



**Testimony of
Michael Rue**

**Before
Senate Finance Committee
Subcommittee on Trade**

The U.S.-Korea Free Trade Agreement: Lessons Learned Two Years Later

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Introduction

Chairwoman Stabenow, Ranking Member Isakson, and members of the subcommittee, thank you for holding this important hearing on the lessons learned from the Korean Free Trade Agreement and how the lessons learned from that agreement can impact trade negotiations currently underway and future trade agreements. I am pleased to have the opportunity to offer testimony before the subcommittee concerning our industry's trade challenges and opportunities, particularly in the Asian markets.

My name is Michael Rue, and I am testifying today on behalf of the USA Rice Federation, where I serve as Vice-Chairman of the International Trade Policy Committee. I grew up on my family's ranching operation in the Sacramento Valley of California where we have been growing rice for over 40 years. Our family owns and operates Catlett Warehouse, commercial rice drying and storage facility, and I also serve as President of the South Yuba (California) Water District.

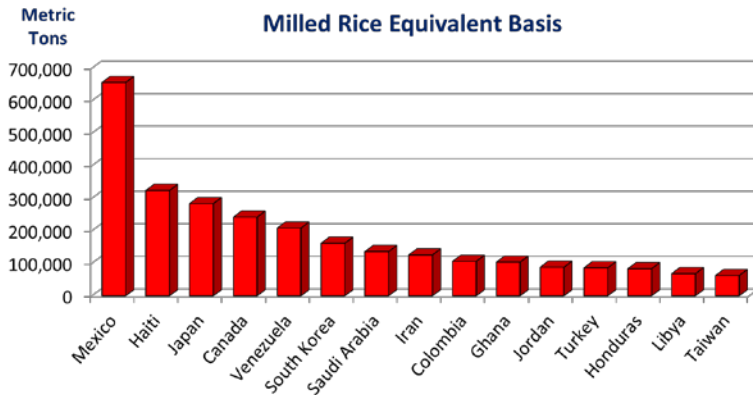
Industry Overview

The USA Rice Federation is the global advocate for all segments of the U.S. rice industry with a mission to promote and protect the interests of producers, millers, merchants and allied businesses. USA Rice members are active in all rice-producing states: Arkansas, California, Florida, Illinois, Kentucky, Louisiana, Mississippi, Missouri Tennessee, and Texas. The USA Rice Producers' Group, USA Rice Council, USA Rice Merchants' Association and the USA Rice Millers' Association are members of the USA Rice Federation.

Nationally, the U.S. rice industry contributes \$34 billion in annual economic activity. It provides jobs and income for not only rice producers and processors, but also for all involved in the value chain, contributing 128,000 jobs.

About 85 percent of all the rice that is consumed in the U.S. is produced domestically. Despite significant foreign trade barriers, the U.S. remains the largest non-Asian exporter of rice and the fourth largest exporter worldwide.

2013 Top 15 U.S. Rice Export Markets



The Key Lesson Learned is No Product Exclusions

One of the most egregious repudiations of sound trade policy is the focus of this hearing today. In 2007, as the negotiators were wrapping up the remaining issues in what would be the U.S.-Korea Free Trade Agreement (KORUS), South Korean negotiators, at the eleventh hour, demanded that rice be excluded from the agreement because they considered rice a “sensitive crop.” U.S. negotiators ultimately agreed to the exclusion.

The exclusion of rice in KORUS halted any progress in improved market access for U.S. rice beyond the very restrictive provisions of the Uruguay Round Agreements of 1994. The exclusion of rice in KORUS provides support today for those in the Trans Pacific Partnership (TPP), primarily Japan, who seek to turn back the clock and retreat from a comprehensive trade agreement. Rice and the other so-called sensitive commodities face the real prospect of substandard market access gains if Japan is allowed to prevail in TPP.

For the U.S. rice industry, this is the key lesson learned from KORUS – product exclusions have no place in U.S. trade policy. Not only do they deny access improvements for U.S. agriculture, they poison the water for future trade agreements as other countries with politically sensitive commodities seek to gain similar exemptions.

We have begun work now with U.S. negotiators as Korea seeks to transition from the rice import regime set up 20 years ago – so-called special treatment in WTO speak – to a tariff-based system. This emerging negotiation is an opportunity to advance the market access ball that was so effectively spiked with KORUS.

Global Challenges Facing U.S. Rice Industry

While rice is one of the top grains consumed in the world, global rice trade is rife with government intervention and market distortions, illustrating the importance of commercially sound and comprehensive trade agreements. U.S. producers and exporters need the ability to compete on a level playing field with foreign governments.

Major rice producing and exporting countries provide support to producers at levels that substantially exceed those provided by U.S. producers and, importantly, at levels that very likely exceed levels permitted by the Uruguay Round’s Agreement on Agriculture.

Comparative Support Prices for Rice

Country	Long Grain Rice \$/Metric Ton (MT)
U.S. 1/	\$231/MT
India (2013)	\$231/MT
Brazil (2011)	\$253/MT
Turkey (2012) 2/	\$513/MT
Thailand (2013)	\$418- \$454/MT
China (2013)	\$432/MT

1/ Target prices, 2008-2013 crops.

2/ Medium grain.

A study undertaken by USA Rice in 2011, and currently being revised, showed domestic support levels of rice in Brazil, India, Thailand, and Turkey well in excess of each of these countries' WTO limits.

Support in **Thailand**, for example, has been on a steady and impressive rise for most of this century and only recently curtailed because of the political turmoil in the country. Support prices for rice nearly tripled between 2003 and 2010. The paddy pledging program, instituted in 2011, purchased rice from farmers at 40 to 50 percent above the prevailing world price, causing a significant increase in stocks in excess of 15 million tons late last year.

There are press reports that Thai officials have released some of these stocks onto the world market at less than the cost of acquisition in order to reduce the burgeoning costs of the program. Such a release would be in clear violation of Thailand's WTO obligations which prohibit export subsidies for rice.

In **Brazil**, a large increase in rice exports in 2011 appears to be attributable to the use of export subsidies under the PEP (*Premio para Escoamento de Produto*) program. PEP acts as an export subsidy because export of covered products, such as rice, is a condition of receiving payment under the program. Brazil has a zero binding for export subsidies on rice in the country's WTO commitments.

Another study by USA Rice indicated subsidies for rice producers in **Vietnam** that exceeded by a substantial margin Vietnam's WTO ceiling for amber box domestic supports. The study used two different methodologies to calculate the aggregate measure of support (AMS) generated by Vietnam's price support program, one taking into account full Vietnamese rice

production, the other using rice procured under the price support program (2 million MT, milled basis). Using either methodology, the AMS for Vietnam's price support program is well in excess of VND 3.6 trillion, or \$188 million. Vietnam's price support program for rice therefore likely results in a violation of the country's WTO subsidy obligations.

The lack of timely notifications of domestic support levels by many advanced developing countries such as those discussed above makes more difficult the challenge of getting a handle on how much countries are spending on agricultural supports and the trade distorting nature of these supports.

It is critical that the administration press for timely notifications and then to analyze these reports to assess compliance with WTO obligations and to take actions in Geneva accordingly.

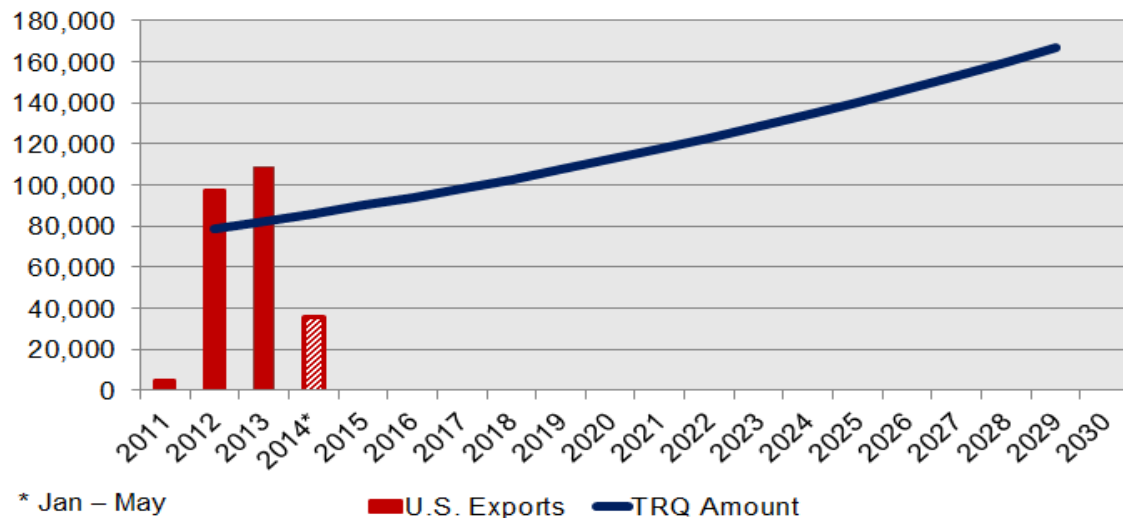
This is only a survey of the uneven competition facing U.S. rice producers, processors and exporters on the global market. Comprehensive and well negotiated trade agreements are necessary to address these and other government-backed barriers to U.S. exports and competitiveness.

Importance of Trade Agreements

We know that trade agreements work. NAFTA was an early success that has provided Mexico as consistently the number one export destination for U.S. rice. More recently, the U.S.-Colombia Trade Promotion Agreement has created a new market for U.S. rice and, as an added benefit, provided a reliable funding stream for rice research for many years to come. The Uruguay Round Agreements opened up markets in Japan and Korea to U.S. rice and paved the way for market opening in Taiwan upon WTO accession.

Exports to Colombia were low and sporadic prior to the implementation of the U.S. Colombia FTA. In 2012, the first year of implementation of the FTA, nearly 100,000 metric tons (MT) of U.S. rice entered Colombia, exceeding the tariff rate quota (TRQ) by nearly 20,000 MT. The TRQs expand 4.5 percent with each subsequent year of implementation. As an offset negotiated by the United States to the 17-year phase out of Colombia's 80 percent import duty on U.S. rice, Colombia and the United States split 50-50 the quota rents from auctioning TRQ licenses. The U.S. share is dedicated to rice research in the six main rice states, and these states shared \$6.4 million in 2013. While annual amounts will vary, this is a revenue stream which will continue for years.

Colombia Trade Promotion Agreement TRQ Growth and U.S. Exports



Looking Forward: Trans-Pacific Partnership

Japan is the second largest export market for U.S. rice, and market access for U.S. rice in Japan is critical to the continued economic health of all segments of the U.S. rice industry. However, current market access in Japan is far from optimal.

The TPP negotiations offer the best opportunity since the Uruguay Round concluded nearly 20 years ago to achieve a meaningful improvement in the quantity and quality of U.S. rice access. The U.S. rice industry has long understood and appreciated the unique political sensitivity of rice in Japan. This sensitivity is reflected in all multilateral and bilateral negotiations and agreements concerning Japan rice market access since access began in 1995.

U.S. negotiators have learned the key lesson of KORUS – that product exclusions have no place in United States trade policy today. We acknowledge and appreciate the ongoing active support and strong efforts of administration negotiators in TPP to obtain meaningful improvements in access for U.S. rice in Japan.

However, more work needs to be done and Japan must show substantially more flexibility before we are able to accept what is on the table for U.S. rice. If Japan cannot move forward on market access on the sensitive commodities at this time, then the other TPP partners should move forward without Japan.

USA Rice and its members have a long-standing commitment to the Japan market, both in policy efforts to obtain access and through promotion activities in Japan so that high quality U.S. rice is available to this important market. We look forward to continuing this commitment.

Korea's wish to join the TPP offers an opportunity to redress a failed decision. This is also an opportunity to set comprehensiveness and trade liberalization as conditions of entry for Korea as a TPP partner. Rice liberalization must be on the table if Korea is allowed to join TPP, and we would not support any TPP agreement with Korea that did not provide for a meaningful improvement in the quality and quantity of our current access.

Looking Forward: Transatlantic Trade and Investment Partnership

The European Union (EU) has traditionally been a major export destination for U.S. rice, particularly long grain varieties from the mid-South. However, U.S. access is sharply constrained by EU import policies designed to protect the brown rice milling industry in northern Europe; to provide specific tariff concessions on rice from former EU colonies; and to provide duty free access to least developed countries. These policy priorities have left U.S. access restricted to brown rice because of prohibitive import duties on milled rice. The United States does benefit from a small tariff rate quota for a specific amount of fully milled rice granted as a concession due to EU expansion in 1995.

U.S. access suffered a devastating blow in August 2006, from which it has yet to recover, following announcement by USDA/APHIS of the accidental contamination of the U.S. long grain commercial rice supply with the genetically modified (GM) traits Liberty Link 62 and Liberty Link 601 (LL62, LL601). These GM traits were and remain illegal for food and animal consumption in the EU, and a robust long grain rice export market nearly vanished overnight. The EU's biotechnology regulatory failure has thwarted U.S. rice industry attempts to restore this market despite the U.S. industry's success in effectively removing these two GM traits from the commercial long grain rice supply. This success is widely recognized in the United States and the EU.

Because of the history of discriminatory and differential tariff treatment afforded U.S. rice and the unscientific bias of the EU's biotechnology policy, USA Rice is urging USTR to negotiate a T-TIP agreement that provides for free trade in all forms and types of rice between the United States and the EU and that provides for a regulatory solution that includes a low level presence policy (LLP). Such an LLP is warranted in recognition of U.S. industry efforts to remove LL traits from the U.S. long grain rice supply, and in recognition of U.S. and EU regulatory reviews that demonstrate no plant or human health threats from LL62 and the close variant, LL601.

USA Rice members appreciate the likely sensitive nature in the EU of rice in these negotiations. These sensitivities may influence the staging and structure of liberalization, but it should not deter U.S. negotiators from achieving a robust result that lays out a transparent and attainable route to free trade in rice.

Conclusion

In closing, we were disappointed to be left out of an agreement with South Korea that has provided meaningful market access for many other U.S. products, including others represented here at this table. Looking to future negotiations, USA Rice believes that no one commodity can be excluded from a free trade agreement.

Thank you for this opportunity and I look forward to any questions you might have for me.