STATEMENT BY RON HECK
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before the

COMMITTEE ON FINANCE
UNITED STATES SENATE

on

THE U.S.-MOROCCO FREE TRADE AGREEMENT

June 15, 2004

Good morning, Mr. Chairman, and Members of the Committee. I am Ron Heck, a soybean and corn farmer from Perry, Iowa. I am currently President of the American Soybean Association, which represents 25,000 producer members on national issues of importance to all U.S. soybean farmers. ASA appreciates the opportunity to appear before you today.

ASA welcomes the conclusion of the Free Trade Agreement (FTA) negotiations between the United States and Morocco. The agreement is fair, it does not exclude any products, and it creates opportunities for our industry to export more soybean and livestock products to Morocco. We commend you, Mr. Chairman, for your active participation and leadership in the process, and for looking out for the needs of soybean producers during negotiation of the agreement.

Morocco is an important market for U.S. soybean producers. It imports approximately 300,000 metric tons of soybeans annually, valued at $90 million. It also imports 300,000 metric tons of crude soybean oil, and 100,000 metric tons of soybean meal annually.

Let me quickly review the present, pre-implementation, status of the soybean trade between Morocco and the United States. Currently, import duties are imposed on virtually all U.S. soybean products entering the Moroccan market:

Soybean seed imported for planting and soybeans imported by the crusher has an assessed *ad valorem* duty of 2.5 percent. A differential duty is applied to soybeans imported for processing. In the case of soybeans imported for other forms of processing , the duty is 22.5 percent *ad valorem*. Duty on soybean oil is 22.5 percent *ad valorem*, with an additional amount applied to shipments for which the declared price is below a reference value. The import duty is 25 percent *ad valorum* on soybean meal, and for high-value soy protein products used in human food – such as soy flour, soy concentrate, soy isolates, and textured soy protein – the assessed duty is currently 75.5 percent.

Under the FTA agreement, the duty on soybeans imported for processing will be eliminated immediately. We expect this will benefit U.S. exporters by at least partially offsetting aggressive pricing practices by South American suppliers. Currently, South American supplier countries do not have a free trade agreement with Morocco, but receive most favorite nation status which assesses tariff rates equivalent to the pre-FTA tariffs applied to imports from the United States. The higher duty on soybeans imported for other forms of processing has made it uneconomical for feed compounders or others in Morocco to invest in the production of full fat soybean meal. Full fat soy is a product that would find a ready market among producers in Morocco's rapidly expanding and relatively advanced poultry industry. Therefore we applaud elimination of the duty on soybeans.

Duties on crude soybean oil will also be eliminated immediately. Duties on soybean meal and other processed soy products will be reduced by 50 percent in the first year of the agreement, and then phased out over the next five years. This should encourage expansion in U.S.-Morocco soybean meal trade. There have been occasional imports of soybean meal at the current 25 percent duty rate, but the tariff usually has been sufficiently high to protect the Moroccan crushing industry from import competition. While it is in the best interest of U.S. soybean producers for Morocco to continue to have a healthy domestic crushing industry, a preferential duty on soybean meal allows the U.S. industry to compete for a share of Morocco's rapidly growing market for livestock and poultry feed. We are satisfied with the time frame given in the agreement, which will allow the Moroccan industry to adapt to increasing import competition from U.S. soybean meal.

ASA is always looking for opportunities to expand trade in high-value processed soybean products used for human consumption, such as soy flour. As developing countries grow wealthier and can afford a more nutritious diet, consumption of soy protein products also grows. Morocco is only beginning to become interested in soy for human consumption because the prohibitively high duty on these high-value products has made it difficult to import samples for product demonstrations and other market development activities. Therefore, we are pleased to see the initial 50 percent reduction and eventual elimination of tariffs on these products.

In addition to increased opportunities for soybeans and soy products, there is significant expansion in market access for U.S. beef and poultry products, which are large domestic markets for U.S. soybean producers. Previous to this agreement, there was no access to the Moroccan beef and poultry markets, despite high demand in the restaurant industry for high quality beef. The agreement provides for a tariff-rate quota for U.S. beef, and immediate access for certain poultry products. We understand that certain sensitive poultry products, such as chicken leg quarters, will have a lengthy phase-out of the TRQ and a permanent safeguard mechanism. Overall, however, there will be new access to a previously inaccessible market.

We are also pleased that Morocco has agreed to adjust its State Trading Enterprise (STE) system by eliminating special financing, increasing transparency, and eliminating restrictions on the right to export. We believe STEs significantly hamper trade and that, by restructuring them, the free trade agreement with Morocco will truly be "free."

In conclusion, Mr. Chairman, this agreement is very beneficial to U.S. soybean producers, and to our customers in the domestic livestock industry. ASA strongly supports and urges quick passage of the Morocco FTA. I would be pleased to respond to questions you or other Members of the Committee may have.