U.S.-Central America-Dominican Republic Free Trade Agreement

Testimony of

Terry Harris

On behalf of the

USA Rice Federation

and the

US Rice Producers Association

Before the

Committee on Finance

U.S. Senate

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INTRODUCTION

Thank you, Mr. Chairman. I appreciate this opportunity to appear before the Committee on behalf of the USA Rice Federation and discuss the importance of the U.S.-Central America and Dominican Republic Free Trade Agreement to the U.S. rice industry.

The USA Rice Federation represents U.S. rice growers, millers, exporters and allied industries such as brokers and transportation firms. I serve as the chairman of USA Rice's Western Hemisphere Promotion Subcommittee. My testimony today has also been endorsed by the US Rice Producers Association.

In addition, this testimony has been endorsed by the Agriculture Coalition for CAFTA-DR, a group made up of 56 agricultural and related organizations that support this agreement. A letter of support signed by these 56 groups is attached to this statement.

Rice is grown in seven states including Arkansas, California, Louisiana, Texas, Mississippi, Missouri and Florida. Nearly one-half of the crop is grown in eastern Arkansas along the Mississippi River. The industry markets rice in all 50 states and to 75 countries.

On a day-to-day basis, I serve as vice president for Latin America and the Middle East in the rice export division of Riceland Foods, Inc. (Riceland), headquartered at Stuttgart, Arkansas.

Riceland is a farmer-owned cooperative formed in 1921. It serves approximately 9,000 farmer-members in Arkansas, Missouri, Mississippi, Louisiana and Texas. Nearly one-half of all U.S. rice growers are Riceland members. The cooperative markets 25 percent of the rice grown in the southern United States and 20 percent of national production. It also markets soybeans, wheat and corn grown by its farmer-members.

Riceland is a direct exporter, meaning we sell directly to buyers in importing countries. We rarely sell through other U.S. export firms or to international shippers for delivery to the importing country. As a result of this approach, our staff is well schooled in the details of everyday management of logistics and finance related to the export business.

As a result of impetus from formation of the North America Free Trade Agreement in the early 1990s, Riceland, in recent years, refocused its marketing efforts toward Mexico and the countries of Central America and the Caribbean. This past year, Haiti was the top export market for Riceland's milled rice. Mexico is the top U.S. market for rough or unmilled rice.

We appreciate you holding this timely hearing to review the U.S.-CAFTA-DR trade agreement.

CAFTA-DR BENEFITS THE U.S. RICE INDUSTRY

The CAFTA countries – Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua – plus the Dominican Republic represent one of the top-5 regional markets for U.S. rice exports. U.S. rice exports to these countries in 2004 were just over 714,000 tons, or about 17 percent of total U.S. rice exports for the year. The value of this market in 2004 was $184 million.

This market has grown dramatically in the last five years. U.S. exports were just under 400,000 tons in 2000. Sales in 2001-2003 averaged 554,000 tons and exceeded 700,000 tons last year.

Despite the large demand for U.S. rice, negotiations over rice were long and difficult with each of the countries. Rice was one of the most sensitive agricultural commodities for the Central American and Dominican Republic negotiators, and this sensitivity is reflected in the transition period to free trade in rice – 18 to 20 years.

We believe the administration negotiators got the best deal possible. Our negotiators did not give into demands that rice be excluded, and the comprehensive agreement they negotiated was central to achieving market access gains for U.S. rice producers, millers, and exporters.

The U.S. rice industry is one of the most open segments of U.S. agriculture. Each year 40 percent to 50 percent of the U.S. crop is exported, and imports make up from 10 percent to 12 percent of domestic consumption. Import duties are nearly non-existent. Exports are critical to the economic health of the rice industry and the rural communities that our producers and millers serve. We must continue to insist that other countries provide similar access in their markets. The CAFTA-DR agreement helps us achieve this goal.

The CAFTA-DR agreement improves our existing access in this large market, reduces, high import duties, remedies tariff discrimination against certain forms of rice, and provides preferential duty treatment not available to any other supplier.

Currently, the CAFTA-DR countries charge duties between 35 percent and 90 percent on U.S. rice under WTO bindings. More significantly, countries in the region frequently apply these import duties in a discriminatory fashion that denies consistent and meaningful access for U.S. milled rice.

The CAFTA-DR agreement preserves existing access for rough, or unmilled, rice and provides for immediate guaranteed market access for brown and fully milled U.S. rice.

Tariff rate quotas will be established in all countries for rough and milled rice (except for the Dominican Republic which will have TRQs for brown and fully milled rice). Duties within the TRQs will be zero. Out of quota duties are set at the applied rates in place on

January 1, 2003. In effect, U.S. rice exports will face duties significantly below what the CAFTA-DR countries could charge under their WTO bindings. This benefit begins when the agreement is implemented, and continues through the transition to free trade.

TRQs for milled rice will increase 5 percent a year, except in the Dominican Republic, where growth will range from 3 percent to 6.5 percent annually. TRQs for rough rice will increase 2 percent annually in Costa Rica, El Salvador and Honduras; 3 percent in Nicaragua; and 5 percent in Guatemala. Additionally, the U.S. negotiated "performance requirements" that are designed to ensure that the TRQs are managed so that they fill.

The total TRQ access amounts to over 400,000 metric tons (mt) immediately and grows through the tariff phase-out period. The details on TRQs by country are as follows:

Costa Rica: A 51,000 mt duty-free quota is available for U.S. rough rice, growing at 2 percent annually. The quota for milled rice starts at 5,250 mt and grows 5 percent annually.

Dominican Republic: U.S. brown rice will receive a TRQ of 2,140 mt with 7 percent annual growth, while U.S. milled rice gains access to a TRQ of 8,560 mt growing at 7 percent annually.

El Salvador: U.S. rough rice exports are provided with a 62,220 mt duty-free TRQ which expands 2 percent annually for 5 years. In year 6, the quota is increased by an additional 3,000 mt, and then continues expanding at 2 percent thereafter. Milled rice starts with a 5,625 mt duty-free TRQ, and grows 375 mt per year for the first 5 years, before increasing by 1,000 mt in the sixth year, and grows by 320 mt per year thereafter.

Guatemala: U.S. rough rice exports are provided with a 54,600 mt duty-free TRQ which expands 5 percent annually, and a 10,500 mt duty-free TRQ for milled rice, growing 5 percent annually.

Honduras: U.S. rough rice is provided with a 91,800 mt duty-free TRQ which expands 2 percent annually, and U.S. milled rice is given an 8,925 mt duty-free TRQ with 5 percent annual growth.

Nicaragua: U.S. rough rice is provided with a 92,700 mt duty-free TRQ, which expands 3 percent annually, and U.S. milled rice receives a 13,650 mt TRQ with 5 percent annual growth.

The American Farm Bureau Federation concluded last year following an economic analysis of the CAFTA-DR that upon full implementation the agreement would boost the value of rice exports to the region by over $90 million.

TRADE AGREEMENTS BENEFIT THE U.S. RICE INDUSTRY

U.S. rice exports for the current marketing year are projected by the U.S. Department of Agriculture to be 3.3 million metric tons on a milled basis. On a value basis, U.S. rice exports in 2004/2005 will likely once again exceed $1 billion.

Sales to the two largest foreign markets for U.S. rice– Mexico and Japan –should account for one- third of the value of exports this year. Without the North American Free Trade Agreement and the Uruguay Round's Agreement on Agriculture our sales to Mexico would be substantially below current levels and the Japanese market would remain closed, locking out U.S. rice.

Our export success in three other key markets – the EU, Korea, and Taiwan – is also directly correlated to the market access disciplines of the Uruguay Round. Sales to these three markets are expected to account for about 10 percent of total U.S. exports in 2004/2005.

In two separate negotiations, for example, U.S. negotiators recently used the trade laws included in the Uruguay Round Agreements to push back an attempt by the EU to shut off our access for brown rice, while negotiating substantially increased access in Korea.

We are confident that U.S. rice sales to the CAFTA-DR countries will be likewise strengthened by this new agreement.

We know that neither CAFTA-DR nor any other trade agreement will solve all our problems. Non-tariff trade barriers are an unfortunate problem facing U.S. rice in many foreign markets, including, unfortunately, the Central American region and the Dominican Republic. However, trade agreements, in conjunction with consistent enforcement by our trade officials, have immensely improved our competitive position in foreign markets.

The CAFTA-DR addresses the most prevalent type of non-tariff trade barriers – those dealing with sanitary and phytosanitary measures. The parties affirm the intent to apply the science-based disciplines of the WTO Agreement on Sanitary and Phytosanitary (SPS) Measures. An SPS Committee is established to expedite resolution of technical issues. Additionally, actions to resolve specific SPS measures restricting trade among the parties have also been agreed to.

It is critically important, therefore, that U.S. rice continue to be a part of future U.S. trade agreements. As I noted at the beginning of my testimony, every government requested that rice be excluded from the CAFTA-DR. A firm stand by the administration allowed our industry to participate and help our negotiators get a good deal for the U.S. rice industry rather than standing on the outside looking in.

While we understand other sectors of agriculture believe otherwise, the benefits of this trade agreement to the rice industry as well as to many, many other sectors of U.S. agriculture are critically important. We believe that the administration has negotiated an agreement that strengthens U.S. agriculture. The U.S. rice industry urges this Committee and Congress to support the benefits of expanded trade to U.S. agriculture and the consumers of Central America and the Dominican Republic.

CAFTA-DR MEANS OPPORTUNITY, GROWTH AND CHOICE

In conclusion, Mr. Chairman, CAFTA-DR means opportunity, growth, and choice for U.S. rice producers, millers and exporters, and for consumers in Central America and the Dominican Republic.

The CAFTA-DR agreement locks in access to a huge and growing market for U.S. rice. The CAFTA-DR sets minimum access guarantees for U.S. rice.

Discrimination against milled rice imports by the CAFTA-DR governments will eventually end. The market and consumers will determine U.S. rice exports to the region.

The agreement strengthens the ability of end users to choose between rough and milled rice while establishing minimum access guarantees for all U.S. rice.

CAFTA-DR provides advantages for U.S. rice only; no other international supplier will benefit.

In addition to rice, the record is clear that the CAFTA-DR provides real benefits to almost every segment of U.S. agriculture. The U.S. rice industry urges the full support of the Committee and Congress for this important agreement.

The USA Rice Federation and the US Rice Producers Association support this trade agreement and urge members of this Committee and Congress to vote for CAFTA-DR.

I would be happy to answer any questions you or other members of the committee may have.

Thank you.

April 4, 2005

Dear Member of Congress:

The undersigned groups representing the U.S. food and agricultural community urge your support for the Free Trade Agreement with Central American and the Dominican Republic (CAFTA-DR). CAFTA-DR is a home run for American agriculture. We are giving up very little to gain very much. Normally in trade agreements, each party expects the concessions it receives to balance the concessions it grants. Uniquely in CAFTA-DR, the agriculture agreement is tilted steeply in the direction of the United States.

Previous trade arrangements approved by Congress gave generous access to the U.S. market for food and agriculture exports from these six nations but provided no reciprocal benefits to U.S. food and agriculture exports to those same six markets. Between the Generalized System of Preferences, which has been in place since 1976, and the Caribbean Basin Economic Recovery Act, or Caribbean Basin Initiative (CBI), which has been in place since 1983, U.S. tariffs on most of the food and agricultural products imported from the CAFTA-DR countries are already zero.

On a trade-weighted basis, over 99 percent of the food and agriculture products we import from the region enter duty-free. On the other hand, the food and agriculture tariffs our products must overcome in the CAFTA-DR countries exceed 11 percent on average, but can range as high as 150 percent or more on sensitive products. This does not include the highly restrictive tariff-rate quotas many of our products face. The result is that we have an agriculture trade deficit with these six nations. In 2004, U.S. imports from these countries exceeded our exports to the region by over three quarters of a billion dollars.

So, a vote for CAFTA-DR is a vote to give American farmers trade reciprocity. It is also a vote to keep our food and agriculture exports competitive with products from other countries. Our market share in the CAFTA-DR nations has fallen from 54 percent in 1995 to around 40 percent because of preferential arrangements negotiated by these six countries with our competitors. The implementation of CAFTA-DR will remedy this problem.

Congress last voted to extend the unilateral benefits under GSP and CBI to these countries and others as part of the Trade Act of 2002. The most recent stand-alone vote on a CBI conference report in 2000 demonstrates the willingness of Congress to provide trade benefits to an important region of the world. In the Senate, CBI passed by a vote of 77-19 with 4 abstentions; in the House, it was approved by a vote of 309-110 with 16 abstentions. The undersigned organizations, representing the vast majority of U.S. agriculture, are simply requesting that Congress provide to American farmers what it has already provided to farmers in the CAFTA-DR countries – improved market access for their exports.

Sincerely,

Altria Group, Inc.
American Bakers Association
American Farm Bureau Federation
American Feed Industry Association
American Frozen Food Institute
American Meat Institute
American Potato Trade Alliance
American Soybean Association
Animal Health Institute
Biotechnology Industry Organization
Blue Diamond Growers
Bunge North America, Inc.
California Canning Peach Commission
California Table Grape Commission
Cargill, Incorporated
Corn Refiners Association
CropLife America
Elanco
Food Products Association
Grocery Manufacturers of America
International Dairy Foods Association
Louis Dreyfus Corporation
National Association of Wheat Growers
National Cattlemen's Beef Association
National Chicken Council
National Confectioners Association
National Corn Growers Association
National Grain and Feed Association
National Grain Sorghum Producers
National Grain Trade Council
National Grange
National Milk Producers Federation
National Oilseed Processors Association
National Pork Producers Council
National Potato Council
National Renderers Association
National Turkey Federation
North American Export Grain Association
North American Millers' Association
Northwest Horticultural Council
Pet Food Institute
Sweetener Users Association
The Distilled Spirits Council

The Fertilizer Institute
U.S. Dairy Export Council
United Egg Producers
United States Dry Bean Council
US Apple Association
US Hide, Skin and Leather Association
US Meat Export Federation
US Wheat Associates
USA Poultry and Egg Export Council
USA Rice Federation
Washington State Potato Commission
Western Growers Association
Wheat Export Trade Education Committee