

**Testimony of Ron Litterer
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Before the Senate Finance Committee

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Good morning. Chairman Grassley, Ranking Member Baucus and members of the Committee. My name is Ron Litterer and I am a corn farmer from Greene, Iowa. I am a board member of the Iowa Corn Growers Association and Chairman of the Public Policy Action Team for the National Corn Growers Association. I would like to thank the Committee for giving me the opportunity to testify today regarding agricultural trade barriers in Mexico. Today's hearing is very timely, and I commend the Chairman and the Committee for convening it.

The National Corn Growers Association (NCGA) was founded in 1957 and represents more than 32,600 dues-paying corn growers from 48 states. The Association also represents the interests of more than 350,000 farmers who contribute to corn checkoff programs in 19 states.

NCGA's mission is to create opportunities for corn growers in a changing world, and to enhance corn's profitability and use. Trade is vital to the future of corn growers as we search for new markets, providing grain that is more abundant and of better quality.

One out of every five rows of U.S. corn is exported, and our producers also export value-added corn and co-products. In 2002, the United States exported 47 million metric tones of corn, with a value of \$4.8 billion. This corn represents about 20 percent of total U.S. production, and the U.S. accounted for nearly 57 percent of worldwide production last year. Our two closest competitors in the international marketplace are Argentina and China, with 14 and 17 percent of world production respectively.

More than any other time in the past, corn producers operate in a competitive international marketplace. Free trade agreements have never been more essential to the continued success of our industry. NCGA supports trade agreements that will open markets for U.S. farmers and improve market development throughout the world. Our organization has supported every trade agreement presented to Congress and lobbied vigorously for passage of the North American Free Trade Agreement (NAFTA) and Trade Promotion Authority.

It is unfortunate that I must testify regarding Mexican barriers to U.S. agricultural exports. Mexico is our second largest trading partner. In 1994, the year NAFTA was enacted, corn exports to Mexico totaled 3 million metric tones, but last year, Mexico imported 5.3 million metric tones of bulk corn. In less than ten years, Mexico has increased its imports of bulk corn from the United States by 57 percent. Mexico needs to import increasingly higher amounts of grain to meet its growing demand for livestock

production, which is brought about by rising income levels and the demand for more protein to improve diets. Ordinarily we would consider this a profound success in terms of bilateral trade relations. However, recent events give us some pause and make us question the long-term stability of the Mexican market.

High Fructose Corn Syrup

For the past seven years, corn growers have been part of an ongoing dispute between the United States and Mexico regarding sugar and high fructose corn syrup (HFCS). For nearly two years, exports of HFCS to Mexico have been virtually eliminated due to an illegal soda tax passed by the Mexican Congress late in 2001.

Much like bulk corn, upon implementation of NAFTA, corn refiners started to experience successful market access to Mexico, shipping 150,000 metric tons of HFCS in 1996 and 337,000 metric tons of HFCS in 1997. The subsequent controversy surrounding the sugar provisions of NAFTA and the "side letter" embroiled the corn industry in a series of events resulting in no access to the Mexican market. Due to this predicament, producers lose the demand for 133,200 bushels of corn each year, the equivalent of 945,700 acres of production and over \$300,000 in annual corn sales.

The National Corn Growers Association has been working closely with the Corn Refiners Association (CRA), the United States Trade Representative (USTR), the Department of Agriculture (USDA) and Congress to find a resolution to this problem. Mr. Chairman, your involvement and interest in this matter has been invaluable in moving all sides towards a common position and hopefully an eventual resolution.

In the past several weeks, leadership from NCGA, CRA and the sugar industry have been meeting to develop new ideas on how to help the U.S. Government resolve the on-going sweetener dispute with Mexico. We hope this alliance will allow all three parties realize the benefits of NAFTA. We are hopeful our dialogue can resolve this ongoing and very complicated issue. However, it is undeniable that this problem has had a corrosive effect on the mindset of corn producers regarding the benefits of trade agreements. It is important we resolve the sweetener issue as soon as possible. In order to promote new trade accords in the countryside, we must show our constituents and grassroots membership that our trading partners are adhering to existing agreements.

White Corn

While the benefits of NAFTA are clear on both sides of the border, free trade does not come about without some adjustment. Reducing tariffs and opening borders provide companies certain incentives to relocate in order to achieve lower input costs and maximize returns. Mr. Chairman, you know this situation first hand as factories in Iowa have closed and moved to Mexico. However, NAFTA provides both our countries the opportunity to maximize on our comparative advantages and grow economically at a faster rate than we would have without the agreement.

As a corn grower and an agricultural producer, I know that our domestic industry can produce food and fiber of higher quality and at a lower cost than any where else in the world. For this reason, NAFTA and agreements like it are enthusiastically endorsed by farmers. However, in recent years, as the United States lowers tariffs and opens our borders to industrial goods once produced here at home, our trading partners are finding it difficult to follow suit and fulfill their commitments in various agricultural commodities.

Under NAFTA, corn is one of the last commodities to experience tariff elimination, and as a result, corn did not experience the same threats of anti-dumping cases or disruptions at the border until very recently.

Last spring, after months of demonstrations, debates, and meetings, the Government of Mexico and Mexican producer groups signed the National Agreement on Agriculture (NAA). The Agreement provides for an emergency fund of \$260 million to address a wide range of structural issues in Mexico's rural areas. In addition, the Agreement calls for an analysis of the affects of NAFTA and the United States Farm Bill on Mexican agriculture, suspends the issuance of import permits for white corn except in times of short supply, and calls for immediate consultations with the United States and Canada to establish a permanent import control mechanism for white corn and dry beans. The agreement also encourages the establishment of domestic production contracts to reduce dependence on U.S. yellow corn imports.

While taking these developments seriously, we also perceived the NAA as a political response by the Fox Administration to increasing domestic pressures leading up to their congressional elections in July. Since the election we have heard of no additional action regarding white corn exports from the United States.

The National Corn Growers Association urged the Bush Administration and Congress not to renegotiate NAFTA and to work towards its full implementation. Like many of the other commodities at this table, we believe renegotiation of NAFTA in this context would be unwise and unproductive for both countries.

It is important to point out that the United States is a residual supplier of white corn to Mexico and only does so when Mexican stocks are in short supply. For the past seven years, however, Mexico has been the largest buyer of U.S. white corn. Depending on market conditions, white corn represents 10 to 20 percent of U.S. corn exports to Mexico. Although white corn is a small segment of overall corn production, it provides U.S. growers with a valuable way to diversify farm production. Furthermore, we fear that disruptions of white corn shipments to Mexico could be a precursor to disruptions of yellow corn shipments, which are already being discussed. The lack of action to date may be good news or may be the calm before the storm. Either way, if the underlying cause of farmer discontent in Mexico is left unresolved, we will have more significant trade disruptions in the future.

Mexico is experiencing many of the same challenges we face here in the United States in farm country. I believe rural development and the ability of farmers to remain profitable is at the very core of the agricultural problems we are discussing today. It would be in our best interests to work cooperatively with Mexican producer groups to find ways to maximize our comparative advantages on both sides of the border in the ultimate pursuit of maintaining profitable and vibrant agricultural sectors. Likewise, I would encourage Congress and the Administration to continue facilitating discussions with the Mexican Government to find additional ways to utilize governmental institutions to alleviate poverty and promote economic development in Mexico.

OXFAM

While free and fair trade promotes positive economic development, this premise is by no means universally accepted. Groups such as OXFAM International and Greenpeace are waging a campaign against free trade agreements between developed and developing countries. NAFTA is one of the targets. These groups are in many ways directly responsible for the recent collapse of negotiations at the 5th Ministerial Conference of the World Trade Organization (WTO) in Cancun, Mexico. The poisonous rhetoric spread by these groups encouraged developing countries to walk away from the negotiations.

Last month, OXFAM International released a report entitled “Dumping without Borders: How U.S. Agricultural Policies Are Destroying the Livelihoods of Mexican Corn Farmers.” Amid other false claims, the authors claim Mexico's 10,000-year heritage of corn production is being destroyed because free trade rules with the United States have been rigged for the past 10 years. The report, however, lacks a fundamental understanding of the U.S.-Mexico coarse grains trade, uses inaccurate data for current domestic support, and uses sloppy methodologies for analysis.

First, trade rules are not slanted in our favor. Since the beginning of the Fox Administration, Mexico has had a specific tariff line for white corn for human consumption, and it retains the authority to limit yellow corn imports through tariff rate quotas (TRQ) as well. In addition, Mexico can charge a prohibitive duty of 90.8 percent on corn above the TRQ but has chosen not to do so.

Furthermore, Mexico is unable to be self sufficient in yellow corn production. For example, Mexican corn production has flattened at about 19 million metric tones for the past decade, with yields averaging only 40 bushels per acre compared to 140 bushels per acre in the United States. At the same time, however, a growing livestock industry in Mexico has helped more than double the demand for yellow corn for feed use to over 10 million metric tones annually. Pork production in Mexico has increased from 870,000 metric tones in 1993 to over 1 million metric tones in 2002, with poultry production increasing even more substantially from 1.37 million metric tones in 1993 to 2.2 million metric tones in 2002. Under NAFTA, U.S. corn exports provided inputs to Mexico's livestock sector at competitive prices. OXFAM barely acknowledges this point through a foot note at the end of the report.

The report also relies on data from non-official sources and uses subjective analysis masked as an objective study. The report confuses measurement units (comparing tons to kilograms) while selecting a single year for its entire set of data rather a more comprehensive look at the statistics. In addition, the use of anecdotal evidence is meant to elicit an emotional response rather than discover the real cause of rural poverty in Mexico.

Finally, OXFAM ignores issues such as weak property rights, land fragmentation, and the lack of rural development in Mexico, but blames U.S. domestic supports as the chief culprit of poverty in rural Mexico.

In the end, the political agenda of groups like OXFAM will only hurt Mexican farmers and those in other developing countries. It is impossible to deny the positive benefits of NAFTA and the more than \$110 billion in foreign direct investment generated in Mexico. The longer the Doha Development Agenda is delayed; the worse off developing countries will be for lack of action.

Conclusion

Trade with Mexico is important and every effort should be made on both sides of the border to ensure disruptions are minimal. Corn growers have been party to some of the greatest success stories of NAFTA and also to its worst failure. Like many other economic sectors, we are experiencing increased competition in the international marketplace. Despite these challenges, we know we are competitive and can provide a high quality product for a low price. Our strong belief in trade compels us to resolve these issues.

Mr. Chairman, you have our thanks for your strong support and continued vigilance on this issue. In order for us to move forward, we need to show producers throughout the Midwest and across the country that trade has real benefits. Mexico is vitally important in this regard and we pledge ourselves to work with Congress, the Administration and other agricultural organizations to fulfill the promise of NAFTA on both sides of the border.

I thank you again for the opportunity to address the Committee. I welcome your questions.