agree on key provisions, including those which would have affected trade in GMOs. We were disappointed that the talks did not result in a workable agreement that would have protected biodiversity. However, we and a number of other nations recognized that certain proposals would have created disguised barriers to trade, would not have protected the environment, and practically speaking would have resulted in a Protocol not capable of being implemented. This would have led to unnecessary trade restrictions on the world's food supply and limited the ability of other nations to enjoy the benefits of modern biotechnology. In our view, having no agreement was better than a bad agreement that could not have been implemented.

One of the greatest concerns of the Cartagena talks was the degree to which many developing countries, many of whom could be the largest beneficiaries of biotechnology's promise of greater yields and reduced environmental damage, sided with those who would have used the Protocol to restrict trade in food products. In the run-up to the next negotiating session, we will continue to work internationally to bridge these differences.

Facing these problems regarding biotechnology in so many different areas underlines the need for a strong and consistent U.S. policy that ensures the safety of these products domestically while at the same time reaffirming internationally the importance of using scientific principles—not politics—as the basis for permitting marketing. It also imposes on us, as leaders in the world trading system, the responsibility to do what is necessary to ensure that the basic set of principles regarding transparent rules, respect for commitments and reliance on science-based decision making remain at the center of any international agreement covering trade in new products.

Another aspect to the biotechnology issue concerns proposals for labeling. It is therefore worth reviewing what the U.S. position on labeling is.

The Food and Drug Administration (FDA) requires labeling for any food, GMO or not, that presents a significant change in nutritional or compositional value, contains a new or unexpected allergen, or that needs to be used or stored in a different way.

For example, GMO high-oleic canola would have to be labeled in the U.S. because it has a higher oil content than conventional canola, not because it is a biotechnology product.

We recognize that countries have the sovereign right to have mandatory food labeling regulations, and we will certainly comply with them. What we require, however, is more specific guidance as to how our companies can comply. Regarding the issue of biotech food products, U.S. consumers have confidence in our regulatory agencies to ensure the highest food safety and quality standards.

We do not object to voluntary labeling that is truthful and not misleading and that otherwise complies with the food labeling regulations of the FDA as part of a company's marketing plan. We encourage companies to disseminate information about biotechnology so that consumers have a better understanding of the many benefits that biotechnology provides to health, the environment, food security, and nutrition.

What we should not allow is labeling that is misleading and may be used to infer that U.S. products are somehow dangerous, when there is no scientific evidence to indicate a risk to human health.

Before I close, I would like to touch on one additional aspect of our relationship with Europe, the reform the EU's Common Agricultural Policy (CAP). This is of course an internal EU process but it is one that does have important implications for our interests. This reform is being driven by a number of factors. Roughly half of the EU's budget goes to support the CAP. The EU has now agreed to put a ceiling on total budget expenditures and this cannot be done without CAP reform. Second, the EU is, like all WTO members, preparing for the next round of trade talks, which we plan to kick off this November in Seattle. Europe recognizes the need to reform policies on subsidies in advance of the talks. Finally, and perhaps most importantly, the EU is committed to an enlargement process that will eventually bring in the countries of Central Europe and the Baltics. To do so under current generous but inefficient subsidy programs would impose an enormous strain on the EU's budget. However, despite all these pressures for reform, the negotiations of the last few weeks have shown how difficult it is to enact significant cuts in farm programs.

Though the CAP reforms have not yet received final approval, we are still able to offer some initial assessments on the package. Last week, the EU's Agriculture Ministers took a partial step in the right direction by modifying the CAP—cutting guaranteed prices for cereals over the next several years by 20 percent and phasing out of payments to farmers for taking land out of production; cutting guaranteed prices of milk by 15 percent; and cutting the basic price of beef by 20 percent. The Ministers failed to adopt the Commission's proposal to reduce direct payments to large farmers. Overall spending cuts were adopted, a critically important step since CAP spending has grown almost continually since 1982 and is nearly half of the EU's annual budget. We of course welcome any movement toward agricultural reform in the EU, particularly to the extent that these reforms will reduce the use of trade distorting export and other subsidies. The global trend in farm policies is moving away from the direct intervention policies that have historically underpinned the CAP and we certainly hope that this trend will extend to Europe as well.

That said, however, the reforms approved by the Agriculture Ministers do not appear to go far enough in terms of reducing the CAP's distorting effects on the world trading system. We have consistently urged the EU to go farther and made clear our intentions in the next round to limit and/or eliminate those types of farm policies that impose costs on others. Vice President Gore laid this out well recently in Davos, Switzerland, when he said we will seek nothing less than the elimination once and for all of trade-distorting export subsidies.

We will continue to send this message, making clear our ambitious objectives for the next WTO round and stressing that the more market-oriented the EU's farm policies become, the better it will serve Europe and the world trading system.

In conclusion, let me reiterate the importance of successfully resolving the issues before us in China and Europe—whether it be on WTO accession, beef hormones or biotechnology—to our ability to move forward with an agenda of trade liberalization and opening markets for our farmers and ranchers. We must continue to advance the basic principles of respecting trade commitments, establishing transparent and predictable regulatory processes, and using science-based decision making on environmental, health and safety issues. In the end, we fully realize that our trade agenda has to rest on a solid foundation of domestic support. If we cannot show Americans that the trading system works for them, then we will not be able to sustain our policies in the international arena.

[SUBMITTED BY SENATOR GRASSLEY]



GERALD R. FORD

March 4, 1999

Dear Mr. Chairman:

Few, if any, trade policy issues are more important or challenging to America than the current talks underway with the People's Republic of China regarding China's bid to join the World Trade Organization, and especially the accompanying negotiations concerning the ability of Americans to freely sell their products in China's markets.

The terms of any deal that we reach now with China about access to its markets may well determine the course of Sino-American economic relations for decades to come. If economic relations are not resolved constructively, there will be adverse developments diplomatically and politically between our two nations.

That is why I strongly believe that China must make more than a down payment on market access concessions. Rather, China should guarantee unconditional and full market access upon entry into the World Trade Organization, and should abide by the same trading rules the WTO applies to any other major industrial power. We have seen too many times over the years when promises of future concessions to open foreign markets are made, and then the promised concessions fail to materialize. The stakes this time are too high to engage China on anything but normal commercial terms.

For fifty years, a world trading system committed to the standards of openness and fair play has brought us unparalleled growth, created

(Continued on Page Two)


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millions of jobs, and fashioned a modern era of peaceful economic competition. We must make sure that the more comprehensive trading framework of the World Trade Organization continues the process of opening new international markets under the even-handed discipline of multilateral rules.

I commend you and you colleagues for working toward a fair and open world trading order.

I wish you well.

Sincerely,



Senator Charles E. Grassley
 Chairman, Subcommittee on International Trade
 Senate Committee on Finance
 Washington, D.C. 20510

PREPARED STATEMENT OF JOHN HARDIN, JR.

Mr. Chairman and Members of the Subcommittee: I am John Hardin, Jr., a pork producer from Danville, Indiana. I am a past President of the National Pork Producers Council (NPPC) and a past chairman of the United States Meat Export Federation. I currently serve on NPPC's Trade Committee and am a representative on the Agricultural Policy Advisory Committee to the United States Trade Representative and the Secretary of Agriculture. I very much appreciate the opportunity to appear here on behalf of U.S. pork producers to express our views on China's de facto ban on pork imports.

INTRODUCTION

The National Pork Producers Council is a national association representing 44 affiliated states that annually generate approximately \$11 billion in farm gate sales. According to a recent Iowa State study conducted by Otto and Lawrence, the U.S. pork industry supports an estimated 600,000 domestic jobs and generates more than \$64 billion annually in total economic activity. With 10,988,850 litters being fed out annually, U.S. pork producers consume 1.065 billion bushels of corn valued at \$2.558 billion. Feed supplements and additives represent another \$2.522 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. Pork represents 44 percent of daily meat protein intake in the world. Notwithstanding the huge global market for pork and pork products, efficient U.S. producers were precluded from exporting significant volumes of pork in the pre-Uruguay Round Agreement, pre-NAFTA era. A combination of for-

eign market trade barriers and highly subsidized competitors kept a lid on U.S. pork exports. U.S. pork producers were ardent proponents of the Uruguay Round Agreement and NAFTA.

Since 1995, when the Uruguay Round Agreement went into effect, U.S. pork exports to the world have increased by approximately 86 percent in volume terms and 80 percent in value terms from 1994 levels. Since NAFTA went into effect in 1994, U.S. pork exports to Mexico have increased 23 percent in volume terms and 37 percent in value terms compared to 1993 levels, notwithstanding the devaluation of the peso. Because of NAFTA U.S. pork exports now account for over 95 percent of all Mexican pork imports. Mexico ranks as our number two export market behind Japan with 1998 exports valued at \$143 million.

Moreover, U.S. pork sales to Mexico will continue to increase as the NAFTA phase-in period proceeds. No one in his or her right mind can say that the Uruguay Round and NAFTA have not been good for the U.S. pork industry.

Our industry strongly supports further trade liberalization measures. These trade agreements permit U.S. pork producers to exploit their comparative advantage in international markets. NPPC is co-chairing the Agriculture Trade Coalition and urges this Committee to continue its bipartisan efforts to get traditional trade negotiating authority renewed before the upcoming WTO ministerial meeting in Seattle.

The United States is uniquely positioned to reap the benefits of liberalized world pork trade. While the U.S. currently is the world's second largest exporter of pork behind Denmark, the strong consensus within the industry and among analysts is that the U.S. will soon be the number one exporter in the world. U.S. pork producers are the lowest cost producers in the world of safe, high-quality pork. The U.S. cost advantage over Denmark is increasing.

If the U.S. Government is: (1) aggressive in holding its trading partners to their commitments under existing trade agreements; and, (2) is aggressive in expanding access and in opening new markets in the upcoming WTO trade negotiations and in WTO accession negotiations, particularly with China—the growth potential of U.S. pork exports is virtually unlimited.

CHINA SHOULD PROVIDE MARKET ACCESS FOR U.S. PORK AS A CONDITION OF ENTRY INTO THE WORLD TRADE ORGANIZATION

In China, pork is by far the predominant source of meat protein consumed. China consumes nearly the same amount of pork per capita as consumed in the United States making it a vast pork consuming market. Indeed, China consumes approximately 50 percent of the total pork annually consumed in the world and most industry analysts project pork demand in China to increase by 6 to 7 percent per year in the early part of the next century. One group of very respected agricultural economists forecast that Chinese pork consumption will increase by approximately 8 million metric tons within the next ten years. To put this number in perspective, in 1998, U.S. pork exports were 529,000 metric tons. Thus, China is not a potential market; it is a huge and growing pork consumption market.

While China is the world's largest producer of pork, 85 percent of its pork comes from backyard producers. As incomes continue to rise and consumers demand higher quality pork and more of it, as well as more beef, poultry, dairy and alcohol products, commercial production of pork in China will become increasingly costly. This is because China must achieve this growth in consumption with only 9 percent of the world's arable land. According to FAO data, China must feed 13.0 people for each hectare of arable land, whereas Europe must feed 4.1 people, and the United States must feed only 1.4 people.

China is moving from having mid-western U.S. type corn prices to having Taiwanese and Japanese type corn prices. An important choice must be made, China must either import feed grains or livestock products to achieve consumer diets similar to those of the developed world. Unfortunately, China currently has a de facto ban on pork imports. This is a great mistake because pork should be produced in grain surplus countries not in grain deficit countries. Countries that import feed grains must pay a premium over world market prices and feed grains constitute over 60 percent of the cost of raising hogs. Pork producers in Japan and Taiwan pay approximately double the amount paid for feed by an Iowa pork producer. Thus, China is close to repeating the mistakes made by Japan, South Korea, and Taiwan.

The cost of producing pork in China currently is higher than the cost of producing pork in the United States. By virtue of the subsidies provided to its pork industry, China has been able to suppress the demand for imported pork smuggled into the country and maintain its ability to export pork. If China resolves to continue to block pork imports and, instead tries to keep pace with expanding domestic demand through domestic production, Chinese pork prices will be much higher than would

otherwise be the case. Further, Chinese subsidies and investment in agriculture will keep capital from flowing to more efficient and remunerative uses. The costs of this misallocation will increase over time as China tries to extract more and more pork from a limited source of supply. In time, China, like Japan and Korea, will be forced to import pork to reduce prices. At present, however, the Chinese maintain their ban on pork imports.

High tariff rates and a discriminatory value added tax put imported pork at a sharp competitive disadvantage to domestic pork. Moreover, complicated and non-transparent restrictions on imported pork, administered by China's State Administration of Inspection and Quarantine (SAIQ)—which recently replaced its quarantine administration CAIQ—make it virtually impossible to import pork. While SAIQ officials acknowledge the existence of the restrictions, they have been unwilling to date to supply copies of the restrictions to U.S. trade negotiators stating that the laws are confidential. SAIQ contends that Chinese restaurants and hotels can obtain licenses to import pork. Unlike beef, for which licenses are available through regional SAIQ offices, SAIQ says that it disseminates pork import licenses solely through SAIQ headquarters. In reality, very few licenses have been granted by SAIQ to hotel and restaurant importers.

I recognize that in 1997 China lowered tariffs on imported pork from 45 percent to 20 percent. This development is not significant because the 20 percent duty is in addition to the 17 percent value added tax, which is unfairly applied only against imported pork. Thus, even if the many non-tariff barriers applied against imported pork were rectified, high tariffs/taxes would continue to block pork imports.

In 1997, SAIQ provided quotas to 11 establishments in Australia, Canada, and the United States as eligible to export meat and poultry to China for general consumption under a one year "pilot program." While in one sense this was a positive development because, as a matter of law, these imports are not limited to the hotel and restaurant sector, as a matter of fact, high tariffs and other restrictive measures kept a tight lid on imports. As detailed in a letter to Chinese government officials from representatives of the pork industries in Canada, the European Union, and the United States, the pilot program has not worked and meaningful liberalization is needed.

Under the pilot program, the qualified establishments include a pork facility in Australia that received a quota of 2,000 MT, three pork facilities in Canada that received a total quota of 68,000 MT, and one pork facility in the U.S. that received a quota of 5,500 MT. The Australian and U.S. exports must be imported exclusively by Nanjing Five-Star Hotel Corporation Ltd. and the Canadian product must be imported exclusively by Chaoying Foodstuff Ltd. While pork is not on the formal list of state traded products in China, the appointment of these exclusive importers is troubling. Indeed, the U.S. pork industry understands that SAIQ officials are involved with the ownership/management of each of these importers. The pilot program has been a failure due to high duties and taxes, unfair sanitary barriers, restrictions on the number of importers, and competition from smuggled pork imports.

Canadian pork quotas are much higher than U.S. quota levels under the pilot program but Canadian pork must be imported pursuant to the Canada-China pork protocol. Canadian industry officials are extremely upset with this protocol because onerous and non-scientific restrictions will preclude the shipment of any significant amount of pork from Canada to China. The Chinese, supposedly at the behest of the Australians, expressed concern to the Canadians about Porcine Reproductive and Respiratory Syndrome (PRRS). The PRRS virus is endemic to the world and it defies credulity to suggest that China—a country where serious porcine diseases are rampant—does not have PRRS. Further, unlike porcine diseases such as hog cholera and FMD, PRRS is not transmitted through imported meat to domestic swine. The U.S. must not permit China to raise sanitary barriers to U.S. pork exports as China has done in the case of U.S. wheat and citrus.

Despite official import restrictions, demand from the population for pork, particularly high-quality variety meats (e.g. hearts, stomachs, intestines), is so high that sizeable quantities of imported pork are being smuggled into China principally through Hong Kong. The pork is distributed to the general population mostly through local wholesale markets with a small amount distributed through supermarkets. Technically the importation and distribution of this product is illegal, a fact which is generally acknowledged by the Hong Kong importers and Chinese distributors. In 1998, this trade represented approximately \$50 million for US exporters, although the total value of the pork trade with China conducted through Hong Kong is estimated to be as high as US \$200 million. (An additional \$8 million of U.S. pork was imported directly by China in 1998. Industry sources in China report that even these imports that directly enter China do so on a negotiated basis, not in accord with the official position.) It is difficult and expensive to smuggle pork into

China and, without question, pork imports would explode if China lifted its de facto ban. Even under restrictive trade regulations, Chinese demand is so large at times that they have bought the entire world's supply of certain pork variety meats.

The U.S. government must convince China to lift its de facto ban on imported pork as a condition of entry to the World Trade Organization. In order to become a consistent and reliable supplier of pork, the following changes must be made:

- (1) the abolition of the de facto ban on pork importation;
- (2) the establishment of transparent import regulations and licensing requirements;
- (3) repeal of the discriminatory value-added tax which is applied to meat imports;
- (4) reduction of import duties to minimal levels with no TRQs;
- (5) unrestricted entry and participation of non-government import entities;
- (6) a protocol governing sanitary issues, which, among other things, recognizes the U.S. safety and inspection system as equivalent and permits the export of pork from any FSIS approved facility;
- (7) the termination of subsidies to the Chinese pork industry.

The United States is uniquely positioned to reap the benefits of a liberalized Chinese pork sector. The U.S. exported over \$1.1 billion in pork in 1998 and exports grew by over 15% in spite of the global financial crisis.

China is surpassing Japan as the single largest source of the U.S. trade deficit. If China liberalized its pork market, the U.S. would be exporting huge volumes of pork to that country. The U.S. pork industry alone could make a significant dent in the U.S.-China trade imbalance.

As you know, it will be difficult to persuade China to provide meaningful pork trade liberalization. Therefore, we respectfully request the continued support of this subcommittee in this matter that is of paramount importance to the U.S. pork industry.

The Unfair Trading Practices of the European Union Demands Immediate and Swift Action on Behalf of American Pork Producers

The EU pork market has basically been closed to the U.S. pork industry for over 10 years as a result of the EU's Third Country Meat Directive and other restrictive measures. The regulation, which affects U.S. pork, beef, and poultry bound for the EU, has usurped the role of USDA's Food Safety and Inspection Service and does not enhance the safety of U.S. meat and poultry as the EU claims. Under this system, EU inspectors determine, on the basis of arbitrary factors, such as the color of plant walls, whether a U.S. plant is qualified to export to the EU. The random enforcement of this regulation has resulted in a complete cut-off of U.S. poultry exports and has reduced to a trickle U.S. pork and non-hormone beef exports from a few token plants. Ironically, it is widely known that the majority of EU meat plants do not meet TCMD requirements. Holding U.S. facilities to a set of rules that the EU's own producers are unable to comply with is clearly discriminatory and violates the EU's trade obligations.

The meat industry has been nothing but patient with the European Union while they have continued to offer false promises for free trade. The U.S. filed two Section 301 petitions which culminated in an agreement in 1992 which the EU did not implement. Further, a framework for a veterinary equivalency agreement was reached in the spring of 1997 that was to be implemented in October of that year, but the EU also failed to implement that agreement. To add insult to injury, the EU—led by Denmark—recently approved, without scientific basis, a ban on the use of many antibiotics in livestock feed. The Danes, the EU's largest pork producer, know that this antibiotic ban will ensure that U.S. pork (or beef or poultry for that matter) never, ever will be sold in the EU. The ban becomes effective as to all member states on July 1. A strong response to the EU's treatment of U.S. pork exports is long overdue. Pork is an extremely compelling candidate for beef hormone retaliation list currently being drafted by the United States. During the last five years, every EU country, with the exception of Greece and Luxembourg, has exported pork to the U.S. However, annual EU pork exports to the U.S. have comprised less than one percent of our production. U.S. hog supplies are at record high levels. Thus, the U.S. could easily supply its entire domestic demand, even if all EU pork exports were stopped.

Pork should be the centerpiece of the beef hormone retaliation list. Pork producers hope that the European Union will drop its unfair and illegal regime on beef. But the reality of the situation is highly unlikely to occur. Therefore, pork producers believe that because we—as a meat product—are the most logical product for inclusion.

Pork producers also fully support reform of the so-called Common Agricultural Policy (CAP) in the European Union. We strongly encourage the Europeans to end their export restitution and subsidy program and call for complete elimination of the "Blue Box" and all private storage funds. These practices are completely unacceptable and only serve to further injure the United States in third markets.

If we don't enforce our legal rights in the WTO and follow through on the banana and beef retaliations, it will send the wrong signal to the European Union as we prepare for the next round in Seattle and our participation in the CAP.

PREPARED STATEMENT OF ALLEN F. JOHNSON

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to testify on U.S.-EU trading relationships and Chinese Accession to the World Trade Organization (WTO). The National Oilseed Processors Association (NOPA) represents companies operating "solvent extraction" plants—75 plants in 23 states that process one or more of the 5 oilseeds that NOPA represents: soybean, sunflower seed, safflower seed, canola, and flaxseed. NOPA member companies process more than 1.6 billion bushels of oilseed annually and employ more than 4,500 workers. Exports to key markets such as the EU and China are critical to our industry. The total value of the industry's seed, meal, and oil production is about \$30 billion, with nearly \$10 billion of this being for exports.

U.S.-EU RELATIONSHIPS

The EU is a very important market for U.S. agricultural exports—in FY 1998, U.S. agricultural exports to the EU were \$8.5 billion and we imported \$7.3 billion of products from the EU. Exports of U.S. oilseeds and oilseed products were \$2.5 billion, which amounts to 30 percent of our total agricultural sales to the EU.

As indicated by Ambassador Barshefsky, the EU overall is America's largest trade and investment partner, the largest foreign direct investor in the U.S., and the largest destination for our direct foreign investment. Our direct investment in each other's economies together exceeds \$750 billion—one of every 12 U.S. factory workers is now employed by a European firm.

It is very clear that U.S.-EU trade and economic relationships, despite trade disputes, are strong and of vital mutual interest to both of us. With this point in mind, I want to discuss some of the particular concerns of our industry with respect to U.S.-EU trading relationships.

TRADE DISPUTES BEFORE THE WORLD TRADE ORGANIZATION

We all know of the EU banana import regime case and the bovine growth hormone case in the WTO. In both of these cases, WTO dispute settlement panels and the Appellate Body have ruled in favor of the U.S. We urge the EU to bring these matters to a close expeditiously by coming into compliance with the panel results.

We are very concerned because the banana and bovine growth hormone disputes are blocking progress in advancing U.S.-EU relationships and have spillover effects into other issues that need immediate and high level attention. Both disputes have long histories. The longer they remain unresolved, the greater the risks they will undermine the view that WTO rules and disciplines are key to more open global trade in agriculture. While we do not underestimate the seriousness and complexity of these disputes, we urge the U.S. and the EU to negotiate with the intent of finding outcomes that are mutually acceptable and WTO consistent as soon as possible.

BIOTECHNOLOGY REGULATION

More than 50 percent of U.S. soybean acreage will be planted with genetically modified varieties in 1999, up from 30 percent in 1998 and 13 percent in 1997. The U.S. oilseeds industry has been quick to adopt biotechnology because of the benefits it brings for producers, consumers and the environment.

One of the reasons the United States is the world leader in the development and commercialization of agricultural biotechnology products is that we have an effective and efficient regulatory system that enjoys the trust of consumers. Unfortunately, this is not the case in many other countries of the world, including the EU.

Since 35 percent of the soybeans exported from the United States are exported to the European Union, it is vital to U.S. soybean producers and processors that the genetically modified varieties we grow here are approved in the EU. Once a genetically modified soybean variety is planted in a field in Iowa or Illinois, it is virtually impossible to keep it out of the export stream. Genetically modified varieties that

are not approved in our overseas markets cannot be segregated from those that are approved and from conventional varieties.

Unfortunately, the regulatory approval process in the EU is slow and unpredictable. The problem from our perspective is that political considerations have been allowed to overwhelm sound science in the decision making process. The result is that new genetically modified varieties cannot be marketed in the United States without seriously threatening exports to our top market.

EU labeling requirements for foods and food ingredients produced from genetically modified crops also pose a potential threat to U.S. exports. Under the guise of the "consumer's right to know," the EU is attempting to establish labeling requirements for soybean products and corn products derived from genetically modified crops. Uncertainty about the final rules is adding to the concerns about their possible adverse effects on trade. Some food companies in Europe are already acting on their fears that products labeled as containing genetically modified organisms will be unacceptable to consumers. These companies are shifting sourcing to countries that have not approved GMO soybeans or avoiding soybeans all together in order to guarantee that ingredients are GMO-free. U.S. soybeans and products derived from soybeans are in danger of being transformed from products valued for their high quality and beneficial nutritional characteristics to products to be avoided in the manufacture of food products.

NOPA has encouraged the Administration to make resolution of these problems one of its highest priorities. If the EU approval system does not function in an efficient, timely, and transparent manner, trade problems will be unavoidable. The system should operate in such a manner that if there are serious, scientifically valid concerns about the safety of a new genetically modified crop variety, those concerns can be addressed before the product is commercialized in the United States. We need to reinforce that regulatory approval decisions should be made solely on the basis of sound science. If there are no such concerns, approvals should be granted expeditiously so that once a product is commercialized in the United States producers, processors, and exporters can be assured that it will be accepted in the EU.

EU AGENDA 2000

The EU has reached agreement on Agenda 2000, its second reform of the Common Agricultural Policy since 1992. The EU has made progress in liberalizing its grains and oilseed policies and Agenda 2000 may further advance progress in reform. The EU has said that in implementing Agenda 2000, it intends to respect its commitments under the Blair House Agreement (BHA). The BHA resolved the dispute between the U.S. and EU on the EU's oilseeds support regime after two WTO panels ruled against the EU. Under the BHA, crop-specific support (per hectare payments) were continued but the effect on EU oilseed production is limited by strict controls on area planted to oilseeds and severe payment penalties if area limits are exceeded. Agenda 2000 will lower the oilseed payment and harmonize it with the compensation payments for grains.

It is important to understand that the BHA is bound in the EU's WTO schedule of concessions. Moreover, the rights of the US and other WTO Members are based on the competitive relationship between domestic and imported oilseeds established by the combination of the zero tariff binding and the domestic support regime for oilseeds defined in the BHA. Since the support regime in the BHA is a bound commitment, any change to that commitment would be subject to review in the WTO. Short of implementing a fully decoupled support regime for EU oilseeds, Agenda 2000 or other policy changes would not absolve the EU from its bound WTO commitment. The WTO commitment prohibits the EU from increasing the level of support for oilseeds. We encourage the U.S. to insist that any changes in EU policy do not nullify nor impair the benefits provided by the BHA.

1999 WTO NEGOTIATIONS

The 1999 WTO Negotiations is the best opportunity for the U.S. agriculture to achieve more open and freer global markets. For the U.S. oilseeds and oilseed products industry, the 1999 WTO Negotiations is the only avenue to achieve our trade policy objectives. We have advanced the concept of the Level Playing Field for Oilseeds and Oilseed Products (LPF) domestically and internationally, including discussions with EU oilseed producers and processors. LPF objectives cover the broad range of the Uruguay Round Agreement on Agriculture—market access, export subsidies, and domestic support, as well as areas outside the Agreement such as state trading enterprises and differential export taxes. The general objective of the LPF is the global elimination of all trade-distorting practices in oilseeds and oilseed products. Our specific LPF objectives are:

1. The largest possible reductions in individual oilseeds and oilseed product tariffs with eventual elimination of all tariffs on oilseeds and oilseed products;
2. Harmonization at the lowest possible level of all tariffs on oilseeds and oilseed products;
3. Elimination of export subsidies;
4. Elimination of differential export taxes and other trade-distorting measures;
5. Disciplines on export credits and export financing; and,
6. Elimination of coupled domestic support (support tied directly to production) that distorts trade.

We believe that the reduction of barriers to trade in oilseeds and oilseed products and all agricultural products is the only way to expand the markets for our highly productive agricultural industry. The simple fact is that 96 percent of the world's consumers live outside the U.S., and in many developing countries the demand for food and agricultural products is growing as income and population increase.

To further advance freer and more open global trade in agricultural products, beyond the Uruguay Round Agreement on Agriculture, will require the cooperation of our major trading partners, especially the EU. The EU is the primary user of export subsidies in today's global market and therefore is likely to oppose the immediate elimination of export subsidies. However, there are other common areas of interest to the U.S. and EU including:

- Improving WTO disciplines through changes in Article 12 of the Uruguay Round Agreement on Agriculture to impose penalties on exporting countries if they prohibit or restrict exports-this would provide more protection to food-importing developing countries;
- Establishing WTO rules for developing countries to graduate to full WTO obligations using objective economic indicators such as per capita GDP;
- Establishing effective disciplines on the trade-distorting practices of state trading enterprises and making their operations transparent.

Another key area of common interest to the U.S. and the EU is domestic support. The Uruguay Round Agreement on Agriculture required reductions in coupled support-support tied to production; established the "blue box" of policies not subject to reduction including former U.S. deficiency payments and EU compensatory payments to producers of grains and oilseeds; and established "green box" (decoupled from production) programs exempt from reduction if they met certain criteria that made them non trade distorting.

The LPF calls for eliminating all coupled support and encourages countries to move toward green box policies. We believe that it is very important to refine green box criteria for decoupled support in a way that they are practical for public policy. Green box criteria will permit countries to pursue "multi functionality." This concept that domestic programs have more objectives than supporting farm income. NOPA supports the concept that domestic farm policies can have a number of objectives as long as they do not distort production and trade. Additional disciplines on blue box policies would help transition countries toward fully decoupled policies. The point is that it is difficult for countries to make an immediate direct change from coupled to decoupled policies and they may need a transition period for this transformation. The EU's movement toward adoption of Agenda 2000 and revised payments for grains and oilseeds, which while not fully decoupled and therefore subject to WTO reductions, are a movement in that direction. It is in the interest of the U.S. and our industry to encourage the movement toward decoupled policies and we should support language in the WTO that permits that transition.

CHINESE ACCESSION TO THE WTO

NOPA is also a member of the American Oilseed Coalition (AOC) which includes the American Soybean Association, National Cottonseed Products Association, National Sunflower Association, and the U.S. Canola Association. The WTO accession negotiations with China are a top priority for the AOC. Accession to the WTO would bring the discipline of the WTO's trade rules to one of the largest players in the world market for oilseeds and products. It would also lock in trade liberalizing reforms undertaken unilaterally by China in recent years. Because of China's influence on the world market, it is important to the U.S. oilseeds and oilseed products industry that the terms of China's accession not only provide a fair deal for the U.S. industry, but that they are consistent with our trade liberalization objectives for the 1999 WTO negotiations.

The AOC's overriding objective for the accession negotiations is greater and more equitable access to the Chinese market for oilseeds and oilseed products. The core elements of such improved access are tariff-rate quota (TRQ) size and growth, tariff reduction and harmonization over time, elimination or equalization of value added

taxes (VATs), and no retrogression from the present terms of trade. The accession agreement with China must improve upon present terms of trade to have the U.S. oilseed industry's support. While U.S. exports of oilseeds and oilseed products to China have grown under the existing terms of trade, China could at any time raise tariffs or impose quotas to restrict trade. The lack of enforceable disciplines over China's import barriers creates uncertainties in the market that are of great concern to U.S. exporters. Membership in the WTO would eliminate these uncertainties and provide for a much more stable trading environment.

The key to achieving the LPF initiative is harmonized treatment for all oilseeds and oilseed products. In terms of China's WTO accession negotiations, this means all oilseeds and oilseed products from all countries should be treated similarly, and in no case should the terms of trade decline from the current situation as a result of accession. The AOC position on China's WTO accession was carefully crafted to achieve these objectives, bearing in mind that any deviation from the course of eventual liberalization through the LPF initiative would create obstacles to success in the 1999 negotiations. Consequently, in the negotiations with the Chinese on accession, the oilseeds and oilseed products complex must be treated in a comprehensive manner consistent with the AOC position.

China's accession to the WTO should be viewed as the beginning of agricultural trade reform in China, just as other countries began the reform process in the Uruguay Round. WTO negotiations on continuing the Uruguay Round reforms will commence at the end of this year. China should be prepared to play a full and active part in the 1999 negotiations once it becomes a WTO member. The terms of the accession agreement will establish the base from which China will undertake further trade liberalization based on the outcome of the 1999 negotiations. This is why it is imperative for the accession agreement to be fully consistent with the commitments WTO members undertook in the Uruguay Round. The transition period for China's accession commitments should be no more than 5 years. China should be allowed no exemptions from the existing WTO rules. The overarching relationship between China's accession agreement and the WTO rules is just as important to long-term U.S. economic interests in China as the specific commitments on market access, export subsidies and other issues that will be included in the accession agreement.

China's rapid economic growth has been advantageous to U.S. exports of oilseeds and oilseed products. Rising incomes have fueled demand for oilseeds and oilseed products both directly and indirectly. Vegetable oil consumption has increased by nearly 9 percent since 1996. Consumption of oilseed meals, driven by increased demand for meat and poultry products, has increased by more than 13 percent in the same period. Despite the current economic problems in China and elsewhere in Asia, in the long-term these growth trends are expected to continue.

China is a net importer of oilseeds (net 2.6 million metric tons), oilseed meals (net 4.4 million metric tons) and vegetable oils (net 3.3 million metric tons). Furthermore, Chinese production of oilseeds and products is unlikely to keep pace with the increase in demand. Consequently, China can be expected to continue to rely on imports to satisfy its growing demand for oilseeds and oilseed products.

As we have experienced with Japan, the EU, and other countries, import dependence does not ensure that a country will not attempt to restrict imports. Short-term market conditions, trade policy considerations, or domestic political concerns could all lead a country to restrict imports. The WTO rules would place severe restraints on China's ability to resort to import protection to resolve such short-term problems. China's accession to the WTO, under the terms of a strong accession agreement with no exemptions, would provide a stable trade policy environment for continued growth in U.S. oilseed and oilseed product exports.

CONCLUDING REMARKS

The U.S.-EU trading relationship is of vital economic importance to both. In agricultural trade, there have been disputes, and the latest disputes are bananas and bovine growth hormones. We believe that these disputes spotlight how disruptive such issues can become when WTO panel decisions have not been respected. Ongoing disputes such as these block progress on other trade issues and make it difficult for the U.S. and EU to work cooperatively to advance global trade liberalization. There are real opportunities for the U.S. and the EU to work together to make sure that the 1999 WTO Negotiations are successful in expanding global markets for oilseeds, oilseed products, and other agricultural products.

With respect to China, it is critical that China accedes to the WTO with no exceptions from the rules and disciplines by which all members abide. The AOC's over-

riding objective for the accession negotiations is greater and more equitable access to the Chinese market for oilseeds and oilseed products.

Mr. Chairman, that concludes my remarks. I would be pleased to answer any questions.

PREPARED STATEMENT OF GREG MASTEL

Good morning, Mr. Chairman and members of the subcommittee, it is a pleasure to be here to testify on agricultural trade issues with the European Union and China.

My personal knowledge on this topic relates mostly to China and I will confine my remarks to trade issues regarding China.

In April, China's Premier Zhu Rongji is scheduled to visit the United States. According to recent statements by senior U.S. officials, a possible centerpiece of the visit is concluding an agreement to open the way for China to achieve its long sought goal of joining the World Trade Organization (WTO).

Such an achievement would doubtlessly boost Zhu's status at home and, with the proper transition arrangements, WTO membership for China could be a major step toward real economic reform. Unfortunately, a last minute political deal aimed at creating a summit success is far more likely to be a big step in the wrong direction.

For China, WTO membership would mean new international recognition and a large measure of protection from the threat of trade sanctions by the United States or other countries. For the United States, a China that truly abides by WTO rules, would be a much better trade partner. Beyond that, bringing China into the WTO could be a significant foreign policy achievement for the Clinton administration.

To this point, however, it is China that has stood in the way of its own WTO membership. China has been unprepared to commit itself to observing WTO discipline. Beyond that, there are serious questions as to whether China is truly willing and able to observe WTO rules.

There is reason for concern that the Clinton administration may, in its enthusiasm to conclude a deal in time for Zhu's visit, weaken the requirements for China's WTO membership. This would be a serious mistake that threatens to undermine both U.S. economic interests and the integrity of the WTO as a policeman of world trade.

To appreciate the complexity of the task of integrating China into the World Trade Organization it is important to understand the WTO. The WTO is not merely a club of trading countries; it is a sweeping and specific set of rules on matters, such as subsidies, tariffs, and protection of intellectual property. In essence, the WTO is a set of rules on how to conduct a market economy.

The central problem is that China has neither a rules based country, nor a true market economy. The former head of the Chinese Peoples' Congress is fond of saying, "China is a country of strong leaders, not strong laws." This lack of a rule of law has a direct impact on U.S. concerns ranging from human rights to trade.

The United States has concluded a number of bilateral trade agreements with China on matters ranging from intellectual property protection to market access. Unfortunately, China has not fully complied with most of these agreements. In some cases, Chinese ministries have endorsed policy plans that directly violate these agreements by, for example, pursuing policies aimed at reducing imports through import substitution.

In the agricultural sector, China has consistently refused to limit its sanitary and phytosanitary restrictions on agricultural imports to those based on "sound science" as it pledged to do in 1992. This has adversely affected U.S. agricultural exports ranging from citrus fruit to wheat.

If China ignores relatively straightforward agreements on matters, such as agriculture and intellectual property protection, is it realistic to assume that a complex multilateral agreement on services, investment, and other matters will be obeyed?

In a society in which policies are often set by informal, unpublished Ministry decisions, how could complaints about Chinese trade practices be proven before a WTO dispute settlement panel?

Given that China has frequently ignored and even threatened to sanction countries that try to enforce multilateral agreements on human rights, is it realistic to assume they will comply with an adverse WTO decision even if one is reached?

Historically, the United States has had some success in influencing Chinese trade behavior by threatening trade sanctions. As China is much aware, membership in the WTO would greatly inhibit U.S. ability to impose unilateral sanctions. It may be that Zhu and his followers are able to bring China further down the path to mar-

ket economics and that WTO membership could help to influence China in this direction.

It is at least equally possible, however, that a recession or change in Chinese leadership will move China toward increased protectionism and that it would use WTO membership to shield itself from the threat of trade sanctions.

Further, China's WTO accession would have sweeping implications. The agreement struck with China would immediately form the template for similar agreements with other countries seeking WTO membership, notably Russia. And if the WTO proved unable to police China, the credibility of the WTO as a trade policeman would be greatly undermined. The end result may even be destruction of the WTO and an increase in global protectionism.

It may be possible to overcome these problems and marry China with the WTO by creating a transition period during which China phased in WTO discipline. In order to enforce WTO provisions, the United States should retain the right to impose unilateral sanctions during the transition. Quantitative targets for China's imports from WTO members and a special annual review process to judge China's progress would also make an agreement more enforceable.

But such a transition mechanism could only be forged through long, hard negotiations. A quick political deal in time for an April meeting is much more likely to set back the cause of market reform and free trade in China, harm U.S. interests, and undermine the world trading system.

Mr. Chairman, I ask permission to include a longer article by me on this subject from the Weekly Standard in the hearing record.

Attachment.

The China Trade

Membership in the World Trade Organization won't liberalize Beijing unless America insists on compliance with the rules.

BY GREG MASTEL

The fight over the permanent extension of most-favored-nation trading status to China is likely to be one of the hardest-fought congressional battles of 2000. Last week, the administration launched a high-profile campaign in favor of MFN for China; labor is vigorously countering. But for all the lofty rhetoric, at its core, the issue is the prosaic one of the merits of the agreement negotiated between Washington and Beijing last November, setting out the terms for China's accession to the World Trade Organization.

If this agreement is sound and enforceable, it is likely to encourage reform in China and vindicate a policy of engagement. If it is faulty or simply unenforceable, it is unlikely to spur positive change. Thus, before election-year bombast swamps the discussion, it is important to reach a sober evaluation of the proposed agreement and of China's record of compliance with recent trade deals.

¶ *The WTO Accession Agreement.* Trade agreements are by nature compromises, and this one is no exception. Unquestionably, some provisions could be improved. Chinese tariffs could be lowered beyond the 17 percent Beijing has agreed to. Foreign telecommunications firms and banks could be granted more leeway to operate in China. Subsequent negotiations between China and other WTO members may improve the terms on these and other issues.

On paper, however, the November deal has quite a lot to recommend it. China does agree to significant tariff cuts. It promises substantial new market access for agricultural products. And it assures U.S. banks and insurance firms considerably increased access to Chinese consumers.

Already, however, Chinese press reports indicate that Beijing may not plan to fulfill the agricultural provisions of the agreement. It is a familiar song. An examination of the four recent major trade deals the United States has

struck with China shows that compliance is a chronic problem.

¶ *Intellectual Property, 1992.* One of the best-known agreements between the United States and China aims to protect patented, copyrighted, and trademarked material. The United States has sought improvement in this area from China for many years. After threatening sanctions, the Bush administration convinced China to undertake a sweeping update of its laws, which brought China's intellectual property protection regime largely into conformity with Western norms.

But these legal changes had little discernible effect. Chinese piracy of music recordings, computer programs, and films grew at an alarming rate at least through the mid-1990s. Movies and computer programs made by Chinese pirates turned up as far away as Canada and Eastern Europe.

After trying to address matters through quiet consultations, the Clinton administration threatened to impose trade sanctions in 1995. As the deadline approached, China agreed to step up enforcement. A year later, however, little had improved. Once again, the Clinton administration threatened sanctions. After much complaint, the Chinese agreed to a far more specific enforcement regime.

Under consistent pressure from the United States, China has regularly produced records of pirate operations it has shut down and invited the press to watch steamrollers crush pirated CDs. Although these actions show some effort to attack piracy, they also prove that it continues. Despite the limited success of American efforts, the affected U.S. industries estimate that their losses to piracy today are greater than they were when the subject of enforcement was raised in 1995.

Two points relating to enforcement warrant further attention.

It is perfectly clear that the families of leading Chinese officials, provincial leaders, and even the Chinese military have been involved in the piracy of intellectual property. Pirates reportedly set up facilities to make illegal CDs, for example, on People's Liberation Army bases, as a means of evading internal security police charged with shutting down pirate operations. The theft of intellectual

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property, in other words, has not been solely the province of street level criminals. Elements of the Chinese government have participated.

Second, according to firsthand reports, government ministries routinely illegally copy computer software for their use. Chinese officials promised to address this matter in 1995, 1996, and March 1999. The persistence of illegal copying by government ministries calls into question the sincerity of China's commitment to protect intellectual property.

Both the private sector and the Clinton administration have made enforcement of this agreement a priority for the better part of a decade. Yet glaring violations remain. Were it not for the high-level American enforcement effort, there is no reason to believe that China would have made much effort to keep the promises it made in 1992.

Market Access, 1992. Unfortunately, other trade agreements have not benefited from the same high-level commitment to enforcement. The sweeping agreement on market access struck with China in 1992 is a case in point.¹

Through the early 1990s, China followed an unabashedly protectionist policy, excluding many foreign products with trade barriers. Threatening sanctions similar to those used later on intellectual property, the Bush administration successfully negotiated improved market access for U.S. exports.

In its latest reports on the subject, the Clinton administration states that China has "generally" fulfilled its commitments. On some of the easily verifiable points, like elimination of formal barriers and lowering of tariffs, China does seem to have implemented the agreement. In other areas, however, there have been obvious problems. Only three will be discussed here.

First, China agreed in 1992 to eliminate import-substitution policies. In the past, economic planners had developed strategies for replacing particular imports used in the manufacture of automobiles, pharmaceuticals, power-generating equipment, electronics, and so forth, with domestic products. Time and time again, the Chinese government has ignored this commitment.

China also agreed to phase out import licenses and not to raise new barriers. Shortly after phasing out import licenses, however, China announced new import registration requirements for many of the products previously covered by licenses. And a number of other new barriers on products ranging from electricity-generating equipment to pharmaceuticals have sprung up.

Finally, China agreed to make public all its laws and regulations relevant to foreign trade—a major change. As a result, many trade directives are now publicly available. Yet, this elementary provision has not been implemented

in a number of areas, including government procurement regulations.

These are unambiguous violations of the 1992 market-access agreement. It is difficult to estimate their economic importance. Washington has officially noted them over a number of years, and Beijing has offered neither denial nor explanation.

One obstacle to pursuing these matters, Clinton administration trade officials argue, is that other U.S. government agencies have other priorities, and many private companies oppose trade sanctions that could compromise their business in China. If, however, agency indifference and private sector grumbling are sufficient to halt enforcement, it is doubtful that any trade agreement, particularly with a country willing to intimidate U.S. companies, will ever be enforced.

Textile Transshipment. For decades, trade in textiles and apparel has been governed by the Multi-Fiber Agreement. Under the MFA, importers and exporters of textiles negotiate what amount to quotas on textile imports on a bilateral basis. As the world's largest textile exporter and the world's largest textile importer, respectively, China and the United States concluded a number of bilateral MFA agreements.

For some years, there have been reports of "transshipment" of textiles and apparel by Chinese entities: Chinese companies label textiles made in China as having originated elsewhere, usually Hong Kong or Macao, to avoid MFA limits. Because transshipment is illegal, accurate figures are not available, but a past U.S. Customs commissioner estimated that transshipment from China into the U.S. market amounted to about \$2 billion annually. A more recent U.S. Customs study noted that Chinese textile exports worth as much as \$10 billion were not officially accounted for, and much of this undoubtedly found its way into the U.S. market.

The Customs Service has undertaken a number of enforcement efforts, including reducing China's official MFA quotas as a penalty for transshipment. In 1997, China and the United States reached a four-year textile trade agreement that, among other things, strengthened penalties and reduced quotas in 14 apparel and fabric categories where there had been repeated instances of transshipment. Nevertheless, in May 1998, the U.S. trade representative and U.S. Customs brought an action against China under the agreement, imposing \$5 million in charges on textiles illegally transshipped.

Each year, a list of companies involved in transshipment is released. On the most recent list, 23 of the 26 companies assessed penalties for illegal transshipment were from China, Hong Kong, or Macao. Despite such enforcement efforts, China continues to ignore the MFA.

Prison Labor. China has an extensive system of prison work camps that produce products ranging from apparel to tools and machinery. Often, prison work forces are leased to private firms to assemble or manufacture various products. Under a 1930s U.S. law, it is illegal to import into the United States anything made with prison or forced labor.

Over the years, it has been alleged that a number of imports from China violated this law. In 1992, the Bush administration concluded a bilateral agreement to halt the export of goods made with forced labor and to hold periodic consultations between customs officials from both countries.

Despite the agreement, advocacy groups have produced evidence that various Chinese companies exporting to the United States are involved in prison labor commerce, products made with prison labor have been imported into the United States, and Chinese companies are prepared to export such products to the United States.

Because it is hard to distinguish goods made by prison labor from others, it is impossible to credibly estimate the size of the problem. However, the State Department's most recent "Report on Human Rights for China" found that Chinese cooperation under the 1992 agreement had been "inadequate" and that when complaints were brought by the United States, "the Ministry of Justice refused the request, ignored it, or simply denied the allegations made without further elaboration." The report also notes that Chinese officials have attempted unilaterally to define Chinese work camps as not covered by the 1992 agreement—an interpretation that renders the agreement virtually meaningless.

This review of the evidence shows that there have been serious enforcement problems with every recent trade agreement with China. In some cases, the agreements produced improvements in Chinese trade practices, but Beijing's implementation still fell far short of the letter and spirit of these pacts. Without the extensive U.S. enforcement effort on intellectual property, little of the progress that has been made would have come about.

China's defenders often claim that its record is no worse than that of other countries. Certainly, a number of U.S. trading partners appear to have cheated on trade agreements over the years. Japan is most often cited.

It is difficult, however, to find another trading partner whose compliance with every significant trade agreement has been so deficient. Furthermore, difficulties go beyond China's mere ignoring of provisions offensive to important domestic constituencies. As Chinese leaders themselves concede, China lacks the rule of law. In the trade

arena, this means that it is difficult or impossible for Beijing to direct policy changes that actually bind China's diverse ministries, state-owned enterprises, and provincial governments.

Unfortunately, the World Trade Organization is no magical solution. Indeed, the WTO itself is a law-based institution. It is unclear that it will be able to police a country that operates without a stable, reliable legal system. Trade policies in China are often made in secret, leaving no paper trail. It may be impossible even to document the existence of objectionable Chinese trade practices, much less win WTO rulings against them.

To some, enforcement may seem a side issue. But none of the benefits ascribed to China's accession to the WTO will be achieved without it. If China simply ignores the terms of the WTO, as it has other agreements, not only will the benefits vanish, but lasting damage will be done to the credibility of the WTO.

Furthermore, no one knows how long China will be governed by relatively reform-minded leaders. Given the uncertainties of Chinese politics, a regime led by the military or hardline elements could easily emerge. Such a regime would pose enormous challenges for WTO enforcement, as well as on many other fronts.

In fact, China's membership in the WTO will help reformers like Zhu Rongji only if it entails compliance. Thus, an energetic effort to enforce the WTO in China is the best contribution the United States could make to the cause of reform. But American performance in this area inspires no confidence.

In light of Washington's weak and unpredictable pattern of enforcement and China's poor record of compliance, Congress should construct a vigorous enforcement procedure. This could take the form of annual reviews with a direct role for Congress, backed up by the promise of trade sanctions. Such a mechanism should be made a *quid pro quo* for permanent most-favored-nation trading status for China. Without it, there are good grounds to doubt that enforcement of the WTO will be a priority for the United States.

In the coming months, this issue will be discussed in a highly politicized atmosphere. But our relationship with China will last beyond next fall's election. Even if, as seems likely, China joins the WTO this year, bringing it into compliance with the WTO's provisions will take decades. Success will require the vigilance of Congresses and administrations for many years to come. If this Congress and this administration can build a sturdy framework for attending to these important issues, they will perform a great service to future Congresses, future presidents, the cause of reform in China, and America as a whole.

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PREPARED STATEMENT OF AMBASSADOR PETER L. SCHER

Mr. Chairman, members of the Subcommittee, it is a pleasure to appear before you this morning with Under Secretary Eizenstat and Under Secretary Schumacher to discuss the Administrations efforts to provide greater access for U.S. agricultural exports in two key markets: China and the European Union (EU).

As you know, I returned just last week from China—my second trip to China in three weeks—where we were engaged in intensive negotiations over the agriculture

portion of China's effort to join the World Trade Organization, and I will be pleased to give you an update on these negotiations. I will also update the Subcommittee on the biotechnology issue and our trade with the EU.

China and the EU are markets that are absolutely critical to the future of U.S. agriculture. The EU is our third largest regional export market and China (including Honk Kong) holds the number four position. Combined agricultural exports to these two markets last year were \$12.5 billion, or just over one-fifth of the value of total U.S. agricultural, fish and forestry exports.

Market access issues are critical for both countries. China's market potential is vast. We are seeking substantial improvements in market access as part of the WTO accession negotiations. While the EU market is more mature and developed than China's, market access remains an important concern. The EU's Common Agricultural Policy is an impediment to U.S. farm exports, and other U.S. agricultural commodities, such as beef and genetically engineered products, face considerable barriers to access into the EU.

INTEGRATING CHINA INTO THE WORLD ECONOMY

Six years ago, in his remarks to the first APEC Leaders Meeting in Seattle, President Clinton spoke of a Pacific Community that would grow in the next century and fulfill the hopes of the region's people—for prosperity; for education and scientific progress; for health, environmental quality and the dignity of work; for the quest for peace.

China is an integral part of the President's vision, a vision that greatly benefits U.S. agriculture. A China that is a full, commercial member of the international trading community means a market of greater opportunity for U.S. agriculture.

China is already the world's largest importer of soybean meal and soybean oil, and the U.S. had record or near-record sales of both commodities to China last year. China is also the world's largest producer and consumer of most meat products. But trade accounts for a very small share of the livestock economy. Government policies have severely limited the exposure to world markets. In the past decade, a strategy of grain self-sufficiency limited the growth of domestic livestock production, while a strategy of meat self-sufficiency restricted imports of livestock products. Clearly, U.S. agriculture can benefit from more open grain and livestock markets in China.

Just as the Pacific community cannot prosper without a growing, deregulated Japan, neither can it reach its full potential without an open and integrated China. Consider how damaging was China's economic isolation in the 1950's and 1960's. For nearly forty years, China's economy was almost entirely divorced from the outside world. The consequent loss of foreign markets and investment impoverished China at home, and meant that Asia's largest nation had little stake in prosperity and stability. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

With a continuing commitment to reform within China, this has begun to change. The next century may see a China more fully integrated into the modern world. A China that helps ensure peace and security and a China that plays its rightful part in building prosperity for its own people and its neighbors. Together with the integration of Russia, this is an opportunity which means as much for the next century as the return of Germany and Japan to the world economy meant for the postwar era.

Very high formal and informal trade barriers are a consequence of China's position outside of the world trading system. For example, its agricultural standards are based on bureaucratic fiat rather than science, and monopoly state trading enterprises can manipulate agricultural imports despite strong internal demand. Likewise, China's neighbors have only limited access to an economy which could be an engine of growth today and in the future.

China's membership in the WTO, on commercially meaningful grounds, is in our interest and in China's. Broadly speaking, WTO principles—transparency, openness, public and enforceable commitments—will help China's government strengthen the rule of law and create sustainable long-term growth. And the specific market access and other reforms WTO accession requires from China are no less than what other WTO members—including many of the least developed countries—have already done.

Let me now address specifically my talks, and those of Ambassador Barshefsky, with Chinese officials on greater integration of China into the world trading system.

We are beginning to see some progress in our negotiations on WTO accession, including in the agricultural sector. Two weeks ago, Ambassador Barshefsky met with China's senior leadership and those responsible for WTO accession. During those meetings, China demonstrated a greater appreciation of what constitutes a commer-

cially meaningful agreement for the United States, and in particular, for our agricultural sector. While I cannot get into the details of those ongoing negotiations, clearly, China now understands that market access for agricultural products is essential for any WTO accession agreement. Much more remains to be accomplished—in agriculture, for industrial products, and in services. But we are now engaged in a more substantial negotiation where the details have been and will be critical.

As part of these negotiations, I met last week with Chinese officials to discuss how to resolve some of the longstanding bilateral sanitary and phytosanitary issues affecting our citrus, wheat, and meat exports. As many of you know, we have been trying to resolve these nettlesome issues for many years. We have repeatedly emphasized that we cannot conclude a WTO accession package without resolution of these specific sanitary and phytosanitary barriers to our exports. Achieving market access and reductions in tariffs are meaningless if we have not eliminated these sanitary and phytosanitary restrictions.

While we have not resolved these outstanding issues, we have made more progress in the last few weeks than in the last several years. But we are still far from reaching what you and our agricultural groups would consider adequate. For example, for wheat, the current ban on imports from the Pacific Northwest must be fully removed so that we can ship wheat from that region to China. For citrus, we must work out a protocol and work plan so that we can legally ship citrus to China. As many of you know from your trips to China, our citrus products can be found in nearly every food store and stall in China, largely the result of smuggling. For meat, the United States has one of the best meat inspection systems in the world which should be the basis on which China should be able to allow imports of U.S. meats, as other countries do.

Our negotiators are continuing to work to resolve these issues. We will continue to be clear and resolute about all of the requirements China must meet in order for it to join in the world trading community.

THE PROMISE OF BIOTECHNOLOGY

Mr. Chairman, I know that you and members of the Subcommittee are also keenly following developments in Europe concerning genetically modified organisms or GMO's. The future role of biotechnology in world agricultural trade as well as the fate of hundreds of millions of dollars in U.S. exports may well rest on how we and the EU address this issue.

Not since the Green Revolution of the 1960's when high-yielding wheat and rice varieties were developed that increased harvests in Asia by 2, 5 and even 10 fold have technological advances had the potential to so affect world agricultural trade. Agricultural products produced with biotechnology hold tremendous promise for U.S. and global food producers and consumers. Biotechnology holds the key to achieving global food security, establishing sustainable agricultural sectors in developing countries, meeting environmental concerns, and helping U.S. farmers and ranchers maximize market returns.

But along with these opportunities we also face major challenges. While biotechnology is generally accepted by consumers and governments in many overseas markets, there is tremendous resistance in Europe, from consumers who fear for the safety of their food, and from governments that have turned away from scientific principles in evaluating biotechnology.

We of course respect any country's right to high standards for food safety and environmental protection; we also reserve that right to maintain the safety of the U.S. food supply and the environment. We support the right of countries to maintain a credible domestic regulatory structure with food safety standards that are transparent, based on scientific principles, and provide for a clear system of government oversight process in a timely fashion for the products of biotechnology. Such a structure is critical for the acceptance of these products in the global marketplace. But we must ensure that consumer and policy debate about the safety and benefits of biotechnology is one based on scientific principles and not fear and protectionism.

THE CHALLENGE OF EUROPE

Many of our trading partners recognize the benefits of biotechnology, and we are developing increasingly close ties at the technical level, for example, with Canada. Nonetheless, we face a tremendous challenge in Europe.

The EU is still struggling to decide what regulatory system to have in place. Unfortunately, the EU has experienced complicating factors that have made the whole regulatory process unusually difficult. The public lack of confidence in scientific judgments started with the outbreak of bovine spongiform encephalopathy (BSE) or mad-cow disease, which undermined public trust in food safety. This lack of trust

grew as groups opposed to biotech products succeeded in arousing consumer fears, bringing pressure to bear on European politicians. All this was compounded by the lack of an established institutional review process at the EU level that could provide a better foundation for public assurance and confidence in the safety of these products.

The abundant scientific evidence on biotechnology makes the problems we are having with the EU on this issue all the more frustrating. We have repeatedly told EU officials at the highest levels of the need for a workable and timely regulatory system for the products of biotechnology.

Nor are we alone in our frustration. The Transatlantic Business Dialogue—a group of U.S. and European businesses—has on more than one occasion expressed concern over the EU's slow regulatory process and offered recommendations on how to improve the process. We have also seen concern in Canada over the length of time it takes for the EU to approve genetically-modified canola varieties.

While we have to date avoided serious interruptions of our farm trade with Europe, most recently last summer following intervention by the President and Vice President with their counterparts in the French Government, the problem of an inadequate regulatory process remains, and with it the lack of a solid base from which to build and maintain consumer confidence in the products of biotechnology.

We face two compelling and complicated problems in Europe: the effective collapse of the EU's regulatory process for new genetically engineered plants and an incomplete and unworkable food labeling regulation for foods containing genetically modified corn and soybeans.

The EU Approval Process. It has been nearly one year since a plant variety produced through biotechnology has passed through the EU's approval process—called the 90/220 process. On its face, the 90/220 regulation lays out a specific approval process for the environmental release of new GMOs. The process begins with approval in an EU member state, followed by a scientific review at the Community level in Brussels and concluding with a time-specific period for all member states to raise scientific concerns or questions prior to a vote by all member states.

In practice, the 90/220 process has proven to be susceptible to political interference, non-transparent and virtually endless in duration. Scientific reviews that take months in the United States are measured in years under 90/220. Member states have increasingly acted outside of the 90/220 procedures, most recently just last month when the original sponsoring member state for two GMO varieties of cotton failed to vote in favor of final EU approval because of concerns outside of the 90/220 process. There is now a significant number of member states that are effectively unable to participate in the 90/220 process due to a variety of reasons.

The European Commission recognizes the difficulties with 90/220, and has proposed amendments to improve the process. However, it is likely that these amendments will take up to two years or more to be adopted.

Our goal is not to set the rules for the EU, but rather to insist on a process that is timely, transparent, and based on science.

Labeling. We are likewise very concerned, as are many U.S. exporters, about EU regulations adopted this past September which require the labeling of foods containing GMO corn or soybeans. These regulations focus on how a food was produced rather than on whether the use of biotechnology has changed its quality, safety or nutritional composition.

The costs to producers and consumers of labeling regulations that are confusing, impractical, and time consuming will be immense as will be the potential for ongoing trade disputes and disruption. Again, we have communicated our position clearly and directly to EU officials and also within the WTO, where we have presented detailed written comments to the Committee on Technical Barriers to Trade.

The European Commission is still filling the gaps of its labeling regulation as regards testing procedures, de minimus levels and product exemptions. We expect the Commission to publish amendments shortly to the labeling regulation, and we will work closely with U.S. exporters in reviewing these amendments.

It is obvious that U.S. agriculture cannot sit back and wait for a positive turn of events in Europe. Last month the first meeting of the U.S.-EU Biotechnology Group under the umbrella of the Transatlantic Economic Partnership was held in Washington. We intend to use the Biotechnology Group to identify and address regulatory issues that are limiting trade in the agricultural products of biotechnology. At the meeting, the United States proposed a pilot project for the simultaneous application for environmental approval of a genetically engineered plant variety in the United States and an EU member state. Our hope is, of course, to speed up the approval process in Europe through increased contacts between regulators. Our proposal is based on a similar agreement between USDA/APHIS and the Canadian

Food Inspection Agency. We are awaiting a response from the European Commission to our proposal.

We also used this meeting to raise our very strong concerns about the general inadequacy of the 90/220 process and the specific actions taken by some member states that we believe lie clearly outside of the procedures of 90/220. Commission representatives were aware of these concerns, and have received similar complaints from the biotechnology industry in Europe. We are hopeful that the Commission will act to influence member state actions. But we realize that if successful, this will be only a short-term fix, and we will continue to push for fundamental improvements in the EU's biotechnology regulatory process.

Our message to the EU and our other trading partners remains unchanged: we must focus on scientific principles as the guidepost in guaranteeing food safety.

We also realize that as long as attention on both sides of the Atlantic is centered on a politically-charged debate over food safety and science, we threaten not only today's bilateral trade levels and the promise of future trade liberalization, but also the availability of an abundant and safe food supply for a growing world population.

Mr. Chairman, I would be happy to answer the Subcommittee's questions at this time.

PREPARED STATEMENT OF AUGUST SCHUMACHER, JR.

Mr. Chairman, members of the Subcommittee, it is a pleasure to appear before you with Ambassador Peter Scher of the U.S. Trade Representative's (USTR) office and Under Secretary of State Stuart Eizenstat to review U.S. trade relations with the European Union (EU) and China.

EUROPEAN UNION

The 15 countries of the European Union make up the world's largest multi-nation trading bloc. With a population of 350 million affluent consumers, it is one of the world's most important markets. While our relationship with the EU is not without friction—our list of trade issues with the EU is quite extensive—bilateral agricultural trade between the United States and the EU averages more than \$18 billion annually.

Although the bilateral balance of trade in these products still favors the United States, the gap is narrowing. U.S. imports of EU agricultural, fish and forestry products have risen every year for the past five years with imports totaling \$7.3 billion in fiscal year (FY) 1998, up 30 percent from FY 1993. U.S. exports also have increased from \$8.3 billion in FY 1993 to \$10 billion in FY 1998. Soybeans and soybean meal and oil make up nearly a quarter of total U.S. agricultural exports to the EU, with sales of \$2.3 billion in FY 1998. Other leading exports include feeds and fodders (\$650 million), tree nuts (\$644 million), hardwood lumber (\$519 million) and processed fruits and vegetables (\$355 million). In contrast, high valued and consumer oriented foods make up 70 percent of U.S. imports of European agricultural products. Leading the way is wine and beer with imports of \$2.3 billion in FY 1998 followed by cheese and other dairy products (\$646 million), snack foods including chocolate (\$630 million), and processed fruits and vegetables (\$405 million).

The EU is second only to the United States as an exporter of agricultural, fisheries and forest products. The EU's agricultural policy, characterized by high internal price supports, import restrictions and export subsidies, is a frequent cause of tension between the United States and the EU.

Agenda 2000

The EU's Common Agricultural Policy affects every exporting and importing country. The CAP is dragging us all down. It costs a fortune—some 50 percent of total EU expenditures. The CAP has perverse effects on trade, forcing the EU to use export subsidies to move product overseas and also restrict imports. It presents a major stumbling block to negotiating the next multilateral trade agreement through the World Trade Organization (WTO).

Just last week, the EU Agricultural Ministers voted on reform of the Common Agricultural Policy. That vote was a disappointment not only to the United States, but to all other agricultural producing nations as well.

The Ministers had an opportunity to make much-needed reforms to their farm policy. This disappointing result makes it even more important that we strive for genuine reform in the upcoming round of multilateral trade negotiations under the WTO.

What the Ministers agreed upon is not much more than maintaining the status quo. For example, it appears there will be no reform of dairy policies for several

years and intervention price cuts are modest at best. The failure to act boldly raises serious concerns that the EU will continue to use export subsidies to compete unfairly in world markets.

At this point in the process, the EU still has the opportunity to embrace a more market-oriented farm policy. The more market orientation Agenda 2000 brings to Europe, the better it will serve Europe and the world. The United States believes that the key to restoring farm incomes is not maintaining trade-distorting production subsidies and the accompanying trade barriers, but creating productive, competitive farm sectors with access to foreign markets.

Accessions to the EU

We are also following accessions by Central and East European countries to the EU. While past EU accessions of other countries, such as Spain, Greece, and Portugal, have been economically beneficial to those countries and contributed to European political and economic stability, we remain concerned that EU enlargement could limit U.S. trade potential, and we will seek assurance that our farmers will have continued access to markets in an expanded EU.

EU Restrictions on Beef Imports

Three issues have dominated our discussions with the EU in recent years. I call these the "three B's"—beef, biotech, and bananas. EU rules regarding imports of beef and bananas have been the subject of two very important WTO dispute settlement body decisions which raise a fundamental question: Are nations going to live by the rules-based system that we agreed to under the Uruguay Round, and which today is the foundation of our world trading system?

The WTO ruled in favor of the United States—in the original panel decisions and on appeal—in both the beef hormone case and the dispute over bananas. In the case of bananas, we disagree as to whether the EU has taken sufficient steps to comply with the WTO decision. While I will defer to Ambassador Scher and Under Secretary Eizenstat on bananas, I would like to give you some background on the beef issue.

The Uruguay Round Agreement on Sanitary and Phytosanitary Measures established new obligations and principles for members of the WTO to base their sanitary and phytosanitary measures on science. In maintaining its unscientific ban, the EU does nothing to further the objective of protecting public health, but instead undermines the WTO Sanitary and Phytosanitary Agreement and invites other countries to renege on their international obligations.

U.S. beef is safe. The United States has an extensive regulatory control system to ensure the proper use of these hormones. The U.S. system includes comprehensive food safety standards that are based on sound, internationally recognized scientific criteria. The Food and Drug Administration and USDA work together to provide consumers with a safe food product by ensuring the proper use of hormones in cattle.

The United States has approved six hormones for use in fattening cattle. The three natural hormones (estradiol, progesterone, and testosterone) occur naturally in all humans and in all food animals, and in many daily food products. The three synthetic hormones (zeranol, trenbolone acetate, and melengestrol acetate) mimic the growth promoting effects of the natural hormones. As fattening agents, these hormones have several economic, health and environmental benefits: the resulting beef is leaner; less feed is needed to produce the same amount of meat; and animals produce less waste.

The international community has been studying the use of growth promotants in cattle for decades and has concluded that these approved and licensed products are safe when used in accordance with good veterinary practice. Both the EU Lamming Committee and 1995 EU Conference on Growth Promotants concluded that there was no public health risk from consuming beef from hormone-treated animals. All six approved hormones have been used without negative effects on public health in the United States and many other countries for decades.

The United States is increasingly concerned that the EU shows no visible signs of taking even the first steps to come into compliance—to remove the ban—and yet the May 13 deadline for compliance is fast approaching. If we are to avoid another direct confrontation as in the banana case, then the EU must demonstrate soon its commitment to removing the ban.

EU Biotechnology Approval Process and Labeling

The third issue I mentioned, access for products derived using modern methods of biotechnology, has not been addressed in the WTO context, but is equally important.

The world's farmers and ranchers face two difficult challenges at the dawn of the 21st century: first, to grow more food at lower cost, higher quality, and greater variety than ever before; and second, to produce this abundance on a shrinking natural resource base amid growing concerns about the effect of agricultural practices on the environment. Many countries, including the United States, are working vigorously on technological improvements to meet the need for food and fiber in the coming years.

U.S. Federal regulatory policy recognizes that safety is the paramount concern with any technology or production process. In 1986, we established a framework for regulating biotechnology. It is a system designed to carefully evaluate products for risks to human, animal, and plant health, and risks to environmental safety. Product approvals are grounded in rigorous scientific assessments so that the risks are addressed before products reach the market.

The U.S. regulatory process is an open and public process. The Federal agencies responsible for these products have all held open public meetings with scientific advisory panels when developing their overall framework and when reviewing specific products. Each agency maintains a web site so that the public can see exactly which products are under review. Unfortunately, other countries have not matched their scientific advances with the necessary policy and regulatory adjustments. This is the case in the EU. We recognize the right of all countries to review the safety of these products. However, we remain very concerned about the ad hoc nature of the EU approval process and EU delays—for purely political reasons—in granting approvals for biotech products.

U.S. products from biotechnology face increasing barriers in the EU market. Our problems are primarily two-fold: delays in product approval and burdensome labeling.

While in the United States, on average, a company can secure final regulatory approval for a product of biotechnology within 9 months of a company's submission; the average EU approval takes 18 to 24 months. The EU approval process has been problematic from the beginning. Political pressure to block products from biotechnology has increased in a number of EU countries and member state objections to individual products have become the norm. As a result, this slow process has ground to a halt.

With the exception of two carnation varieties, no new biotech product has been approved by the Commission since March 1998. Even after EU scientific committee approval of products, member states like France have held up the approval of corn varieties for 6 months, effectively blocking the export of U.S. corn to the EU for most of 1998. As a result, U.S. corn growers lost \$200 million in export sales in 1998, and face similar losses in 1999.

Implementation of the EU's novel food legislation in 1998 is adding to the slowdown. This legislation contains labeling regulations that have added to the confusion. On September 3, 1998, the EU implemented mandatory labeling on foods containing genetically modified corn and soybeans. However, details still have not been provided to food processors as to how the regulation will be implemented: companies still do not know which products will be exempt, testing procedures for detecting products from biotechnology, or de minimus levels. Even companies that are trying to export products that are not genetically engineered are having problems. Since the EU has not established clear testing procedures or de minimus levels, companies cannot demonstrate that their products are not bioengineered.

The United States has raised concerns about the EU's labeling policy to the EU Commission and in the World Trade Organization's Technical Barriers to Trade Committee. The United States has questioned the scientific basis of a number of these issues with the EU and finds many aspects of the labeling regulation ambiguous and impractical.

Furthermore, the EU Parliament has recently proposed amendments to relevant EU legislation that, if adopted, could threaten any future approvals. These amendments might put so many restrictions on the import of goods containing biotech products, that agricultural products from the United States and other countries could be severely restricted. This could threaten EU biotech investment, development, and marketing of biotech products, sharply restricting U.S. agricultural exports to the EU.

We continue to encourage the EU to evaluate genetically modified products using scientifically based analysis and to keep U.S. exporters informed of developments in the EU to help ensure that there is no disruption of trade. In addition, we use every opportunity to educate EU officials and others about the U.S. regulatory process and product safety. Our agricultural counselors and attaches discuss these issues on a nearly daily basis with their counterparts, with regulators, the media, and consumer groups throughout Europe. USDA officials have met with EU member

state regulators, given speeches at numerous European conferences, and even testified before the British House of Lords. We have invited groups of European decision makers, government officials, scientists, and journalists to come to the United States to meet with government officials, farmers who use the technology, company representatives who develop the products, and commodity buyers and sellers along the food handling process. In this way, Europeans can see for themselves how we regulate products from biotechnology, how broadly the technology has spread in the United States and why segregation of products from biotechnology from non-biotech products would be unnecessary, difficult, and expensive.

For the future, approval of products from biotechnology was one area identified under the Transatlantic Economic Partnership (TEP) process that could be improved through greater cooperation between EU and U.S. regulatory agencies. A TEP Biotech Working Group met for the first time on February 11 to begin discussing terms of reference for a pilot project that would lead to a comparison and, where possible, harmonization, of certain aspects of U.S. and EU member country regulatory review processes for transgenic plants.

CHINA

Ambassador Scher has brought you up-to-date on the progress of our talks with China over its WTO accession. USDA, as a member of the inter-agency team, is working closely with USTR on this accession.

China is an important market for U.S. agriculture—both as a customer and a competitor. Last year, Greater China (China and Hong Kong) purchased \$3.3 billion in agricultural, fish, and forest products from the United States. Chinese demand for U.S. poultry, meat and produce is high, and China has become a major market for U.S. soybeans, oil, and meal. The United States imported about \$1.6 billion in agricultural, fish, and forest products from China, with forest products and fish accounting for nearly half of the total. In addition, China is a major competitor in the world markets, especially for bulk commodities. For example, in recent months China has been a major exporter of corn.

Economic reforms in China, combined with a broad-based financial recovery in Asia, could trigger much more rapid growth in demand as a result of rising incomes, a growing middle class, and changing diets. In fact, Chinese leaders recently announced their plans for reform in 1999. The government is planning for 7 percent growth, compared to 7.8 percent last year.

However, future trends in China's agricultural trade remain something of a question mark, but a very important question mark in the global outlook. Current projections indicate only modest growth in China's import demand for most bulk commodities, as well as significant potential for boosting Chinese crop yields.

Making long-term projections of China's agricultural production and trade remains notoriously difficult. Frequent policy changes, lack of good data, and the sheer size of its economy make China the wild card in the international trade outlook. However, we must continue to ensure that U.S. agriculture is well-positioned to take advantage of the many trade opportunities in the Chinese market.

This concludes my statement, Mr. Chairman. I will be glad to answer any questions.

COMMUNICATIONS

STATEMENT OF THE NATIONAL BARLEY GROWERS ASSOCIATION

The National Barley Growers Association applauds the Subcommittee's inquiry into trading practices of two of this country's most important trading partners, China and the European Union. Given the population and economic growth levels of these two countries, we would normally expect both to be potentially good markets for US grain exports. But, in fact, they are competitors rather than significant buyers because of numerous market access barriers, domestic production subsidies and export incentives.

The National Barley Growers Association has submitted a detailed Barley Trade Policy Action Plan to the Administration listing numerous concerns we have with the trading practices of both China and the European Union. We include the relevant issues here so that the Subcommittee will better understand the challenges we face in maintaining a competitive US barley industry.

CHINA

Market Access—China is the world's leading importer of malting barley, but has not purchased US malting barley since 1995 because it maintains an unjustified ban against US wheat and barley containing TCK smut disease. Although TCK is not a disease that affects barley, barley kernels can pick up spores during storage and transportation. This ban is not based on sound science as documented in a TCK Pest Risk Assessment completed by the US Department of Agriculture in 1998. This document was formally presented to Chinese officials nearly a year ago, but they have yet to officially acknowledge its conclusive findings and take action to end their 25 year ban on wheat and barley grown in the Western US. The Chinese Government should address this TCK ban immediately. Prohibitively high import tariffs on malt that protect their inefficient domestic producers also must be addressed.

WTO Accession—NBGA supports China's accession to the World Trade Organization if the following conditions are met:

- (1) Elimination of the current zero tolerance TCK standards that prohibit import of most US wheat and barley;
- (2) China is admitted as a developed country, not as a developing country, as it has insisted in the past;
- (3) The role of state trading enterprises is fully clarified and a portion of trade is reserved for the emerging private sector; and
- (4) China adheres to all of the disciplines and obligations inherent in WTO that would require significant reforms of its agricultural sector, including implementation of minimum access for imported products, transparency, and conversion of import quotas to tariff-rate quotas.

Most importantly, we feel that WTO accession should not be approved on the basis of promised reforms, but on actual concessions that will create long-term market access opportunities for US grain products.

EUROPEAN UNION

Export Subsidies—In May of 1998 heavily subsidized barley from the European Union was shipped to the United States for the first time in history, causing a severe market impact in this country's largest barley feeding area. European traders sold 1.4 million bushels of Finnish barley to a California feed mill carrying a subsidy of \$51 per metric ton or \$1.11 a bushel. This sale immediately depressed local feed barley prices by at least 24 cents per bushel and continued to depress prices in the California feed market for at least nine months. This occurred at a time that US barley producers were already suffering from low world prices—prices that were being driven lower by the overall increase in EU export subsidies.

Although the EU government has unofficially stopped the use of export subsidies on barley destined to North American markets, we must insist in the short-term, until a new WTO agreement can be negotiated, that the EU adopts a policy specifically delisting the United States as an eligible destination for subsidized grains. Over the long-term, we must seek to eliminate all export subsidies in agricultural trade, including defacto subsidies used by state trading enterprises.

In the current marketing year (June 1998—May 1999), the EU has subsidized more than 6 million metric tons of barley onto the world market, at rates as high as 49 to 81 dollars per metric ton—a subsidy rate exceeding barley prices in many parts of the United States. This level compares with only 1.0 MMT approved a year ago, and we know how distorting last year's subsidies were, particularly in the California market.

Zero-for-Zero—The NBGA recently endorsed a zero-for-zero negotiating position in upcoming multilateral trade talks that calls for the total elimination of all export subsidies, tariffs and non-tariff barriers for world barley and malt trade. This package also insists that importing and exporting state trading enterprises operating within the barley and malt sectors lose their monopoly powers and operate at risk in the marketplace. We are working within a growing international coalition of barley producers, traders and processors in hopes that private sector cooperation will accelerate multilateral action.

Agenda 2000 CAP Reform—We oppose continued EU domestic support programs that clearly distort trade. Instead of reducing high domestic supports, proposed CAP reforms will instead provide a higher level of support and continue to encourage unrealistically high production levels that cannot be supported by world demand fundamentals. Meanwhile, the US has seen its market share cut in half and efficient US producers squeezed by current prices that are below their cost of production. If the EU continues to provide high guaranteed prices then they also must use higher acreage controls to prevent further surplus production. Unfortunately, the latest version of CAP reform would eliminate set-asides after the 2000–2001 crop year.



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