

**AGRICULTURE NEGOTIATIONS IN THE WTO
AFTER SEATTLE**

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

—————
MARCH 7, 2000
—————



Printed for the use of the Committee on Finance

—————
U.S. GOVERNMENT PRINTING OFFICE

64-100-CC

WASHINGTON : 2000

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-060728-0

5361-25

COMMITTEE ON FINANCE

WILLIAM V. ROTH, JR., Delaware, *Chairman*

CHARLES E. GRASSLEY, Iowa	DANIEL PATRICK MOYNIHAN, New York
ORRIN G. HATCH, Utah	MAX BAUCUS, Montana
FRANK H. MURKOWSKI, Alaska	JOHN D. ROCKEFELLER IV, West Virginia
DON NICKLES, Oklahoma	JOHN BREAUX, Louisiana
PHIL GRAMM, Texas	KENT CONRAD, North Dakota
TRENT LOTT, Mississippi	BOB GRAHAM, Florida
JAMES M. JEFFORDS, Vermont	RICHARD H. BRYAN, Nevada
CONNIE MACK, Florida	J. ROBERT KERREY, Nebraska
FRED THOMPSON, Tennessee	CHARLES S. ROBB, Virginia
PAUL COVERDELL, Georgia	

FRANKLIN G. POLK, *Staff Director and Chief Counsel*
DAVID PODOFF, *Minority Staff Director and Chief Economist*

SUBCOMMITTEE ON INTERNATIONAL TRADE

CHARLES E. GRASSLEY, Iowa, *Chairman*

FRED THOMPSON, Tennessee	DANIEL PATRICK MOYNIHAN, New York
FRANK H. MURKOWSKI, Alaska	MAX BAUCUS, Montana
WILLIAM V. ROTH, JR., Delaware	JOHN D. ROCKEFELLER IV, West Virginia
TRENT LOTT, Mississippi	JOHN BREAUX, Louisiana
PHIL GRAMM, Texas	KENT CONRAD, North Dakota
ORRIN G. HATCH, Utah	BOB GRAHAM, Florida
JAMES M. JEFFORDS, Vermont	J. ROBERT KERREY, Nebraska
PAUL COVERDELL, Georgia	CHARLES S. ROBB, Virginia

CONTENTS

OPENING STATEMENTS

	Page
Grassley, Hon. Charles E., a U.S. Senator from Iowa, chairman, Subcommittee on International Trade	1

ADMINISTRATION WITNESSES

Glickman, Hon. Dan, Secretary of Agriculture, accompanied by Dr. Is Siddiqui, Trade Advisor to the Secretary of Agriculture	4
Barshefsky, Hon. Charlene, U.S. Trade Representative	7

CONGRESSIONAL WITNESSES

Westin, Susan, Associate Director, General Accounting Office, accompanied by Elizabeth Sirois, Assistant Director, GAO, and Juan Gobel, Senior Evaluator, GAO	25
---	----

PUBLIC WITNESSES

Keppy, Glen, Davenport, IA, accompanied by Neal Keppy, Davenport, IA	30
Thorn, Craig, senior policy advisor, Powell, Goldstein, Frazer & Murphy	32
Darden, Delores, president, Virginia Small Grains Association, Smithfield VA	35
Rudolph, Donald, president, Upstate Farms Cooperative, Darien Center, NY ..	36

ALPHABETICAL LISTING AND APPENDIX MATERIAL

Barshefsky, Hon. Charlene:	
Testimony	7
Prepared statement	45
Responses to questions from Senator Grassley	50
Darden, Delores:	
Testimony	35
Prepared statement	51
Glickman, Hon. Dan:	
Testimony	4
Prepared statement with attachment	54
Grassley, Hon. Charles E.:	
Opening statement	1
Keppy, Glen:	
Testimony	30
Prepared statement	66
Rudolph, Donald:	
Testimony	36
Prepared statement	74
Thorn, Craig:	
Testimony	32
Prepared statement	77
Westin, Susan S.:	
Testimony	25
Prepared statement	80

AGRICULTURE NEGOTIATIONS IN THE WTO AFTER SEATTLE

TUESDAY, MARCH 7, 2000

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

The hearing was convened, pursuant to notice, at 10:06 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the subcommittee) presiding.

Also present: Senators Lott, Baucus, and Breaux.

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

Senator GRASSLEY. Thank you all very much for coming. More importantly, thank you for being patient while I got here 5 minutes late. Particularly, thank you to our busy administration personnel who are with us to discuss this very important issue with us.

In a few days, the WTO negotiations on agriculture will get under way in Geneva, and that is mandated by Article XX of the Uruguay Round. These negotiations will begin, despite failure of the WTO ministerial conference in Seattle, to agreeing on an agenda that would have launched the ninth round of the multilateral trade negotiations that have been going on periodically since 1947.

On the eve of these talks, members of the subcommittee would like to know from our witnesses for the administration what specific negotiating proposals are still on the table, if any, after Seattle; what specifically we are hoping to achieve in Geneva; how do plan to move agriculture negotiations forward without a more comprehensive negotiating agenda?

I have many concerns about our agricultural negotiations. My biggest concern, is that the scope of the proposed talks happen to be too narrow. As the failure in Seattle made clear, we cannot play just within the 20-yard line when everyone else is playing all over the rest of the football field.

We went through this same debate about the scope of global trade negotiations right here in this subcommittee. In May of 1986, I had a chance to go back over some of what was going on at that time on the work of this committee. It seems to me that, at that time in the middle of the Uruguay Round negotiations, the stakes were very big then as well.

Up until that point, we had never had any success on having global trade negotiations in agriculture, largely because of the foot-

dragging that we confront too often with the European community. Many people realized back then that we had to have broad negotiations to make any progress on agriculture.

In fact, the United States was the one insisting on the need then for a very broad round. Clayton Yeutter, our trade representative in 1986, told this subcommittee, "We should have a very broad negotiating agenda because otherwise it makes it increasingly difficult to achieve a meaningful result at the end."

I happened to be here in the room when Ambassador Yeutter made that comment, and I happened to agree with him at that particular time. History proved that that was the right course. The Uruguay Round was very difficult; it was long, but it accomplished something big and something very important.

For the first time in 50 years we were able to agree that, because of its extremely high cost and dubious benefits, we ought to dismantle protection for agriculture, we ought to have rules and disciplines governing agricultural trade like other sectors. Peter Sutherland, the first Director General, was right when he said the conclusion of the Uruguay Round was "a defining moment in modern history."

So here we are 14 years later having this same debate about the scope of the new round, only this time we are the ones insisting, seemingly, on a narrower scope of talks. I have to say that this is discouraging, in fact, very discouraging, because I think we got it right in 1986. I do not know how we can get a successful round and get a good deal for agriculture without real comprehensive agendas.

Now, Article XX of the Uruguay Round Agreement requires us to start these agriculture negotiations this year in Geneva under the so-called built-in agenda. But I do not want us to just go through the motions in Geneva because the Uruguay Agreement says that we have to, nor do I want to see us begin these talks with the idea that we can get serious later when the political outlook is better.

Frankly, we should not care about the political outlook. What I do about this whole issue is the outlook on the farm, whether it is in my home town of New Hartford, IA, or in Nebraska or South Dakota, all across the farm belt.

Right now, the economics of that is not very good; we are near record-low prices. A big reason for this, is that our agricultural exports are declining. In my State of Iowa, for example, I should say that the decline has seemed to turn around somewhat and there are some brighter outlooks for exports, but for a long period of time, our low prices are related to the decline of those exports.

For pork, that was down 10 percent for my State of Iowa; for soybeans, it fell 52 percent; for corn, it fell 16 percent. This hardship, though, is reflected on the national level as well. Today, we have the smallest agricultural trade surplus since 1987, and it is only \$11 billion.

It is no mystery why farmers are so badly hurt economically now. Because America's farmers are the most efficient in the world, they produce far more than we can consume in this country. Exporting is what it takes for profitability.

If we had a broader market access for agricultural products, I think our firms would be much better off, and particularly we would be insulated when trouble hits in other parts of the world, as it did with the Southeast Asia financial crisis, we would have more alternatives, our farmers would have more opportunities to sell their products, our farm economy would be more resilient.

There are other critically important reasons why we must move ahead aggressively with the plan to start a new round of global agricultural talks. About 400 million people in the world still struggle to get enough food just to live.

Trade restrictions on food and agricultural products leave people malnourished. It is one of the ways that we can help meet the humanitarian needs that we figure is the responsibility of our foreign policy.

I know that the United States will not discuss the scope of multi-lateral negotiations at the agricultural talks coming up in Geneva, because the Seattle ministerial was the place to do that.

That is why I am calling on the administration to work with our trading partners to begin a new ministerial conference. Start the required negotiations in Geneva, take care of the nuts-and-bolts issues that we have to deal with, and that we can deal with.

But we need to keep our eyes on the big picture, and that big picture is to go back to the negotiating table and work to get a new round under way with more comprehensive scope, resulting in more open markets and more markets for our farmers.

I would just like to say, in closing, politics is a lot like farming, and I have done both in my years. The one thing that I have learned from farming is how to deal with setbacks. You have to be prepared for them, because they happen all the time for reasons that we might never expect. That is also true of politics, and maybe that was one of the surprises of Seattle.

But if you have the will and the faith to go forward in the face of adversity, we can come out all right in the end. So if the administration has a will to go forward now, even after big setbacks, we can still come out all right. We can still get what we need for our farmers and, in the end, the good that it brings to the entire economy of the United States.

We get, also, more open markets. That is good for our own economy, that is good for the world economy, that is good for the humanitarian goals that we have to meet, and it is also good for promoting peace around the world, as it seems like commerce is able to contribute more towards that than sometimes we political leaders and diplomats can do.

It also results in fewer protectionist tariffs and nontariff barriers, higher and more stable prices, a better way of life, and everything that goes with it.

Now, I am going to immediately go to our witnesses. Since they are Cabinet people, I am not going to bother to introduce them.

I am going to stop if anybody from the Democratic side of the aisle comes to give them an opportunity to make opening statements if they want to. I mean, one of the members.

I understand that Secretary Glickman is on a very tight schedule, and if it does not bother protocol, I will start with you, then.

STATEMENT OF HON. DAN GLICKMAN, SECRETARY OF AGRICULTURE, ACCOMPANIED BY DR. IS SIDDIQUI, TRADE ADVISOR TO THE SECRETARY OF AGRICULTURE

Secretary GLICKMAN. Thank you. First of all, thank you, Senator Grassley, for having us. I have known you for a long time, as a member of the House Agriculture Committee, and you have done an outstanding job in both farm, trade, and finance issues. You are a credit to your State.

Actually, you probably will be more interested in hearing what Ambassador Barshefsky says because she has been the leader of efforts to try to bring a new round of trade negotiations, working tirelessly in Seattle.

In fact, I was there, as you were, and I think she went about 72 hours straight without any sleep, trying to, I would not use the word browbeat, but trying to persuade the world to go along with the sensible round.

I remember her in this Green Room, dealing with issues involving Japan and Korea, and dealing with issues of multifunctionality and what the language should be. I thought, if there was a Solomon alive in this world, it was Charlene Barshefsky. Unfortunately, there were not enough sensible people to work together to try to accomplish these results.

Senator GRASSLEY. For people who come to these hearings on a regular basis, they have heard this committee compliment her on her outstanding work as a negotiator. There is not any blame placed on her because these things have not been accomplished, but somewhere in our political system there is responsibility.

Secretary GLICKMAN. We all share it. Now the expression "today is the first day of the rest of our lives," we have got to move forward, as you said, dealing with setbacks and trying to make the best out of them, making lemonade out of lemons, and that is what we are trying to do.

We did make a lot of progress in Seattle. I think we increased the understanding on the need to continue to press for fundamental reform that began in the Uruguay Round by increasing market access, improving disciplines governing domestic support, addressing non-trade concerns such as supporting rural sectors in ways that do not distort trade.

The critical issue of eliminating export subsidies over time was not agreed at the conference—this was a major bone of contention—and there were several other topics. But on the issue of export subsidies, I think we have isolated the European Union in the world as the one who is the largest culprit in continuing this practice.

We may not pick up exactly where we left off in Seattle, but at some point we will inevitably confront those issues again before the next round can conclude.

Equally clear is the urgent need to continue the path of reform laid out during the Uruguay Round. The pressures facing agriculture worldwide require that we act to increase opportunities for producers everywhere to market their crops. The tick of the clock counting down on the expiration of the peace clause at the end of the year 2003 is making inaction inconceivable.

The majority of U.S. farmers and ranchers know that there is only one direction to go, and that is forward. Twenty-five percent of U.S. agricultural sales are for export. Ninety-six percent of the world's consumers live outside of the United States. Agricultural exports account for nearly 750,000 jobs here at home, both on and off the farm.

While there is some domestic growth for consumption of agricultural products, it is not enough domestically with U.S. consumers to pick up the slack. We must export this product in order to give farmers a chance to take advantage of this income.

We export 12 times as much wheat as we import, 21 times as much corn and feed grains we export as we import, 5 times as much rice, twice as much tobacco, 9 times as much cotton.

In the case of soybeans, we exported \$4.7 billion worth last year and imported virtually none. It is clear, agriculture's prosperity is dependent on opening markets, not closing them.

For these reasons, our objectives for agriculture remain firm. They are: (1) eliminating export subsidies, largely a European phenomenon; (2) reforming state trading enterprises; (3) improving market access by reducing tariffs and increasing market access opportunities for producers subject to tariff rate quotas; (4) tightening rules on trade-distorting domestic support; (5) preserve the sanitary and phytosanitary agreement; (6) facilitate trade in new technologies, such as biotechnology.

The Seattle ministerial laid bare some problems with the WTO system itself. It has outgrown some of the procedures that were appropriate 50 years ago when there were 30 or so members, today there are 135 members. That was one of the problems we saw in Seattle.

Member countries generally agree that a more conclusive and transparent process needs to be established to accommodate a larger and more diverse membership.

The United States, President Clinton, Ambassador Barshefsky, worked very, very hard to make this process more open, and some of our allies actually resisted that effort towards transparency.

For this reason, we have continued to consult with developing countries to ensure consensus is reached in the negotiating process. In fact, the WTO Director General more recently concluded that the WTO must work closely with least-developed and developing countries to provide more transparent means to ensure full participation in WTO negotiations and to widen access to global markets.

Among ways to improve the transparency in WTO operations would be to make public the briefs submitted under WTO dispute settlement procedures, as the U.S. does, or to open dispute settlement hearings to public observation. I have mentioned other things in my statement that would try to go down this road to improve transparency and inclusiveness.

Earlier this month, we were heartened by the Director General's decision to begin the mandated negotiations in agriculture and services. That was part of the General Council.

Agricultural negotiations will be conducted in the Committee on Agriculture meeting in special sessions. The first of those is the end of this month in Geneva.

The start of these negotiations, under the built-in agenda, is a positive development. It allows for preliminary work to be accomplished, making us hopeful that this year will be productive.

Because expanding access to foreign markets is critical to U.S. agriculture, we are very excited about the U.S.-China bilateral WTO agreement. China's WTO accession will strengthen the global trading system, slash barriers to U.S. agriculture.

And Mr. Chairman, I have provided these little blue cards. I call them kind of ag cheat sheets. But they are not cheat, they are showing how agriculture will benefit by the U.S.-China agreement. It puts all the tariff cuts on one piece of paper, and I think it is useful to have for members as they go out into their districts.

Senator GRASSLEY. I still remember the statement you made last week on win, win, win.

Secretary GLICKMAN. Win, win, win. Yes.

Senator GRASSLEY. Keep making that. I have repeated that several times since I heard you say that.

Secretary GLICKMAN. But China's WTO accession is a win-win for American agriculture. We give up nothing.

It reminds me, if I might digress for a minute, I was out at one of the conventions of farm organizations and somebody stood up and said, well, China may be all right, but we suffered because of NAFTA, we suffered because of the Canadian Free Trade Agreement, and they gave a lot of things. I said, well, I think those agreements were good for this country, do not get me wrong. But this is not NAFTA.

This is an agreement by which we get market access into another country. We give up nothing, because they already have complete market access in the United States. That is, what this agreement is, is it opens their market to us, not the reverse.

This has nothing to do with prior trade agreements. And I am not trying to disparage those agreements, I am just saying that this is one that is critically one-sided in our favor. We have got to give China permanent NTR in order to do that.

We have made this a top priority. As I said, we give up nothing to grant China permanent NTR. The U.S. did not provide any concession in agriculture to China. In fact, the concessions we got from China under Ambassador Barshefsky's leadership are extraordinary.

But if we deny their status, I guarantee you that the EU, Australia, Canada, Argentina will eat our lunch. They will come in and take those markets permanently from us, and that will cost a lot of farmers, companies, and workers jobs and benefits, being deprived of the full benefit of China's WTO accession.

We estimate that this could mean as much as between \$1.5-\$2 billion annually to U.S. exports of agricultural products by the year 2005, and I have more of that in my statement.

I would note that China did purchase 50,000 metric tons of wheat from the Pacific Northwest last week. That was an encouraging sign, but it is just an encouraging first sign. We hope to see many more purchases in the future.

I would talk a little more about the China NTR, and I am sure Ambassador Barshefsky will mention that. I would like to tell you

that, while in the House, I was chairman of the House Intelligence Committee, served on that committee for 7 years.

I can tell you, from a national security perspective, if we isolate ourselves from a nation with as much ability to tilt the global balance of power in the world, it will hold very negative long-term consequences for the United States of America.

It will remove from us our ability to deal with human rights, dealing with labor problems, dealing with environmental problems, and dealing with Taiwan as well. I think it would be bad for our country in order not to do that. Again, the only winners would be our competitors.

I want to close with one other statement before I end, and that is this. The WTO is critical, China is critical, but they are not entire substitute for an adequate domestic farm safety net as well. That is, you cannot put all of your eggs in the trade basket.

It is a critical part of the safety net for farmers, but it is not the only part of the safety net for farmers. That is one of the reasons why the administration, working with Congress, hopefully, will be able to strengthen the farm safety net, which needs repair as a result of some of the loopholes contained in the 1996 Freedom to Farm Act.

Thank you very much, Mr. Chairman.

[The prepared statement of Secretary Glickman appears in the appendix.]

Senator GRASSLEY. Before Ambassador Barshefsky goes, I just wondered if the Leader, since he is always on a short table, did you have anything that you wanted to say?

Senator LOTT. Mr. Chairman, have we heard from Ambassador Barshefsky yet?

Senator GRASSLEY. No.

Senator LOTT. Actually, I do not have anything to say. I will have a couple of questions later.

Senator GRASSLEY. Ambassador Barshefsky?

[The prepared statement of Secretary Glickman appears in the appendix.]

STATEMENT OF HON. CHARLENE BARSHEFSKY, U.S. TRADE REPRESENTATIVE

Ambassador BARSHEFSKY. Thank you very much, Mr. Chairman, Mr. Leader, Senator Breaux. It is a pleasure to appear before the subcommittee on our agenda for agriculture at the WTO over the coming year.

I am also pleased to be here with Secretary Glickman, with whom we have worked so closely to open markets around the world. I want to pay special tribute to his leadership, as well as to his outstanding staff, in all of those efforts.

Agriculture has been at the center of American trade policy under President Clinton. The American farmers and ranchers are the most competitive and technically advanced in the world. We produce far more than we can ever eat and, therefore, depend on open markets worldwide to raise farm incomes and provide food and fiber for the world.

This has been our goal since the beginning of the administration. We have sought to reduce tariffs and other barriers to trade, en-

sure that sanitary and phytosanitary standards are based on science, promote fair trade by reducing foreign export subsidies and trade-distorting domestic supports, ensure greater transparency and fairness in State trading, and help guarantee that farmers and ranchers can use new technologies, such as biotechnology, when proven safe through fair, transparent, and science-based regulation without fear of trade discrimination.

The results have been substantial. The NAFTA won us preferential access to our immediate neighbors, helping our agricultural exports to Mexico and Canada grow by nearly \$4 billion, and we have negotiated a series of agreements to open markets for American producers worldwide: beef in Korea, apples and cherries in China, tomatoes and apples in Japan, almonds in Israel, citrus and other fruits in Brazil, Chile, Mexico, and other countries, a veterinary equivalents agreement with the EU, broad agricultural market access with Canada, and last year's agricultural cooperation agreement with China.

All of these initiatives, which are important in themselves, also help us to set precedents and build the international consensus necessary for fundamental reform of agricultural trade through the trading system.

With the completion of the Uruguay Round in 1993, we began to bring agricultural trade under fair and internationally accepted rules. As passed by the Finance Committee 5 years ago, the Uruguay Round abolished quotas, cut and bound tariffs, and subjected export subsidies and trade-distorting domestic support to discipline.

It committed the 135 members of the WTO to also use science-based sanitary and phytosanitary standards to protect human, animal, and plant health rather than to bar imports.

It also created strong dispute settlement mechanisms we use to hold trading partners to their commitments. We have filed 13 separate agricultural cases, ranging from fruit to Japan to pork in the Philippines, dairy in Canada, bananas and beef in the EU.

These latter two cases are of special importance, not only for their concrete economic value, but because they are the only cases—let me reemphasize, the only cases—in which a WTO member has not complied with its obligations after an adverse panel ruling, the only cases in agriculture, or anywhere else for that matter.

We expect full implementation of each panel decision and we are taking measures to ensure it, beginning with WTO-authorized retaliation against the European Union for failure to comply with the bananas and beef rulings.

The Uruguay Round also included a commitment to begin a second set of negotiations on agriculture and services in the year 2000. Fulfillment of this commitment is essential to the credibility of the WTO, as well as on the merits. While we have made substantial progress in agriculture, much work remains to be done. So, we are very pleased with the WTO General Council decision to formally open these negotiations. The first meeting will be held on March 23.

While no deadline for the conclusion of talks has yet been established, the expiration of the peace clause at the end of 2003, the

rewrite of our own farm bill, and the accession of Poland to the European Union should encourage all countries to proceed expeditiously with the work.

In preparation for more detailed proposals, we will extensively consult with the committee, other members of Congress, stakeholders, and work in tandem with the Congress in the drafting of a new farm bill.

But in these WTO talks, our fundamental principles are clear: (1) elimination of agricultural export subsidies; (2) lower tariff rates, and to bind them, which would include reduction and elimination of tariffs, elimination of tariff disparities, and simplification of tariff policies; (3) substantially reduce trade-distorting domestic supports and strengthen rules that ensure all production-related support is subject to discipline, while preserving criteria-based green box policies; (4) improve access for U.S. exports under tariff rate quotas, increasing the quantities eligible for low-duty treatment, reducing high out-of-quota duties, and improving disciplines on administration of TRQs to ensure that they offer real market access; (5) strengthen the disciplines on the operation of State trading enterprises; (6) address disciplines to ensure trade in agricultural biotechnology is based on transparent, predictable, and timely approval processes.

At the same time, Mr. Chairman, I agree absolutely with the comments you made on the necessity for broadening out these built-in agenda discussions to encompass a new round.

Let me assure you and members of the committee that the President and the administration remain committed to the launch of a new round and committed to working toward the consensus necessary to launch a new round.

Of course, to build international consensus will not be easy, but the outlines for it can be drawn if WTO members—all members—prove willing to rethink their negotiating positions, focus more fully on the shared benefits of the trading system, and find the balance that allows us to move ahead.

As the President has said, we will keep working toward consensus. We are willing to be flexible, but success will only come if our trading partners are flexible as well.

As we prepare for current negotiations in the WTO, whether focused only on agriculture and services or in the broader context of a formal round, we continue to proceed with regional and bilateral initiatives, which offer concrete benefits and set precedents for later multilateral achievement.

These include regional initiatives such as the Free Trade Area of the Americas, and the Asia Pacific Economic Cooperation forum, and of fundamental importance in all future work, the accession of new members to the WTO.

China's accession is a case in point. Overall, it represents a comprehensive, one-way series of market opening trade commitments. As Secretary Glickman emphasized, this is a one-way series of market opening trade commitments; we do not reciprocate in any respect.

It covers agriculture, manufacturing and services industries, strengthens our guarantees of fair trade as well. With respect to agriculture, it will open China's market for all commodities of sig-

nificant export interest to us, and address a range of broader policy issues of concern to American producers.

China will cut agricultural tariffs by more than half on U.S. priority products, it will end discriminatory licensing and import bans for bulk commodities, it will create market access opportunities by establishing a WTO-consistent tariff rate quota regime for wheat, corn, cotton, rice, soybean oil, and others. It will grant expanded trading rights and liberalize distribution.

It will eliminate export subsidies and cap and reduce domestic supports, and it will require that China base sanitary and phytosanitary decisions on sound science. Pursuant to that, China has already agreed to remove longstanding and scientifically unjustified restrictions on imports of U.S. wheat, citrus, and meat.

Chinese inspection teams have already visited citrus orchards in Arizona, Florida, Texas, and California, and for the first time in literally decades, China has made purchases of wheat from the Pacific Northwest. We appreciate the purchases made. They are not enough, and we expect China also to begin purchasing citrus and U.S. meats shortly.

The bilateral WTO agreement with China will also strengthen our guarantees of fair trade, recognizing our right to continue to use non-market economy dumping methodologies for 15 years after accession, and creating a strong, product-specific safeguard that allows the U.S., for 12 years after accession, to restrain surges of imports from China that cause or threaten market disruption.

Thus, our bilateral agreement addresses a full web of trade barriers in China, barriers at the border, unfair restrictions on marketing within China, and unscientific inspection standards.

As it goes into effect, a fifth of the world's population, now largely restrained in their purchases of our agricultural goods, will become a new market for U.S. farmers, ranchers, and food companies. We will also develop a series of high-quality precedents for the world's largest nation for future multilateral use.

By contrast, as I noted at the recent Finance Committee hearing, as China enters the WTO we make no changes whatsoever in market access policies toward China, and I want to re-emphasize that. We make no changes whatsoever in our market access policies toward China. Indeed, in a national security emergency we can withdraw market access from China.

We change none of our laws controlling the export of sensitive technology, we amend none of our trade laws. We have only one obligation, and that is to provide China, on a permanent basis, the trade status we have given China in every year since 1979, when diplomatic relations were normalized.

Permanent NTR is no real change in our policy toward China, but the legislative grant of permanent NTR is critical because, without it, we run the substantial risk that U.S. farmers and producers will be left behind as the rest of the world reaps the benefit of the market opening initiative we negotiated with China.

Mr. Chairman and members of the subcommittee, Mr. Leader, we have made important progress toward a more open and fair world market for America's farm and ranch families in the past 7 years, but there is much, much work that remains ahead.

We are pleased that the WTO has agreed to begin negotiations on agriculture this year, but we will continue to work closely with the committee to ensure that the agenda pursued reflects the full goals and priorities of America's agricultural communities.

Thank you very much.

[The prepared statement of Ambassador Barshefsky appears in the appendix.]

Senator GRASSLEY. Because of his tight schedule, I will defer to our Leader at this point to ask questions or make comments.

Senator LOTT. Thank you, Mr. Chairman, for your generosity. Also, let me make note of how much we appreciate and are impressed by the fact that Senator Breaux is here at this moment, today, during Mardi Gras in Louisiana. [Laughter.] But I knew he would come prepared, if anybody hollered, "Hey, give me something, Mister!"

Mr. Secretary, I was looking at your list here, and I do not see catfish on there anywhere.

Secretary GLICKMAN. We will get it on there, Mr. Leader, I promise.

Senator LOTT. All right. Good. [Laughter.]

Ambassador Barshefsky, I have said publicly and privately, I appreciate the work you have done. I think you have been an excellent USTR. I know that you would have done a lot more if it were not for some of the other people in the administration, which is typical of what happens in every administration. The USTR has to do battle with State, Commerce, Defense, and everybody else. I know you have worked hard to do a good job.

But let me ask you a couple of general questions, and then get to some specifics. Is the President and this administration serious, really serious, about China being admitted to WTO and about permanent trade status for China? Because if you are, you have got to do a lot more than you are doing now. Everybody is sort of looking to the Senate, oh, great, just go ahead and do it; whether we have the protocols or not, the Senate will come through.

We are not interested in a feckless exercise that produces no result, and enough is not being done. And I am not going to stick my neck out and take the time up in the Senate if you all are not going to get into a war-room status and go all out.

Seattle was an unmitigated, inexplicable disaster. You may say, oh, yes, we are really going. Well, if you are, I do not feel it. And if I do not feel it, I do not believe it is happening.

Would you all respond to that?

Ambassador BARSHEFSKY. Mr. Leader, let me tell you, first of all, I would disagree with your characterization that the administration is not going all out for this. We do have a war room that has been created. The President has given, already, a number of major policy addresses on this issue, and he will be giving another one tomorrow.

The administration will shortly, as I think you know, be sending up legislation with respect to PNTR status for China. The President has personally met already with over 60 or 70 members. There are meetings with various Senators, including yourself, scheduled in the White House residence for this week with the President.

I think that he has done more than any other single person I can think of, or I know of, on this issue already. There is no leader in the Congress, there is no leader in the business community that has done a fraction of what the President has already personally done with respect to PNTR for China and with respect to China's entry in the WTO.

Yes, this administration is firmly committed to this exercise. It is of vital importance, not only for economic reasons, but vital to our National security, our broader interests in human rights and reform in China, that China accede to the WTO and that PNTR status be forthcoming from the Congress.

Senator LOTT. Now, specific questions with regard to WTO. As you know, I have been very disappointed in the ability of the WTO to get its decisions enforced. The European Union has been particularly uncooperative with regard to bananas and beef.

I view this recent decision as just trying to deflect attention, the FSC decision. I think it was to try to distract attention from what they had not done in bananas and beef. I think it is very important that we not allow in any way these two decisions to be linked.

My problem with admitting China to the WTO is, first, are they going to meet the requirements that are necessary for that? Then, second, if WTO is going to continue to function the way they have or be ignored by the European Union, what good is it?

I know you are going to say, we have got to have it, it is going to be good, we are pressing them, and all that. But the record, and particularly with regard to the EU, has been outrageous. I hope that you are continuing to express our great concern about their conduct.

Ambassador BARSHEFSKY. Let me say, first of all, that non-compliance by the EU with adverse panel rulings in bananas and beef are the only examples, and there have been well over 100 cases now in the WTO, of non-compliance by any trading partner.

That includes, for example, sensitive issues in Japan on agriculture, Korea on agriculture. We have had no problem with any other trading partner. That does not excuse the difficulty we have had with Europe, but simply to say that European actions are the exception, not a rule.

Second of all, we certainly would not in any way—in any way—link bananas, beef, and the FSC decision. These are separate matters, they need to be handled separately.

I do agree with you, Mr. Leader. I think the FSC decision, apart from being incorrectly decided, we feel, by the panel in the appellate body, was largely put forward by the EU as something of a frolic and detour, not because of genuine concerns, but is merely a means to try to even the litigation scorecard. It was irresponsible in that regard. Nonetheless, we will work with the Congress, work with the EU with respect to our obligations under that decision.

Last, let me just say that, with respect to Chinese compliance, we have done everything that we can to maximize the ability to fully enforce the WTO agreement, not only through dispute settlement, but the full range of our trade laws, special anti-import surge protections, special rules on antidumping, and there will be created in the WTO a special review mechanism so that there is

multilateral oversight over Chinese compliance with its commitments.

Senator LOTT. For the sake of time, let me ask two questions in one, but if you would, I am sure you would want to respond separately.

First of all, I am a strong proponent of the so-called carousel approach because you know, in the case of bananas, for instance, the sanctions have not worked. Things that could have really squeezed Britain and Europe were not on the list, and I think for the future we need some sort of orderly, but definite changing of sanctions until we get compliance.

Then the second question is, I am real nervous about the administration beginning to move toward sending up agreements this week which have not been completed, and the China protocol of accession has still not been negotiated. I am not sure that the Finance Committee or the Congress is going to want to go forward without knowing exactly what we are doing here.

Some suggestion is maybe that some of this is still being held back, or it is still a secret, and maybe there are reasons for that. But you cannot expect the Senate to proceed on something that we have not had a chance to take a look at.

Ambassador BARSHEFSKY. Let me, if I could, respond to both. We, as you know, have not favored carousel legislation because we think it would provide some comfort to those being retaliated against that retaliation would be rotated, and therefore individual companies may view retaliation as rather a temporary phenomenon, and that might discourage compliance. We think it would also create additional uncertainty for U.S. importers of products in question.

However, we are very concerned at European non-compliance in the bananas and beef cases. I had my office convene an interagency team to look at the situation and provide me with recommendations on the question of whether changing the list would more effectively yield compliance by Europe with its obligations, and if so, what would those changes be?

I have not yet gotten a report back from the interagency group. My sense is that their work is winding up, and I would be pleased to come in and chat with you a little bit about that as we move forward.

With respect to the China agreement, we believe that Congress has before it all that is necessary to adequately provide China with permanent NTR. That is, on the basis of the agreement we negotiated, which is comprehensive with respect to market access and in which we have already negotiated special protocol rules that were of principal concern to many, many members of Congress.

Having said that, certainly we would want to ensure that PNTR is granted in a manner that preserves the benefits fully of the agreement we negotiated, regardless of what other countries might negotiate. That is to say, any improvements over our agreement, we will get automatically under WTO rules.

The only issue, from our point of view, with respect to Congress is to ensure that the agreements we negotiated are not in any way diminished by what any other trading partner does or by any of the

protocol rules, and we think we can provide adequate safeguards with respect to that issue in the legislation itself.

Senator LOTT. One last comment and question, Mr. Chairman. I thank you for the consideration of my Senate colleagues while I take more than the allotted time.

But the key to this whole area, China WTO accession and permanent NTR, is agriculture. If agriculture is on board, you have got a chance. If agriculture is not on board, you can kiss it goodbye. So, these hearings are very important.

We have got to make sure we understand what is going to be the impact on agriculture, and let me just cite one example as the kind of thing that can be the thread that unravels this whole ball of yarn, no pun intended there, talking about yarn.

China backed out of its fundamental commitment on access to its fertilizer market, as you well know, at the last moment. This is a very huge concern to a number of American companies that involve a number of American employees. So what is being done in this area, and do our Chinese counterparts understand how really important and sensitive this issue is?

Ambassador BARSHEFSKY. I believe they do, Mr. Leader. As you know, we will have reduced tariffs on agriculture, quotas will be eliminated, and distribution rights will be provided on a phased-in basis. But you are quite right that China has not agreed to provide for trading rights in fertilizer. This is extremely disturbing.

It was a last-minute issue, but one clearly that was high on the minds of the Chinese leadership because this was an issue that was brought up by Zhu Rongji, rather than even at the trade minister level. He and I agreed that we would work together to satisfactorily resolve this issue.

We have provided, along with consulting with your office, other concerned members, Senator Breaux and others, as well as with the industry, a proposal to the Chinese on this issue as a means of resolving it.

They are, as we understand it, still undertaking internal deliberation on it. I have spoken to the Chinese ambassador on the issue several times, and we will work tirelessly to resolve the issue.

Senator LOTT. Thank you, Mr. Chairman, Ambassador, Secretary.

Secretary GLICKMAN. Thank you.

Senator GRASSLEY. I will continue to defer, if Senator Breaux wants to go, then Senator Baucus goes, then I will ask my questions.

Senator BREAUX. All right. Thank you very much, Mr. Chairman. Thank you for convening these two distinguished witnesses.

I would follow up on Leader Lott's point on fertilizer. We have talked about it, Charlene, a number of times. It is critically important.

I think that the Chinese have to be made to understand that there are a number of members in the Senate who think that this is an extremely important item that ought to be part of any kind of agreement with them. To exclude it does not make any sense, and I think there is no basis for it.

If we can get all these advantages and all of these other agricultural products that we have, it does not seem to make any sense

to exclude fertilizer, and I hope they understand that. I mean, it is very important to send them that message, that we think it is critical to any kind of a WTO being adopted by the Congress.

I was walking down the streets of New Orleans this weekend, and literally, a man comes running across the street to talk to me about chicory, which I understand is on the retaliatory list from the European Union.

I guess, when you select those items to be used to put tariffs on them, you would try to do it in a way that minimizes the adverse impact to our country. I was just wondering, on this one item of chicory added to coffee, it is important certainly to my State, but I take it only comes from, is it, Belgium? I think there is only one country that exports it.

Ambassador BARSHEFSKY. Two European countries, I think, France and—

Senator BREAU. When we only have one source, it seems like it is something that may be reconsidered from the standpoint of imposing a tariff which affects our consumers if there was an alternative where we could go somewhere else to buy the same product. I think it makes a great deal more sense. I would just ask if you could take a look at that, because it is particularly and parochially important to me.

I take it Mardi Gras beads are not on the list for tariffs. [Laughter.]

Ambassador BARSHEFSKY. I sure hope not.

Senator BREAU. I think Russell Long addressed that many, many years ago and took care of that little problem.

Let us talk about the genetically modified products. I think all of us are particularly concerned that the European Union is really responding to political pressure from their producers over there, and it is very disturbing when their scientific reviews basically find no reason to exclude these products, it seems like that never gets into the pipeline to get a decision to allow our products to go over.

Is there any idea how many products in, say, the last 2 years that have been approved by their scientific review process that they still have not been able to gain approval?

Secretary GLICKMAN. None. None in the last two years.

Senator BREAU. None. So there is a real disconnect over there, I take it, that their scientific community which looks at it says, look, no problem, but then their political decision makers do not follow through with that. Is that basically correct?

Secretary GLICKMAN. Basically. There are actually 15 products pending approval right now.

Senator BREAU. Have any of them been approved by their scientific committee yet? I thought some of them have.

Secretary GLICKMAN. Why do you not come up? Dr. Siddiqui is with USDA.

Senator BREAU. I am just trying to get a feel for the fact that some of them apparently have been approved, but not politically approved.

Dr. SIDDIQUI. Yes, Senator. It is correct that fodder wheat which is approved, and there are two other varieties which have been approved by the scientific committee but not approved by the rest of the process, so they are still pending.

Senator BREAU. What is the policy now with the administration, Mr. Secretary, of trying to say, all right, you have approved it scientifically, there is no other basis for not allowing us to trade in these products? What do we do?

Secretary GLICKMAN. Well, we are trying to move on several venues. When the president of the European Commission met with President Clinton, they agreed on a high-level process to deal with this issue of genetically engineered products.

One of the problems that we have, you see, Europe does not have a central food safety agency like we do. Because of their scares on mad cow disease, dioxin, and other kinds of things, these issues take on hysterical consequences where they do not in our country where, by and large, there is a generally positive public confidence in the food safety system.

I am going to London on Wednesday. The British have established a new food safety system like the FDA to try to deal with this issue. But quite honestly, we are working on it on several venues, scientific as well as political. But, as of today, we are not any closer to any immediacy.

There is a high-level U.S.-EU dialogue going on right now. The OECD in Europe has got a group working on this as a result of the last G-7 meeting. And there is this group, Codex Alimentarius, which is an international food safety standards agency, part of the United Nations, which is currently trying to develop standards in the area. But, in terms of actually getting product in, we are no closer than we were a couple, 3 years ago.

Senator BREAU. Would the WTO have rules addressing this?

Secretary GLICKMAN. Both the Codex and the WTO are working on rules in this regard. The issue gets involved with labeling, how one labels, what are the thresholds for labeling. All I can tell you, is that our goal is to try to get these decisions based on sound science, not on the hysteria of politics.

That is one of the reasons, when President Clinton met with President Prodi, he basically encouraged them to develop and international food safety agency, something like the FDA, in order to give people the confidence that their system is working well.

Senator BREAU. I think any kind of help we can give them on helping to establish this is absolutely critical. You all have been around this city a long time, and you know that the politicians use these types of scares to scare the people to death and just use a false reason for not engaging in free trade.

We have got to make sure that their scientific community is on par with ours, and anything we can do in helping them set those things up is critically important, and I know you are going to continue in that area. I think it is very important. Thank you. Thank both of you.

Senator GRASSLEY. Thank you.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Madam Ambassador, how are we going to get any further with agriculture this time around? This is the big question we have been facing. Some suggest that we broaden the number of topics on the table so we have more leverage, we know the Europeans want

more. At least, that was apparent in Seattle because they did not want progress.

I do not know how, even with the built-in agenda, which begins later on this month, whether things are going to be any different. The Europeans are still going to dig in. So I ask you how are we going to get from here to there?

Ambassador BARSHEFSKY. I think there are a couple of factors. On the built-in agenda, first off, it is, of course, critical that, in fact, begin on time. That goes to the credibility of the Uruguay Round Agreement, so we are pleased that that is going to get off the ground.

The first year of any negotiation in this area is going to be a lot of clearing of underbrush, and we think that that clearing can be done, even in the context of the built-in agenda. These are not high politics involved, it is a lot of technical work that needs to be done which would have had to have been done had we launched a round.

So I think, at least initially, we will see about the same level of progress in the built-in agenda as we would had we launched a new round.

Now, then the question arises, well, what are the pressures that might expand upon that progress? There really are three. One, of course, is that we will be rewriting our own farm bill, and that will have implications in the minds of many countries with respect to these talks.

Second of all, you have enlargement of the European Union. Poland is slated to join the European Union at the end of 2002. That impacts, very dramatically, European farm policy.

Third, of course, we are going to continue to try and build consensus, in any event, for a broader round. In that connection, of course, perhaps the most critical factor that might lead to progress is the expiration of the peace clause which is, as you know, in 2003, which will put tremendous pressure, particularly on Europe which is the most vulnerable under the peace clause because of the range of their export subsidies, to action absent some other conclusion to negotiations.

So we think that there will be pressure on the process. I still think the best way to go about this, ultimately, will be the launch of a broader round. I agreed with Chairman Grassley on this point, and we are still working to build consensus toward a round.

I have met with my European counterpart, I have met also with one of my Japanese counterparts, and we are certainly in active discussions about how that might be able to be accomplished.

Senator BAUCUS. The U.S. taking up the farm bill cuts two ways.

Ambassador BARSHEFSKY. It could cut two ways. I agree with that.

Senator BAUCUS. And probably does. There is a lot of support here for providing for a safety net, changing Freedom to Farm, a direction which I support. I take it from your testimony—I regret I was not here—that you both indicated something along the same lines. The Freedom to Farm debate will certainly make it more difficult to convince the Europeans to back down on their domestic subsidies.

On the other hand, I understand the point you made about enlarging the EU. That is going to place pressure on the Europeans.

Next, what are your thoughts about GATT triggers? I have legislation, and others do too, which basically say, if the Europeans do not reduce their export subsidies by a certain percent by a certain date, then EEP payments are mandated by a certain amount.

What is your reaction to legislation like that?

Ambassador BARSHEFSKY. Perhaps Secretary Glickman would be better able to respond. You know I am always looking for leverage, so I always have my eye on ways in which we can get to where we want to go.

With respect to agriculture, of course, elimination of European export subsidies is absolutely a critical goal. But I think, Secretary Glickman would be better able to respond.

Senator BAUCUS. Secretary, do you have any comment on that?

Secretary GLICKMAN. Again, in this job you always like the flexibility of using one of a variety of tools rather than just EEP. It may be that, at that point in time, using EEP may tend to bring in much more Canadian grain in this country to take advantage of lower worldwide prices. You may want to use enhanced GSM programs mandating that we do that instead. So, I think we need some flexibility to move among our exports tools.

Senator BAUCUS. Does that mean you would look kindly on something in that direction? If it gives you more flexibility.

Secretary GLICKMAN. Well, whatever you do, I would ask that you give enough flexibility within the variety of financing tools to use for a lot of commodities. For example, the EEP program may not be useful for, let us say, cotton or rice, but may be more useful for wheat and feed grains. I would want to have enough flexibility there.

Senator BAUCUS. I applaud you very much, the administration, for the agreement you reached with China. I mean, it is a, huge victory for you and for the administration. I do not think you are complimented enough, both you and the administration, for that agreement.

Before my time actually expires, I would like your thoughts again on how we are going to get PNTR up and passed. I am firmly in favor of it. I think the President said it best—it is a no-brainer. I agree with him, it is a no-brainer. I cannot for the life of me understand why anybody would not vote for PNTR. It just makes eminent sense.

I also applaud the Chinese for their purchase of 50,000 tons of Pacific Northwest wheat. That shows good faith.

Finally do you have any other thoughts about how we can get PNTR passed? I agree with those who think it should be sent up early. I suggest maybe some kind of a condition to help Senators and House members who are afraid of buying a pig in a poke, that is, voting for something and not knowing what else might transpire before China accedes to the WTO.

I am also a little concerned about the non-availability of the text to the agreements to the American public. We represent our people back home. It is a little difficult to vote for an agreement that, although we in the Senate can see it, that they cannot. We argue for transparency worldwide, we push for transparency. That is one of our mantras. Why can we not be more transparent and allow the public to view the WTO agreement?

Ambassador BARSHEFSKY. Certainly, without question, the full document needs to be made publicly available. The only issue that we have wrestled with, is this. We have found in other accession negotiations that, to the extent the negotiations are ongoing, which they are with China and some of its other trading partners, most notably Europe, we would not want our agreement to act as a ceiling on what Europe or other countries may also be able to negotiate with China.

Because we will get the benefit of any other additional elements to our agreement negotiated by any other country, we do not want to disadvantage other countries from pursuing objectives beyond our agreement because those will be directly to our benefit.

Our concern has been, and this is a traditional concern throughout the system, that if the full scope of our text were released, that would effectively cap whatever other countries could get.

Senator BAUCUS. I hear what you are saying, but sometimes we cannot let perfection be the enemy of the good.

Ambassador BARSHEFSKY. Right. And having said that, to simply explain the rationale, let me say that with the delay in the European talks, we obviously are going to have to rethink this position, even if it may act as a cap. I think we are moving toward the view that public availability will be important, and we will work with you and members of the committee as we move in that direction.

Senator BAUCUS. I appreciate that. I think the delay by the European Union is a major factor.

Ambassador BARSHEFSKY. Yes.

Senator BAUCUS. I do not know how many favors they have done us, the European Union, frankly. I understand the ceiling issue is because MFN would inure to our benefit as well.

Ambassador BARSHEFSKY. Right.

Senator BAUCUS. But my guess is that Europe has separate provisions or separate thoughts and interests with respect to China that can trade off one against the other.

Ambassador BARSHEFSKY. Right.

Senator BAUCUS. Europe is not the United States. So the ceiling, although I understand it theoretically, may not be as valid and concrete in negotiations between the EU and China. Besides, we have got to get going here. I do think that the unavailability to the public is going to be a major impediment.

Secretary GLICKMAN. Senator Baucus, let me just make one additional comment about the wheat purchase. That was encouraging, and I think it as much has to do with your persistence as anything that they bought that 50,000 tons.

But we have told the Chinese, and I have told the Ambassador, I know Charlene has as well, that an agriculture cooperation agreement basically demands on them that they honor their commitments on citrus and on meats, both pork and beef, particularly. We really are looking for some additional good faith in those areas, as well as additional wheat purchases.

But they also need to ensure that they notify their ports and their infrastructure that the meats can come in, that they have reached agreement with us on food safety and compliance with our food safety inspection service so they do not really render kind of useless and valueless the agreements that they negotiated with us,

and that is being looked at. I hear that all over the country, and that is really important for the Chinese government.

Senator BAUCUS. Well, I know my time is up. I will stop here, Mr. Chairman.

But in talking to President Zhou of COFCO, I think he understands that point. He certainly understands that any agreements to the United States to purchase citrus, meat, and wheat are on a commercial basis, that is, price, quality, and terms. He made that point over, and over, and over again when he was in Montana 1 week ago, 2 weeks ago, just prior to the announcement. To me, that is profoundly good news. That is, he is saying, as a business person, that they want to compete on a commercial basis, not political. But that means we have got to compete. We have got to provide the meat, the wheat, and the citrus on competitive terms.

Ambassador BARSHEFSKY. Right.

Senator BAUCUS. It is very interesting, the degree to which he emphasized that COFCO wants to deal very much on a commercial basis, and I think that is basically accurate.

Thank you.

Senator GRASSLEY. Senator Baucus, on your point about transparency, it is so important, and it is to me as well, because we do not want to have happen in the case of the agreement with China what was brought forth by you and Senator Conrad in regard to wheat under the Canadian Free Trade Agreement. We do not want those surprises to happen again.

Senator BAUCUS. Thank you.

Senator GRASSLEY. I made a point during my opening remarks, Secretary Glickman, that we need a more comprehensive round, and we did not get that at Seattle. I gave as some reference how we negotiated prior to the Uruguay Round in hearings before this committee in 1986.

I would like to refer to a hearing about that same period of time before the Senate Agriculture Committee, when Daniel Amistead was Under Secretary of Agriculture. This was at about the time of the Punta de Estes meeting.

He said, "We went seeking to begin a multilateral trade round that would permit comprehensive negotiations on agriculture, and we obtained it. We also might add, because it does have a bearing on agriculture, we went seeking the same in the area of services, investment, and intellectual property rights."

I see that the environment we are in now, and particularly at Seattle, quite different from that approach. Do you really believe that we can achieve real progress for agriculture in new negotiations without more comprehensive negotiations?

Secretary GLICKMAN. I would defer to Charlene to answer the question more broadly. I think several things can be accomplished in agriculture without a broader mandate and can get a jump start on the negotiations.

One, is you can establish rules of procedure, which I think is critical. You can agree on time tables for modalities, negotiating proposals. You give us additional time for the U.S. and other members to elaborate on positions that were put forward in Seattle.

So I think you can do some things to get this process started without a broader negotiating mandate, but I think at some point you have to, down the line, answer the more fundamental question.

Ambassador BARSHEFSKY. I think, Mr. Chairman, that the U.S. was looking for a broad-based round. Where we differed with Europe, was that Europe insisted—and in Seattle its demands escalated—that as a *sine qua non* for moving forward on agriculture—bearing in mind that the agriculture text was not accepted by Europe, Japan, or Korea—the WTO members would have to agree to “full negotiations” on competition policy and investment.

There were no countries in the world that believed full negotiations in those areas were even possible, because no ground work had been laid for comprehensive negotiations in either of those areas.

The only country to provide any defense of Europe’s position, and it was only a tepid defense, was Japan. No other country agreed to that.

Now, that does not mean that investment competition, arranged trade facilitation, a range of other issues, should not be included as some level, and we argue they should be included at some level to broaden out the agenda.

But Europe was looking for an agenda of such comprehensiveness, no other countries would agree to go along. They viewed, largely, the European agenda as one designed to delay agriculture reform because there was no way full negotiations on competition policy and investment would ever end in 3 years, let alone 30.

So from our point of view, a broad agenda is critical. And I agree with Dan Amistead’s comment, you have got to broaden out the agenda. We felt we put forward a program to do it.

It was a program that was much more user friendly than Europe’s. That is to say, we had broad support from, particularly, developing countries in the way in which we approached this. But, having said that, I do think that this kind of broader approach is very much to the benefit of agriculture and will need to be pursued.

We will start the built-in talks this month. I think Dan has pointed out some areas in which we can move forward, and I think there may be additional areas. But, ultimately, we will want to see a new round launched.

Senator GRASSLEY. Taking off from what you just said, but also in a discussion you had with Senator Baucus, and I hope this is not semantics, differentiating between process that you are talking about, a process to build a consensus and what you have heard me talk about in previous meetings, and also I am going to bring up now, a plan.

I have in front of me your report on the 2000 trade policy agenda and the 1999 annual report.

Ambassador BARSHEFSKY. Yes.

Senator GRASSLEY. I look on page 6, where it talks about getting ready for a new round. I read, “Thus, while there are a number of different options for proceeding with trade liberalization beyond agriculture and services, we are working to build consensus for a new round.” That is what you have said here. But, again, no plan for, what are the ideas, what are the plans for accomplishing that?

On page 37, it talks about the WTO ministerial and where you are trying to work ahead for overcoming what failed at Seattle, no ideas on it. Then on page 67, we have got the work of the Committee on Agriculture, and no plan.

I hope that, when we have a report like this, or what you are saying to us today, regardless of your sincerity of having to have a broader agenda, we just do not see the ideas or what it involves to get there.

We do not question your desire to get there, and the process by which you are doing it. You are a good negotiator, so nobody is questioning your ability in regard to that. But if we do not have a plan to get there, how do we really get there?

Ambassador BARSHEFSKY. I think, Mr. Chairman, we do have a plan, and it is not a complicated one. That is to say, I think the first step necessarily will be some baseline quad understanding of what the elements of the negotiating agenda should be and what the bounds of those elements are. By quad, I mean, of course, the U.S., Europe, Japan, and Canada.

If the major trading partners cannot sort out their differences, there will not be another round. Seattle exposed a variety of differences which could not be overcome, despite the pressure of a deadline, despite the fact that I think all of us went into Seattle in good faith, with some sense of where each of us would compromise, nonetheless, I think Seattle exposed a variety of areas in which that compromise was simply not possible.

So quad is the first step. Whether it will be possible in the coming months to achieve some baseline quad understanding, I think, is a very open question. Europe, so far, has not shown any movement, Japan has shown very little movement.

Nonetheless, we are in active consultations with our quad partners to see if it is possible to develop some notion of a round, more in keeping with a sensible agenda, but one, nonetheless, that is far broader than simply agriculture and services.

Those talks have been ongoing for about a month. They will continue. At a minimum—at a minimum—I think we will build greater understanding with our quad partners, and that will ultimately inure to the benefit of a broad launch at the appropriate time.

Senator GRASSLEY. I do not think that we wanted to fail—I know we did not want to fail—in Seattle. I think, though, that there was a failure at the political leadership level. So you kind of get to the point that we did not want to succeed badly enough.

I do not think we intended to fail, but I do not think not intending to fail is something that you can call political leadership. So I am going to leave that at this point, but probably will not give up emphasizing that I do not know that we have seen enough specifics at this point.

Secretary Glickman, given that U.S. tariffs on agriculture goods are already significantly lower than those of most other WTO members, U.S. agricultural producers are at a competitive disadvantage, thus, delays in reaching agreement on further liberalization disproportionately hurts U.S. farmers, how soon can we expect substantive progress on the building agenda for agriculture in Geneva, and what specific progress do you hope to achieve this year?

Secretary GLICKMAN. I would answer that question in a little way as Charlene answered the question. I went to Geneva a few months ago, met with the Director General, talked about the critical nature of getting this thing moving on agriculture, because we are the most export-sensitive part of the U.S. economy.

You are correct, the tariffs are disproportionately high, and not in our favor. So the Director General announced in his General Council of beginning a process to deal with these issues.

I would say, and I do not have anything specific to give you on this now, except that agriculture is pushing to move the WTO process, and that is why we are beginning some of the specific discussion on a variety of things that I mentioned to you before.

But the China agreement is so critical, because there is one in which we negotiated significant, specific reductions in tariffs with respect to one particular country; both in terms of tariffs and TRQs, you have got them on your card. It will bring China well below what a lot of the Europeans charge us right now.

If we really wanted to send a signal to the rest of the world, even before a formal negotiating process on a new round takes place, it would be to approve the PNTR because, to the rest of the world, we would be reducing tariffs on meats, on wheat, on soybean products, on all the products, plus on a lot of specialty products to dramatically low levels, both the tariffs and TRQs.

That is why I am not pushing China at the expense of WTO, but I think it will have that effect, to let the rest of the world know that we have got an agreement to actually get these tariffs down.

Senator GRASSLEY. Ambassador Barshefsky, my next question is in regard to kind of what you might describe as the starting point as we resume negotiations in the committee on agriculture.

In my talks with agricultural leaders during and after Seattle, I have learned that most of the agricultural community was impressed with the progress that was being made in the Green Room negotiations. It appears that of all of the working groups in Seattle, that the most progress was made in the agricultural working group. I hope that that effort is not wasted. So, several questions.

Can you tell me exactly where things will start from? For example, will you talk with the European Community about export subsidies? If so, where will we start from, what point in talking about export subsidies?

Ambassador BARSHEFSKY. The talks in Geneva will be pursued on the basis of Article XX, not on the basis of the Seattle text, because there was no agreement on the Seattle text.

After a painstaking, 6-hour, word-by-word negotiation in the Green Room, at the moment we are about to gavel the text, Europe, Japan, and Korea, in seriatim, reserved on the text, said they could not accept it.

Senator GRASSLEY. From the standpoint of your statement then, the impression by our agricultural leaders of our own agricultural community was then wrong on that assumption?

Ambassador BARSHEFSKY. We had made good progress, but the text was not accepted by Japan, Europe, or Korea. There was no agreement on the text.

Senator GRASSLEY. So you cannot really start from there in Geneva now.

Ambassador BARSHEFSKY. No.

Senator GRASSLEY. Even informally?

Ambassador BARSHEFSKY. Here is what we will do. Article XX does not constrain what countries can put on the table in any respect, and we continue to work with a coalition of countries which, as you know, is very large.

It encompasses most countries in the WTO, except for four or five. It does not constrain us at all from putting forward together proposals, particularly with respect to agricultural export subsidies. We will be working on that with our WTO trading partners, as well as with the committee.

Indeed, we and USDA will shortly put out a Federal Register notice asking for broad public comment on the specifics of what we ought to try and accomplish in these talks, and certainly agricultural export subsidy elimination will be high among them.

So we can use the progress achieved in Seattle as a baseline with our other trading partners with respect to greater coordination in what our requests are that we put on the table as negotiating positions, but the text itself was never accepted.

Secretary GLICKMAN. May I make just one additional comment? I hate to keep coming up with this drum beat on China, but China has agreed to eliminate export subsidies as part of their bilateral agreement with us.

You talk about something that would send a tremendous message to the European Union. The largest country in the world, the largest agricultural producing country in the world, has agreed to eliminate export subsidies.

Senator GRASSLEY. I suppose, Ambassador Barshefsky, at the point where you left off, we can conclude, though, without a comprehensive round, you cannot get trade-offs, which means that you really cannot make much progress.

Ambassador BARSHEFSKY. Well, I think we should not prejudge this situation because, of course, in the Uruguay Round you did not have the specter of European enlargement in the way in which Europe is now pursuing it. You did not have at that time a potentially massive rewrite of our farm bill. You did not have the expiration of the peace clause. So, I think there are factors now that were not apparent in 1986. That, it seems to me, argues in favor of perhaps additional progress being made.

On the other hand, I do believe that, at the end of the day, progress will be more limited than we would like and a broader-based round will be necessary in order to successfully conclude the agricultural negotiations.

It is one of the reasons we still are pursuing a consensus toward a new round. We think it is vitally important that, as soon as possible, a new round be launched.

Senator GRASSLEY. I am going to ask one more question, and then I have got one that is kind of separate from this that I am going to submit to you for answer in writing, Ambassador Barshefsky, and it deals with the biosafety protocol, Montreal.

Ambassador BARSHEFSKY. All right.

[The information appears in the appendix.]

Senator GRASSLEY. The last one refers to something Pascal Lamy, the European Union Trade Commissioner, proposed in Janu-

ary, a plan to bridge differences that might help relaunch a new round of trade negotiations.

One idea he proposed was obviously an idea that can only come out of Europe, the creation of an eminent peer group. That is very elitist, more elitist than I would want America to be associated with. But to seek out ways to go forward and areas of compromise.

What do you think of that?

Ambassador BARSHEFSKY. He made that proposal in connection with procedural reform in the WTO, not in connection with substantive decision making by the WTO or the trading partners. Certainly, procedural reform in the WTO is going to be critical, particularly with regard to transparency, both internal to the WTO and external.

We are happy to look at a variety of means to help achieve that, a variety of mechanisms by which to advise the Director General on how best to conduct discussions on those issues. But Mr. Lamy's comments did not go to the question of how to achieve consensus for a round with respect to substantive differences among the trading partners.

Senator GRASSLEY. Did we meet your schedule, Secretary Glickman?

Secretary GLICKMAN. Yes.

Senator GRASSLEY. I thank you all very much for coming and being so loyal to this subcommittee. Thank you very much for your participation.

Ambassador BARSHEFSKY. Thank you.

Secretary GLICKMAN. Thank you.

Senator GRASSLEY. I would ask our next panel, would you please come? We just have one person that is testify, Associate Director of the U.S. General Accounting Office, Susan Westin. She will be accompanied by Juan Gobel, a Senior Evaluator of the U.S. General Accounting Office, and by Elizabeth Sirois, Assistant Director of the U.S. General Accounting Office.

Since I had such a short introduction of you, if you have got anything else that you want to tell the committee about yourself, we will be glad to receive that information.

STATEMENT OF SUSAN WESTIN, ASSOCIATE DIRECTOR, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY ELIZABETH SIROIS, ASSISTANT DIRECTOR, AND JUAN GOBEL, SENIOR EVALUATOR

Ms. WESTIN. Thank you, Mr. Chairman. I think I would like to take your offer to just tell you why Elizabeth Sirois and Juan Gobel are here at the table with me. Beth Sirois has long led many jobs in the trade area within GAO, and Juan Gobel has been following agricultural issues before Seattle, and since Seattle. So that is why they are accompanying me today.

Senator GRASSLEY. All right.

Ms. WESTIN. I am pleased to be here today to provide some observations about the negotiations on agricultural trade being conducted by the World Trade Organization.

In my remarks, I will summarize what the U.S. objectives were going into the Seattle ministerial last December, what progress

was made in Seattle, and what we can expect in the negotiations this year.

The main point of my testimony, is that progress in liberalizing agricultural trade is likely to be slow this year. The failure to launch a new round of trade negotiations in Seattle will make it difficult for negotiators to build on the progress achieved there, and the lack of a comprehensive round is likely to impede progress as well.

Let me turn, first, to what the United States hoped to achieve in Seattle regarding the agricultural negotiating agenda. Along with several other agricultural exporting countries, the United States wanted elimination of export subsidies, reduction in trade-distorting domestic agricultural support programs, and an increase in market access for agricultural products in member countries.

The European Union and Japan, on the other hand, had reservations regarding some of these issues and were more interested in making sure that certain non-trade concerns, such as food safety, food security, and the economic viability of rural areas, were addressed in the negotiations. Moreover, the EU and Japan called for a broad framework of negotiations to include many new areas, such as in investment and competition policy.

As to progress in Seattle, there is general agreement by participants that negotiations on agriculture made the most progress of any areas. Countries were close to reaching consensus on the issues to be addressed and on the time frames for completing agricultural negotiations in a new round.

The draft agriculture text included many provisions favored by the United States. For example, it called for substantial reductions in subsidies in the direction of progressive elimination of all forms of export subsidization.

However, WTO members did not reach consensus on this draft text, with several European officials noting that they simply could not support language calling for the elimination of all export subsidies as the starting point of negotiations.

The progress in the agricultural area was essentially lost when the ministerial ended without a final declaration to set the agenda for a new round of trade negotiations.

Finally, what can we expect in agricultural trade negotiations this year? Negotiations will resume this month in Geneva. However, it is unlikely that these talks will meet U.S. objectives for liberalizing agricultural trade any time soon, for several reasons.

First, the failure to issue a ministerial declaration will make it more difficult for negotiators to build on the progress made in Seattle. The draft Seattle text, which included provisions favored by the U.S. and a deadline for negotiations in late 2002, will not be used as the starting point for renewed negotiations. Rather, Article XX of the Uruguay Round Agreement on agriculture will be the basis for negotiations. Article XX is less definitive than the draft Seattle text regarding issues on the negotiating agenda and it does not set a final deadline.

Second, countries may not be willing to make concessions in agriculture without obtaining trade-offs in other areas, as would have been the case in a round with a broader negotiating agenda.

One EU trade minister recently stated that the negotiations are unlikely to move forward in the absence of a comprehensive new trade round.

Third, many decisions about how to proceed have yet to be made, such as agreeing on a work program and setting a deadline for WTO members to submit proposals as to what should be on the negotiating agenda.

Mr. Chairman, this concludes my prepared remarks. I would be happy to respond to any questions you have.

[The prepared statement of Ms. Westin appears in the appendix.] Senator Grassley. I will direct my questions to you, but if you want your associates to either answer or help you answer, that is appropriate, as far as I am concerned.

Now, the first question deals with something you alluded to when you were talking about the progress being made in Seattle. It seems that, despite a late start on these agriculture negotiations there in the first week of December, we came very close to an agreement on agriculture on the last day of the conference, but that things really started to fall apart rather quickly.

I would like to have an explanation from you and from your perspective, or your colleagues, what happened. Explain what happened, and why.

Ms. WESTIN. I will answer that first, then maybe Beth will add something on the working groups.

As you know, there were working groups set up in Seattle to try to be more inclusive, to include more members. These were set up before the traditional Green Room process.

In those 2 days of working group meetings, the agriculture working group was regarded as having the most proficient chairman. He worked outside the meetings to meet with small groups of trade ministers to try to move closer towards consensus.

As we understand it, there was a long session between the U.S. and the EU Thursday night, running to about 4:00 Friday morning. As we understand it, from the U.S. perspective, they thought they had reached consensus on many of the words that would go into the text.

The Green Room negotiations lasted about 6 hours on Friday, from about 8:00 a.m. to about 2:00 p.m. I read you some of the language that was in that draft text, calling for the direction of progressive elimination of all forms of export subsidization.

There were interim benchmarks in there. For example, countries would have to submit their comprehensive offer lists of what they were really offering to negotiate no later than January 31, 2002, and a final deadline for completion of the negotiations. But the word elimination seems to be the single thing that derailed the ability of the countries to come to consensus.

And as I stated in my remarks, the European Union, several officials simply could not accept the words "elimination of export subsidies" in this draft text, even the way it was couched, as moving in the direction of progressive elimination. They just could not accept that phrase to be start of the negotiations.

From our talking to various people, that is when the process really broke down in Seattle. They moved on to another Green

Room negotiation, but they did not have consensus on the agriculture text.

Senator GRASSLEY. All right. So, basically, the European Union was the fly in the ointment.

Ms. WESTIN. And, as I understand, Korea and Japan had some difficulties with it. I think Ambassador Barshefsky just testified that neither Japan nor Korea would agree to consensus as well.

Beth, did you want to add something?

Ms. SIROIS. Yes. Japan and Korea were not as much concerned about the words "elimination of export subsidies" as they were about wording in the draft text that would preclude any exemptions in tariff reductions. They were most concerned, for example, about rice tariffs having to be reduced.

Senator GRASSLEY. What impact will the lack of trade-offs without a comprehensive round have on agricultural negotiations in Geneva?

Ms. WESTIN. I think that our work has shown that this is particularly important, that in order to have real negotiations, both sides, or all sides, need something to trade off.

We have seen that agriculture, for a number of years, has been the major sticking point in trade negotiations. It would be much easier, if progress is going to be made, for countries that do not want progress, particularly in reducing export subsidies, to have something else to trade off. So, I think that it is really important.

The end of the peace clause may have some impact, although one European official has stated recently that he does not think that is going to have such an impact. It may be that the lack of the round means that not too much will happen on agricultural negotiations in Geneva this year, and that may be a spur to saying we have to have a broader round for anything to get done in agriculture.

Senator GRASSLEY. The end of the peace clause, from the European point of view and their comment that you just gave, means that maybe they are willing to live in a regime that would duplicate other agricultural products, the same as what happened to them in bananas and beef hormones, and they would just pay the penalty?

Ms. WESTIN. I did not see an additional explanation of that, but that is the conclusion that I would draw, that they may just decide that, the end of the peace clause, countries can start bringing dispute settlement cases on export subsidies and certain domestic programs, and they are willing to live with that.

Senator GRASSLEY. The next question might be impossible for you to answer, but what progress would you kind of be able to predict or expect on a built-in agenda over the next year, or over even the next 2 years?

Ms. WESTIN. Well, as I stated, Mr. Chairman, we do not expect to see a whole lot of progress this year. One of the clues, actually, was reports that we read of the first services negotiations meeting that they had in Geneva last year, and that did not seem to make very much progress for a first meeting.

There are several things that have to happen before we can even get to the process of negotiations. First, the chairman has to be named. There has not been agreement on that yet. We heard that

they are hoping to name a chairman before the special session starts towards late March, but one has not been named yet.

They have to decide on a work program. That turned out to be fairly contentious in the first meeting of services, which has not been such a contentious area of negotiations as agriculture.

There is a lot of technical work to be done. Now, granted, the technical work that has to be done would have to be done anyway, but the feeling was that, if we had come out with a more definitive negotiating agenda from Seattle, that the technical work and laying the proposals on the table could have gone along side by side. We do not really expect that is going to happen now.

One WTO official told us that it may not be until late fall or even early next year that countries will have to lay their proposals for what is going to be on the agenda on the table in Geneva.

Senator GRASSLEY. If you have given this any thought prior to coming here and having me ask you about it and making you think on it, I would like your comment whether or not you agree with Secretary Glickman, as you heard him speak in the previous panel, on the extent to which the Congress' giving China permanent normal trade relations and in a sense sending a signal to the European Community that, if China can, through this bilateral agreement with us, do away with or dramatically reduce their tariff and non-tariff trade barriers, it ought to help us in negotiations with Europe.

Ms. WESTIN. I actually have not given that too much thought. We have a report coming out that will be a public report addressed both to the Senate Finance Committee and to House Ways and Means Committee. It is coming out next week on China's possible accession to the WTO, what are the remaining steps to go through, what are some of the options for Congress in terms of granting PNTR, and as much as has been made publicly available, we discuss the bilateral agreement between the U.S. and China. Of course, that bilateral agreement is unlikely to have any benefit if China does not become a member of the WTO.

Senator GRASSLEY. Sure.

Do either one of your associates have any thoughts on what I have just asked?

[No response.]

Senator GRASSLEY. All right. Then you should not respond.

This is my last question. What progress made in Seattle has been lost due to the collapse of talks, and can any of this progress be regained in the negotiations in the built-in agenda?

Ms. WESTIN. Well, as I stated, I think that the progress was essentially lost. I think that, as Ambassador Barshefsky has stated, at least now they have heard the real positions of countries in a negotiating situation, and they have a better sense of how much compromise countries might be willing to give.

Of course, the positions of the countries were pretty well known going into Seattle. I think that, from what we understand and as I described about negotiations in the Green Room, I believe that most countries in the room thought that they had reached consensus on the text after that long negotiation and that it was somewhat of a shock that the countries then did not reach consensus on

the text, that the EU, Korea, and Japan just could not agree to that language.

Juan, did you want to add any more?

Mr. GOBEL. No. I think that that is pretty accurate.

Ms. WESTIN. All right.

Senator GRASSLEY. All right. That is the last question. Thank you very much.

Let me remind you, and I did not tell the previous panel, but also for the third panel that is coming up, there may be members that could not come, or members who were even here today, that may have questions to submit in writing. So we are going to keep the record open, I think, through Friday, for 5 days for that purpose.

Ms. WESTIN. We will certainly respond to any such questions.

Senator GRASSLEY. Yes. I guess that is 5 days for getting the questions to us. We would not expect answers within 5 days. Thank you.

I will call the final panel. These folks will testify on what these agreements and negotiations have to do with agriculture.

I, first, call a member of a family I have known for about 25 years from my State of Iowa. Glen Keppy is from Davenport, IA and is a family farmer, is a major pork producer, but in the sense of a family farm pork producer that Iowa is so famous for. I welcome Glen. I believe Glen has his son with him. I would like to have you make yourself known.

Mr. KEPPY. Neal Keppy.

Senator GRASSLEY. Thank you very much.

Then we have Mr. Craig Thorn of the Powell, Goldstein, Frazer & Murphy firm. Then we have Delores Darden, who is president of the Virginia Small Grains Association. Then we have Donald Rudolph, president of the Upstate Farms Cooperative, Darien Center, NY.

Now, if any of you have any other biographical information you want us to have, feel free to give it. We will give you time to say whatever you want to say.

Mr. Keppy? In other words, we will do it in the order that I introduced you. Thank you.

**STATEMENT OF GLEN KEPPY, DAVENPORT, IA, ACCOMPANIED
BY NEAL KEPPY, DAVENPORT, IA**

Mr. KEPPY. Mr. Chairman, thank you for inviting me. I am Glen Keppy, a third generation, independent family pork producer from Davenport, IA. I also grow corn and soybeans on my farm.

I am past president of the National Pork Producers Council. I have two sons who just completed college in December. My son Chad is home doing chores today, and my son Neal is along. Thank you for recognizing him.

There will be a fourth generation family in my farming operation, and I strongly believe that the future of the pork industry and the future livelihood of my sons and I will be impacted by the World Trade Organization negotiations.

The agenda for the negotiations should be comprehensive. It is well-established that agriculture is one of the more sensitive areas in international trade. Some of our most important negotiating partners, such as the EU, Japan, and South Korea, will be reluc-

tant participants when it comes to agriculture. Only in the context of a large package of agreements and concessions will they be able to accept an ambitious outcome on farm trade.

While a sectoral approach may have worked in the Information Technology Agreement, this type of approach will not work in agriculture. Thus, while we are pleased that the agriculture negotiations will commence the week of March 20 in Geneva, pursuant to the built-in agenda of the Uruguay Round, we are skeptical about whether any real progress can be made on agriculture until a more comprehensive round can be launched.

U.S. pork producers are proposing that the United States adopt as a primary negotiating objective the total elimination, in the shortest time possible, on all tariffs and export subsidies and all trade-distorting domestic subsidies for pork and pork products worldwide.

In late 1999, Mr. Chairman, you and Senator Baucus initiated a letter to U.S. Trade Ambassador Charlene Barshefsky endorsing this initiative that was signed by 25 other Senators, including members of this subcommittee.

The U.S. pork industry is ready to compete in a free and open environment. We believe that pork producers in a number of other countries are willing to do the same. Indeed, the Canadian pork industry has also asked its government to pursue a zero-for-zero initiative on pork and pork products.

The United States should use its negotiating leverage to push this objective with our more reluctant trading partners in order to ensure that we are afforded the opportunity to take advantage of our natural competitiveness.

Fundamentally, liberalization in the pork industry can be most easily achieved in the context of an ambitious overall agreement. The National Pork Producers support an aggressive approach to this trade round. Among other things, NPPC advocates the following points as general U.S. negotiation objectives for agriculture.

Tariff reduction must be accelerated. Notwithstanding the progress that was made during the Uruguay Round, tariffs on agricultural products remain very high. A date needs to be set by which all tariffs will be reduced to zero. The best way to achieve some comprehensive liberalization, is through the use of a tariff cutting formula that is applied to every product, without exception. There are many different types of formulas that could be devised to cut tariffs.

The formulas selected will depend on the results desired. NPPC prefers an approach like the Swiss formula used in the Tokyo Round negotiations, which resulted in substantially larger cuts of higher tariffs and had the effect of dramatically reducing the disparities in levels of protection.

In addition, countries should engage in request/offer negotiations to achieve deeper-than-formula reductions for specific products. This segment of the negotiation would provide the opportunity to pursue the zero-for-zero initiative in the pork sector.

In most instances, creating a tariff rate quota satisfies the minimum access commitment for tariffs on agricultural products in the Uruguay Round. Unfortunately, in some cases the administration of TRQs has been used as an instrument to thwart imports. In the

upcoming trade negotiations, rules on TRQ administration must be clearly delineated. In addition, ceilings must be established for over-quota levels.

Export subsidies and trade-distorting domestic support should be eliminated. Data compiled by the USDA shows that, during GATT year 1998 and 1999, the EU subsidized more than 750,000 metric tons of pork, a subsidized tonnage that exceeds the entire amount of exports. NPPC supports the complete elimination of all export subsidies and the complete elimination of all trade-distorting domestic support.

The SPC agreement should not be reopened. I think sound science is working in that area. The U.S. must be a reliable supplier of agricultural products. Trade liberalization is not a one-way street.

If we expect food importing countries to open their markets to U.S. exports and rely more on world markets to provide the food they need, we should do the same by committing to being a reliable supplier.

Current WTO rules permit countries to tax exports whenever they choose and to prohibit or otherwise restrict exports to relieve domestic shortages.

These provisions should be eliminated in connection with the phasing out of import barriers. Such a move would not affect the ability of the United States to impose trade sanctions for reason of national security. That right would be preserved under GATT Article XXI.

Thank you, Mr. Chairman, for allowing me to make these comments. I would be happy, at the proper time, to answer any questions that you may have.

Senator GRASSLEY. Thank you, Glen.

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

Senator GRASSLEY. Mr. Thorn?

STATEMENT OF CRAIG THORN, POWELL, GOLDSTEIN, FRAZER & MURPHY

Mr. THORN. Thank you, Mr. Chairman. My name is Craig Thorn. I am a senior policy advisor at Powell, Goldstein, Frazer & Murphy. Our firm represents a number of agricultural companies and trade associations, but I am here today in a personal capacity to discuss the importance of the new round of WTO negotiations to the future of U.S. agriculture and the prospects for a successful negotiation.

The views I will be sharing with the committee are based on 15 years of trade policy experience in the Department of Agriculture.

Mr. Chairman, American farmers and agri-businesses have long recognized that international trade is vital to the economic health of their industry. Government has understood this as well, and both the public and private sectors have dedicated significant resources to various programs designed to improve U.S. export prospects.

However, I believe that no program and no policy has a greater potential to effect positively the long-term prospects for agricultural exports than the new round of multilateral trade negotiations under the WTO.

While many factors affect export markets, it is the production and import policies of foreign governments that establish the limits to market potential. Trade distorting subsidies and import barriers, where they exist, make it difficult for U.S. producers to exploit their natural competitive advantage in export markets.

The most effective means of disciplining the use of trade-distorting practices by foreign governments is the development and implementation of rules for international trade under the WTO.

The United States made significant progress toward strengthening rules and opening markets in the Uruguay Round. However, at the end of that round, U.S. negotiators were forced to accept a compromise that, in effect, postponed the achievement of many of the most substantial gains.

In order to bring the negotiations to a conclusion, they accepted an agreement that fundamentally reformed the rules of agricultural trade, but required only modest cuts in subsidies and import protection.

However, they demanded and got a continuation clause, the Article XX that we have heard so much about today, which commits WTO members to another round of negotiations beginning 1 year before the end of the Uruguay Round implementation period.

Because the Uruguay Round Agreements laid the groundwork for a healthy multilateral trading system in the agricultural sector, the U.S. will be able to concentrate in the new round on achieving substantial reductions in trade-distorting subsidies and import barriers. The stage is, therefore, set for significant gains for U.S. farm exports.

Therefore, the failure of the ministerial conference in Seattle is especially disappointing for U.S. agriculture. Rather than launching a new round of trade negotiations, the ministerial exposed serious political and institutional problems and led some to wonder whether there could be a new negotiation under the present circumstances.

Fortunately for all of us, the WTO has shown considerable resilience in the succeeding weeks; trade diplomats from WTO member countries have been busy in Geneva putting the pieces back together and preparing to move forward.

The focus has been on the so-called built-in agenda, the negotiations on agriculture and services that were mandated in the Uruguay Round Agreements.

Despite continued disagreements over certain unresolved issues, member countries were able to work out a means of beginning the negotiations in those two sectors using the existing committee structure.

Given sufficient political will and appropriate U.S. leadership, the coming year can be a productive one for the agriculture talks. The first year of any multilateral negotiation is mainly preparatory: countries prepare and present their initial negotiating proposals, and there is an inevitable process of debate and coalition forming. This can take place, despite the absence of a full-fledged, new round.

At the same time, I want to stress the critical importance of the eventual launching of a comprehensive round. While the agricultural negotiations can begin on their own, it is highly unlikely that

they can ever be concluded on their own. I will return to this issue in a moment.

Since the agriculture negotiations are about to begin, the U.S. is in the process of developing its negotiating agenda. As I indicated, most of the elements of that agenda should be self-evident. The primary focus should be on achieving the elimination of export subsidies and substantial reductions in trade-distorting domestic subsidies and market access barriers.

We should also use the opportunity provided by the new round to address crucial issues such as trade in products of biotechnology. In my written testimony, I discussed each of the major subject areas of the negotiations, but here I would just like to reiterate one point. The U.S. will be in an excellent position in this negotiation to make major progress toward meaningful liberalization.

The ground work has been laid. The rules for subsidies have been established and non-tariff import barriers have been converted to tariffs. What is left, is mainly a numbers negotiation and the numbers can only go down.

There are reasons to be optimistic about our chances for achieving a good agreement in an acceptable time frame. We have the advantage of the deadline imposed by the expiration of the so-called peace clause, and we have heard about that from other people today.

The peace clause, Article XIII of the Agriculture Agreement, suspends, until January 1, 2004, the application of certain WTO rules, most notably Articles III, V, and VI of the Subsidies Agreement. Its expiration could have serious consequences for the EU and other countries with high levels of subsidization.

These policies would then be subject to the much more stringent disciplines of the subsidies agreement. Used properly, the peace clause could be a powerful incentive for concluding an agreement.

However, achieving an agreement is certainly not a foregone conclusion. As indicated previously, success in the agriculture negotiation is dependent on the conclusion of a substantially broader package of agreements that contains something for all participants.

The U.S. understood this fact in the Uruguay Round when we pushed for an ambitious negotiating agenda and a single undertaking approach, which meant that nothing in the final package was agreed until all elements were agreed.

Unfortunately, this was not the approach of the U.S. in the run-up to the Seattle ministerial. Rather, U.S. negotiators stressed limiting the scope of the negotiations and allowing for early harvest in sectors where it might be possible to reach a quick agreement.

At times, the U.S. seemed more intent on keep issues off the new round agenda than in putting them on. It is difficult to lead from such a defensive posture. I believe the U.S. needs to reexamine this position, otherwise we will lose historic opportunity for American agriculture.

Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you, Mr. Thorn.

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

Senator GRASSLEY. Now, Ms. Darden.

**STATEMENT OF DELORES DARDEN, PRESIDENT, VIRGINIA
SMALL GRAINS ASSOCIATION, SMITHFIELD, VA**

Ms. DARDEN. Thank you, and good morning. Let me begin by asking that my prepared testimony be made part of the record.

My name is Dee Dee Darden. My husband and I operate a diversified family farm, where we raise peanuts, cotton, soybeans, and wheat, just outside Smithfield, VA.

I am extremely pleased to appear before you today on behalf of the unified U.S. wheat industry by representing the National Association of Wheat Growers, the Wheat Export Trade Education Committee, and the U.S. Wheat Associates.

By speaking for a unified industry, I hope to impress upon you how important U.S. membership in the WTO is not only to me, but to the hundreds and thousands of wheat producers that I represent.

Like most farmers, we producers were very disappointed over the lack of progress made at the recent WTO meetings in Seattle. However, we are pleased that the WTO negotiations, after a short delay, are now back on track.

It is important to note that the Seattle ministerial did not break down over agriculture. Instead, talks were interrupted when member countries failed to reach agreement on issues surrounding labor and environmental standards, and how they fit into the existing WTO framework.

Despite this setback, wheat producers cannot support those members of Congress who have called for disengaging from the WTO process. We call upon you and your colleagues in the Senate and the Congress to reject House Joint Resolution 89, which would remove the U.S. from the WTO.

Maintaining the WTO and the market opening rules it provides are essential to the health of U.S. agriculture and the future economic stability of our entire economy. Overall, U.S. farms export over 30 percent of everything they produce. That figure climbs to over 50 percent for wheat farmers who sell their products in over 130 foreign countries.

Passage of H.J. Res 89 would destroy market gains we have worked hard to cultivate over the years. Wheat producers believe that progress was made on the agricultural trade agenda in Seattle, despite the lack of a ministerial declaration to begin the next round.

For example, U.S. negotiators were successful in isolating the European Union on the issue of export subsidies. While the U.S. and others support a comprehensive approach to eliminating these barriers, the EU's objective in Seattle was to stop progress on these import reforms. They were not successful.

It is in our best interests to keep pressure on Europe and move the built-in agricultural trade agenda forward. To hesitate or delay rewards Europe and risks squandering the gains made by the U.S. in Seattle.

Accordingly, we recommend that the U.S. push aggressively on the built-in agenda laid out in Article XX of the Uruguay Round Agreement on agriculture, which calls for the continuation of the reform process begun in the Uruguay Round. We have been in-

formed informally that USTR sees no difference between Article XX and the text on agriculture that was almost agreed to in Seattle.

Beyond the built-in agenda, there are two additional areas that I want to bring to your attention. The first, is that we must insist on moving the agricultural negotiations forward as part of a broad, comprehensive agenda.

It is the long-standing position of the wheat industry that we must take advantage of the built-in agenda to move the negotiations forward, while keeping all other sectors of the economy at the negotiation table with us.

The second, deals with Article XIII, which is known as the peace clause, which protects WTO member countries from being made subject to certain disciplines in the agreement on subsidies and countervailing measures.

The European Union has insisted on removing the peace clause because it has continued to subsidize its farmers well beyond accepted WTO limits.

I urge you to work with us in eliminating this escape hatch and holding Europe to the same international standards the rest of the world is expected to meet. As the Seattle ministerial approached, farmers were warned to moderate their expectations. We were told repeatedly that Seattle was the beginning of a negotiation, not an end. Accordingly, suspension of the talks in Seattle represents to us a delay, not a failure.

On a personal note, I would like to say this morning that I kind of liked your analogy when you talked about the WTO as a football field and a playing ground. As a farmer, I am tired of being on the losing football team, and I think that the WTO and the PNTR can put us on a winning team.

I like Secretary Glickman's remarks, as our coach, when he talked about a win-win situation. If pork, wheat, dairy, and other commodities here are our first string, I think we also need to look at the second string. We need to look at peanuts, we need to look at cotton, we need to look at other commodities. I think what all of us want here is fair rules, fair trade, and all play on the same playing field, as you alluded to this morning.

We very much appreciate the opportunity to share our thoughts on this important subject with you. U.S. farmers are dependent on trade and are committed to making this round of WTO negotiations a success.

Thank you again for your attention, and I would be happy to answer any questions at the appropriate time. Thank you.

Senator GRASSLEY. Thank you, Ms. Darden. Maybe what we need is a new athletic director. [Laughter.]

[The prepared statement of Ms. Darden appears in the appendix.]

Senator GRASSLEY. Mr. Rudolph?

STATEMENT OF DONALD RUDOLPH, PRESIDENT, UPSTATE FARMS COOPERATE, DARIEN CENTER, NY

Mr. RUDOLPH. Thank you, Mr. Chairman, members of the subcommittee. I am Donald Rudolph, and I am very pleased to appear before you today to testify on the topic of agricultural negotiations in the World Trade Organization after Seattle.

I am an active dairy farmer. I milk about 40 cows on a farm that has been in my family for four generations. For many years, I have been honored to serve as the president of the Upstate Farms Cooperative. Upstate is a dairy cooperative located in western New York which markets over a billion pounds of milk each year and supports over 400 dairy farm family members.

Upstate owns a number of dairy plants, including a joint venture with Dairy Lee and Niagara Cooperatives that market a full line of dairy products such as fluid milk, cottage cheese, yogurt, ice cream mix, evaporated milk, butter, and powder.

Upstate is a member of the National Milk Producers Federation, a national farm commodity organization representing dairy farmers. In the area of trade policy, Upstate works especially closely with National Milk and the U.S. Dairy Export Council.

Since Upstate is located next to the Canadian border, market access to Canada would be immensely helpful to us. We, therefore, strongly support opening the Canadian market to U.S. dairy products, especially fluid milk. The need for strong action against Canadian trade barriers and export subsidies is detailed in my written testimony.

Upstate also produces many canned and bottled dairy products that can be exported to Mexico, Latin America, and the rest of the world, therefore, we can benefit from fair dairy agreements with other nations by continuing negotiations at the World Trade Organization.

Our greatest worry about free trade is that current world prices for dairy commodities such as butter and powder are too low for dairy farmers in the United States to survive, much less to prosper. Therefore, we strongly support an end to all dairy export subsidies within no more than a few years.

In addition to explaining in detail why Canadian dairy policy is unfair and why dairy export subsidies must be eliminated, my written testimony covers a number of other important matters.

One, world dairy trade is still highly distortive by export subsidies, tariffs, and other trade barriers. Two, the upcoming meeting in the World Trade Organization headquarters in Geneva must ensure that the World Trade Organization provides the basis for continuing the agricultural negotiations in an agreed time line for initial proposals.

Three, EEP must be kept as an effective tool for U.S. dairy export, unless and until all countries eliminate export subsidies. Four, tariff inequities must be addressed prior to making any further multilateral tariff reductions or other market access liberalization.

Five, the World Trade Organization agreement on the application of sanitary and phytosanitary measures should be maintained intact so that disputes between the U.S. and the EU over matters such as beef hormones and biotechnology will be based solely on sound science.

Six, the negotiations should be structured as a single undertaking involving both agricultural and non-agricultural sectors of the economy in order to increase the incentives for other countries to make concessions about agricultural matters.

If dairy export subsidies end so that world export prices reach levels at which United States dairy farmers can survive and prosper, we support pursuing World Trade Organization negotiations to reach fair agreements with the rest of the world, but we cannot stay in business producing milk at the current level of world prices.

Such prices are artificially low due to unfair trade practices of other countries. We welcome this subcommittee's interest in these vital matters. Thank you for this chance to testify.

I would be happy to answer any questions. I, too, would like to thank you that there are people here in our legislative world trying to get a better price for our farmers. We certainly need it. Thank you.

Senator GRASSLEY. Amen.

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

Senator GRASSLEY. I am going to direct questions at certain ones of you, but if, at the conclusion of that person answering the questions, any of you want to make any comments in regard to that question, I would be happy to receive that orally right now.

First of all, Mr. Keppy, I would thank you for the positive statement that you made about the family farm that was probably expressed without your intending to express it, in the sense that your fourth generation in the Keppy farm will continue to operate. That is an expression of confidence.

I think it is probably, knowing where you have come from ideologically, it probably is expressed in the assumption that we are going to have free and open markets for the family farm to prosper.

So let us assume for a minute, and I hope this assumption is wrong, that we can agree on the scope of the new round of the WTO trade talks before next year, and we have to live with the status quo for a few years, what will this mean for Iowa, and for our farm economy, in general, from your point of view?

Mr. KEPPY. Thank you, Mr. Chairman. I, too, want to add, as the rest of the panel did, my appreciation for you and other members of this committee for your dedicated, hard, tireless work to try to improve agriculture, and I appreciate the win-win scenario. As I have played some athletic events, I know how important it is to have teamwork.

I hope that your scenario and your comment that you brought up are not the case, because with the technology, with the improvements, and the adoption of all of the events that are happening in agriculture, we in America are going to produce too much food. We need world trade. So, I sincerely hope that negotiations are successful.

I would like to point out, and I hope I have a little bit of freedom here, that I think there are some existing programs, and Senator, you have worked very hard on some of the bilateral agricultural cooperative agreements with China, and there are other areas.

It is not the end of the world if we do not get the WTO, but I think that we have got to work towards that. But there are some things on the table that I think we can continue to work at, and we will have to become creative on how to get our product out of this country.

American producers are the most efficient producers in the world, and we truly would like to be world traders. It would absolutely be the simplest if we could have free and open trade. If that is not going to be the case, we will work with legislators or work with whoever and become creative and find a way to market our products overseas.

Senator GRASSLEY. Mr. Thorn, I have expressed, and we have all expressed here to some extent, our disappointment with the collapse of what was supposed to be a Seattle ministerial and with some accomplishments there.

One of the sad things about it, is once you lose momentum in trade liberalization, whether it be bilateral, multilateral, but particularly on a global basis where consensus is so important, it is very hard to gain back that momentum.

For example, one of the things that we are seeing now is that the European Union is very actively pursuing a lot of bilateral agreements. That may help their farmers, but it does not do anything for us or our farmers. In fact, it can harm us, I suppose.

As long as the United States, the European Union, Japan, and other nations do not see the need to give anything to each other, we simply go our own ways. That is what the European Union is doing, and it is not very good for our agricultural producers here in America because we still have an average world agriculture tariff of about 45 percent.

What, in your view, are the things that the United States can do to help regain the momentum of multinational organizations or negotiations?

Mr. THORN. I certainly would agree, Mr. Chairman, as I said in my testimony, that the failure at Seattle was a negative development for U.S. agriculture, because I really do feel strongly that we are on the urge of making very significant progress.

So I think the Uruguay Round Agreement was a very significant agreement, and really did change the international marketplace for the United States. I believe, though, that we are on the verge of even more significant gains. It is sitting there waiting for us, we just need to set up the proper framework so that we can accomplish our goals.

So, I was very disappointed by the outcome in Seattle. I do not think, though, that all is lost. I do believe that it should be possible, with proper American leadership, to make some progress this year, but it will take American leadership.

There are people in Geneva, there are negotiators from other countries, who question that leadership, who wonder whether or not the United States is going to be dedicated enough, whether we care enough about getting a new round of trade negotiations and whether we are going to exercise the leadership necessary to bring that together, because even though I do believe it will be possible for us to make some progress this year, I do not believe under any circumstances that we will be able to get a final agreement without a broader package.

Just in conclusion, I would like to differ a little bit from the previous set of witnesses from the GAO. I do not believe that it is fair—and I am not in the habit of defending the Europeans or Eu-

ropean trade policy—to say that we had a consensus on agriculture that was broken by the Europeans or the Japanese at Seattle.

I believe we had an agreement that was on the table, but it was a conditional agreement. What was necessary in order to have that text be adopted, was the emergence of a consensus on a broader round. That sounds like a technical point, but I think it is an important point, because that is the way these negotiations work. Thank you.

Senator GRASSLEY. Let me drawn, Mr. Thorn, on some of the experience you had at Geneva and Brussels working on agricultural issues. As you know, whether we discuss biotechnology in the WTO, and how we do it, is very controversial.

Some fear that if we raise biotechnology issues in the WTO, this is going to permit the European Union and other trading partners to raise so-called other legitimate factors in considering food safety or particular measures.

Did we do the right thing in Seattle regarding biotechnology, and what is the best way to advance U.S. interests?

Mr. THORN. Thank you for the question, Mr. Chairman. This is an issue that I am very much concerned about.

There are always risks in a negotiation whenever you open up an issue to discussion, and various people have pointed out the risks of discussing biotechnology in the WTO. There is no question that the Europeans have a different agenda from the United States on that issue, and on other related food safety issues.

But I believe strongly that we need to have that discussion in Geneva, for various reasons. One of the most immediate reasons, and something that is very much on the mind of people in the last few weeks, is that we just recently saw the conclusion of the negotiations on a biosafety protocol.

Now, there are a lot of people around the world who believe that that biosafety protocol now constitutes international law pertaining to trade in biotech products. Now, we cannot let that perception persist because the biosafety protocol has a lot of problems, frankly.

I believe that our negotiators succeeded in weeding out some of the worst problems in earlier drafts of the protocol, but we certainly do not want that protocol displacing WTO rules.

I believe strongly that we need to reiterate that countries have obligations under the WTO that pertain to trade and biotech products, and we can only do that through a discussion in Geneva.

I believe the administration was headed in the right direction on biotechnology and they put in a lot of effort on that issue, especially in Seattle. I believe they got a late start, but now we are seeing a pretty good level of dedication to trying to work out something on biotechnology.

I think, though, now that the broader agricultural negotiations have started, we need to begin to look aggressively for ways of opening up discussions on biotechnology.

Senator GRASSLEY. Mrs. Darden, one comment, and then a question. First of all, I agree with your concern about the fact that we want to make sure that the United States does not renegotiate an extension of the peace clause; letting that ride is a very important tool to accomplishing our goals.

I understand that many of the agriculture groups in Seattle were somewhat satisfied with the progress we made in including language in the draft declaration dealing with export subsidies. The European Union, as we have heard before, argued for progressively reducing export subsidies, whereas, ours was for the elimination of those.

We did not get exactly what we wanted, but there is some evidence that some progress was made. The details are important, but I would like to have your view on the work that was done in Seattle on the export subsidy issue, particularly with Europe.

Ms. DARDEN. I think that elimination is the goal we are trying to achieve. Again, we go back to the fair rules. When we have been dealing with Canada and the European Union, we have been dealing with two different sets of rules, so we feel like the elimination is the approach that we need to take.

Senator GRASSLEY. Mr. Rudolph, at some point I am sure that we will get to the issue of domestic support in the WTO negotiations. Although the Uruguay Round on agriculture established the principle that domestic policies can be trade distorting and ought to be curbed, the agreement had little actual impact on either the United States or the European Union's domestic support.

Right now, the European Union is alone in linking farm income support to participation and production programs. In addition, the EU's Agenda 2000 policy reforms are very limited.

How big of a role should the issue of domestic support for agriculture play in WTO negotiations, and what would this mean for dairy farmers? I might give you my impression before you answer, that there is a somewhat different view on a lot of these issues by dairy than there would be in other segments of the U.S. agriculture.

Mr. RUDOLPH. Right. If I understand your question right, in the European Union, if they wanted to subsidize their farmers, that is fine, but not attach it to the exports.

Senator GRASSLEY. Yes. Take the question from that point of view. We are talking about the elimination of the export subsidy. As you presumed, the elimination of the export subsidy, the extent to which that support for agriculture, what role that ought to play in the WTO negotiations.

I am particularly looking at it from the standpoint of the dairy farmer. Let me pinpoint it to that extent.

Mr. RUDOLPH. All right. Personally, if our government wanted to increase my income but not attach it to export, personally, I would have no problem with that.

Senator GRASSLEY. And then the same for the European farmers, is that what you are saying?

Mr. RUDOLPH. Right. If they do not attach it to exports.

Senator GRASSLEY. All right. Thank you very much.

This is the end of my questioning. Does anybody have one last thing that they would like to say?

Mr. RUDOLPH. Yes. The point we are trying to make, it has been made here two or three times today. We have the most efficient farmers in the world. We just want a level playing field, and we will do our part.

Senator GRASSLEY. Thank you. Mr. Keppy?

Mr. KEPPY. I guess the other thing that has been said at all three panels, is biotechnology. Sometimes I wish that we would have originally started talking about this in another fashion, such as enhanced crop production and enhanced pork production. As a producer of grain, I use a lot less herbicide, insecticide, fungicide, because of that, less tillage, and because of that, a cleaner environment.

On the pork side, there are some biotechnology programs that are coming that are going to reduce the water that a pig excretes. Again, very favorable to the environment.

So I know you believe in this, but I just wanted to reinforce your thoughts, that we have got to move forward and get the technology that is out there implemented into agriculture and not be a point of contention.

Senator GRASSLEY. Ms. Darden?

Ms. DARDEN. On the biotechnology, our fuel costs on our farm have almost tripled since this time last year, and the biotechnology enables us to farm with BTs and round-up ready at reduced cost. So any time we can eliminate a trip across the field, we are saving some money and making the bottom line a little bit better.

Senator GRASSLEY. Yes. What we have to do, both in agriculture and in policy on this issue from the education of the public standpoint, is one of two things. Either educate all the people in this town who for years have been saying that we have got to do more to clean up the environment, we have got to do more to save energy, and also groups in this town that are very much in the lead, and legitimately so, in humanitarian responsibilities of our country and our people around the world because we are productive, and there are a lot of people around the world that are not so productive, that are not suffering from malnutrition, and we can help meet those needs.

We have either got to educate those people about biotechnology and how it helps all the things they have been crying about for decades, or else we have got to point out to them in an effective way how intellectually dishonest they have been, or are, on this issue.

We are responding to what they have been complaining about, advocating for the last two decades, and just somehow they do not get it, or if they do not want to get it, then they are intellectually dishonest.

Somehow this has all of us involved in this, agriculture or otherwise, not doing a very good job of this, because there are a lot of groups, as demonstrated in Seattle or demonstrated in the lobby here in Washington, are actually working against some of the very things they have been preaching at least since the 1960's.

Yes, Mr. Thorn?

Mr. THORN. Yes. One more quick point, Mr. Chairman. I could not agree more with your last point. Just to bring the issue, once again, back to WTO context, the WTO is exactly the forum where we want to discuss this issue internationally because we can make reference to the rules that already exist under the agreement on sanitary and phytosanitary measures.

Basically, what the WTO says is that, with respect to regulation in areas like approvals of biotech products, that countries must be

able to justify their decisions on the basis of sufficient science, and that they need to do a science-based risk assessment.

That is a point that we need to drive home. I think that in that context, with that rules backdrop, we can bring multilateral pressure to bear on the Europeans. That, after all, is the source of our trade problems and the source of problems with consumers that we are seeing in a lot of other places around the world.

Senator GRASSLEY. Mr. Rudolph?

Mr. RUDOLPH. One last comment. The comment I made about subsidizing farmers within our own country or European countries, not just tied to export subsidies, but attached to any trade-distorting practices.

Senator GRASSLEY. All right. We would have assumed that in your question, but we accept that.

Mr. RUDOLPH. I just wanted to make it clear.

Senator GRASSLEY. We accept that. By the way, I happen to agree with what you just clarified.

Mr. RUDOLPH. If my government wants to make a millionaire out of me, why, that is fine. [Laughter.]

Senator GRASSLEY. Thank you very much for your participation. The hearing is adjourned.

[Whereupon, at 12:31 p.m., the hearing was concluded.]



APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY

Chairman Grassley, Senator Moynihan, Members of the Subcommittee:

Thank you very much for this opportunity to testify before the Subcommittee on our agenda for agriculture at the World Trade Organization over the coming year. I look forward to working closely with you as we move ahead through the launch of agriculture negotiations in Geneva, and completion of WTO accession for China and other prospective WTO members.

INTRODUCTION

To begin with, Mr. Chairman, agriculture has been at the center of American trade policy under President Clinton.

American farmers and ranchers are the most competitive and technically advanced in the world. We produce far more than we can ever eat; and we therefore must have the ability to export to the 96% of humanity that lives beyond our borders if American farm families are to prosper. American producers lead the world in commodities products ranging from grains to oilseeds, meat, dairy, fruits and vegetables, and forest products. Our farmers and ranchers therefore depend on open markets worldwide. This is clear in the record, with one in three American farm acres producing for foreign markets, with U.S. export sales close to \$50 billion last year, despite a drop from the record levels of 1996 and 1997 due to the effects of the Asian financial crisis and record harvests in several countries.

Open world agricultural markets are in the long-term interest of our trading partners as well, as experience shows us that an open, fair trading system for agriculture is among the world's strongest defenses against hunger. Countries which are open to agricultural trade diversify their sources of supply—ensuring that consumers will have reliable access to food at market prices, and helping to guarantee that natural disasters or other interruptions of supply from any one source of food will not mean famine.

AGRICULTURAL TRADE POLICY GOALS

When the Administration took office, however, agriculture was a sector in which trade was more restricted and distorted than almost any other.

Non-tariff measures such as quotas, import bans and uncapped variable levies effectively insulated inefficient producers from world markets and could be used to stop all imports. Our trading partners had no constraints on their ability to use export subsidies to dump surplus production in world markets. American exporters had no effective recourse to challenge import restrictions that were disguised protectionist barriers. No limits existed on production subsidies in agriculture. And we had no effective forum in which to resolve our disputes on these issues.

Thus, throughout the Administration, we have pursued a strategic program, with our major trading partners, in our regional trade initiatives, and in the trading system, to reform and open agricultural trade. We have given additional resources to agricultural issues, including the first ever appointment of an Ambassador-level Special Trade Negotiator for Agriculture. And we have pursued a systematic effort to:

- reduce tariffs and other barriers to trade;
- ensure that sanitary and phytosanitary standards are based on science;
- promote fair trade by reducing foreign export subsidies and trade-distorting domestic supports;
- ensure greater transparency and fairness in state trading; and

- help guarantee that farmers and ranchers can use new technologies such as biotechnology, when evaluated through a fair, transparent and science-based approach to regulation, without fear of trade discrimination.

At the same time, our colleagues at the FDA and the Department of Agriculture are intensifying food inspection at the border, to not only maintain but improve our food safety standards. This is especially important as imports have risen in recent years, to ensure that the American public will have the world's safest food supply as we get the benefits of open trade.

ADMINISTRATION AGRICULTURAL TRADE RECORD

The results of this work are substantial.

Opening World Markets

With the passage of the North American Free Trade Agreement in 1993, we won preferential access to our immediate neighbors. As a result, our agricultural exports to Mexico and Canada have grown by nearly \$4 billion since 1993. Together, these two countries—with a total population of 120 million—now buy over a quarter of our agricultural exports and provide American farmers with at least a partial shield against overseas economic crisis.

Bilateral agreements worldwide have also opened up new opportunities in a very large range of commodities. Examples include:

- Beef in Korea;
- Apples and cherries in China;
- Tomatoes and apples in Japan;
- Almonds in Israel;
- Citrus and other fruits in Brazil, Chile, Mexico and other countries;
- A veterinary equivalence agreement with the European Union addressing sanitary issues blocking US live animal and animal products.

Our December 1998 agricultural agreement with Canada shows how much practical, real-world value these initiatives can yield for our farm communities. This agreement addressed a range of market access barriers, discriminatory regulatory policies and sanitary and phytosanitary issues; and since its conclusion, our agricultural trade relationship has fundamentally changed.

- Feeder cattle are moving into Canada in record numbers. Before the agreement, Canada took virtually no American feeder cattle. So far this marketing year, over 170,000 head of feeder cattle, including 114,000 from Montana alone, were shipped to Canada.
- We have also achieved real market access for hogs. Canada has eliminated burdensome regulations and now allows hogs from states free of pseudorabies to move easily into Canada for slaughter.
- Wheat sales have dramatically increased, with shipments from Montana, North Dakota and Minnesota farmers rising from virtually nothing in the 1997–1998 marketing year, to 303,000 tons in 1998–1999.
- Under the In-Transit Program for Grains, the U.S. shipped over 720,000 tons of North Dakota, Montana, and Minnesota wheat and barley on the Canadian rail system since January 1, 1999.
- We are making progress on a number of regulatory initiatives as well, dealing with Canadian phytosanitary requirements for wheat, including changes to regulations on cereal screenings, karnal bunt, the elimination of Canada's barley quota, extension to more states of the ability to ship wheat more on the Canadian rail system, and streamlining complex requirements to export U.S. wheat through Vancouver.

Uruguay Round

All of these initiatives, furthermore, help us to set precedents and build the international consensus necessary for fundamental reform of agricultural trade through the trading system.

This is now underway. With the completion of Uruguay Round in 1995, after forty-seven years of developing the trade system, we began to bring agricultural trade under fair and internationally accepted rules, in each area crucial to American agriculture:

- First, through the Agreement on Agriculture, the Uruguay Round abolished quotas, ensuring that countries use only tariffs to restrict imports; and going on to reduce and bind these tariffs. It subjected export subsidies and trade-distorting domestic support measures to specific limits, and reduced them as well.
- Second, through the Agreement on Sanitary and Phytosanitary Measures, the 135 members of the WTO agreed to use science-based sanitary and

phytosanitary standards to protect human, animal and plant life and health rather than to bar imports.

—Third, the Uruguay Round created an effective, impartial dispute settlement mechanism to address trade disputes.

—And fourth, all participants in the WTO agreed to a “built-in agenda” mandating further negotiations in agriculture, as well as services, beginning this year.

Enforcement

With the Uruguay Round complete, we set up a special monitoring unit to ensure full implementation of these commitments, and we have spent considerable time over the past five years monitoring and enforcing compliance. When we have encountered reluctance to comply with commitments, we have not hesitated to assert our rights through dispute settlement.

In most cases, our trading partners have met their obligations. However, for those cases in which they have not, the U.S. has used the strong WTO dispute settlement mechanism to ensure that WTO members meet their commitments or suffer a penalty for failure. To be specific, we have used the dispute settlement mechanism in the past four years to enforce the Agriculture and SPS Agreements in thirteen separate cases from fruit sales to Japan, to pork in the Philippines, dairy in Canada, and of course the still unresolved banana and beef cases with the European Union.

The banana and beef cases are important not only for their concrete economic importance to American agriculture, but because they concern fundamentally important principles and precedents. Most notably, these are the only cases in which a WTO member has not complied with its obligations after an adverse panel ruling—in agriculture or anywhere else in the system. We expect full implementation of each decision and are taking measures to ensure it, beginning with WTO-authorized retaliation against the EU in the banana and beef cases.

NEXT STEPS

The Uruguay Round also included a commitment by all members to begin a second set of negotiations on agriculture and services in the year 2000. We have seen fulfillment of this commitment as fundamental to the credibility of the WTO as a whole, in addition to the essential part these negotiations will play in the reform and opening of world agricultural trade.

Despite the progress made in the Uruguay Round and elsewhere, agricultural trade remains substantially restricted and distorted. Tariffs average 50% worldwide for agricultural products. Tariff-rate quotas have created access for imports, but often subject to restrictive conditions. The European Union continues to use export subsidies intensively, displacing more competitive producers from cash markets, harming the interests of American farmers and ranchers and imposing a special burden on agricultural producers in the poorest countries. Trade distorting subsidies continue to encourage over-production in some key countries, lowering prices for all other producers. State trading enterprises control a large share of world trade in certain commodities. And the developing application of biotechnology techniques to agriculture raises new challenges for trade policy.

BUILT-IN AGENDA

Over the course of 1999, we presented formal proposals in Geneva on the range of issues raised by these policies, reflecting the advice and goals we received in a range of consultations with Congress, agricultural producer groups throughout the nation, and other interested parties. The WTO did not, of course, launch a Round last year. But we are very pleased by the decision its General Council took last month to formally open the agriculture and services negotiations to which WTO members committed themselves in the Uruguay Round. This is essential not only to the interests of American agriculture, but to the credibility of the WTO itself.

The General Council's decision calls for the first meeting of the agricultural negotiations to be held on March 23rd. At this meeting, in addition to addressing procedural issues, including discussions about chair, time-frames and the structure of proposals, we will continue our work with other countries to find common ground on reform objectives. While no deadline for the conclusion of negotiations has yet been established, the expiration of the peace clause at the end of 2003 should encourage countries to proceed expeditiously.

While the work has just begun, our fundamental principles for agricultural trade reform in these talks are clear:

- Eliminate Agricultural Export Subsidies*—A principal goal of the U.S. will be to completely eliminate, and prohibit for the future, all agricultural export subsidies.
- Lower tariff rates and bind them*—this should include reduction and elimination of tariffs, elimination of tariff disparities, and simplification of tariff policies, for example in cases where WTO members use “compound” tariffs that include both ad valorem and cent-per-kilogram tariffs.
- Substantially reduce trade-distorting domestic supports* and strengthen rules that ensure all production-related support is subject to discipline, while preserving criteria-based “green box” policies. In addition, all trade-distorting supports should be more tightly disciplined.
- Improve access for U.S. exports under tariff-rate-quotas*—by increasing quantities eligible for low-duty treatment, reducing high out-of-quota duties, and improving disciplines on administration of TRQs to ensure that they offer real market access.
- Strengthen disciplines on the operation of state trading enterprises*—While state trading enterprises are subject to WTO limits on subsidized exports, there are a number of concerns about their operations, and in particular those of monopoly exporters. These include the possibility of disguised circumvention of export subsidy commitments, and anti-competitive practices such as predatory pricing.
- Address disciplines to ensure trade in agricultural biotechnology products is based on transparent, predictable and timely processes.* While WTO rules cover trade measures affecting biotechnology products, we are concerned about the utter collapse of the European Union’s approval process for biotechnology. We continue to work with our industry, Congress and other interested groups in developing the best approach for dealing with this subject bilaterally and in WTO negotiations.

In preparation for more detailed proposals, we will extensively consult with stakeholders and Congress, and work in tandem with the drafting of a new Farm Bill. We are now continuing our work with American producer groups and other interested parties to identify priorities and assessing different approaches for cutting tariffs, expanding access for products subject to TRQs, reducing trade-distorting domestic support, eliminating export subsidies, and disciplining state trading enterprises. We also are reviewing approaches for dealing with biotechnology. And we are publishing a Federal Register notice this month soliciting formal comments from the American public at large.

At the same time, we continue our support for the launch of a more broadly-based new Round. Beyond agriculture and services, we have pressing needs to address market access concerns in industrial products, electronic commerce, trade facilitation, and other topics. To build international consensus for such a Round will not be a simple task. However, the outlines can be drawn, if WTO members prove willing to rethink their negotiating positions, focus more fully on the shared benefits of the trading system in creating new sources of growth and opportunity and the shared responsibilities of reaching these goals, and find the balance that allows us to move ahead. As the President has said, we will keep working toward consensus; we are willing to be flexible, and expect our trading partners to do the same.

REGIONAL INITIATIVES

As we prepare for the negotiations, whether focused on agriculture and services or in the broader context of a new Round, we will proceed with initiatives which offer concrete benefits to producers and set precedents for later multilateral achievement.

In our regional trade initiatives, for example, we have already achieved consensus on issues of great importance to agricultural producers. The Free Trade Area of the Americas talks, which began the drafting of a formal agreement last month, have already achieved a consensus throughout the hemisphere on elimination of export subsidies. Likewise, the Asia-Pacific Economic Cooperation forum, linking 23 Pacific nations, has called for elimination of tariffs on forest products and for elimination of export subsidies.

CHINA WTO ACCESSION

Of fundamental importance in all future WTO work is the accession of new members. Thirty economies have applied to join; and each offers us the potential to set precedents and develop support for our multilateral goals.

China’s WTO accession is a case in point. Overall, it represents a comprehensive and one-way series of trade commitments. It covers agriculture, manufacturing, and services industries such as telecommunications, finance, the professions and others.

It includes a 12-year product-specific safeguard in the event of import surges into our markets, an agreement to continue using "non-market economy" dumping methodologies for fifteen years, addresses Chinese practices intended to draw jobs and technology to China, and much more.

In every case, the commitments are specific and enforceable; will be implemented rapidly; and hold China to the same standards we expect of WTO members. With respect to agriculture in particular, we will open China's market for all commodities of significant export interest to us, and address a range of broader policy issues of concern to American producers. To review the results briefly:

—*China will cut agricultural tariffs by more than half on U.S. priority products.*

In the commodities of top concern to the United States—everything from beef and pork to citrus, processed foods, wine and dairy—tariffs will fall from an average of 31% to 14%.

—*China will end its system of discriminatory licensing and import bans for bulk commodities, and will create market access opportunities by establishing a WTO-consistent Tariff-Rate Quota (TRQ) system.* China will establish significant and growing TRQs for state-traded commodities such as wheat, corn, cotton, rice and soybean oil. China has also committed to low, within-quota tariffs of 1–3%, which will help American farmers take full advantage of the TRQs. And China committed to allow a share of the TRQs for each commodity to be imported by entities other than state-trading entities, and agreed to specific rules for the administration of these TRQs. The introduction of private trade—combined with increased transparency in the process—will ensure increased opportunities for American agricultural exports.

—*China will grant expanded trading rights*—Currently, only companies that receive specific authorization from the Chinese government are allowed to import into China. Under the bilateral agreement on WTO accession, China has committed to allow any entity to import most products into any part of the country within three years of accession. A select list of products will be partially exempt from this rule and some trade will be channeled through China's state-trading enterprises (including wheat, corn, rice and cotton; state trading will be phased out for soybean oil.) However, specific commitments to end monopoly import status have also been established. Additionally, China has committed to liberalize distribution services for all agricultural products, except tobacco, allowing U.S. companies to distribute and market their products in China.

—*China will eliminate export subsidies.* China has committed not to use export subsidies for agricultural products when it joins the WTO. This commitment will level the playing field in third-country markets for U.S. exports of corn, rice and cotton, which in the past have been displaced by unfairly traded Chinese exports.

—*China will cap and then reduce domestic support.* China will first cap and then reduce trade-distorting domestic subsidies. The specific levels will be determined through multilateral negotiations in Geneva on the Protocol and Working Party report. China also committed to provide greater transparency to make its domestic support measures more predictable.

—*China will eliminate scientifically unjustified restrictions on U.S. agricultural products.* China has committed to fully abide by the terms of the WTO Agreement on Sanitary and Phytosanitary Measures, which requires that all animal, plant and human health import requirements be based on sound science—not on political agendas or protectionist concerns.

—*Bilateral Agricultural Cooperation Agreement*—Additionally, last year China and the United States agreed bilaterally on the terms for removal of long-standing and scientifically unjustified restrictions on imports of U.S. wheat, citrus and meat. Under this agreement, Chinese pre-program initiation inspection teams have visited citrus orchards in Arizona, Florida, Texas and California; and most recently, for the first time in the modern era, China has made a significant purchase of wheat from the Pacific Northwest.

—*Strong Provisions Against Unfair Trade and Import Surges.* The Agreement explicitly permits the U.S. to continue using "non-market economy" anti-dumping methodology for 15 years after China's accession to the WTO. China has also committed to a strong product-specific safeguard that allows the United States for 12 years after accession to restrain increasing imports from China that cause or threaten market disruption. After that, current U.S. safeguard provisions—Section 201—will remain available to address increasing imports.

Thus our bilateral agreement addresses the full web of trade barriers in the China market: barriers at the border, unfair restrictions on marketing within China, and unscientific inspection standards. As it goes into effect, a fifth of the world population—now largely blocked from buying our agricultural goods—will become a new

market for farmers, ranchers and food companies all over the United States; and we will develop a series of high-quality precedents in the world's largest nation for future multilateral talks.

PERMANENT NORMAL TRADE RELATIONS

As China enters the WTO, we have very few obligations. We make no changes whatsoever in our market access policies; in a national security emergency, in fact, we can withdraw market access China now has. We change none of our laws controlling the export of sensitive technology. And we amend none of our fair trade laws.

But we have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

Permanent NTR, in terms of our policy toward China, is no real change. NTR is simply the tariff status we have given China since the Carter Administration; and which every Administration and every Congress over the intervening 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin American, Canadian and European competitors will reap these benefits but American farmers, factory workers and service providers might well be left behind.

CONCLUSION

In conclusion, Mr. Chairman and Members of the Subcommittee, we have made very substantial progress towards an open and fair world market for America's farm and ranch families in the past seven years.

And as we look to the future, we have an ambitious agenda that will open the world's largest nation to our exports, make further progress on our key trade relationships, and address the major issues now before us through broad and ambitious negotiations. I look forward to working closely with each of you as this work proceeds.

Thank you very much.

RESPONSES TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Question: The United States recently attended a meeting in Montreal where work was completed on a new environmental treaty, the Biosafety Protocol, covering trade in genetically modified seeds. I have several concerns about this agreement, but for the purposes of this hearing, I would ask you this:

Are you at all concerned about negotiating treaties dealing with risk assessment of agricultural commodities outside the WTO?

I am concerned that now we might have reached the point where the precautionary principle will now be viewed as a customary principle of international law, and thus undermine the SPS Agreement's rules regarding uncertain science. I believe that it would be a great mistake to undermine the WTO's role in this area. What is your view?

Answer: It is the Administration's assessment that the Biosafety Protocol does not undercut our WTO rights in any way. More generally, the Administration would examine any proposal to negotiate agreements outside the WTO that deal with risk assessment of agricultural commodities with great caution and on a case-by-case basis. We believe that trade negotiations for agricultural commodities are properly conducted within the WTO. Under the provisions of the WTO Agreement on Sanitary and Phytosanitary (SPS) Measures, science-based risk assessments are used by WTO members as the basis national regulations for human health and plant and animal life or health. Risk assessments are sound and important tools to ensure that precautionary measures are not used a guise for protectionist measures.

The Codex Alimentarius Commission, the International Office of Epizootics and the International Plant Protection Commission make use of risk analyses in the development of international standards. These organizations are afforded special status under the SPS Agreement and the US has contributed to and supported the work of these international standard setting bodies.

While a precautionary approach has been adopted as an element of various international agreements, including the SPS Agreement, we do not believe that there is

a "precautionary principle" or that such a principle exists as a customary principle of international law. However, we do believe that a precautionary approach is embodied in Article 5, Section 7 of the SPS agreement and that no changes to the SPS agreement should be made.

PREPARED STATEMENT OF DELORES DARDEN

Good morning Chairman Grassley, Senator Moynihan, Senator Baucus, Senator Robb and members of the Subcommittee. My name is Dee Dee Darden. I am a wheat producer from Smithfield, Virginia. I am extremely pleased to be invited to speak today on behalf of a unified United States wheat industry by representing the National Association of Wheat Growers, the Wheat Export Trade Education Committee, and U.S. Wheat Associates. By speaking for a unified industry, I hope to impress upon you right at the beginning how important U.S. membership in the World Trade Organization is not only to me personally but to the entire U.S. wheat industry.

In Washington, D.C. and other political capitals, the last few months have been spent trying to decide who was to blame for the disappointing outcome of the Seattle Ministerial. By January of 2000, attendees at the World Economic Forum in Davos, Switzerland spotlighted the events in Seattle and the need to overcome what British Prime Minister Tony Blair called "the first real crisis to confront globalization since the fall of Communism." We are extremely heartened that world leaders appear to be moving beyond the finger pointing and are beginning to chart the next course to re-engage the World Trade Organization (WTO) negotiations.

It is notable that the official U.S. Government's view is that the Seattle Ministerial did not break down over agriculture. Instead it stalled over what the broader trade agenda would be. Specifically, whether or not labor and environmental standards could be incorporated into the existing WTO framework. Member countries did not come prepared to reach consensus on these points, nor was there enough commitment to launch general negotiations with a common agenda. In the end, member countries agreed to walk away from the table resulting in the current suspension of the WTO talks.

Let me say right now that although we did not achieve what we wanted in Seattle the actions last week of Congressman Paul and others calling for the withdrawal from the World Trade Organization is unconscionable. Even though our trade experts warned us that this action was expected, it is hard to understand how an elected leader can fail to see the benefits we have gained from opening markets, not only for agriculture, but for the American economy as a whole.

According to USTR, opening markets by lowering trade barriers contributed as much as 36 percent increase to U.S. exports between 1994 and 1999 despite the Asian crisis which has been very hard on American agriculture. The number of U.S. jobs supported by exports increased by 1.4 million from 1994 to an estimated 11.7 million in 1998 (the last year available). Jobs supported by goods exported from the United States are estimated to pay between 13 percent to 16 percent more than the U.S. national average wage.

Anyone serious about the economic stability of American agriculture knows that we export over 30 percent of what we produce. As a wheat grower my fellow producers and I depend on access to foreign markets for the sales of over one half of what we produce.

The approval of this legislation would deal a devastating blow to the WTO and the current rules-based world trading system we depend upon. It would be an affront to the promotion of free and fair trade. This action would precipitate a return to an era of obscene tariffs, outrageous non-tariff barriers to trade and massive trade distorting subsidization. Choices for American consumers and open markets for our producers provide the backdrop for U.S. progress and innovation. The high and consistent growth of the U.S. economy necessitates an active role for the U.S. in promoting global trade.

Let me stress that the World Trade Organization and the market opening rules it provides are essential to the health of U.S. agriculture and the future economic stability of our entire economy. I call on you and your colleagues to quickly put an end to the resolution to take the U.S. out of the WTO.

If you do not commit yourselves to this, what we say here today will have no value. You will have ended the United States leadership role in guiding world trade and development and destroyed the economic future of the agriculture industry.

I trust you will do the right thing.

NEGOTIATING STRATEGIES

We believe that progress was made on the agricultural trade agenda in Seattle despite the lack of a Ministerial Declaration to begin the next round. To the extent that there was a hang-up in the farm trade area it was getting the European Union to take much needed steps toward seriously committing to future reform. We believe that the EU was isolated especially on the issue of export subsidies.

Prior to leaving for Seattle, U.S. Trade Representative Charlene Barshefsky restated U.S. objectives for the Seattle meeting, "At the heart of our agenda is aggressive reform of agricultural trade." It was extremely gratifying for agriculture to be recognized in this way.

Specifically, Ambassador Barshefsky listed the elimination of agricultural export subsidies, the reduction of tariffs and other trade barriers, reforming state trading policies, and the further reduction of trade-distorting domestic supports. Later, Ambassador Barshefsky expanded on these points, adding: "With respect to agriculture, of course, key goals revolve around the issue of export subsidies, trade-distorting domestic supports, lowering of tariffs, disciplining state trading enterprises which tend to have a monopoly on purchases or sales of agricultural commodities to our great disadvantage, and the issue of biotechnology, which will need to be looked at, I think, quite carefully."

In contrast to the comprehensive approach outlined by the United States (which was mostly supported by the Cairns Group), the European Union's objective in Seattle was to halt further progress on reform of agricultural trade. It is ultimately in our interest to keep pressure on Europe and to push our leaders to be fully engaged in moving the built-in agricultural trade agenda forward. To hesitate or delay risks squandering the hard work and any gain the U.S. made in Seattle. Wheat growers in the United States can only measure the success of the WTO talks by their outcome. It is well past time for these negotiations to move forward toward meaningful reform.

THE IMPACT OF THE FAILURE ON WHEAT GROWERS

In the past couple of years, an unfortunate series of unpredictable events, the Asian financial crisis, natural disasters here at home and a surge in world production have conspired to severely depress the U.S. farm economy. Although our trading partners in Asia and other parts of the world have experienced extreme economic upheavals, their commitments to market opening agreements have permitted their markets to remain open. While we have real stress going on in our rural communities and we see no end in sight in the short term we know that any future market growth lies in our ability to export to the world.

Trade is a big part of our eventual recovery. For many farmers, trade and trade policy is an abstract concept, but for wheat farmers it is a very necessary element in our businesses. Wheat is an export-dependent commodity. In most years, at least fifty percent of U.S. wheat produced is exported to consumers in over 130 foreign countries.

The U.S. is a mature market; we can not expect much increase in domestic consumption. With 96 percent of the world's consumers outside of our borders we cannot delay negotiations to open world markets. For the wheat industry there is no option but to push forward as rapidly as possible with the WTO negotiations to further open world markets.

THE BUILT-IN-AGENDA

The WTO held a General Council Meeting on February 7, 2000 in Geneva, Switzerland. The purpose of this meeting was to determine how to move forward. We were encouraged when this meeting cemented the advancement of the built-in agenda and established the week of March 20 to begin discussions and negotiations in agriculture.

We recommend that the United States push aggressively on the built-in agenda laid out in Article 20 of the Uruguay Round Agreement on Agriculture (URAA). Article 20, calls for the continuation of the reform process begun in the URAA. It reads, "Recognizing that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:

- the experience to that date from implementing the reduction commitments;
- the effects of the reduction commitments on world trade in agriculture;
- non-trade concerns, special and differential treatment to developing country Members, and the objective to establish a fair and market-oriented agricultural

trading system, and the other objectives and concerns mentioned in the preamble to this agreement; and

- what further commitments are necessary to achieve the above mentioned long-term objectives."

We have been informed, informally, that the Office of the USTR basically sees no difference between Article 20 and the "Text on Agriculture" that was almost agreed to in Seattle on December 3, 1999.

There are two critical portions of the text that we would like to call to your attention. First, the opening statement which reads, "The negotiations shall continue the process of fundamental reform of trade in agriculture through substantial progressive reductions in agricultural support and protection sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets, and the progressive establishment of a fair and market oriented agricultural trading system in conformity with WTO rules and disciplines. This shall be done based on Article 20 and the preamble to the Agreement on Agriculture."

The second portion is the provision in the text that calls for the participants to meet specific deadlines, in particular a conclusion of the negotiations by December 15, 2002 is now in question.

Unquestionably, the general statement in the Seattle, December 3, 1999 text on the continuation of fundamental reform of trade in agriculture falls well short of the specific negotiating objectives asserted by the U.S. wheat industry last year. A copy of these objectives is attached.

But it does not count us out on our key issues, nor does it foreclose any negotiations in any area of farm trade. The text drafted in Seattle incorporates the spirit of Article 20, and provides a realistic starting point for agricultural trade negotiations to begin. Although it will be replaced by the built-in agenda the framework of issues has been made clear.

Beyond the built-in agenda there are two other areas that I want to bring to your attention.

The first is the very difficult problem of moving the European Union off of its recalcitrant position. There is one article in the WTO agreement that the EU is very concerned about and would like to see renewed before its expiration date of 2003. This is Article 13, which is known as the "Peace Clause." The Peace Clause protects WTO member countries from being challenged and becoming subject to certain disciplines in the Agreement on Subsidies and Countervailing Measures.

It is obvious why the EU wants to renew Article 3 they so openly abuse the threshold level of subsidies that they would and should be a target for the subsidies agreement disciplines. There are many that know much more about this provision than I do. However, I urge you to work with us and help encourage the administration to use this leverage in getting the EU to move to eliminate export subsidies and cooperate in the negotiations.

The second concern is that of moving the agricultural negotiations forward on the built-in agenda without a broad comprehensive agenda. We must take advantage of having the built-in agenda and begin moving the negotiations forward. But it has been the long-standing position of the wheat industry that we must have other sectors at the negotiating table with us.

The United States has already opened its market to agriculture and we have little to give in negotiations. We must have other sectors at the table if we are going to be able to negotiate any major changes. This means a comprehensive round needs to be jump started as soon as possible.

CONCLUSION

As the Seattle Ministerial approached, the industry was consistently warned to moderate its expectations. We were told repeatedly that Seattle was a beginning of a negotiation not an end. Suspension of the talks in Seattle represents a delay in getting started on a negotiating process that is not only inevitable but critically important. There is only one direction for the United States to pursue at this point we must move forward.

We very much appreciate the opportunity to present our views about the outcome of the WTO Ministerial in Seattle. At this stage, we feel that an investigation and analysis of what happened in Seattle should be completed expeditiously and that we move forward quickly. U.S. farmers are hurting now and it is unrealistic to wait for conditions in the world market to improve on their own. The President and Congress can greatly assist in this effort by working together to pass legislation approving Permanent Normal Trade Relations for China and fast-track trade negotiating

authority, and rejecting House Joint Resolution 89 which would remove the U.S. from the WTO.

Thank you again for your attention to our comments and recommendations. I will be happy to answer any questions you may have at the appropriate time.

PREPARED STATEMENT OF HON. SAN GLICKMAN

Mr. Chairman, members of the Committee, it is a pleasure to appear before you with Ambassador Barshefsky to discuss the World Trade Organization (WTO) and the prospect for progress this year to begin a new round of trade negotiations.

Although we were disappointed that a new round of multilateral trade negotiations was not launched at the December Seattle Ministerial as we had hoped, the Administration is not deterred in its resolve to see progress made this year to begin a new round. The fact is we made much progress in Seattle, especially in agriculture. For example, we increased understanding on the need to continue the process of fundamental reform begun during the Uruguay Round by increasing market access, improving disciplines governing domestic support, and addressing non-trade concerns, such as supporting rural sectors in ways that do not distort trade.

The critical issue of eliminating export subsidies over time was not agreed at the Conference, along with several other topics, but, on that point, the European Union was clearly isolated. We may not pick up exactly where we left off in Seattle, but at some point we will inevitably confront those issues again before the next round can conclude.

Equally clear is the urgent need to continue the path of reform laid out during the Uruguay Round. The pressures facing agriculture world-wide require that we act to increase opportunities for producers everywhere to market their crops—the tick of the clock counting down on the expiration of the Peace Clause at the end of 2003, making inaction inconceivable. (The Peace Clause basically states that as long as the subsidizing country is meeting its reduction commitments or other criteria agreed to in the Uruguay Round, it is exempt from certain WTO challenges.)

The vast majority of US farmers and ranchers know there is only one direction to go forward. Twenty-five percent of US agricultural sales are for export, 96 percent of the world's consumers live outside of the United States, and agricultural exports account for nearly 750,000 jobs here at home, both on and off the farm. Perhaps more to the point, we export 12 times as much wheat as we import, 21 times as much feed grains, over 5 times as much rice, twice as much tobacco, nearly 9 times as much cotton; and in the case of soybeans, we exported \$4.7 billion worth last year and imported virtually none.

It is clear agriculture's prosperity is dependent on opening markets, not closing them.

For these reasons, our objectives for agriculture remain firm. They are:

1. Eliminate export subsidies;
2. Reform state trading enterprises;
3. Improve market access by reducing tariffs and increasing market access opportunities for products subject to tariff rate quotas;
4. Tighten rules on trade distorting domestic support;
5. Preserve the Sanitary and Phytosanitary Agreement; and
6. Facilitate trade in new technologies, such as biotechnology.

The Seattle Ministerial laid bare some problems with the WTO system itself. The WTO has outgrown some of the procedures that were appropriate 50 years ago when there were 30 or so WTO members, not the 135 members we have today. Member countries generally agree that a more inclusive and transparent process needs to be established to accommodate a larger and more diverse membership.

For that reason, we have continued to consult with developing countries to ensure a consensus is reached in the negotiating process. In fact, WTO Director-General Mike Moore recently concluded that the WTO must work closely with least developed and developing countries to provide more transparent means to ensure full participation in WTO negotiations and to widen access to global markets.

Among the ways to improve transparency in WTO operations would be to make public the briefs submitted under WTO dispute settlement procedures, as the United States does, or to open dispute settlement hearings to public observation. The United States supports these and other ways to open the WTO to the public, and we hope the EU will come to accept that point of view. We will continue to work closely with Director-General Moore to improve the transparency and inclusiveness of the WTO decision-making process.

Earlier this month we were heartened by the WTO General Council's decision to begin the mandated negotiations in agriculture and services. Agriculture negotia-

tions will be conducted in the Committee on Agriculture, meeting in special sessions. The first special session is scheduled back-to-back with the next regular meeting of the Agriculture Committee on March 23-24 in Geneva.

The start of agricultural negotiations under the built-in agenda is a positive development. It allows for preliminary work to be accomplished, making us hopeful that this year will be productive whatever happens this year. Working with our colleagues at USTR and in the Congress, we hope to ensure the best outcome for the agricultural negotiations.

Because expanding access to foreign markets is critical to US agriculture, we are very excited about the US-China bilateral WTO agreement. This agreement demonstrates the promise of trade liberalization in today's global economy.

China's WTO accession will strengthen the global trading system, slash barriers to US agriculture, give US farmers and agribusinesses stronger protection against unfair trade practices and import surges, and create a more level and consistent playing field in this market.

But before US farmers can realize the full market-opening benefits of China's entry into the WTO, the US Congress must grant China permanent Normal Trade Relations (NTR) status. Doing so is necessary to guarantee the full market-opening benefits of the agreement we negotiated with China; otherwise we remain at a disadvantage with our competitors.

This Administration has made permanent NTR status a top priority. We give up nothing to grant China permanent NTR—the United States did not provide any concessions in agriculture to China. However, we lose a lot if we deny permanent NTR status to China. American farmers, companies, and workers would be deprived of the full benefit of China's WTO concessions, and our competitors would gain a huge trade advantage over us.

We estimate that the US-China WTO accession agreement could add an estimated \$1.6 billion annually to US exports of grains, oilseeds and products, and cotton by 2005. US export gains could approach \$2 billion as the Chinese reduce their tariffs on other products, such as poultry, pork, beef, citrus and other fruits, vegetables, tree nuts, and forest and fish products. Growth in China's economy, increased investment, and market development should make the gains even greater. All these gains will mean higher prices for farmers, and ultimately, higher US farm income.

However, China does need to do its part. We need China's leaders to show they are serious about increasing imports. Their decision to buy 50,000 metric tons of wheat from the Pacific Northwest was an encouraging sign, especially when you consider that the TCK dispute had kept wheat grown in the Pacific Northwest out of the Chinese market for two decades. But that purchase was just an encouraging first sign. We hope to see many more purchases in the future.

We cannot afford not to give China permanent NTR status. China is the world's largest country, home to 1 out of every 5 people on the planet. Its economy, which is one of the fastest growing at 7 percent annually, will make China a key market for agricultural commodities in the future. Moreover, it is in our long-term interests for China to develop a market-based economy.

—Yes, we have disagreements with China on human rights, labor issues, Taiwan. But we must separate the political from the economic provisions of the U.S.-China relationship. In addition, we can best reconcile those differences and influence their behavior by engaging them, by bringing them into a rules-based global community.

Also, remember that China is a major nuclear power, which holds the key to peace and stability on the entire Asian continent. I served as Chairman of the House Intelligence Committee, so I can tell you, from a national security perspective, we simply cannot afford to isolate ourselves from a nation with this much ability to tilt the global balance of power.

As I have said, we have nothing to gain and a great deal to lose by walking away from our agreement with China. The only winners would be our competitors, who are aggressively pursuing new trade deals and would welcome the chance to pick up business that would otherwise now go to US farmers and ranchers.

Mr. Chairman, that completes my statement. I would be happy to answer any questions.

Attachment.

U.S.-China World Trade Organization (WTO) Accession Agreement

"...Our markets are already open to China; this agreement will open China's market to us."—President Clinton in his January 27, 2000, State of the Union Address.

Benefits for U.S. Agriculture

- 1. With 1.3 billion people or one-fifth of the world's population, China's accession to the WTO will give U.S. agriculture access to one of the world's largest and fastest growing economies.**
- 2. China's gross domestic product is projected to grow 7 percent annually, creating significant opportunities for expanding U.S. agricultural, fish, and forestry exports beyond the fiscal 1999 level of \$1.1 billion.**
- 3. USDA estimates that by 2005 this agreement could add \$1.6 billion annually to U.S. exports of grains, oilseeds and products, and cotton, some of which will be governed by a tariff-rate quota system. U.S. exports could grow further to nearly \$2 billion annually by 2005 due to tariff reductions in other products, such as poultry, pork, beef, citrus, other fruits, vegetables, tree nuts, and forest and fish products. Growth in China's economy, increased investment, and market development should make the gains even greater.**
- 4. China's WTO accession will strengthen the global trading system, slash barriers to U.S. agriculture, give U.S. farmers and agribusinesses stronger protection against unfair trade practices and import surges, and create a more level and consistent playing field in this market.**

Key Provisions for U.S. Agriculture

Under its WTO accession agreement with the United States, China will:

1. Eliminate export subsidies;
2. Improve market access by significantly cutting tariffs and establishing a tariff-rate quota system for imports of bulk commodities;
3. Provide the right to import and distribute products without going through state-trading enterprises;
4. Eliminate sanitary and phytosanitary barriers not based on sound science; and
5. Cap and reduce trade-distorting domestic supports.

For additional detailed information on China's WTO accession, visit USDA's Foreign Agricultural Service home page at <http://www.fas.usda.gov>

Item	Current	2004	Item	Current	2004
Other: Cherries & peaches	30	10	Cigarettes	65	25
Yellow grease	40	10	Tobacco	40	10
Soup	45	15	Mink furkins	30	15
Pet food	30	15			

Item	Initial TRQ	2004 TRQ	Private Share
Wheat	7.3 million metric tons	9.6 million metric tons	10%
Corn	4.5 million metric tons	7.2 million metric tons	25%, growing to 40%
Rice	2.6 million metric tons	5.3 million metric tons	50% for short/medium grain
Cotton	743,000 metric tons	894,000 metric tons	67%
Item	Initial TRQ	2005 TRQ	Private Share
Soybean oil	1.71 million metric tons	3.2 million metric tons	50%, growing incrementally until 2006, when it will be completely liberalized

Barley: Tariff binding at 9 percent (malt reduced from 30 percent to 10 percent).

Minor vegetable oils (peanut oil, cottonseed oil, sunflower oil, safflower oil, and corn oil):

Bound at 10 percent immediately, no tariff-rate quota.

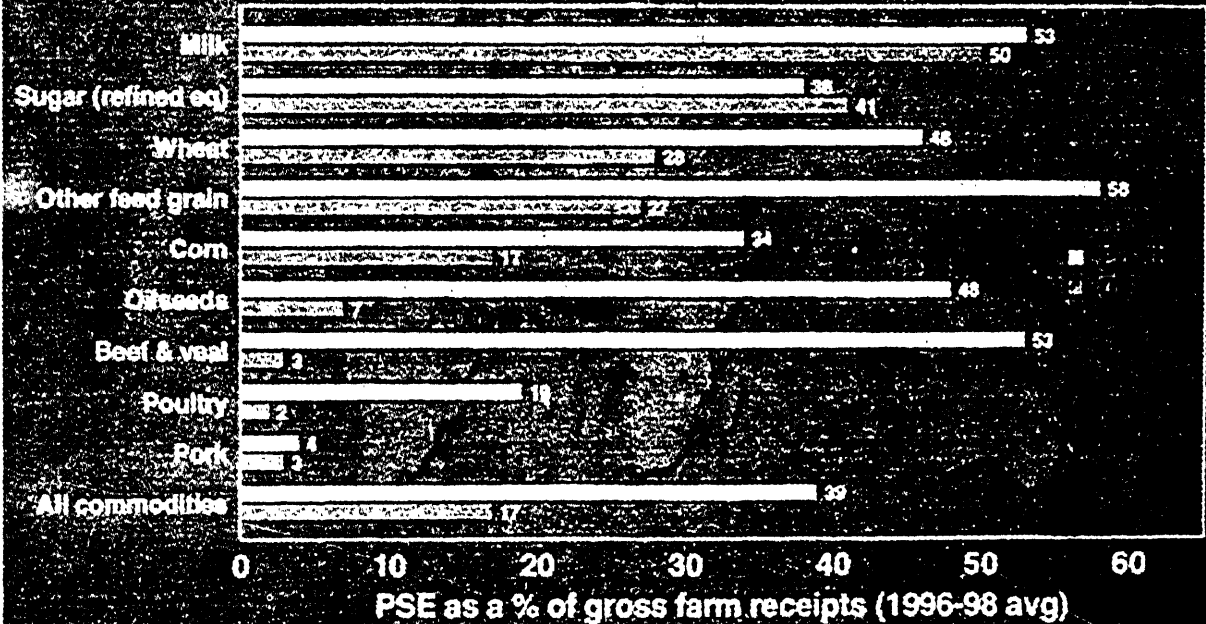
Tariff Cuts¹

Item	Current	2004	Item	Current	2004
Meat: Beef (frozen cuts)	45	12	Citrus: Oranges, lemons, grapefruit	40	12
Beef (offal)	20	12	Oranges & grapefruit juice	35	15
Pork (frozen cuts & offal)	20	12	Other Fruit: Grapes	40	13
Poultry (frozen parts)	20	10	Raisins	40	10
Dairy: Cheese	50	12	Apples & pears	30	10
Lactose	35	10	Nuts: Almonds	30	10
Ice cream	45	19	Pistachios	35	10
Potatoes: Frozen hash browns	25	13	Other: Hop cone pellets	30	10
Potato chips	25	15	Ginseng	40	10

¹ In percent.

EU Production Supports Provide Much Greater Share of Farm Receipts Than in United States

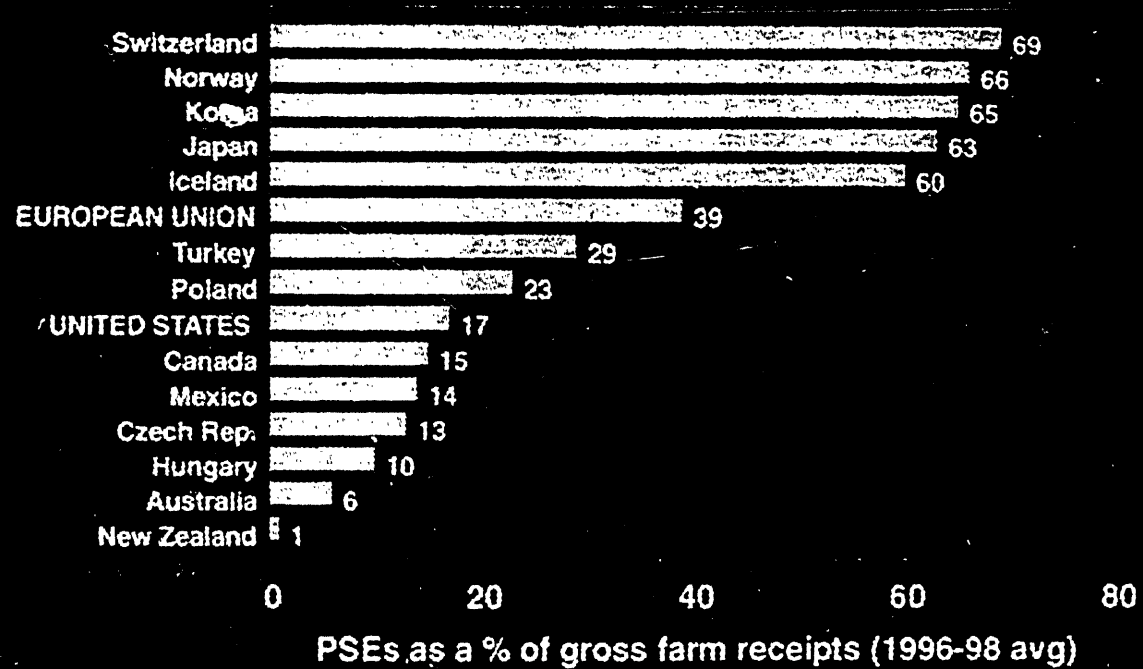
Role of EU policy support higher across a broad range of commodities. However, supports for dairy, sugar, and pork are comparable



NOTE: PSEs are the monetary values of gross transfers from consumers and taxpayers to producers and include market price supports (policy measures that create gaps between domestic prices and world prices), as well as payments based on output, planted area, historical entitlements, input use, and input constraints

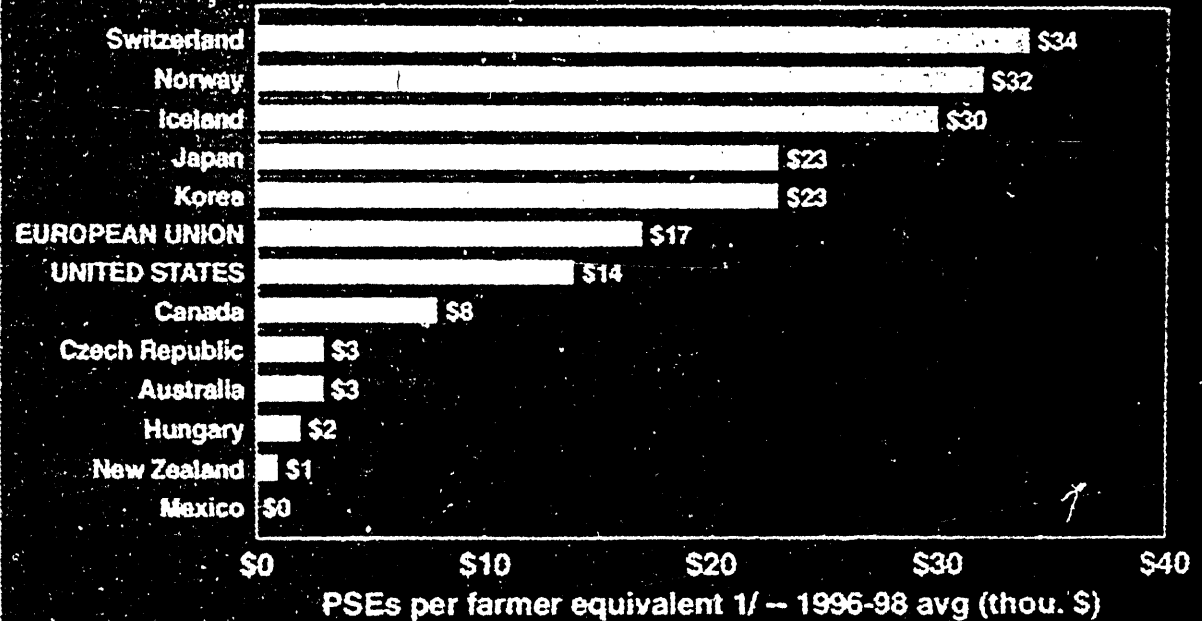
Production Supports Still Play a Big Role in Farm Income. Especially in Europe and Asia

Policy support running at just 17% of farm receipts in U.S. versus 35% or more in major agricultural markets like Japan, Korea, and the EU



Production Supports Per Farmer Vary As Well ...

Using this benchmark, EU production support levels more comparable with U.S. than those based on acreage or share of farm receipts



1/ Figures on PSEs per farmer equivalent are from OECD. Farmer equivalent means farmer, full time equivalent farm employee (based on 2,200 hours/year) or unpaid farm family member.

[SUBMITTED BY SENATOR GRAHAM]

Table 1
FY 1997 Governmental Support of the Horticultural Sector

	European Union Domestic Support			United States Domestic Support		
	2000 Import Tariff (Ad Valorem)	Export Subsidies (MILLION ECU)	Total AMS	2000 Import Tariff (Ad Valorem)	Export Subsidies (MILLION \$)	Total AMS
<i>Fresh Hort. Prod.</i>		63				
Apples	0% - 15%		2,101 U	Free		0
Pears	0% - 15%		385 U	> 15%		0
Apricots	> 15%		141 U	> 15%		0
Cherries	0% - 15%		140 U	Free		0
Peaches	> 15%		469 U	> 15%		0
Table grapes	> 15%		221 U	0% - 15%		0
Plums	0% - 15%		60 U	> 15%		0
Lemons	0% - 15%		384 U	0% - 15%		0
Clementines	> 15%		163 U	0% - 15%		0
Mandarins	> 15%		66 U	0% - 15%		0
Satsumas	> 15%		40 U	0% - 15%		0
Oranges	> 15%		454 U	0% - 15%		0
Cucumbers	> 15%		435 U	0% - 15%		0
Cattarpeas	--		250 U	--		0
Artichokes	0% - 15%		212 U	0% - 15%		0
Tomatoes	> 15%		4,880 U	0% - 15%		0
Wine	0% - 15%	60	1,337 U	0% - 15%		0
<i>Processed Hort. Prod.</i>		10				
Pineapple (Proc.)	> 15%		2 U	> 15%		0
Citrus (Proc.)	> 15%		158 U	> 15%		0
Lemons (Proc.)	> 15%		41 U	> 15%		0
Peaches (Proc.)	> 15%		73 U	> 15%		0
Plums (Proc.)	> 15%		142 U	0% - 15%		0
Pears (Proc.)	> 15%		39 U	> 15%		0
Pigs (Proc.)	0% - 15%		6 U	0% - 15%		0
Tomatoes (Proc.)	0% - 15%		320 U	0% - 15%		0
Grapes (Proc.)	0% - 15%		121 U	0% - 15%		0
White Sugar	--		5,896 U	--		1,011 U
Olive oil	--		1,873 U	--		0
Bananas	--		207 U	--		0
SUB TOTAL		132	21,334		0	1,011

GENERAL AID AND NON-PRODUCT SPECIFIC "GREEN BOX" MEASURES U

	(MILLION ECU)	(MILLION \$)
Wine	970	0
Tomatoes (Proc.)	51	0
Pineapple (Proc.)	2	0
Citrus (Proc.)	45	0
Raspberries (Proc.)	1	0
Fresh Hort. Prod.	20	0
Producer Org.	6	0
Nuts	77	0
SUB TOTAL	1,872	0

Support for the Horticultural Sector
Grand Total in Million Dollars U/

26,293

1,011

- 1/ Notified as a "Price Support" measure.
- 2/ Notified as a "Guide Price"
- 3/ Notified as a "Minimum Price."
- 4/ Notified as a "Production Aid."
- 5/ Notified as "Price Support" plus "National Aid" (Direct Aid from Italy and Spain).
- 6/ Notified as "Price Support".
- 7/ Notified as a "Direct Aid."
- 8/ Based on FY 1997 Budgetary Outlays not recorded in Product-Specific AMS, but in other tables or notifications. Not part of the Total AMS Commitment level. Part of Tables DS:1 a(vi) and DS:1 h,i, and j. Additionally, producers in both the United States and European Union may take advantage of "Green Box" programs such as research, extension, pest and disease control, marketing information, domestic food aid, disaster relief, irrigation, subsidized crop and revenue insurance programs, and possibly conservation/environmental programs. Usage of these programs is not included in this table.
- 9/ The interbank average exchange rate between 10/1/96 and 9/29/1997 was 1 ECU = \$1.1615.

Year 2000 import tariffs refer to a comparison of ad valorem tariffs on specified commodities (tariff codes). They are categorized into two ranges, 0% to 15.0% and greater than 15.0% ad valorem. Tariff comparisons are made between the most traded variety or processed form, during the harvest and post-harvest marketing period. For the EU, all commodities are assumed to meet minimum coto price standards.

AMS (Aggregate Measurement of Support): The product-specific AMS includes market price support, direct payments, and other product-specific support. Market price support is calculated using a price gap methodology, which is the difference between the government-set internal price and the world price, multiplied by the amount of production eligible to receive the government price.

All WTO and EU budgetary data is for FY 1996/97. WTO submissions referenced: G/AGN/EEC/16 Rev. 1, G/AGN/EEC/11, and G/AGN/USA/27.

Table 2
FY 1997 Governmental Support of the Horticultural Sector
WTO Domestic Support Notification

Sector	European Union Domestic Support	United States Domestic Support
	Total AMS (MILLION ECU)	Total AMS (MILLION \$)
Fruits and Vegetables 1/	15,438	0
Livestock	13,787	0
Grains, Proteins, and Seeds 2/	8,122	306
Sugar	5,876	1,011
Dairy 4/	5,870	4,456
Cotton, Fibers, and Tobacco 3/	1,897	466
Total FY 1997 AMS 5/	51,009	6,238
<i>Total EU FY 1997 AMS in Million Dollars 6/</i>	<i>59,247</i>	
Total FY-1997 AMS Commitment Level	76,369	21,491

1/ Fruit and Vegetable group includes olive oil.

2/ Grain, Protein, and Seed group includes peanuts.

3/ Cotton, Fibers, and Tobacco group includes silk worms.

4/ Dairy group includes powdered milk and butter.

5/ Total European Union and United States AMS levels as notified to the WTO in submissions G/AG/N/EBC/16 and G/AG/N/USA/27, respectively.

6/ Interbank average exchange rate between 10/1/96 and 9/29/1997 was 1 ECU = \$1.1615.

PREPARED STATEMENT OF GLEN KEPPEY

- Mr. Chairman and Members of the Subcommittee:

I am Glen Keppy, a third generation, independent, family pork producer from Davenport, Iowa. I also grow corn and soybeans on my farm. I am a past President of the National Pork Producers Council (NPPC). I have two sons who completed college in December. My son Chad is home doing work on the farm today. My son Neil is here with me today. They will be the forth generation in my family to farm. I strongly believe that the future of the pork industry, and the future livelihood of my sons and me, will be impacted by the World Trade Organization negotiations. I very much appreciate the opportunity to appear here on behalf of U.S. pork producers to express our views on these negotiations.

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 liters 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.

U.S. Agriculture Is Benefiting From the Uruguay Round

International trade is vital to the future of American agriculture. As the world's biggest exporter of agricultural products we have a critical interest in the development and maintenance of strong and effective rules for international trade. This is especially true for pork, the world's meat of choice, which 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 foreign market trade barriers and highly subsidized competitors effectively limited U.S. pork exports.

The Uruguay Round succeeded in establishing a more effective set of trade rules for the agricultural sector and began the process of reducing trade-distorting subsidies and import barriers. Since 1995, when the Uruguay Round Agreement went into effect, U.S. pork exports to the world have increased by approximately 78 percent in volume terms and 76 percent in value terms from 1994 levels.

While our recent export performance is impressive, it nevertheless remains severely limited by factors such as the lack of access to many of the world's pork markets and the unfair subsidies provided to many of our competitors. True liberalization of agricultural trade will require another negotiation and another cycle of significant cuts. The U.S. pork industry strongly supports further trade liberalization measures because such measures will permit the industry to exploit its comparative advantage in international markets.

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, 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.

The Scope of the WTO Negotiations Should Be Broad

The agenda for the negotiations should be comprehensive. It is well established that agriculture is one of the more sensitive areas in international trade. Some of our most important negotiating partners (e.g., the European Union, Japan and South Korea) will be reluctant participants when it comes to agriculture. Only in the context of a large package of agreements and concessions will they be able to accept an ambitious outcome on farm trade. While a sectoral approach may have worked for the Information Technology Agreement, this type of approach will not work for agriculture. Thus, while we are pleased that the agricultural negotiations will commence the week of March 20 in Geneva pursuant to the built-in agenda of the Uruguay Round, we are skeptical about whether any real progress can be made on agriculture until a more comprehensive round can be launched.

The U.S. consumer spends a smaller percentage of total income on expenditures for food than consumers in other nations. As world trade in agriculture becomes liberalized, foreign consumers will have relatively more money to spend on other goods and services, thus benefiting all sectors.

There Should Be A Single Undertaking in the Negotiations

Traditionally, multilateral negotiations have not been concluded until agreement at the end of a trade round has normally been a "single undertaking" covering all areas. This "nothing-is-agreed-until-everything-is-agreed" approach was devised to force negotiators to finish their work in the most sensitive areas or risk an overall failure. The approach was essential to the achievement of the Uruguay Round Agreement on Agriculture and the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures.

While most other countries are calling for a comprehensive negotiation and a single undertaking approach, U.S. officials have talked about sector-by-sector negotiations and an "early harvest" for areas where negotiations can be completed more quickly. Such an approach would be disastrous for U.S. agriculture. It would all but ensure a small outcome in the agriculture sector. Further, the Uruguay Round framework should be adopted for the agricultural negotiations to ensure that there are no product or policy exceptions (i.e., no request/offer approach).

The Negotiations Should Be Concluded In Three Years

One reason some individuals have advocated a sector-by-sector approach is the fear of another protracted negotiation. Indeed, many argue that agriculture delayed the outcome of the Uruguay Round. U.S. agriculture also would like to see a quick outcome so that we can begin to see as soon as possible the benefits of liberalization. A definitive deadline of three years should overcome these concerns. We see no reason why this should not be possible. A three-year time period would coincide with both the expiration of the peace clause and the expiration of the Farm Bill in 2003. Moreover, countries should be required to continue with reductions according to the established 1994 time frame without any pause.

NEGOTIATING OBJECTIVES FOR THE PORK SECTOR

Zero-for-Zero

As noted above, the United States is the lowest-cost producer of quality pork in the world. As such, U.S. pork producers have been a major beneficiary of past trade agreements. However, our ability to reap further benefits is severely hampered by the continued existence of trade-distorting policies. Import barriers remain high in many important markets, and our biggest export competitors continue to use subsidies to capture market share. The elimination of such unfair trade practices is essential to the future health of the U.S. pork industry.

U.S. pork producers therefore propose that the United States adopt as a primary negotiating objective the total elimination in the shortest possible time frame of all tariffs, all export subsidies and all trade-distorting domestic subsidies for pork and pork products worldwide. In late 1999, Mr. Chairman, you and Senator Baucus originated a bipartisan letter to U.S. Trade Ambassador, Charlene Barshefsky, endorsing this initiative, which was signed by 25 other Senators including members of this subcommittee. The U.S. industry is ready to compete in a free and open environment; we believe that pork producers in a number of other countries are willing to do the same. Indeed, the Canadian pork industry has also asked its government to pursue a zero-for-zero initiative on pork and pork products. The United States should use its negotiating leverage to push this objective with our more reluctant trading partners in order to ensure that we are afforded the opportunity to take advantage of our natural competitiveness.

NEGOTIATING OBJECTIVES FOR THE AGRICULTURE SECTOR

Fundamental liberalization in the pork industry can be most easily achieved in the context of an ambitious overall agreement. Therefore, I will outline our negotiating objectives for the agricultural sector as a whole.

Tariff Reductions Must Be Accelerated

One of the foundational principles of the Uruguay Round Agreement on Agriculture is the requirement that non-tariff barriers such as quotas, variable levies, and import bans be eliminated and immediately replaced by either a tariff equivalent or a tariff rate quota (TRQ) through the process of "tariffication." The Agreement used a "formula" approach to reduce tariffs. It required tariff reductions of 36 percent on average for developed countries and 24 percent for developing countries over a six-year period on a simple average basis. (Tariff reductions as small as 15 percent were allowed for "sensitive items.") The Agreement also established minimum access levels at 3 percent of domestic consumption gradually expanding to 5 percent thereafter.

Notwithstanding the progress made in the Uruguay Round, tariffs on agricultural products remain very high. The accelerated reduction of tariffs should be the number one U.S. priority in the upcoming trade round. U.S. agricultural tariffs, which average only about 5 percent, are dwarfed by the agricultural tariffs of other nations, which average as much as 50 percent. For some products, tariffs of over 200 percent remain in effect. Agricultural tariffs must be lowered from these high levels on an accelerated basis. A substantial reduction in the highest tariffs would help to end practices such as "price bands" in which high bound tariffs create a cushion that allows lower applied tariffs to be adjusted frequently in order to keep domestic prices within a specified range. Further, a date needs to be set by which all tariffs will be reduced to zero.

The best way to achieve such comprehensive liberalization is through the use of a tariff cutting formula that is applied to every product without exception. There are an infinite number of formulas that could be devised to cut tariffs, the "best" formula obviously depending on the results desired. We prefer an approach like the Swiss formula used in the Tokyo Round negotiations, which resulted in substantially larger cuts in higher tariffs and had the effect of dramatically reducing the disparities in levels of protection. In addition, countries could engage in request/offer negotiations to achieve deeper-than-formula reductions for specific products. This segment of the negotiation would provide the opportunity to pursue the zero-for-zero objective in the pork sector.

Certain groups in the U.S. have suggested that the market access negotiations be conducted on a request/offer basis. They suggest that such an approach would be more flexible and politically manageable because it would allow the U.S. to exempt "sensitive sectors" from the negotiation. We disagree. A request/offer negotiation, or any other tariff cutting approach that allows for product or sectoral exceptions, would run contrary to U.S. trade interests. The U.S. is the world's largest exporter of agricultural products and is among the most efficient farming countries in the world. Many of the products we export, pork included, are considered "sensitive" by certain major importing countries. If the U.S. takes products from the negotiating table, other countries will be free to do the same. The result would inevitably be a small agricultural market access package.

Moreover, the request/offer would result in a politically-unsustainable clash of interests. U.S. officials would be besieged by commodity groups and companies seeking an exemption from tariff reduction or some other form of special treatment. They could achieve their aims only at the expense of other producers. On the other hand, export oriented industries could get desired cuts on duties from trading partners only by inducing the U.S. government to offer deep cuts in duties for products with the highest levels of protection. A formula approach avoids this problem by treating all sectors equally. Cuts are agreed multilaterally and applied comprehensively.

Finally, an approach that permitted product or policy exemptions would undermine U.S. negotiating leverage. The U.S. was able to achieve much of what we wanted in the Uruguay Round negotiations because we adopted and stuck to a consistent, coherent negotiating position. Countries like Canada, which took inconsistent positions in an effort to protect its domestic supply management regimes, were viewed as being cynical and opportunistic. Their credibility suffered, and they had difficulty attaining their negotiating objectives.

The Administration of Tariff Rate Quotas Must Be Improved

In most instances, creating a TRQ satisfied the minimum access commitment for tariffied agricultural products in the Uruguay Round. Under this mechanism, the quantity of imports within the minimum access commitment is subject to a low duty (the "in-quota" tariff), while imports exceeding that quantity will be assessed the tariff established through tariffication (the "over-quota tariff").

Unfortunately, in some cases, the administration of TRQ's has been used as an instrument to thwart imports. For example, the Philippines tried to close off its market to pork imports by manipulating in various ways the terms governing its pork TRQ. First, the Philippines simply tried to cut back its obligations on pork from 54,210 MT to 6,003 MT. Next, the Philippines threatened to restrict utilization of the TRQ by modifying the TRQ to limit access to 2,000—3,000 MT of pork cuts with the balance designated for "chilled pork heads and feet." Then, there was discussion about allocating 90% of the quota to fresh/chilled pork. This would have restricted imports because the distribution infrastructure in the Philippines at the present time can handle only a very limited amount of fresh/chilled pork imports. Next, the Philippines allocated over 80 percent of the TRQ to Philippine hog producers, who had absolutely no interest in importing pork. Further, onerous requirements, such as the posting of 100 percent of the value of the shipment, compromised

the participation of other importers. Not surprising, the result was a minimal level of pork imports until the United States threatened to reduce the level of participation by the Philippines in the U.S. Generalized System of Preferences program.

These kinds of problems arise from the lack of clear rules on import licensing and the administration of TRQ's. In the upcoming trade negotiations, rules on TRQ administration must be clearly delineated. In addition, ceilings must be established for over-quota duty levels.

Export Subsidies Should Be Eliminated

Export subsidies are almost universally recognized as the most trade-distortive of government policies. Prior to the Uruguay Round, export subsidies for agricultural products were relatively undisciplined. Although earlier rounds of multilateral trade negotiations were successful in disciplining export subsidies for industrial products, only the most basic of these disciplines applied to agriculture. As a result of the Uruguay Round, subsidies on agricultural exports were reduced in both terms of quantity and government expenditures on a product-specific basis.

While significant progress was made in the Uruguay Round, export subsidies remain a major problem for U.S. agriculture. The elimination of all export subsidies should be a top priority for the U.S. in the WTO trade negotiations. Export subsidies transfer market share away from U.S. pork producers, the world's lowest-cost producers of pork, and give it to EU and other less efficient pork producers. Data compiled by USDA shows that during GATT year 1998/1999, the EU subsidized more than 750,000 metric tons of pork exports, a subsidized tonnage that exceeds total U.S. pork exports.

Trade-Distorting Domestic Support Should Be Further Disciplined

The pork industry recognizes the complexities of agricultural politics and acknowledges that farm programs often are designed to meet social as well as economic objectives. Nonetheless, it is essential for the next trade round to accomplish much stricter disciplines on trade-distorting domestic support programs than was possible in the Uruguay Round. The 20 percent reduction in the Aggregate Measure of Support (AMS) achieved in the Uruguay Round did not go far enough. We need to see further significant reductions. Moreover, those reductions should be applied on a commodity-by-commodity basis, rather than a sector-wide basis, as was the case under the Uruguay Round agreement. For pork, all trade-distorting supports should be eliminated, and all tariffs and export subsidies abolished as part of the zero-for-zero initiative.

The Peace Clause Should Not Be Extended

One of the most promising sources of meaningful leverage for the United States is Article 13 of the Uruguay Round Agreement on Agriculture—the so-called Peace Clause. Article 13, which was included in the Agreement at the insistence of the European Union, suspends until January 1, 2004, the application to agricultural products of certain WTO disciplines, the most significant of which are Articles 3, 5 and 6 of the Agreement on Subsidies and Countervailing Measures. With the expiration of Article 13, the EU would immediately be in breach of its obligations under Article 3 of the Subsidies Agreement, which prohibits export subsidies (Article 13(c)(ii)). At the same time, the U.S. would be in a position to begin dispute settlement proceedings under Article 6 against any domestic or export subsidies that are causing serious prejudice to U.S. exports in third-country markets (Article 13(b)(ii)). Obviously, these are powerful disciplines.

The Peace Clause expires automatically. The only way to extend it would be to negotiate a new agreement that includes similar protections. The EU, in particular, will have a strong incentive to achieve such an agreement and will presumably be ready to pay a high price for it. It should be much easier to achieve within three years an agreement that includes a phased elimination of export subsidies and meaningful disciplines on trade-distorting domestic-subsidies if the EU is facing, in the absences of such an agreement, the immediate application of even stronger measures.

The United States should do everything possible to take advantage of the leverage offered by the Peace Clause. As a first step, the U.S. should publicly declare its willingness to allow the provision to expire. Then, if negotiations drag on unnecessarily, we should prepare to launch dispute settlement cases against the EU under the Subsidies Agreement on January 1, 2004.

Export Credits Should Be Disciplined in the OECD

Under the Uruguay Round Agreement the United States committed, along with other WTO members, to negotiate disciplines on export credits and credit guarantees in the OECD. Unfortunately, the OECD talks have not yet produced an agree-

ment. Now some countries are talking of developing disciplines in the WTO rather than the OECD.

The OECD has experience in the area of export credits, having administered for many years an agreement on export credits for industrial products. It is the proper place to develop disciplines for credit programs for agricultural products. Despite the fact that the United States is currently the biggest user of such credits, we have a long-run interest in imposing disciplines to guard against future abuses by our trading partners. U.S. officials should redouble their efforts to negotiate an agreement in the OECD as quickly as possible.

The U.S. Must be a Reliable Supplier of Agricultural Products

Trade liberalization is not a one-way street. If we expect food importing countries to open their markets to U.S. exports and rely more on world markets to provide the food they need, we should at the same time commit to being reliable suppliers. Current WTO rules permit exporting countries to tax exports whenever they choose (GATT Article XI.1), and to prohibit or otherwise restrict exports to relieve domestic shortages (GATT Articles XI.2(a) and XX(i) and (j)). These provisions should be eliminated in conjunction with the phasing out of import barriers. Such a move would not affect the ability of the United States to impose trade sanctions for reasons of national security; that right would be preserved under GATT Article XXI.

The SPS Agreement Should Not Be Reopened

The Uruguay Round Agreement on Sanitary and Phytosanitary Measures requires import measures intended to protect public health or to control plant and animal disease to be based on science. Enforcement of the strict science-based trading rules established in the SPS Agreement is critical to ensure the continued expansion of U.S. pork exports. One measure of the soundness of the SPS Agreement is the fact that other countries, notably the EU, would like to see the disciplines in the agreement relaxed to allow countries to maintain measures that are not based on science. To avoid this outcome, the pork industry does not support opening the SPS Agreement for further negotiation in the next trade round.

The WTO Dispute Settlement Understanding Should Be Reformed

The WTO's Dispute Settlement Understanding (DSU) is a significant improvement over the former GATT dispute settlement system, in which offending nations could "block" implementation of panel reports. Many countries are using the WTO dispute settlement system because it is generally effective. Nevertheless, some reform of the system is needed.

First, the loopholes that the EU seeks to exploit in the Bananas and Beef Hormone cases must be closed. The DSU needs to be clarified, particularly Articles 21 and 22, so that WTO findings will be expeditiously implemented. Second, the U.S. should negotiate to streamline the entire process. Under the current system, even if an industry prevails, a remedy does not occur until almost three years after the consultation process is initiated. (If the case involves EU, which apparently would like to strangle the WTO in its infancy, the waiting period is even longer.) This is entirely too long. There are a number of junctures in the current process where the timetable could be accelerated without affecting the quality of the output. For example, a deadline for the selection of panelists should be established. Currently, a country can prolong the process by refusing to accept proposed panelists and dragging out the formal establishment of a dispute settlement panel.

Pork Country Priorities

In 1999, the U.S. pork industry exported pork to almost 100 countries. Many of these countries provide only the most minimal level of access to imported pork. Moreover, prohibitively high tariffs and other barriers in other nations preclude the export of any U.S. pork. The sheer volume of countries with trade limiting practices precludes an exhaustive explanation of each. Following are a number of the most important country/practice priorities of the pork industry.

- **Greater Access to the Japanese Pork Market Must Be Negotiated**

Japan is the largest export market for the U.S. pork industry generating sales of almost \$659 million in 1999. Japan's pork import policy was among the most difficult issues dealt with in the Uruguay Round. Prior to the Uruguay Round, Japan's pork import regime was directly linked to its pork price stabilization scheme. The price stabilization system still exists and still has an upper price ban and a lower price ban, based on cost of production data gathered by the Ministry of Agriculture. Before the Uruguay Round, when the domestic price for pork exceeded the upper price ban, the import gate price for pork would be lowered, and vice versa when the domestic price fell below the price ban. Today, as a result of the Uruguay Round, the gate price is no longer linked to the domestic price stabilization system. As part

of the Uruguay Round agreement the gate price was first fixed and is now being reduced by roughly 13 percent over a five-year period, reaching its final level beginning with Japan Fiscal Year 2000. (There are actually three different gate prices for pork, viz., one for cuts, one for carcasses and one for processed pork products, all expressed in Yen per kilogram.)

Under the Uruguay Round the tariff rate quota (TRQ) was the preferred mechanism for liberalizing quantitative import restrictions and variable levy regimes. U.S. negotiators, however, opted to take a different approach with the Japan pork import system because a TRQ on pork, given the base period selected for TRQ's, would have allowed Japan to significantly reduce its pork imports. The safeguard (sometimes called the "bilateral" safeguard because it was negotiated only with the United States and then added to the Agreement by a side letter) was allowed as a way of getting Japan to take meaningful action on the pork import issue.

The safeguard essentially allows Japan to raise the gate price by approximately 24 percent if "triggered" by an import surge. It can be triggered when imports through a given quarter exceed by 19 percent the average for imports during that same quarter(s) for the three previous years. Once the safeguard is triggered, it stays on until the end of the fiscal year. If it is triggered during the last quarter of the fiscal year, it stays in place through the first quarter of the next fiscal year.

This mechanism was intended to prevent import surges from disrupting the domestic market, but in actual practice it seems to have been a major cause of import surges. When importers have sensed that the safeguard was about to be triggered they have naturally behaved in a way that assured it would be triggered, i.e., they have imported heavily in order to get product cleared through customs before the gate price was increased. This has resulted in "excessive importing" at times, greatly increasing stocks and the cost of doing business.

Under the Uruguay Round Agreement Japan is allowed to use the safeguard, not compelled to use it. However, in order to get the UR agreement package through the Japanese Diet (Parliament) the triggering of the safeguard was made mandatory in the implementing legislation.

The special safeguard under the Uruguay Round Agreement applies to all agricultural products. This safeguard allows an importing country to raise the import duty on a given product by as much as 33 percent above the normal duty when imports for a given year exceed the average of the previous three years by a certain percentage. In the case of pork in Japan this level is five percent. Since the import duty on pork entering Japan is under 5 percent, the impact of this safeguard on trade is not nearly so great as the impact of the bilateral safeguard. Both safeguards can be and have been triggered at the same time, given Japan maximum protection under current WTO rules.

U.S. pork exports to Japan have increased under the pork import regime negotiated with Japan in the Uruguay Round. However, U.S. pork exports would explode if Japan's market is liberalized further in the upcoming trade round. Greater market access in Japan is the number one country priority of the U.S. pork industry in the next round.

• EU Pork Subsidies Must Be Eliminated

The largest exporter of pork in the world is Denmark. That country is the world's leading exporter for one simple reason: subsidies. These subsidies must be eliminated. Without these subsidies, the Danes and the other EU producers will lose market share in Asia and other foreign markets to efficient pork producers in North America. The U.S. pork industry will be the primary beneficiary because the U.S. is the lowest-cost producer of the safest, highest quality pork in the world.

The EU's pig meat regime came into operation in 1967 and has since undergone a number of changes, with internal support measures playing a major role. The cereals regime was introduced at the same time as the pig meat regime, and importantly, pig meat is regarded as a processed cereal.

There are 3 basic methods of support:

1. Export refunds (export subsidies). These allow the EU to export surplus supplies onto the world market, preventing them from having a depressing effect on EU prices.
2. Aids to private storage. These are introduced on a temporary basis to remove surplus supplies from the domestic market.
3. Import tariffs and non-science-based restrictions applied to non-EU product. These barriers maintain the domestic price of EU pork above world market prices thus stimulating EU production.

(Intervention is also allowed for, but have only been used in exceptional circumstances—in 1985 in the African Swine Fever outbreak in Belgium and in 1990 in the Classical Swine Fever outbreak).

Export Refunds

EU traders exporting to countries where the price of pork is lower than the EU price are subsidized through the 'export refund' system. These refunds are supposed to enable them to 'compete on world markets,' but more often than not are set below any world price to enable EU product to be priced lower than competing product.

Under the Uruguay Round Agreement, the EU is limited to the amount of export refunds it can use during the implementation period. The original limits were set at:

	Volume (mt)	Value (m ECU)
1995/96	541.8	282.8
1996/97	522.1	269.3
1997/98	502.5	249.8
1998/99	482.8	230.3
1999/00	463.2	210.8
2000/01	443.5	191.3

Source: WTO. Compiled by Richard Ali, U.S. Meat Export Federation.

EXPORT SUBSIDIES OF THE EU: QUANTITY REDUCTION COMMITMENTS VERSUS ACTUAL SUBSIDIZED EXPORTS

(1,000 MT)

(Note: notification for 1997/98 not yet available)

Product(s)	1995/96		1996/97		1997/98
	Quantity reduction commitment	Actual subsidized exports	Quantity reduction commitment	Actual subsidized exports	Quantity reduction commitments
Pigmeat (carcase equivalent)	541.8	378.2	522.1	285.9	502.5

Source: WTO. Compiled by Richard Ali, U.S. Meat Export Federation.

EXPORT SUBSIDIES OF THE EU: MAXIMUM LEVELS OF OUTLAYS (MILLION ECU) VERSUS ACTUAL OUTLAYS WITH REGARD TO SUBSIDIZED EXPORTS

(Note: notification for 1997/98 not yet available)

Product(s)	1995/96		1996/97		1997/98
	Outlay reduction commitment	Actual outlays on subsidized exports	Outlay reduction commitment	Actual outlays on subsidized exports	Outlay reduction commitment
Pigmeat	288.8	100.5	269.3	71.1	249.8

Source: WTO. Compiled by Richard Ali, U.S. Meat Export Federation.

RECENT EU PIG MEAT REFUNDS AND TARIFFS

Chilled, frozen pork	Export refunds available in euros/1 tonne Russia 04/22/99	Export refunds available in euros/1 tonne Russia 01/13/00	Export refunds available in euros/1 tonne Eastern Europe 04/22/99	Export refunds available in euros/1 tonne Eastern Europe 01/13/00	Export refunds available in euros/1 tonne Standard 04/22/99	Export refunds available in euros/1 tonne Standard 01/13/00
Carcases	700	400	200	150	400	400
Legs	700	400	200	150	400	400
Shoulder	700	400	200	150	400	400
Loins	700	400	200	150	400	400
Bellies	250	250	130	100	250	250
B/less bellies	250	250	130	100	250	250
Other b/less cuts	700	400	200	400	400	400
Backfat	Nil	Nil	Nil	Nil	Nil	Nil
Bacon/Cured:						
B/less loins, hams	Nil	Nil	Nil	Nil	Nil	Nil

RECENT EU PIG MEAT REFUNDS AND TARIFFS—Continued

Chilled, frozen pork	Export refunds available in euros/1 tonne Russia 04/22/99	Export refunds available in euros/1 tonne Russia 01/13/00	Export refunds available in euros/1 tonne Eastern Europe 04/22/99	Export refunds available in euros/1 tonne Eastern Europe 01/13/00	Export refunds available in euros/1 tonne Standard 04/22/99	Export refunds available in euros/1 tonne Standard 01/13/00
3/less bellies de-rinded	Nil	Nil	Nil	Nil	Nil	Nil
Bacon sides	Nil	Nil	Nil	Nil	Nil	Nil
Lard	Nil	Nil	Nil	Nil	Nil	Nil
Sausages—other canned	400	400	250	250	250	250
Hams, loins	620	620	620	620	620	620
Shoulders	500	500	340	340	340	340
Luncheon meat	450	450	250	250	250	250

Source: EU Commission and WTO. Compiled by Richard Ali, U.S. Meat Export Federation.

Private Storage Aid

Private storage is the main internal market support measure operating in the pork sector. When the market is weak and prices are low, private storage aids may be introduced to temporarily remove surplus supplies from the market.

The pig meat management committee decides on the rates of storage aid payable, the eligible cuts and the length of storage period to be offered.

Currently the program is not operating. The following chart is an example of the program during a period when it was in effect as of 28 September 1998.

Category (fresh/chilled) ECU/mt	Storage Period (months)		
	4	5	6
Half carcasses	315	352	389
Legs	379	421	463
Shoulders	379	421	463
Fore-ends	379	421	463
Loins	379	421	463
Bellies	197	230	263
Bellies w/o rind, ribs	197	230	263
Legs, shoulders, etc., boned	379	421	463
Middles, boned	290	325	360
Middles, bone-in	290	325	360

Source: EU Commission. Compiled by Richard Ali, U.S. Meat Export Federation.

The effect of private storage aid is to hold domestic prices up, thus insulating pork producers and maintaining production. It also provides a storage subsidy to packers and product remains available for export at the end of the storage period.

Exceptional Support Measures

Outbreaks of hog cholera during 1997 resulted in the Commission implementing exceptional measures in the affected countries in a bid to support the market price. These measures involved the setting up of buying-up thresholds for certain categories of pigs for rendering, at fixed rates of aid in specified zones.

National Measures

From time to time, national governments have sought to introduce domestic schemes with the objective of providing assistance to their own pork producers outside of EU support mechanisms.

For instance, the French introduced a policy called Stabiporc, which provided for the postponement of social security contributions and the underwriting by the French government of loans with reduced rates of interest to recent investors. However, the EU Commission believed this system might distort internal EU aid and violate EU state aid rules and thus initiated state aid proceedings in December 1998.

(Other lesser known national programs may be in operation in some member states).

PREPARED STATEMENT OF DONALD RUDOLPH

Mr. Chairman and members of the Subcommittee, I am Donald Rudolph and I am very pleased to appear before you today to testify on the topic of Agriculture Negotiations in the World Trade Organization after Seattle.

I am an active dairy farmer. I milk about 40 cows on a farm that has been in my family for four generations. For many years, I have been honored to serve as the President of Upstate Farms Cooperative ("Upstate").

Upstate is a dairy cooperative located in Western New York which markets over a billion pounds of milk each year for its over 400 dairy farm family members. Upstate owns a number of dairy plants (including a joint venture with Dairylea and Niagara cooperatives) that market a full line of dairy products such as fluid milk, cottage cheese, yogurt, ice cream mix, evaporated milk, butter and powder.

Upstate Farms Cooperative is a member of the National Milk Producers Federation ("NMPF"), a national farm commodity organization representing dairy farmers. In the area of trade policy, Upstate Farms Cooperative works especially closely with NMPF and the U.S. Dairy Export Council ("USDEC").

Since Upstate is located next to the Canadian border, market access to Canada would be immensely helpful to us. We therefore strongly support opening the Canadian market to U.S. dairy markets, especially fluid milk.

The need for strong action against Canadian trade barriers and export subsidies is detailed later in my testimony.

Upstate also produces many canned and bottled dairy products that can be exported to Mexico, Latin America and the rest of the world.

Therefore, we can benefit from fair dairy agreements with other nations by continuing negotiations at the World Trade Organization.

Our greatest worry about free trade is that current world prices for dairy commodities such as butter and powder are too low for dairy farmers in the United States to survive—much less to prosper.

Therefore, we strongly support an end to all dairy export subsidies within no more than a few years.

In addition to explaining in detail the unfairness of Canadian dairy policy and why dairy export subsidies must be eliminated to even the playing field with the European dairy industry, my testimony covers a number of other important matters:

1. World dairy trade is still highly distorted by export subsidies, tariffs and other trade barriers;
2. The upcoming meeting in WTO headquarters in Geneva must ensure that the WTO provides the basis for continuing the agricultural negotiations and an agreed timeline for initial proposals;
3. DEIP must be kept as an effective tool for U.S. dairy exports unless and until all countries eliminate export subsidies.
4. Tariff inequities must be addressed prior to making any further multilateral tariff reductions or other market access liberalization;
5. The WTO Agreement on the application of Sanitary and Phytosanitary Measures should be maintained intact so that disputes between the U.S. and the EU over beef hormones and biotechnology will be based solely on sound science; and
6. The negotiations should be structured as a single undertaking involving both agricultural and non-agricultural sectors of the economy in order to increase the incentives for other countries to make concessions in agricultural matters.

If export subsidies end so that world export prices reach levels at which United States dairy farmers can survive and prosper, we support pursuing WTO negotiations to reach fair agreements with the rest of the world. But we cannot stay in business producing milk at the current level of world prices! Such prices are artificially low due to unfair trade practices of other countries.

The need to reach fair agreements that will enable United States dairy farm families to survive and prosper is clear from the size and importance of the United States dairy industry.

With more than \$24 billion in farm cash receipts in 1998, the U.S. dairy industry is the second largest agricultural commodity sector in the United States. The industry is not only large, in an economic sense, but also geographically extensive. Dairy is one of the top three agricultural sectors in fully half the states, and almost two-thirds of the members of the Senate hail from one of these "dairy" states. Dairy is the largest agricultural sector in the State of New York.

WORLD DAIRY TRADE STILL HIGHLY DISTORTED

Internationally, in 1998 the U.S. was the world's largest single country producer of cow's milk with 157 billion pounds, followed by India with 78 billion pounds.

In addition, we know that our ability to increase production is virtually unconstrained. This makes our efforts to market U.S. dairy products for export all the more important to the industry and to the economy.

The U.S. dairy industry has never benefited from huge export subsidies such as those in the EU. In fact, our dairy industry is relatively new to international trade, and such trade is still modest in comparison to the size of the domestic market. We export between four and five percent of our domestic milk production. Despite the growth of exports in recent years, U.S. dairy export market development has been slow and difficult. A key factor to this slow emergence in the world markets has been the huge disparities on subsidies and protection around the world.

Precisely because world trade is so distorted, the World Trade Organization is an important tool. It provides dairy farmers in the United States the opportunity to level the playing field by further reforming the current level of subsidies and tariffs. The U.S. dairy industry is at a disadvantage when compared to the subsidies and tariffs of the European Union (EU), Canada, Japan and other members of the WTO. For instance, the EU, the world's largest dairy market, is able under its WTO commitments to impose tariffs and cumbersome allocation procedures for import licenses that limit U.S. dairy exports. Canada, our largest trading partner just to the north, and with whom the U.S. has concluded three major trade agreements in the recent past, is similarly able to impose tariffs on U.S. dairy products between 200 and 300 percent. Last year alone, imports into the United States grew considerably because of our cyclically high internal prices and our relatively low import tariffs, thus allowing countries such as New Zealand, Europe and Canada to take advantage of our markets. However, clearly no additional products from the U.S. went to those markets despite having relatively similar prices.

Export subsidies are still very common in world dairy trade. The WTO agriculture agreement will still permit almost 60 percent of projected dairy world trade to be subsidized when the agreement is fully phased in later this year. The distribution of these subsidy allowances is highly skewed. On a milk equivalent basis, the EU accounts for fully 72 percent of these subsidy allowances; the U.S., which produces more than half as much milk as the fifteen nations of the EU, accounts for just three percent of them.

For instance, the EU will have the ability to subsidize 399,000 tons of butterfat compared to merely 21,097 for the U.S. Likewise, the EU will maintain subsidies for 272,000 tons of NDM vs. 68,201 for the United States. With respect to cheese the EU could export 321,000 tons with subsidies and the U.S. only 3,030 tons. Finally, the EU could expand their exports by using export subsidies for 958,000 tons of the other dairy category, while the U.S. could only use 34 tons (of Whole Milk Powder).

We understand that our negotiators had little choice but to agree to these commitments, if we wanted to see the process of reforming trade and leveling the playing field initiated.

3 Nevertheless, the Uruguay Round ultimately amounts to just the starting point of along process to achieve fair trade in agriculture, especially in dairy.

AFTER SEATTLE: WHAT'S NEXT?

We must learn from our experiences in Seattle. We must prepare and equip our negotiators with the right tools to give us a new, fair agreement that will enable United States dairy farm families to survive and prosper.

I understand that the negotiations have started on the basis of Article 20 of the Uruguay Round Agreement. We are aware of the upcoming meeting of the Agricultural Committee in which a chairman of the agricultural negotiation group will be chosen. Therefore, it is imperative that at this meeting March 22 through 24 in WTO headquarters in Geneva, the Administration must ensure that the WTO provides the basis for continuing the agricultural negotiations and an agreed timeline for initial proposals.

We remain optimistic that the failure in Seattle will not affect the overall timeline of the negotiations. We strongly believe that the expiration of the Peace Clause provides us a unique opportunity to bring the EU to the negotiating table. Therefore, the U.S. government should not extend the Peace Clause outside the overall agricultural negotiations.

WTO OBJECTIVES SHOULD NOT CHANGE

We are convinced that pursuing the elimination of other nations' trade disparities is in the best interests of U.S. dairy farmers. The status quo only benefits those countries opposed to U.S. dairy farmers' potential growth in the high-value export market.

We believe the U.S. dairy industry is united in pursuing the following key elements in the WTO negotiations.

All remaining use of dairy export subsidies must be eliminated by a date certain, within no more than a few years.

Upstate supports the elimination of export subsidies because these programs are a key factor that keeps world dairy prices depressed below U.S. domestic prices and prevents the expansion of sustainable, commercial U.S. dairy exports. If subsidies are not eliminated, or if the new agreement calls for an extended phase-out period, U.S. dairy farmers will not support further liberalization of other areas such as market access.

In addition, current WTO disciplines on dairy export subsidies have been circumvented, most notably by Canada. At the request of NMPF, the U.S. Dairy Export Council and the International Dairy Foods Association, the U.S. challenged Canada for exceeding its Uruguay Round dairy export subsidy commitment levels. The WTO dispute settlement recently ruled in favor of the U.S. on this challenge. However, we are closely watching several attempts by Canadian farmers to again manipulate the system and create another scheme that would allow them to circumvent their export commitments. We won't accept anything short of full compliance by Canada.

As noted, the U.S. dairy industry's top priority for the next negotiations is elimination of remaining export subsidies for dairy products. However, that elimination must be multilateral. Until such time as all countries agree to eliminate export subsidies, it is important to continue to receive maximum assistance from our own export subsidy program, the Dairy Export Incentive Program, or DEIP. Such assistance is necessary to develop sustainable markets for U.S. dairy exports in the face of continued heavy use of subsidies by U.S. export competitors.

We urge Congress and the Administration to use all tools available to ensure full DEIP utilization. Key elements should include flexibility on country eligibility and full accountability for DEIP awards.

Tariff inequities must be addressed prior to making any further multilateral tariff reductions or other market access liberalization.

Except for over-quota tariffs on dairy products that are subject to tariff-rate quotas (TRQs) as a result of the Uruguay Round tariffication exercise, tariff levels in the United States are generally low. Given this situation, Upstate believes that protection of import sensitive commodities should be provided on an equal basis among WTO countries. Any other tariffs should be reduced and bound immediately at some lower level that would provide the U.S. with market access in other countries.

U.S. dairy farmers can not accept further revisions to market access lacking a commitment and aggressive timeline to eliminate export subsidies. Neither can dairy farmers support changes to current tariffs that would allow new access to the U.S. market while reducing only the unnecessarily-excessive portion of extreme tariffs elsewhere, thus providing no new U.S. export access.

For New York farmers, it is particularly important that we don't exacerbate inadequate agreements with further inequities. We are very concerned that the Food and Drug Administration is even considering a dairy equivalency agreement with Canada. Canada blocks commercial sales of fluid milk into Canada despite having allocated 64,000 tons as part of their market access commitments. An equivalency should mean more than just food safety and standards, equivalency should also mean reciprocal market access. Equivalency can't be a one-way street for improving access to our country, while nothing is done to improve access to other nations. Therefore, we strongly oppose an equivalency agreement with Canada without renegotiating fluid milk access between both countries.

The WTO SPS Agreement should not be renegotiated.

We strongly support maintaining intact the current WTO Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures. The agreement currently requires all such measures to be based solely on sound science. Given the disputes between the U.S. and the EU over beef hormones and biotechnology, we anticipate there will be a strong move to reopen this agreement to include additional criteria for standards such as social and economic considerations. Inclusion of these types

of criteria would turn back the clock and permit SPS measures to once again be imposed as arbitrary trade barriers.

Scope and Timing of the Negotiations

With regard to the new WTO negotiations themselves, we support structuring the negotiations as a single undertaking encompassing all sectors, as opposed to a sector-by-sector approach. We believe that we should proceed with the built-in agenda and begin negotiation on agriculture. We therefore support and urge the U.S. government to pursue a comprehensive round of negotiations that includes issues and economic sectors of importance to such key players as the EU, Japan, and the developing countries. Without the pressure of the benefits that accrue from gains in non-agriculture trade in the next round, entrenched interests—hostile to freer and fairer trade—could seriously undermine any progress on agricultural issues, especially dairy.

NO TURNING BACK

In order for U.S. dairy producers and their cooperatives to continue their support for the concept of free trade, the U.S. government, working through the WTO, needs to work to promote fair trade. Future trade negotiations cannot result only in unilateral concessions made by our government; any further opening of our market must be matched with enforceable and usable access to even more protected markets, such as Canada, the European Union and Japan.

Upstate will continue to work with the NMPF and other dairy organizations in pursuit of a broad range of policies to support dairy farm income. In particular, we are deeply concerned about the large export subsidies in other countries, and how such subsidies contribute to low world prices. The World Trade Organization talks are our best opportunity to solve such problems.

We welcome this Subcommittee's interest in these vital matters.

Thank you for this chance to testify. I will be happy to answer any questions.

PREPARED STATEMENT OF CRAIG THORN

Mr. Chairman and Members of the Subcommittee:

My name is Craig Thorn. I am a Senior Policy Advisor at Powell, Goldstein, Frazier and Murphy. Our firm represents a number of agricultural companies and trade associations, but I am here today in a personal capacity to discuss the importance of the new round to the future of U.S. agriculture and the prospects for a successful negotiation. The views I will be sharing with the Committee are based on fifteen years of trade policy experience in the Department of Agriculture.

THE NEW ROUND IN CONTEXT

Mr. Chairman, American farmers and agribusinesses have long recognized that international trade is vital to the economic health of their industry. Government has understood this as well, and both the public and private sectors have dedicated significant resources to various programs designed to improve U.S. export prospects. However, I believe that no program and no policy has a greater potential to effect positively the long-term prospects for agricultural exports than the new round of multilateral trade negotiations under the World Trade Organization ("WTO").

While many factors affect export markets, it is the production and import policies of foreign governments that establish the limits for market potential. Trade-distorting subsidies and import barriers, where they exist, make it difficult for U.S. producers to exploit their natural competitive advantage in export markets. The most effective means of disciplining the use of trade-distorting practices by foreign governments is the development and implementation of the rules of international trade under the WTO.

The United States made significant progress toward strengthening rules and opening markets in the Uruguay Round of multilateral trade negotiations. However, at the end of that round, U.S. negotiators accepted a compromise that, in effect, postponed the achievement of many of the most substantial gains. In order to bring the negotiations to a conclusion, the U.S. accepted an agreement that fundamentally reformed the rules of agricultural trade, but required only modest cuts in subsidies and import protection. However, they demanded and got a "continuation clause," Article 20 of the Agreement on Agriculture ("Agriculture Agreement"), which commits WTO members to another round of negotiations aimed at further liberalization beginning one year before the end of the Uruguay Round implementation period.

Because the Uruguay Round agreements laid the groundwork for a healthy multi-lateral trading system in the agriculture sector—a good foundation of rules, plus better compliance and dispute settlement mechanisms—the U.S. will be able to concentrate in the new round on achieving substantial reductions in trade-distorting subsidies and import barriers. The stage is therefore set for significant gains for U.S. farm exports.

PROSPECTS FOR PROGRESS

Therefore, the failure of the Ministerial Conference at Seattle was especially disappointing for U.S. agriculture. Rather than launching a new round of trade negotiations and laying the foundation for a further strengthening of the multilateral trading system, the Seattle Ministerial exposed serious political and institutional problems and led some to wonder whether there could be a new negotiation under the present circumstances.

Fortunately for all of us, the WTO has shown considerable resilience in the succeeding weeks. Trade diplomats from WTO Member countries have been busy in Geneva putting the pieces back together and preparing to move forward. The focus has been on the “built-in agenda”—the negotiations on agriculture and services that were mandated in the Uruguay Round agreements. Despite continued disagreements over certain unresolved issues, the Member countries were able to work out a means of beginning the negotiations in those two sectors using existing structures, the Committee on Agriculture and the Services Council. The Services Council held its first special negotiating session in late February, and the Agriculture Committee will do the same the week of March 20.

Given sufficient political will and appropriate U.S. leadership, the coming year can be a productive one for the agriculture negotiations. The first year of any multi-lateral negotiation is mainly preparatory. Countries prepare and present their initial negotiating proposals, and there is an inevitable process of debate and coalition-forming. Negotiators develop the ideas and concepts that will form the basis for the final agreement. All of this can take place despite the absence of a full-fledged new round of negotiations.

At the same time, I want to stress the critical importance of the eventual launching of a comprehensive round. While the agriculture negotiations can begin on their own, it is highly unlikely that they could ever be concluded on their own. For that we need a much larger package that will meet the needs of all countries and allow our more reluctant negotiating partners to justify the concessions they will have to make on agriculture. I will return to this issue later in my testimony.

THE U.S. NEGOTIATING AGENDA

Since the agriculture negotiations are about to begin, the U.S. is in the process of developing its negotiating agenda. As I indicated, most of the elements of that agenda should be self-evident. The primary focus should be on achieving 1) the elimination of export subsidies and 2) substantial reductions in trade-distorting domestic subsidies and market access barriers.

Export subsidies: The number one negotiating priority for the U.S. in the Uruguay Round was to discipline the use of export subsidies. We tend to forget the circumstances that made that goal such an urgent one. From the initiation of the EU Common Agricultural Policy in the 1960's, we had experienced a steady and dramatic rise in subsidized EU exports. By the mid 1980's the EU had taken a major share in world markets for nearly every temperate-zone agricultural product. The obvious inequity of this situation focused world attention on the need for international discipline.

The Uruguay Round outcome was a clear success in this regard. The European share of world markets is declining across the board. For example, EU exports of wheat and wheat flour in marketing year 1992/93, before they adopted the policy changes designed to allow them to accept a WTO agreement, were nearly 24 million tons, or 24 percent of the world market for wheat. Next year they will be limited by their WTO commitments to 14.4 million tons, a 14 percent market share. Reductions are less dramatic for other commodities, but still significant. Subsidized pork exports will decrease from 560,000 tons to 440,000; beef from over 1 million tons to 820,000 tons; and cheese from 406,000 to 321,000. The EU is being forced to make domestic policy changes in order to meet these commitments.

Of course, subsidized EU tonnage is still substantial. Our goal in the next round should be the complete elimination of export subsidies. Given the negotiating context, I believe this is a realistic and achievable goal.

Domestic subsidies: The achievements in the Uruguay Round with respect to domestic subsidies were more modest. The twenty percent reduction in support on a

sector-wide basis left countries with significant flexibility with respect to individual products. Moreover, the Agriculture Agreement contains large loopholes, in particular the so-called "blue box" (Article 6.5), which allows EU direct payment programs to totally escape reduction commitments.

The U.S. would benefit from much tighter disciplines and substantial reduction commitments, and we should be in an excellent position to push for that outcome. Going into the new negotiations, the EU AMS commitment will be about \$68 billion, over three times the limit for the U.S. Japan's final AMS limit will be nearly double ours. And, unlike the U.S., both countries are spending a substantial portion of that total, even without counting EU blue box policies.

Moreover, unlike the Europeans, Japanese and others, we in the U.S. made major changes in domestic support policies after the Uruguay Round that brought our programs for most commodities into harmony with the new international disciplines. In fact, the FAIR Act of 1996 caused anxiety among EU officials, who saw it as an indication that the Americans would be aggressive on domestic and export subsidies in the next round. A further tightening of the domestic support disciplines would force countries either to reduce subsidization or move to less trade-distorting means of support. The result should be fairer and more open world markets.

Market access: In the long-run, the greatest benefits for U.S. agriculture will come from reductions in import barriers. Fortunately, the market access negotiations in the new round should be much less complicated, and more productive, than in the Uruguay Round.

In the Uruguay Round, negotiators focused mainly on eliminating the non-tariff barriers that were so common in agricultural trade at the time. These barriers—import quotas, variable import levies, discretionary licensing systems, and so forth—were converted under the Agreement to tariffs, which were "bound" (that is, countries committed not to raise them above specified levels) and then reduced, along with pre-existing tariffs, by an average of 36 percent. Because tariffs in the agricultural sector were in many cases so high, market access gains from the tariff reductions have been limited. There are, however, some notable exceptions. For example, reductions in Japan's import duty for pork turned that country almost overnight into the largest export market for our pork producers. Korean agricultural imports increased overall by more than fifty percent in the first year of implementation of the Agreement.

Because non-tariff barriers were eliminated in the Uruguay Round, U.S. negotiators will be able to focus on the magnitude of tariff reductions and the methodology for achieving those cuts. American interests would be best served by a "formula" approach, which brings down duties on all products, rather than a request/offer approach, which would allow countries to avoid reductions for sensitive products or product sectors. A formula approach will bring meaningful liberalization where it matters most, while a request/offer negotiation would lead inevitably to a small outcome.

Biotechnology: Trade in biotech products is the single biggest problem facing U.S. agriculture today. The U.S. worked unsuccessfully in Seattle to get an agreement on the formation of a WTO working party to discuss trade problems related to the products of biotechnology. The failure of the Ministerial left the issue in limbo.

It is essential that we find a WTO forum where we can address biotechnology. The purpose of such a discussion would be to 1) reaffirm that applicability of WTO rules—in particular the Agreement on the Application of Sanitary and Phytosanitary Measures—to biotech trade (an especially important task in light of the recent conclusion of the Biosafety Protocol negotiations); 2) examine the adequacy of those rules; and 3) provide a forum for the discussion of biotech issues with officials who understand WTO obligations.

PROSPECTS FOR A SUCCESSFUL OUTCOME

There are reasons to be optimistic about our chances for achieving a good agreement in an acceptable timeframe. As indicated above, we have the advantage of the rules framework negotiated in the Uruguay Round. We also have established a direction and a certain momentum for reform. From a technical as well as a political perspective, this agriculture negotiation is less complex than the previous one.

Moreover, we have the advantage of the deadline imposed by the expiration of the so-called "peace clause." The peace clause, Article 13 of the Agriculture Agreement, suspends until January 1, 2004, the application to the agricultural sector of certain WTO rules, most notably Articles 3, 5 and 6 of the Agreement on Subsidies and Countervailing Measures ("Subsidies Agreement"). Its expiration could have serious consequences for the EU and other exporting countries with high levels of subsidization, whose policies would then be subject to the much more stringent disciplines

of the Subsidies Agreement. Used properly, the peace clause could be a powerful incentive for concluding an agreement.

Finally, Europe is once again feeling internal pressures for reform. Negotiations have begun for a substantial enlargement of the EU. It will be very difficult to bring the countries of Central and Eastern Europe into the Union without fundamental reforms in the Common Agricultural Policy. Some European officials see the WTO negotiations as providing welcome pressure for the necessary changes.

However, achieving an agreement is certainly not a forgone conclusion. As indicated previously, success in the agriculture negotiations is dependent on the conclusion of a substantially broader package of agreements that contains something for all participants. The U.S. understood this fact in the Uruguay Round, when we pushed for an ambitious negotiating agenda and a "single undertaking" approach, which meant that nothing in the final package was agreed until all elements were agreed.

Unfortunately, this was not the U.S. approach in the run-up to the Seattle Ministerial. Rather, U.S. negotiators stressed limiting the scope of the negotiations and allowing for "early harvest" in sectors where it might be possible to reach quick agreement. At times, the U.S. seemed more intent on keeping issues off of the new round agenda than in putting them on. It is difficult to lead from such a defensive posture.

The U.S. needs to reexamine its negotiating position. We need to be prepared to discuss in the new round some subjects that are politically difficult for us so that our negotiating partners will agree to do that same. If we are not willing to do so, we will not be able to assemble a viable negotiating package, and we will lose a historic opportunity for American agriculture.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF SUSAN S. WESTIN

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to provide observations about the negotiations on agricultural trade being conducted by the World Trade Organization (WTO). Specifically, my testimony will address (1) U.S. and other countries' objectives in the agricultural trade negotiations, (2) progress achieved during the 1999 WTO Seattle ministerial conference, and (3) prospects for future negotiations.

My observations are based on our past and ongoing work; our review of WTO and executive branch documents; related literature; discussions with experts on the WTO and international trade; and interviews with U.S. government, WTO, and foreign government officials from 15 countries. In addition, I, along with members of my staff, attended the Seattle ministerial conference.¹

SUMMARY

WTO member countries intended to launch a new round of multilateral trade negotiations covering agriculture and other issues at their biennial Ministerial Conference last December in Seattle. The principal objectives of the United States and several other agricultural exporting countries for liberalizing agricultural trade included (1) elimination of export subsidies, (2) a reduction in trade-distorting domestic agricultural support programs, and (3) an increase in market access for agricultural products in member countries. On the other hand, the European Union and other countries opposed any attempt to eliminate export subsidies.

Trade ministers meeting in Seattle intended to conclude the ministerial conference with a ministerial declaration that would launch a new round and set the agenda for negotiations in each subject area, including agriculture. There is general agreement by conference participants that negotiations on agriculture made the most progress of any area at the Seattle conference. Countries had moved closer to reaching consensus on many of the issues to be addressed and on the time frames for completing agricultural negotiations in a new round. However, this progress was essentially lost when countries could not reach consensus on an agriculture text, and the conference was adjourned without launching a new round or issuing a ministerial declaration.

Despite the impasse in Seattle, agricultural trade negotiations will resume this year in Geneva as mandated by the Uruguay Round Agreement on Agriculture. However, it is unlikely that these talks will meet U.S. objectives for liberalizing ag-

¹ For our assessment of the overall outcome of the ministerial conference, see *World Trade Organization, Seattle Ministerial: Outcomes and Lessons Learned* (GAO/T-NSIAD-00-86, Feb. 10, 2000) for more details.

gricultural trade any time soon, for several reasons. First, the failure to issue a ministerial declaration may make it difficult for negotiators in Geneva to build on the progress made in Seattle. Second, there is some concern whether countries will be willing to make concessions on agriculture without trade-offs in other areas, as would have been the case in a trade round with a broader negotiating agenda. Third, not much progress should be expected this year, since groundwork must be laid before substantive negotiations can begin. For example, WTO members have yet to submit proposals as to what should be on the negotiating agenda for agriculture.

BACKGROUND

The United States is one of the largest importers and exporters of agricultural products in the world. Although accounting for only about 5 percent of overall U.S. exports, agricultural exports were about \$48 billion in 1999. Furthermore, agricultural trade had nearly an \$11 billion surplus compared with an overall U.S. trade deficit of about \$271 billion in 1999. Also, U.S. markets for agricultural commodities are relatively open, with average tariffs on most agricultural products very low compared to those of many other WTO members. Consequently, the United States has pursued trade liberalization in the agricultural sector and has sought to include agriculture in previous rounds of multilateral trade negotiations.

The conclusion of the Uruguay Round in 1994 represented the first time that the multilateral trading system undertook to substantially reform agricultural trade. The Uruguay Round created the WTO, which provides the institutional framework for the multilateral trading system. WTO administers rules for international trade, provides a mechanism for settling disputes, and provides a forum for conducting trade negotiations. There are two agreements from the Uruguay Round that specifically address agricultural issues—the Agreement on Agriculture and the Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS agreement).

The Agreement on Agriculture covers barriers to market access, such as tariffs and quotas, subsidies for exporters, and support for domestic agricultural producers. WTO members agreed to a 36 percent reduction in average tariffs of agricultural products by developed countries by 2000, and a 24 percent reduction by developing countries by 2004. In addition, the Agreement on Agriculture required that WTO members' spending on export subsidies be cut by 36 percent and that quantities subsidized be cut by 21 percent for developed countries by 2001.² The agreement also required cuts in certain types of domestic farm supports that could include price supports or subsidies for fertilizer and irrigation. Article 20 of the Agreement on Agriculture calls for renewed agricultural trade negotiations in the year 2000 to continue the long term objective of agricultural trade reform through substantial progressive reduction in support and protection. This is referred to as the "built-in agenda."

The SPS agreement sets out the basic rules for food safety and animal and plant health standards that affect international trade. It allows countries to set their own standards, but specifies that regulations must be based on sufficient scientific evidence, and it restricts the use of unjustified measures for trade protection.

In December 1999, trade ministers held their third biennial WTO ministerial conference to launch a new round of multilateral trade negotiations covering at least agriculture and services³ but potentially including other areas such as industrial market access and government procurement. However, the December ministerial conference failed to achieve its goal. After 4 days of intensive talks, the conference was suspended on December 3 without agreeing on a round or issuing a ministerial declaration or any other formal documentation of its deliberations. As a result of the inconclusive nature of the Seattle meeting, the status of the ministerial conference and the prospects for a new round remain unclear. However, WTO members are scheduled to renew agricultural trade negotiations this year, as mandated by article 20 of the Agreement on Agriculture.

² For more information on implementation of the Agreement on Agriculture, see *The General Agreement on Tariffs and Trade: Uruguay Round Final Act Should Produce Overall U.S. Economic Gains* (GAO/GGD-94-83b, July 29, 1994), and *Commitments by the European Union and the United States to Reduce Agricultural Export Subsidies* (GAO/NSIAD-99-198R, June 18, 1999) for more details.

³ As part of the built-in agenda, the Uruguay Round Agreement on Trade in Services, like the Agreement on Agriculture, called for negotiations in the services sector to begin in 2000.

COUNTRIES' OBJECTIVES ON AGRICULTURAL TRADE

In efforts to launch a new round of trade negotiations in Seattle, the United States and other agricultural exporters sought to include additional disciplines on export subsidies and domestic farm supports, as well as market access issues, within the framework of agricultural negotiations. The European Union (EU) and Japan, on the other hand, had reservations regarding some of these issues and were more interested in making sure that certain agriculture-related nontrade concerns, such as food safety and food security, were addressed in the negotiations. Moreover, the EU and Japan were not satisfied with negotiations limited to the "built-in agenda" issues of agriculture and services. Rather, they called for a broad framework for negotiations to bring many new areas, such as investment and competition policy, under international disciplines.

The United States insisted that negotiations on agriculture address a number of tough issues, including the elimination of export subsidies, the imposition of substantial cuts in trade-distorting farm supports, and a call for reductions in tariffs. Other major agricultural exporting countries, known as the "Cairns Group," supported these goals. In addition, the United States wanted the agriculture negotiations to introduce stronger disciplines on the activities of state trading enterprises,⁴ and guarantees that decisions on imports of new technologies, such as biotechnology, would be based on scientific grounds and transparent (open) regulatory processes. At the same time, the United States sought to limit the introduction of nontrade issues, which the EU, Japan, and certain other countries wanted to be considered in the agriculture negotiations. The United States also opposed efforts to include U.S. export credit guarantee programs in the negotiations.⁵ Finally, the United States wanted to avoid opening the SPS agreement to renegotiation, because of the possibility that such a move would undermine the principle that SPS measures must be based on scientific principles.

The efforts by the United States and the Cairns group to seek to eliminate agricultural export subsidies were difficult for the EU to accept. In particular, European officials noted that they simply could not support language calling for the "elimination" of all export subsidies as the starting point of negotiations. Although the EU has been reducing subsidies to agriculture since the Uruguay Round, it remains by far the world's largest user of agricultural export subsidies. Export subsidies are a key mechanism in the EU's Common Agricultural Policy, which is intended to preserve farm incomes and rural economies by supporting high domestic prices for a wide variety of agricultural commodities and products. EU member states have taken a very strong position on maintaining the Common Agricultural Policy, a central element in the EU's institutional system and regarded as essential to its cohesiveness. Moreover, the EU and Japan proposed that agriculture negotiations take into account the "multi-functionality" of the agricultural sector and address issues such as food security, food safety, environmental protection, animal welfare, and the economic viability of rural areas.

The EU and Japan also viewed the prospect of launching a new round as an opportunity to establish international rules in other areas of the global trading system. In addition to agriculture and services, they proposed including investment, competition policy, government procurement, and other issues in a broad framework for negotiations. According to an EU official, the EU expected that compromises on agriculture would be compensated by concessions in these other areas. Although U.S. negotiators indicated support for continued study of investment and competition policy by WTO working groups, the United States and many other WTO members were unwilling to include these issues in the negotiating agenda for a new round.

PROGRESS ACHIEVED AT SEATTLE MINISTERIAL CONFERENCE

There is general agreement by participants at the ministerial conference in Seattle that negotiations on agriculture made the most progress of any area. Many officials indicated that consensus was close on a draft text setting forth issues to be addressed and on time frames for completing agricultural sector negotiations in a new round. However, this progress in the agricultural area was essentially lost when countries could not reach final consensus on the text, and the ministerial con-

⁴ State trading enterprises are generally considered to be governmental or nongovernmental enterprises that are authorized to engage in trade and are owned, sanctioned or otherwise supported by the government.

⁵ U.S. export credit guarantee programs allow foreign buyers to purchase U.S. agricultural commodities from private U.S. exporters, with U.S. banks providing the financing.

ference ended without agreement on a final declaration to set the agenda for a new round of trade negotiations.

In an effort to give all WTO members an opportunity to take part in the negotiations at Seattle, five large working groups, open to all member delegations, were set up to address major issues, including agriculture. U.S. and foreign officials agreed that the working group on agriculture made the most progress in Seattle. Although many working groups were hampered by the late selection of their chairs, the agriculture working group chair was named 2 days before the conference officially began and was able to begin work immediately on a draft agriculture text. In addition to two formal working group meetings, the chair held over a dozen smaller meetings with key delegations where most of the progress was made on developing a text. The chair completed a draft text on agriculture on the next to the last day of the conference, which contained only few areas of disagreement among interested WTO members.

The negotiations proceeded in a "green room" process on Friday, the last day of the conference.⁶ In the green room, negotiators worked with the draft agriculture text; the negotiations on agriculture lasted 6 hours. By mid-afternoon, the parties appeared to be close to reaching consensus, and a draft text was issued that represented considerable compromise among the interested countries.

The draft agriculture text included many provisions favored by the United States. For example, it called for negotiations to cover, "substantial reductions" in subsidies in the "direction of progressive elimination of all forms of export subsidization." Similarly, the text called for negotiations to cover, "substantial progressive reductions" in domestic supports to agriculture. However, the United States was unable to get any specific reference to state trading enterprises in the text, as it had sought. Some non-trade concerns that the EU and Japan had wanted to introduce into the negotiations were included, but they were to be addressed through WTO transparent and non-trade distorting measures. Furthermore, these measures were to be in compliance with WTO principles, in general, and with the existing SPS agreement, specifically.

However, at the end of the conference, neither an overall agreement nor an agreement on agriculture was reached, and no ministerial declaration was issued. Thus, no agenda was set for a new round of negotiations. Several factors led to the failure to reach consensus, including differences among key players on certain issues, including agriculture. Although the participants we interviewed generally agreed that progress had been made in the agriculture talks, they noted that differences on some controversial issues remained. For example, the EU still had difficulties with language in the agriculture text that called for the elimination of export subsidies, while Japan and Korea opposed wording on market access that might have ruled out maintaining high tariffs on certain imports, notably rice. Ultimately, the EU said it would not agree to the draft text on agriculture without reaching consensus on the other issues in the negotiations, including investment and competition policy.

It is impossible to determine whether an agreement on agriculture could have been reached in Seattle because of the number of other factors that led to the breakdown of the talks, particularly the intense disagreement on the scope of the new round. According to U.S. government officials, failure to reach consensus at Seattle was partly due to the unwillingness of the EU and Japan to compromise on certain key aspects of the agriculture negotiations. Some European officials told us they probably could have made concessions on agriculture if the rest of the negotiations had been successful. However, other European delegations told us they would not have been able to accept the term "elimination" of subsidies in the text, and they would have pushed for it to be deleted if the negotiations had continued.

PROGRESS IN THE MANDATED NEGOTIATIONS MAY BE SLOW

Despite the failure to launch a trade round in Seattle, agricultural trade negotiations will resume in late March, under article 20 of the Uruguay Round Agreement on Agriculture. However, progress in achieving substantive trade liberalization may have been impeded for several reasons. For example, the failure to launch a new round may make it difficult for negotiators in Geneva to continue where they left off in Seattle. Furthermore, negotiating agriculture in isolation without the possibility of trade-offs in other areas may be problematic. Finally, much groundwork must be laid before substantive negotiations can begin.

⁶As opposed to the working groups that were open to all member delegations, traditionally negotiations have taken place among a smaller number of key WTO members to work out privately some of the more difficult compromises. This smaller group negotiation of 20-30 members is known as the "green room" process.

First, the inconclusive outcome of the ministerial conference will make it difficult for negotiators in Geneva to start where they left off in Seattle and thus take advantage of any forward movement on the issues that occurred. The draft agricultural text from Seattle will not be used as a starting point for renewed negotiations; rather, article 20 will be the basis for the negotiations. The draft text was more definitive than article 20 regarding the specific issues on the negotiating agenda and time frames for the negotiations. For example, article 20 only calls for the continuation of the reform process with a stated long-term objective of making substantial and progressive reductions in agricultural support. In contrast, as previously noted, the draft Seattle text specifically called for, among other things, negotiations to cover "substantial reductions" in subsidies in the "direction of progressive elimination of all forms of export subsidization." Additionally, the draft Seattle text contains interim benchmarks and a deadline for the negotiations of December 15, 2002. Article 20, however, does not set a final deadline or such interim benchmarks. Specifically, it does not state when members must reach agreement on how the negotiations will be conducted or when members must submit their negotiating offers.

The U.S. Trade Representative has maintained that the expiration of the "peace clause"⁷ at the end of 2003 may be an incentive to negotiate on agricultural subsidies by that date; after expiration of the peace clause, for the first time WTO members will be able to challenge certain agricultural export subsidies and domestic support measures of other members. However, one senior European official did not believe that the expiration date would act as an incentive to complete the negotiations.

Second, there is some concern about whether countries will be willing to make concessions in agriculture without obtaining trade-offs in other areas, as would have been the case in a round with a broader negotiating agenda. As demonstrated in Seattle, trading partners with politically sensitive agricultural sectors, such as the EU, want to show their constituents that they have gained concessions in other areas in order to agree to reduce agricultural protection and support. One EU trade minister recently stated that, for this very reason, the mandated article 20 negotiations are unlikely to move forward in the absence of a comprehensive new trade round.

Finally, several U.S. government officials told us that not much progress should be expected during the first year of the built-in agenda negotiations because many decisions about how to proceed have yet to be made. Negotiations under the built-in agenda for agriculture will be conducted under the auspices of special sessions of the Committee on Agriculture, a standing committee within the WTO. The first special session of the Committee on Agriculture will meet the week of March 20th. Although the committee chair has yet to be named, U.S. and WTO officials told us that they expect this to occur before the first special session. The first meeting may cover procedural matters, such as agreeing on a work program for the remainder of 2000, and setting a deadline for WTO members to submit proposals on what should be on the negotiating agenda. A WTO official told us that the deadline for submitting proposals will likely be sometime this fall, or early next year.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared remarks. I will be happy to respond to any questions you may have.

⁷The "peace clause" is a provision in the WTO Agriculture Agreement that protects WTO members from some challenges to their agricultural support programs and subsidies.

ISBN 0-16-060728-0

