

**STATEMENT OF**

**SAM CARNEY**

**PORK PRODUCER FROM ADAIR, IA**

**ON BEHALF OF THE**

**NATIONAL PORK PRODUCERS COUNCIL**

**BEFORE THE**

**SENATE FINANCE COMMITTEE**

**ON**

**IMPLEMENTATION OF THE**

**PANAMA TRADE PROMOTION AGREEMENT**

**MAY 21, 2009**

Chairman Baucus, Ranking Member Grassley and Members of the Committee:

I am Sam Carney, President-Elect of the National Pork Producers Council (NPPC) and a pork producer from Adair, Iowa. I also am a member of the Executive Committee of the Iowa Pork Producers Association. I am the owner and operator of Carney Farms Inc., which I run with my son Randy. We market about 6,000 hogs annually from our wean-feeder to finish operation. We raise corn, soybeans and hay. We also have a cow-calf herd, and we feed cattle. I appreciate the opportunity to appear here today on behalf of NPPC.

Mr. Chairman, I strongly believe as a farmer and a small businessman that the future of my family's farming operation depends in large part on further trade agreements and continued trade expansion. In a May 6 World Trade Week proclamation, President Obama said that he was developing an action plan for the pending free trade agreements with Panama, Colombia and South Korea. We welcome this development. U.S. pork producers strongly support each of these three trade agreements. We are here today to discuss the Panama agreement. Like the other two pending agreements, the Panama Trade Promotion Agreement should be passed by the Congress because it will generate exports, create jobs, and enhance the economic well-being rural communities.

The National Pork Producers Council conducts public-policy outreach on behalf of its 43 affiliated state associations, representing America's 67,000 pork producers, who annually generate approximately \$15 billion in farm gate sales. The U.S. pork industry supports an estimated 550,000 domestic jobs and generates more than \$97 billion annually in total U.S. economic activity and contributes \$34.5 billion to the U.S. gross national product.

The U.S. pork industry today provides 21 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide. In providing pork to the world, producers operate under a set of ethical principles, which broadly include humane and compassionate care for their pigs. Specific to animal-health products, producers use antibiotics judiciously and responsibly to protect pig health and to produce safe pork and manage antibiotic use to protect public health.

Few industries have benefited more from trade agreements than the U.S. pork industry. Thanks to new market access from the Uruguay Round, the North American Free Trade Agreement (NAFTA) and other trade agreements, the U.S. pork industry is now the largest pork exporter in the world. In 2008, the United States exported approximately 20 percent of domestic pork production. Pork exports added \$48 to the value of every U.S. hog marketed and supported more than 65,000 U.S. jobs in 2008. As the low-cost global producer of pork and the largest exporter of pork in the world, the U.S. pork industry is well positioned to create jobs and generate wealth in the United States as new trade agreements are implemented.

Last year exports were the pork industry's salvation. Due to high input costs, pork producers suffered their second worst financial year ever. Without the \$4.9 billion in exports, the industry would have imploded last year.

Unfortunately, just when things were starting to look up this year, the industry was hit by the A/H1N1 Influenza outbreak, which wrecked havoc on pork producers. Live hog prices plummeted due to unwarranted fears about the safety of pork and the non-science based restrictions put in place by some U.S. trading partners. NPPC appreciates the support of the Senate Finance Committee, Congress and the Obama administration in combating these needless

restrictions on U.S. pork exports and is pleased that, with a few notable exceptions, such as China and Russia, these unwarranted restrictions have been removed.

Now U.S. pork producers need Congress to approve the trade deals with Colombia, Panama and South Korea. With 96 percent of the world's population residing outside of the United States, it is essential that U.S. pork producers continue to gain access to more of these potential customers. While pork exports have exploded in recent years, future growth is dependent on further trade liberalization.

### **NPPC SUPPORTS THE U.S.-PANAMA TRADE PROMOTION AGREEMENT**

The trade promotion agreement negotiated between the United States and Panama, when implemented, will create important new opportunities for U.S. pork producers.

U.S. pork exports to Panama are currently restricted by a small quota and out-of-quota duties as high as 80 percent. However, the Panama agreement, if implemented, will provide immediate duty-free treatment on U.S. pork variety meats and expanded market access for U.S. pork muscle meat through tariff rate quotas (TRQs). The TRQs will be phased out in 15 years, and after the full implementation period, U.S. pork will have unlimited duty-free access to the Panamanian market.

In addition to the favorable market access provisions, significant sanitary and technical issues have been resolved. The Panamanian government confirmed in a Dec. 20, 2006, letter that it will recognize the meat inspection system of the United States as equivalent to its meat inspection system. This technical agreement ensures U.S. pork producers will benefit from the Panama agreement without being blocked by unnecessary sanitary barriers.

U.S. pork competes in Panama with pork from Canada and the European Union. The Panama agreement, if implemented, will give U.S. pork products a competitive edge in the market.

According to Iowa State University economist Dermot Hayes<sup>1</sup>, the Panama Trade Promotion Agreement, when fully implemented, will cause hog prices to be 20 cents higher than would otherwise have been the case. Exports to Panama will be worth approximately \$23 million to the U.S. pork industry in additional revenue than otherwise would have been the case.

### **PANAMA AGREEMENT WILL BENEFIT VAST MAJORITY OF U.S. AGRICULTURAL PRODUCERS**

Virtually every recent trade agreement – from NAFTA to CAFTA – has brought significant benefits to the nation's farmers and ranchers. In his recent trade proclamation, President Obama noted that exports account for 13 percent of total U.S. economic activity. But in agriculture, exports account for as much as 30 percent of farmers' income. In 2008, agricultural exports reached an all-time record of \$115 billion, up from \$46 billion in 1994, the year NAFTA was implemented. That agreement and the 13 trade deals the U.S. has implemented subsequently are the principal reasons for that export growth.

The U.S.-Panama Trade Promotion Agreement will provide new market opportunities for a wide range of U.S. agricultural products. Immediately upon implementation of the agreement, more than half of all U.S. agricultural products now sent to Panama will enter free of all duties. Most

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<sup>1</sup>Hayes, Dermot, Department of Economics, Iowa State University. dhayes@iastate.edu, (515) 294-6185

of the remaining farm products will become eligible for free access to Panama over a 15-year phase-in period. The American Farm Bureau Federation estimates that by 2027, when the agreement is fully implemented, the total increase in U.S. farm exports is expected to exceed \$190 million per year.

Examples of products that will receive duty-free treatment immediately upon implementation of the agreement include high-quality beef, certain chicken products, frozen whole turkeys and turkey breast, pork variety meats, most whey products, soybeans and soybean meal, crude vegetable oils, cotton, wheat, barley, most fresh fruits (including apples, pears, and cherries), almonds, walnuts, many processed food products (including soups and chocolate confectionary), wine, distilled spirits and pet food.

In addition, a number of U.S. agricultural exports will benefit from expanded market access opportunities through tariff-rate quotas. These include pork, chicken leg quarters, dairy products, corn, rice, refined corn oil, dried beans, frozen French fries, and tomato products.

In 2008, U.S. agricultural exports to Panama were valued at \$304 million<sup>2</sup>. Agricultural imports from Panama totaled approximately \$55 million. The United States' current positive trade balance of \$249 million in competing agricultural products exists despite the fact that the U.S. market currently is more open to imports from Panama than Panama's market is to imports from the United States. For example, Panama's average tariff on agricultural imports is currently 43 percent compared with 12 percent in the United States. For products with tariff rate quotas (TRQs), Panama's average in-quota tariff is 15 percent and its average above-quota rate is 83 percent. By comparison, the average in-quota tariff in the United States is 10 percent and its above-quota rate is 52 percent<sup>3</sup>.

Moreover, most products enter the United States from Panama at a zero tariff because of the Caribbean Basin Economic Recovery Act (CBERA) and the Generalized System of Preferences (GSP). So, implementation of the pending trade agreement with Panama will level the playing field so that U.S. producers and exporters of food and farm products receive reciprocal market access.

In addition, important non-tariff impediments to trade that have prevented U.S. access to the Panamanian market will be removed as a result of the free trade agreement. The U.S. and Panama signed a far-reaching bilateral agreement on sanitary and phytosanitary measures and technical standards under which Panama will recognize the equivalence of the U.S. food safety inspection system for meat and poultry and the U.S. regulatory system for processed food products, including dairy products.

Panama also will provide access for all U.S. beef and poultry products, consistent with international standards. Finally, the agreement streamlines import documentation requirements for U.S. processed foods and ensures Panama's continued recognition of the U.S. beef grading system and cuts nomenclature.

U.S. agricultural exports to Panama can be expected to grow not only because of the direct effect of reducing tariffs and the lifting of other restrictions but also because of the economic growth in that country that will occur as a result of this trade agreement.

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<sup>2</sup> Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

<sup>3</sup> The tariff average data in this paragraph come from *AER-796*, Economic Research Service/USDA.

No one should believe that there are no costs to rejecting these agreements. While the United States dithers, other countries are moving forward with agreements that individually and collectively put U.S. products at a competitive disadvantage. Some 421 bilateral and regional trade agreements had been notified to the World Trade Organization (WTO) through the end of 2008. Another 400 or so are scheduled to be notified and implemented by 2010, according to that organization. The U.S. is a party to just 18 of those 800-plus deals, and just 15 are in force.

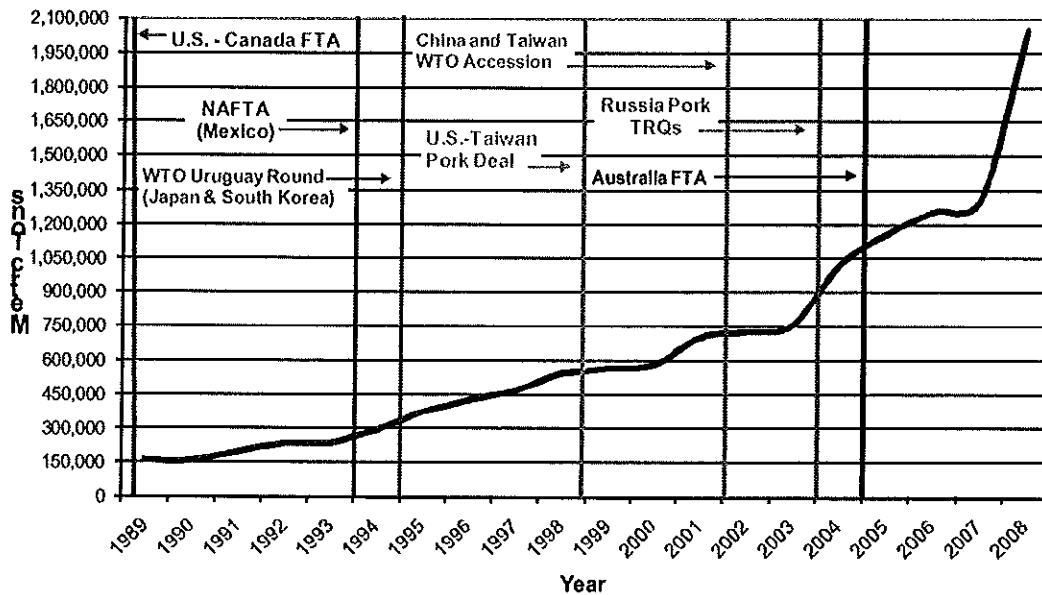
While Congress debates approval of the FTA with South Korea, for example, that country has already concluded or is working on FTAs with Chile, Singapore, Indonesia, Malaysia, the Philippines, Thailand, Brunei Darussalam, Vietnam, Lao PDR, Cambodia, Australia, New Zealand, Canada, China, the European Union (27 countries), India, Japan, Mexico, Brazil, Argentina, Uruguay, Paraguay, Peru, Pakistan and Russia.

We fall behind by standing still.

**PORK PRODUCERS ARE BENEFITING FROM PAST TRADE AGREEMENTS**

U.S. pork exports in 2008 totaled 2.05 million metric tons valued at \$4.9 billion, an increase of 57 percent by volume and 55 percent by value over exports in 2007. U.S. exports of pork and pork products have increased by more than 767 percent in volume terms and 754 percent in value terms since the implementation of NAFTA in 1994 and the World Trade Organization Uruguay Round Agreement in 1995.

**U.S. Pork Exports**



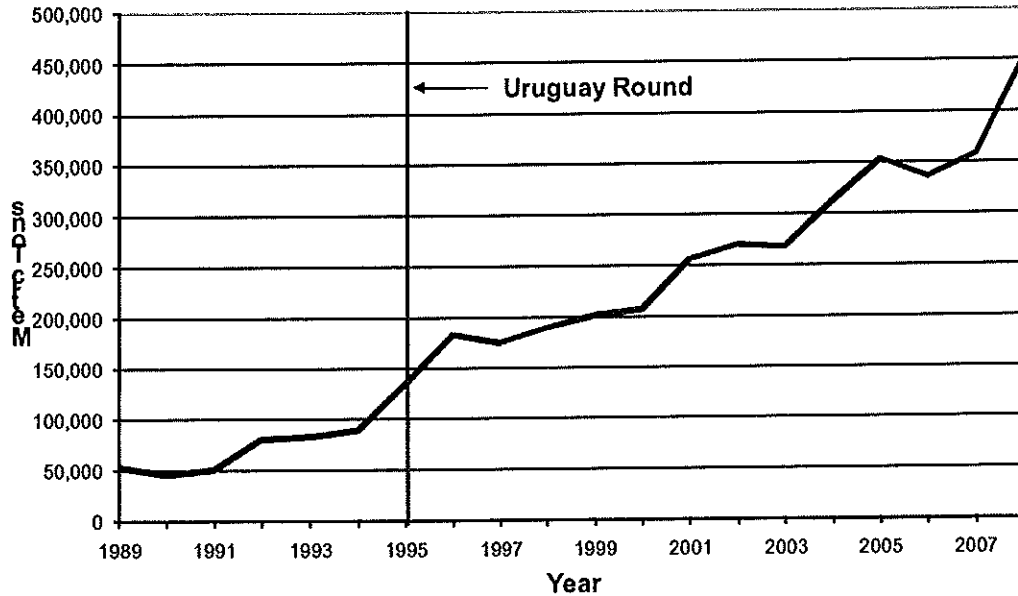
The following nine export markets in 2008 are ones in which pork exports have soared because of recent trade agreements.

**JAPAN**

Thanks to a bilateral agreement with Japan on pork that became part of the Uruguay Round, U.S. pork exports to Japan have soared. In 2008, U.S. pork exports to Japan reached 451,853 metric

tons valued at more than \$1.5 billion. In 2008, Japan was the top value foreign market for U.S. pork. U.S. pork exports to Japan have increased by 406 percent in volume terms and by 313 percent in value terms since the implementation of the Uruguay Round Agreement in 1995.

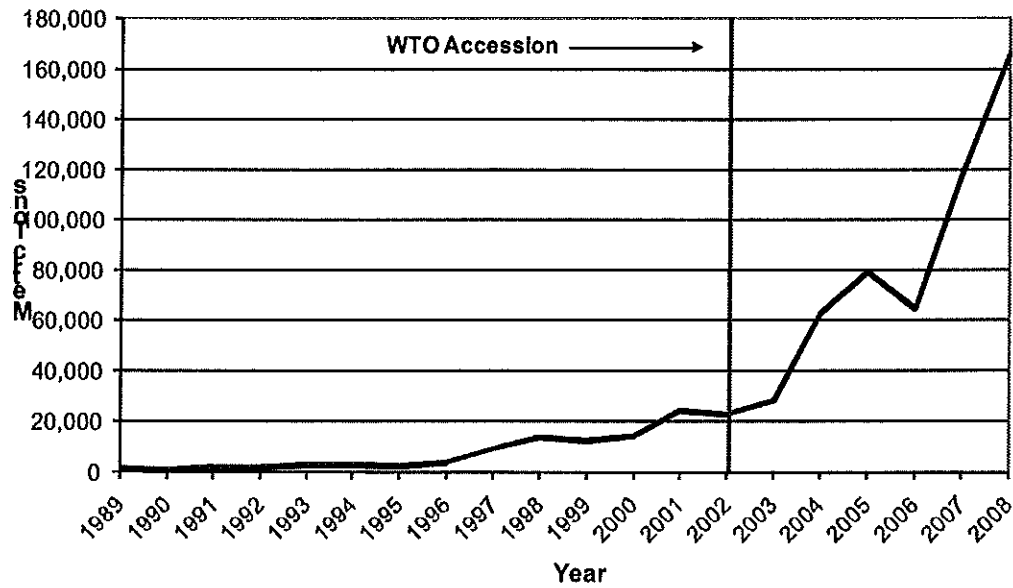
### U.S. Pork Exports to Japan



### CHINA

From 2007 to 2008, U.S. pork and pork products exports to China exploded, rising by 136 percent in volume terms and 155 percent in value terms. Pork and pork product exports last year totaled 399,562 metric tons valued at nearly \$690 million. China's accession to the World Trade Organization in December 2001 provided initial access for U.S. pork exports. Since China implemented its WTO commitments on pork, U.S. pork exports have increased 592 percent in volume terms and 938 percent in value terms. China is the single largest market opportunity for the U.S. pork industry. The cost of producing pork is much higher in China than in the United States. Notwithstanding the fabulous potential of this market and the recent increases in pork exports to China, there are serious obstacles that are blocking the realization of the true export potential of this market. Those obstacles include massive subsidies and sanitary/phytosanitary measures – in addition to the present H1N1 restrictions – such as the prohibition of using the feed additive ractopamine in the pork production process.

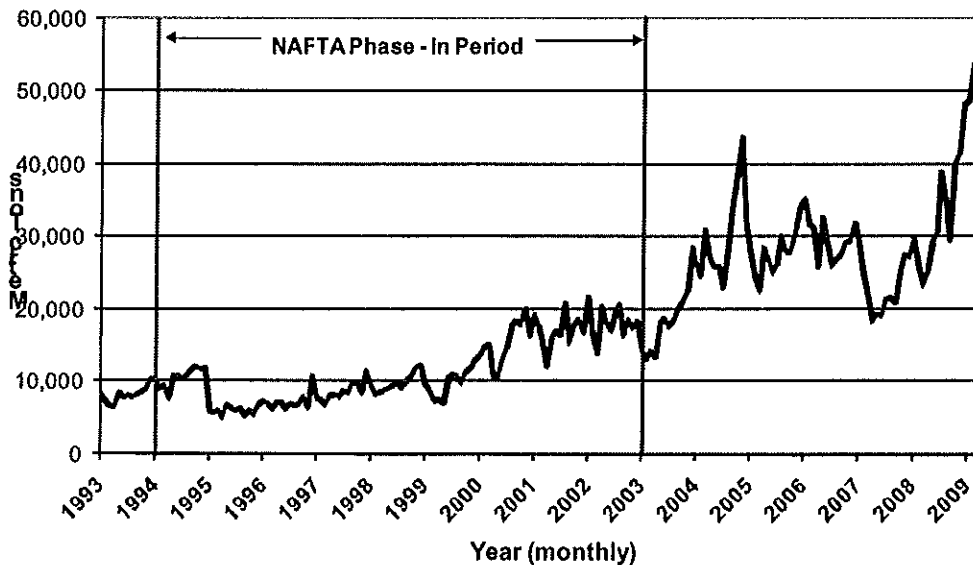
## U.S. Pork Exports to China



### MEXICO

In 2008 U.S. pork exports to Mexico totaled 396,609 metric tons valued at \$691 million. U.S. pork and pork variety meat exports to Mexico in 2008 increased 43 percent by volume and 54 percent by value over 2007 exports. Without NAFTA, there is no way that U.S. exports of pork and pork products to Mexico could have reached such heights. In 2008 Mexico was the No. 3 volume market and No. 2 value market for U.S. pork exports. U.S. pork exports have increased by 316 percent in volume terms and 517 percent in value terms since the implementation of the NAFTA growing from 1993 – the last year before the NAFTA was implemented – when exports to Mexico totaled 95,345 metric tons valued at \$112 million.

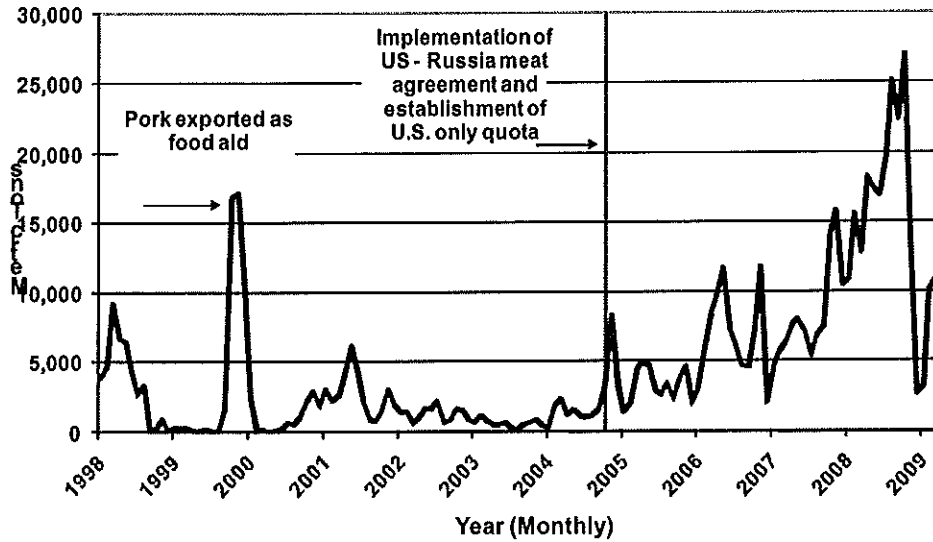
## U.S. Pork Exports to Mexico



**RUSSIA**

In 2008 U.S. exports of pork and pork products to Russia totaled 217,767 metric tons valued at \$476 million, a 118 percent increase in volume terms and 130 percent increase in value terms over 2007. U.S. pork exports to Russia increased largely because of the establishment of U.S.-only pork quota, which were created in connection with Russia's efforts to join the World Trade Organization. Since the implementation of that quota, U.S. pork exports to Russia have increased 659 percent in volume terms and 957 percent in value terms. The spike in U.S. pork exports to Russia in the late 1990s was due to pork shipped as food aid. Notwithstanding the increase in pork exports to Russia, many serious obstacles, apart from the H1N1, remain for the U.S. pork industry in shipping pork to Russia.

**U.S. Pork Exports to Russia**

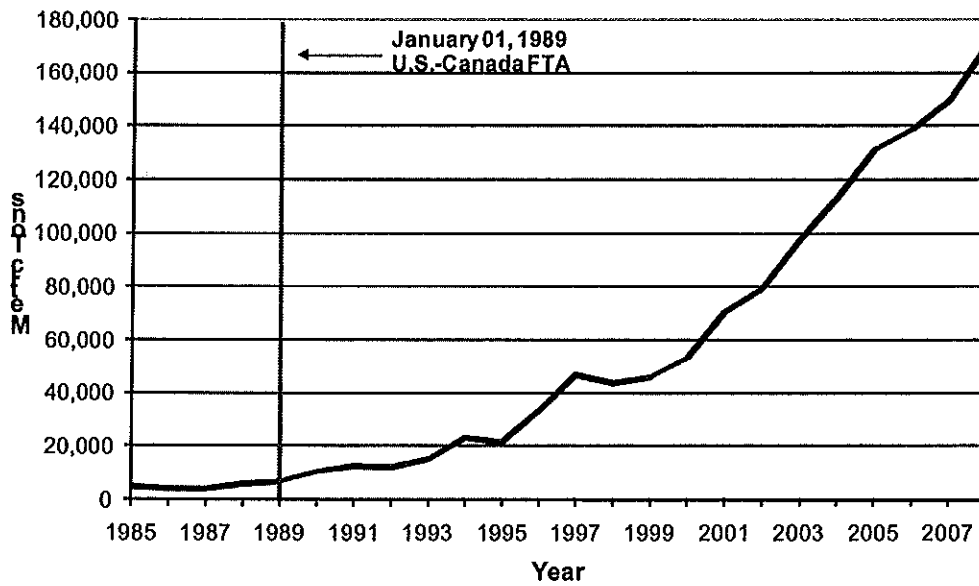


**CANADA**

U.S. pork exports to Canada have increased by 2,402 percent in volume terms and by 3,455 percent in value terms since the implementation of the U.S.-Canada Free Trade Agreement in 1989. In 2008 U.S. pork exports to Canada increased to 170,536 metric tons valued at nearly \$558 million, a 15 percent increase by volume and a 13 percent increase by value over 2007 exports.



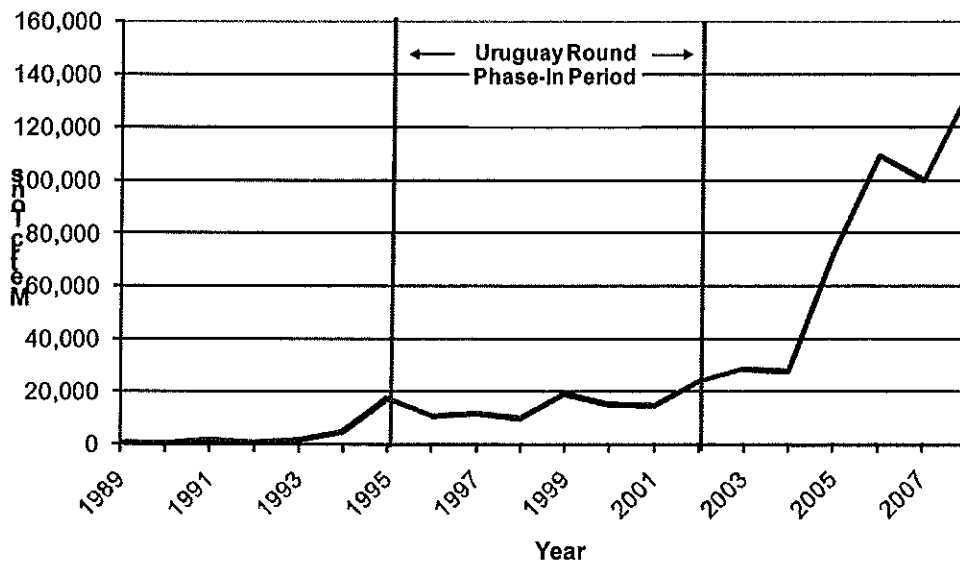
## U.S. Pork Exports to Canada



### REPUBLIC OF KOREA

U.S. pork exports to the Republic of Korea have increased as a result of concessions made in the WTO Uruguay Round. In 2008 exports climbed to 133,532 metric tons valued at \$285 million, an increase of 2,733 percent by volume and 3,218 percent by value since implementation of the Uruguay Round in 1995. Pork exports to South Korea in 2008 increased 34 percent in volume terms and 23 percent in value terms over exports in 2007. NPPC strongly supports implementation of the pending U.S.-Republic of Korea FTA because it will add hundreds of millions of dollars to the U.S. pork industry through additional pork exports. According to Iowa State University economist Dermot Hayes, the U.S.-Republic of Korea agreement, when fully implemented, will cause live U.S. hog prices to be \$10 higher than would otherwise have been the case.

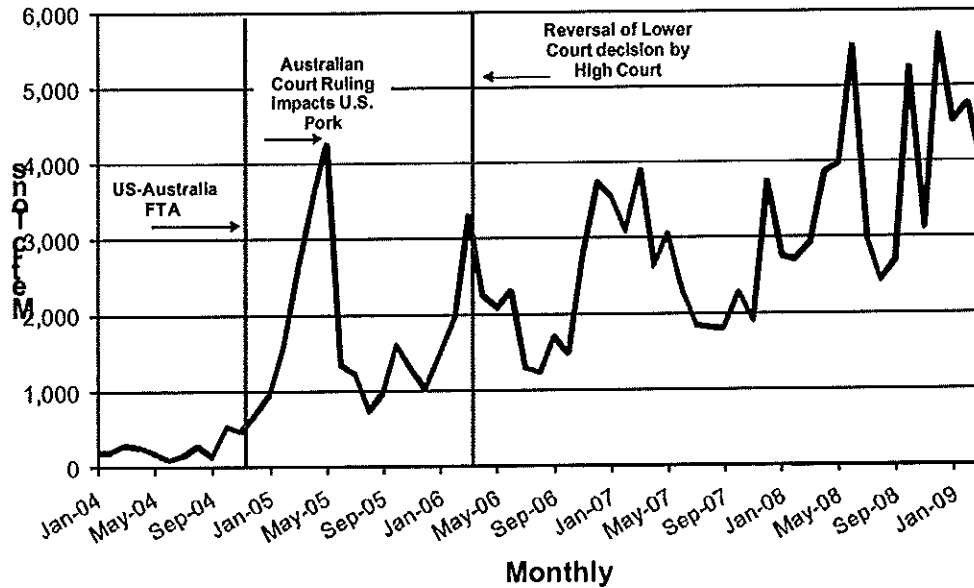
## U.S. Pork Exports to South Korea



## AUSTRALIA

The U.S. pork industry did not gain access to Australia until recently, thanks to the U.S.-Australia FTA. U.S. pork exports to Australia exploded in 2005 despite a legal case over Australia's risk assessment of pork imports. Australia is currently one of the top export destinations for U.S. pork. In 2008 pork exports to Australia totaled 43,846 metric tons valued at \$111 million. Since the implementation of the U.S.-Australia FTA, U.S. pork exports to Australia have increased 1,177 percent in volume terms and 949 percent in value terms.

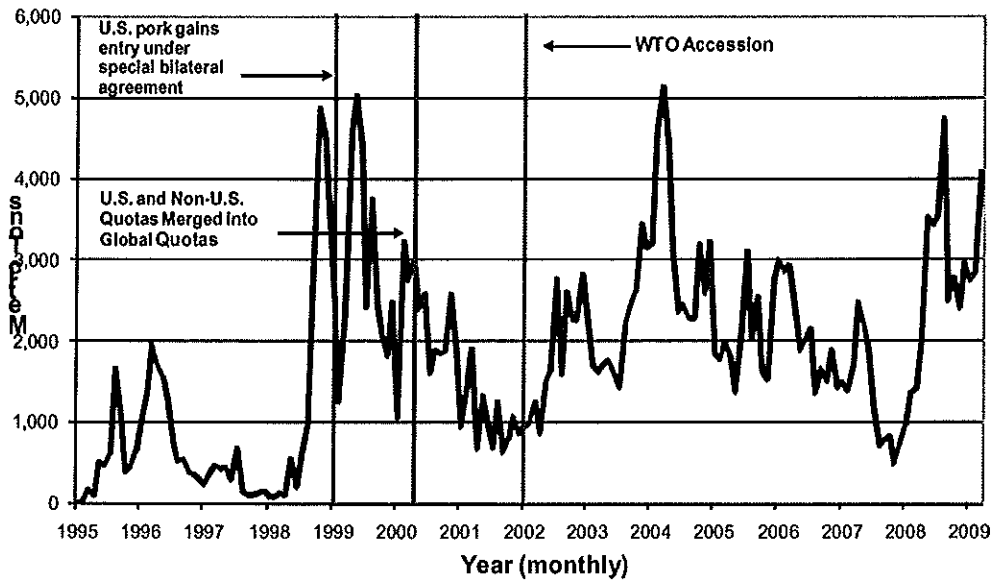
### U.S. Pork Exports to Australia



## TAIWAN

In 2008 U.S. exports of pork and pork products to Taiwan totaled 31,701 metric tons valued at \$53 million. U.S. pork exports to Taiwan have grown sharply because of the increased access resulting from Taiwan's accession to the World Trade Organization. Since Taiwan implemented its WTO commitments on pork, U.S. pork exports have increased 150 percent in volume terms and 183 percent in value terms. Nevertheless, Taiwan's unwarranted barrier on U.S. pork produced with the feed additive ractopamine is significantly undermining the export potential of this market.

## U.S. Pork Exports to Taiwan



### **DOMINICAN REPUBLIC-CENTRAL AMERICA FREE TRADE AGREEMENT (DR-CAFTA)**

While the trade agreement ratified with the DR-CAFTA countries in 2005 is not fully phased-in, U.S. pork producers have already seen significant export growth to this region. In 2008 exports to the DR-CAFTA countries totaled 35,558 metric tons valued at \$72 million. The countries implemented the DR-CAFTA on a rolling basis, and already exports have increased 155 percent in volume terms and 148 percent in value terms since Congress ratified the agreement in 2005. The U.S. pork industry expects this market to continue to expand and contribute to the bottom line of U.S. pork producers.

### US Pork Exports to DR-CAFTA Countries

