

**UPCOMING NEGOTIATIONS ON AGRICULTURE
IN THE WTO**

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

APRIL 21, 1998



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1998

55-788—CC

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-058415-9

5361-27.

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UPCOMING NEGOTIATIONS ON AGRICULTURE IN THE WTO

TUESDAY, APRIL 21, 1998

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

The hearing was convened, pursuant to notice, at 9:30 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley, (chairman of the subcommittee) presiding.

Also present: Senators Roth, Baucus, Conrad, Moseley-Braun, and Kerrey.

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

Senator GRASSLEY. If I could please have your attention. We are going to be able to, I think without any trouble, be completing this meeting on time, but I do not think we are going to do it in a very orderly way because at 10:00 there are two votes.

So what I am planning to do, hopefully there will be other members that will show up and we can share this responsibility and keep the meeting going. But if they do not, then what I will probably do is vote at the end of the first 15-minute vote, then be over there and vote early on the second 15-minute vote and hopefully not have to take more than 15 minutes away from this meeting. But who knows, that may not work out. So, plan accordingly.

I suppose the thing that will make it most difficult for some of the witnesses is we will still be able to hear your testimony, but it may be that we will have to have questions and answers in writing. Usually we devote about a 2- to 2½-week period of time for that, so if we have to do that we would like to have your answers back in that period of time.

So I call this hearing to order to receive testimony on preparations for the negotiation on agricultural trade which will begin at the World Trade Organization late 1999. These negotiations are required by the Uruguay Round Agreement on agriculture as part of a built-in agenda.

The Uruguay Round Agreement was essentially the starting point for liberalizing global trade in agriculture. For the first time, agriculture was subjected to the same trade disciplines as other sectors. But I would stress that the Uruguay Round was just the starting point. There is, consequently, much work to be done, and maybe the job will never be completely done. The next opportunity

to continue down this path is the 1999 negotiations for further reform.

In preparation for the next round of talks it is appropriate then to review the basic terms of the Uruguay Round Agreement on agriculture. This agreement mandated a reduction of tariffs, export subsidies in trade-distorting domestic support for agriculture.

The agreement also attempted to clarify rules governing import restrictions imposed due to sanitary and phyto-sanitary concerns. Finally, the agreement sought to apply market access and subsidy disciplines to State trading enterprises.

I would expect the 1999 negotiations to build on the momentum begun in the Uruguay Round in these areas. Agriculture trade, of course, is a success story. Agriculture is the shining star of U.S. balance of payments, with exports totalling \$60 billion per year, and a trade surplus of \$20 plus billion per year. Of course, that is among the highest trade surpluses of any sector of the economy.

Notwithstanding this success, it is crucial that further trade liberalization continue. Agriculture is extremely dependent upon foreign markets for our prosperity. Fully one-third of all acres planted in our country produce crops that are exported.

In other words, without exports one-third of our productive acres would like idle. Furthermore, in my State of Iowa, about 40 percent of all farm income is earned from foreign sales, both grain as well as value added. It is hard to imagine many farmers who could afford to give up 40 percent of their income and still be in business.

Congress has also recognized the crucial role that trade plays in American agriculture. The 1996 Farm Bill, for the first time, gave farmers the tools necessary to compete in the global marketplace.

The new farm program removes the government control mechanisms that had been in place for almost 60 years and it creates an environment where American farmers are poised to compete for every sale in any market, anywhere in the world, at any time.

But, along with the new farm bill, we made a commitment to farmers. We committed to finding and opening new markets for their products. We committed to negotiating tough trade agreements and demanding compliance with these agreements, and we committed to leading the world in being an advocate for trade liberalization.

Of course, that brings me to fast track. As an advocate for giving the President fast-track authority pretty much on the basis that has been given to both Republican and Democrat Presidents for the past 30 years, I was disappointed that President Clinton had to go to Santiago over the last week, meeting with 33 heads of State, but having no trade negotiating authority, because he is the President of the most open economy in the world, a country that is literally built on free trade and is beginning talks on a new Free Trade Area of the Americas. I think without fast track, because Congress did not give it to him, that he went there in a position of weakness.

Now, I know that the argument will be made that the President doesn't need fast-track authority until the negotiations are completed and that President Bush didn't have the authority at the outset of the NAFTA negotiations. But President Bush was not denied fast-track authority from his own party. This is the difference.

If you do not believe me, then all you have to do is read commentaries.

From officials of other countries, the rest of the world is questioning America's willingness to lead in world affairs, and particularly in world trade, and it seems to me that is dangerous for the economy, it is dangerous for the process of peace in America because economic well-being is a bulwark of a peaceful world as we reduce the necessity for economic inequity from one peoples to another.

Fast track is relevant to our discussion today on the next round of agricultural talks. I will be exploring this connection further with some of our witnesses. I also intend to discuss what the administration, in the private sector is doing to prepare for these discussions, and what do the various farm groups represented here want to accomplish during the task. And finally, how do we address the unique trade problems that have arisen due to the increased use of biotechnology by American farmers?

I would like to call on Senator Moseley-Braun, if she had a statement she wants to make. Even if you do not, you should speak for the minority party here.

**OPENING STATEMENT OF HON. CAROL MOSELEY-BRAUN, A
U.S. SENATOR FROM ILLINOIS**

Senator MOSELEY-BRAUN. I will, I will. Thank you very much, Mr. Chairman. I am delighted to have this opportunity to listen to the witnesses today and listen to our colleagues.

This is an area, of course, of great concern in my State as well, Illinois. We have an expression back home that says, just outside of Chicago there is a place called Illinois. So you know much of my State is agricultural, and I have been very pleased to work with the Chairman, work with you, on a variety of agricultural issues.

You are, by the way, to the witnesses and the audience today, looking at the king and queen of ethanol. I actually have an ethanol hat back at my office that says, "Ethanol Queen" on it. We are going to get Senator Grassley an Ethanol King had. But we have worked together on a variety of these issues.

As you may be aware, Mr. Chairman, I have long been a supporter of free trade and believe that open markets serve our interests, both in terms of our domestic economy as well as in terms of our international relationships. I am looking very much forward to hearing some of the witnesses, because there are a variety of issues going to the efficacy, or the execution, really, of the trade agreements that we have in place by the WTO. Senator Brownback has legislation in this area and I am looking very much forward to hearing from him.

One of the reasons that I supported both NAFTA and the GATT, coming out of my years of interest and involvement in international trade, and for that reason I felt constrained to not support the last appeal for fast-track authority by the President.

It was an interesting situation because, again, as a great free trade supporter the question was raised, well, how could you be a supporter of free trade and a supporter of GATT and NAFTA and not support fast track?

The reason, I felt, was both constitutional and practical. In the first instance, the constitution gives to us in the Congress the responsibility, as well as the authority, to negotiate trading arrangements. I think we ought to be prudent in the instances in which we give up the responsibility that the constitution gives to the Congress.

As a practical matter, however, the prudence, I think, is particularly called for at this time precisely because we do not yet have the consensus here nationally in terms of, what are the terms and conditions of our trading arrangements.

Senator Brownback raises the question of inadequate market integration, that we are restricted from entry into some markets where we go in but we are not given the same corollary response on the other side. There are issues having to do with child labor that concern me greatly and that I have raised with others.

There are other issues having to do with administration of the trading arrangements that are reached. Concerns have been raised even within your party, Senator Grassley, regarding the efficacy and the efficiency of the WTO processes.

So, with all the biotechnologies and all these new questions that we have to answer, I just thought, and believe, it is an inappropriate time to shut down debate over the constituent parts of a trading agreement of expansion of trade, that we ought to engage in the kind of dialogue that this hearing allows us before we get to the point of just turning it over to the President and saying, we will take whatever you bring us, and vote it up or down.

That was my reticence, that was my hesitancy, with regard to fast track. I am very much concerned to hear from Senator Brownback, as well as other witnesses, in this regard because these issues ought to concern us greatly. I believe that, as I said when NAFTA came around, and it was controversial, as you know, but in the history of the world when you remove trade barriers you increase trade, and as you increase trade you create jobs, and that is good for everybody.

But, at the same time, I think we also have to be very mindful of the issues of a level playing field and very mindful of the ground rules. Until such time as we put those together or have some consensus around those issues, I think it is inappropriate to close down debate.

So this hearing will give us an opportunity to hear from witnesses, including Senator Brownback, about his bill. Again, I am very, very fortunate, being a girl from Chicago, to have had the help of the agriculture in my State to get close to these issues.

I have to tell you, by the way, I just got beat up just last week. I went down to Springfield, Illinois. It was not really a heating up. But a group of the farmers in my State came together because we have these round tables from time to time, and all of them were pleading for fast track.

So I do understand how important fast track is perceived to be in the agricultural community, and I certainly understand that. But, as I said to them, as I have said this morning, I think it is important, before we go down that road of shutting off debate on the constituent and component parts of our trade agreements, that we ought to have some consensus about the ground rules and we

ought to have some consensus about administration, and I am hoping that this hearing will help us get there. Thank you very much.

Senator GRASSLEY. Senator Baucus.

Senator BAUCUS. I have no statement, Mr. Chairman.

Senator GRASSLEY. All right.

Senator Brownback, we are happy to hear from you, and particularly how you might feel about the new transatlantic marketplace talks that might be taking place and their impact upon agriculture.

**STATEMENT OF HON. SAM BROWNBACK, A U.S. SENATOR
FROM THE STATE OF KANSAS**

Senator BROWNBACK. I would be happy to talk about that. Thank you very much for holding the hearing today. I think it is very timely and very important, particularly since last night I was talking to my dad and he was planting corn. He wants to make sure he can get it sold. Not that it would be as good as Iowa corn when he gets it out of the ground, but I want to acknowledge my position here.

Senator GRASSLEY. If I were not chairman of this committee, you would never admit that Iowa's corn is better. [Laughter.]

Senator BROWNBACK. That is absolutely true. [Laughter.]

Senator GRASSLEY. There is just not a whole lot of corn in Kansas, let us admit it.

Senator BROWNBACK. Well, now, I would dispute you on that, but we will carry that for another day.

Nonetheless, though, it just signifies the importance of what you stated about the need for agriculture to be able to export. I would associate my statement and myself with the statement of the chairman of this committee because I think it is just right on in where we are in agriculture, with the Freedom to Farm Act, and our need to push open agricultural exports. It is just critical for us to be able to do.

I have worked in this field for some period of time. I have worked at the U.S. Trade Representative's office before when we were negotiating the last WTO round when we negotiated the NAFTA treaty, which were both very good for agriculture and good for the country, then I have also worked as Secretary of Agriculture in Kansas, so I am familiar with these issues.

I am familiar, particularly, with the importance of agricultural trade to agriculture. Last year, the United States exported more than \$57 billion worth of agricultural products, and that has been a figure that has continued to grow. We export a lot of wheat, \$4 billion worth, meat exports \$4 billion worth. Kansas agricultural exports have risen 74 percent since 1994. So we feel very good and positive and look forward to that.

Yet, we have continued to see and experience barriers to trade. It seems to me that one of the key things that we should stand by and that we must deliver on is that, as we free farmers to produce agricultural products, we need to free them to be able to market agricultural products. That is why the importance, particularly, of agricultural trade.

We continue to run into barriers with the EU. The European Union grants export subsidies on a wide range of agricultural products like wheat, wheat flour, beef, dairy, poultry. The EU has

banned the use of beef produced with growth promoters. The EU has also blocked U.S. exports of genetically-engineered commodities. They are hardly alone.

Look at China, a country of which has a substantial trade surplus with the United States so you would think they would have an open trade regime regarding agriculture, yet, that is not true.

China only permits the imports of meats for the retail markets on a trial basis. There is no reason there should not be a completely open market for meats into China. Pork imports into China face import licensing restrictions, something I know the chairman would be deeply interested in.

Russia lacks a transparent science-based food inspection system. In addition, both China and Russia purchase many agricultural commodities exclusively through state trading enterprises. They are not transparent. They can be used to make decisions other than on commercial purposes, and frequently are. Frequently they just use these to favor certain countries or areas rather than on a commercial trading basis.

That is why the bill that I have put forward on state trading enterprises needs to be a top priority for us, that if these are used they are only to be allowed to be used for a commercial basis and not to favor this country over that one. They frequently are used that way.

The United States needs to use everything we can to knock down trade barriers to agricultural exports. I will cite specifically two policies that I think we need to push on.

First, agricultural negotiations should proceed as scheduled at the WTO under the timetable established during the Uruguay Round. We have to push these forward and take an aggressive posture on tariffs, subsidies, and state trading enterprises. Our goal should be a date certain for the elimination of tariffs on agricultural goods.

We should also strive to wipe out foreign agricultural subsidies. Under our Freedom to Farm, we need to be able to liberate our farmers to be able to trade, under state trading enterprises, in particular.

The WTO's current inadequate mechanisms for dealing with state trading enterprises hinders the United States. Countries that want to join the WTO must be willing to make their STEs more transparent and subject only to commercial considerations.

Second, the United States must not pursue trade initiatives with the EU or with other trading blocks that would undermine our ability to eliminate unfair barriers to U.S. farm exports.

Here, I am speaking of the recent discussion between Charlene Barshefsky, our Ambassador for Trade, and Sir Leon Brittain. They have discussed publicly the idea of negotiating a broad-based trade agreement between the EU and the United States exclusive of agriculture, and I think this is wrong.

I think it is a wrong way to go and that agriculture and the United States will end up being on the short end of the stick if we do this. It would be destructive to agricultural trade.

The reason is, the United States' most vexing trade disputes with the European Union are involving agriculture, and has been for a long period of time. These disputes should be resolved before the

United States makes tariff and other concessions to the EU, not after we have given away the farm. The only way that the United States maintains any leverage over the EU on agricultural issues is by applying cross-sectoral leverage. This is the way it has been for a long period of time.

Simply, the reason is, we just do not have that much trading stock with the Europeans on agriculture. We want to get into their market on agricultural items. They are really being very, very protective. They want into our market on other areas. So they are saying, let us negotiate on these other areas, but not on agriculture. I think it is a completely losing deal for the United States.

I want to read a statement on that regard by Clayton Yeutter, who is the only person to ever serve as both Agriculture Secretary and USTR. Dr. Yeutter is very good, I think, on the trade issues regarding agriculture. He said this. "Where they have successfully isolated agriculture from other trade issues we have not been able to do much because we have not had much agricultural trading stock of interest to the EU." It is a very clear issue here. If we do not have agriculture associated with the broad round, we are not going to get anywhere. We just do not have any stock to deal with.

He went on to say, "One immediate danger may lie in the recent Barshefsky-Brittain discussions over the so-called transatlantic dialogue. In my view, there is substantial risk that the United States will, in essence, be persuaded to isolate agriculture once again.

When one looks at the U.S.-EU trade agenda, most of the controversies are in the food and agricultural arena: export subsidies, import restrictions, food safety regulations, biotechnology. Agriculture needs to be front and center in any U.S.-EU negotiations, not pushed off to the side."

So we simply have to have that. I think we have to demand of the U.S. Trade Representative that any negotiations regarding the EU has to have agriculture front and center.

Mr. Chairman, you and I have introduced a resolution expressed in the sense of the Congress that the transatlantic negotiation to reduce trade barriers must include agriculture. You and I have also introduced a bill designed to reform the activities of STEs. It would be my hope that the Senate would adopt both of these measures as important to agriculture broadly in this country, and the right U.S. agricultural and foreign policy.

With that, Mr. Chairman, I am just pleased to be here and associated with your statements and to push, particularly, these two issue on U.S.-EU negotiations and STEs. If there would be any questions, I would be happy to try to respond.

Senator GRASSLEY. Well, I think you have answered my first question in your strong statement about the posture that we should take in regard to the new transatlantic marketplace. But I guess I would ask for a very short statement, a sentence or two, to sum up after Sir Leon Brittain gives us his ideas about a new transatlantic marketplace, how you feel our government should respond to that specific suggestion, and particularly because your concern and my concern are in regard to agriculture being in, out, or part-way in, but probably very ineffectively in.

Senator BROWNBACK. My response would be two words: no way. It is like allowing them to put up their very best areas, then we

exclude our ones of need to deal with. We will have a bad round of negotiations that will hurt the United States, particularly in agriculture, if you even discuss the notion or imply that, well, maybe this would be something of interest to us.

We will get nowhere on agriculture, they will get access to our market in places that they would like without having to give up equally, and we will end up losing. They will do pretty well on the deal. But my response would be, absolutely no way. Agriculture is either in or we are not talking.

Senator GRASSLEY. All right. Senator Moseley-Braun, then Senator Baucus, then Senator Conrad, in the order of arrival.

Senator MOSELEY-BRAUN. Senator Brownback, again, not to be mischievous in asking the question, but how do you see fast track as promoting negotiations in this regard?

Senator BROWNBACK. I have been a strong, as you have noted for yourself, advocate of free trade. Having worked in the U.S. Trade Representative's office, if you do not have fast track you cannot seem to really get trade negotiations going. Now, we have done it in the past. We have had trade negotiations before fast track is given. But everybody looks at you questioningly and says, can you really deliver the agreement, because without fast track it is subject to innumerable amendments.

So you start the negotiations with the country, they hold back on you because they are saying they do not know if Congress is going to give you authority. And you are going to go back to Congress to try to get fast track and you are going to deal something here to get fast track and they hold back on you.

In my estimation, without really having fast-track authority, you are not going to get other countries to put forward their final offer. So that is why I have supported it from the outset, and I think it is something we ought to grant. That is as a Republican to a Democrat administration, but I think it is just so imperative to trade negotiations.

Senator MOSELEY-BRAUN. My second issue or question has to do with, you made the point that our negotiations should be subject only to commercial considerations, and I know that has been part of the conversation in a number of quarters regarding the constituent parts of our negotiating posture.

I have raised the issue that child labor is a commercial consideration in that what we do is wind up putting ourselves in a position of trying to be competitive with countries that artificially depress their labor costs by exploiting children.

Anytime you are talking about six-, seven-, and 8-year-olds working at what obviously would not be a wage that we could have in this country, you are talking about business being at a competitive disadvantage.

I just wanted to get, since you were talking about the market integration issues with your legislation, your position with regard to child labor.

Senator BROWNBACK. Well, obviously it is a very wrong thing for a number of countries to do, the way labor is exploited. Child labor issues are very important considerations and concerns. But for some period of time I have viewed that the trade negotiations

should be on the trade track and these other issues should be in other fora and negotiation in other fora.

I know that a lot of people do not like that, that they view it that we ought to load on the trade agenda human rights issues, we ought to load labor issues, we ought to load environmental issues all on here.

You can argue that same principle that you put forward on environmental issues really quite effectively, saying that if another country has a reduced environmental regime then they have less costs that are associated with the producing of a product, therefore, they can be more competitive, and this is a commercial issue.

I just do not think there is really an end to how many places you could probably put that argument legitimately, and I disagree with taking it forward. I think trade should be negotiated in trade fields and that we ought to pick the issue of child labor up, but it should be dealt with in other fora than the trade agreement.

Senator MOSELEY-BRAUN. What other forum do you recommend?

Senator BROWNBACK. There is the human rights forum that you could put some of those forward with. I would hope that you could contact the Secretary of State and get them to put it on a broad trade agenda area with particular bilateral negotiations where it may be the most difficult problem. Put it on a bilateral area.

Senator GRASSLEY. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

My question is, how do we get results? I mean, you alluded yourself to the problem. You read Dr. Yeutter's letter about, they do not take a lot of agricultural products so we do not have a lot of leverage with the Europeans. But it is a big problem.

For example, I can remember other trade negotiations this country has had. Let us take the WTO talks. Agriculture tends to be last on the list, then pushed off the table. Now, if agriculture is not even on the table then it is even more last. But the question is, how do we get leverage? What do we do?

I am really quite concerned about this question because, with all due respect to Secretary Schumacher, I read his testimony which he is about to give, it is a list of shoulds. It is not a list of how we are going to get it done, just shoulds. WTO members should do this, the parties should do that, negotiations should. It is a wish list, is what it is, with all great respect. I say that because I know that it is difficult to find leverage. But what is the leverage? You know, where is the beef? There is a lot of talk around here about this subject.

Frankly, as one who has been on this committee for 19 years, I get a little tired of the talk and want to see the walk. There has been some progress, I grant you, in many areas of trade. I am thinking of, for example, Japan is now taking American beef. That has been a long, long, ongoing effort. Japan has also lowered its tariff on processed wood products, for example. Beef hormone. I do not know if we are getting very far there or not. The decision favored us, but they are dragging their heels on it.

China still does not take Pacific Northwest wheat. It is a bogus issue. Canada has all these phony claims that make it difficult for the United States to send cattle and beef north, let alone the problems of grain coming down.

The question is, what are we going to do about all this? I just think that this administration, this country, this Congress, needs a new way to look at agricultural trade and not just talk about it.

You talk about fast track. I have long been a supporter of fast track. But I will tell you, I do think the administration's request was way too broad, this last request, and to be honest with you, I do not think it was thinking through the real causes of trade imbalance. It did not address them as much as could be addressed.

For example, in South America. I think a lot of South American companies like low wages in South America and do not want to raise their people's wages very much. That obviously makes it easier for U.S. companies to move offshore down to those countries. There are a lot of points that just are not addressed in fast track that need to be addressed if we are going to have a meaningful fast track in the future.

All of us have got to get real. The fact of the matter is, there is just a lot of talk, too much talk, and we are skirting around the edges. I just hope we waste less of our time in the future by just talking about this stuff.

I am not saying you are doing this—I know you are not doing this—like I say, for the TV cameras, for the press, and all that, so on, and so forth, but rather I say that for myself, Senator Moseley-Braun, and Senator Conrad, too. But just get some answers here. In my home State of Montana, for example, prices are low. They are very low for wheat, barley, and durham.

Senator BROWNBACK. Cattle.

Senator BAUCUS. Cattle prices are low. And corn. They feel, I think, generally correctly, that they are at the end of the line, that the market is being manipulated at their expense, that countries really do not care very much about them as producers as much as they should. At least, the U.S. Government does not care very much about American producers as much as it should compared with, say, European producers.

For example, look at Argentina. You probably saw the article about a week ago in some magazine I saw where two brothers in Argentina now have radically transformed Argentina to make it an even much larger exporter of agricultural business, beef and grains.

You know for sure the country of Argentina, the government, is not hurting them at all in that regard, and is probably helping them. The same is true in Europe. I have recently been in Europe. You can just feel the sense in Europe.

Europeans are becoming very, very self-confident in themselves, they feel, with the euro, perhaps in a couple, 3 years, with the Cold War over, the United States has even less leverage and less power than it might have had and will have in the future on all issues, including agricultural issues. The world is changing. I am just saying that we have got to find the leverage, we have got to find the beef, very quickly, if we are going to be serving our constituents.

Senator BROWNBACK. Well, I would say in the years that you have served on here you have done a great deal to find those various points of leverage coming forward to the point that now we are exporting \$57 billion worth of agricultural commodities.

Not that everything is perfect, because it is not. We have got a long ways to go. But there have been different points along the way. The last WTO round was a round of export expansion for us in agriculture. We have got a lot of issues yet to deal with.

To me, it seems like, Senator, that in all these things over the term that you have served here, that I have done these things, you have got to find the various points, and a lot of times they are pretty narrow when they come, when you can get the walnut up against the wall so you can crack it. You have got to find that time when you can get it up there.

China trying to join WTO is a leverage point time period, and that is where people with agricultural interests, particularly on meat exports or concerns about state trading enterprises, here is a leverage point. We had better be playing it pretty hard or we are not going to get the walnut cracked.

Senator BAUCUS. I am not sure that China is all that anxious to get into the WTO that quickly. That certainly points to that as potential leverage, and it is, I grant you that, but we have to think a little more clearly and a little tougher as Americans.

Senator BROWNBACK. And I think it is up to people like you and I, where we represent States like Montana and Kansas, when these leverage points, even if they are narrow ones, when they come up, that we are as aggressive as we can be.

That is why I have put forward this bill on STEs, because this has been a big blockage of agriculture exports, particularly like to China, that should be a massive market. It is a big market for them, but it should be triple what it is right now for beef products going to China. It should be a huge market for us. But we have got to have that leverage point. I think the WTO accession may be one that we could come up with. We need to push the administration far more.

On the EU, where we have had a lot of our problems, and you have noted their confidence building that is taking place there, you know what will happen if we do not have agriculture front and center in that round, we will get nowhere on it. You are going to have to trade that off against another sectoral one. I think there is a leverage point that is coming up with that one as well.

But I would look forward to working with you when those come up, that we hit the leverage points pretty hard and narrowly to advance our issues.

Senator BAUCUS. Senator Conrad.

Senator CONRAD. We have had a silent takeover here on the committee.

Senator BAUCUS. Right. [Laughter.]

Senator CONRAD. Policy is about to improve. [Laughter.]

I have just spent two weeks, Senator Brownback, going around my State and I have found what I would call a stealth crisis. Last year, we had an unprecedented set of disasters, as you know, in North Dakota with flooding, fire, and the worst winter storm in 50 years on top of the worst winter in our history.

Now there is this year a follow-on crisis that is getting almost no attention. I call it a stealth disaster because it is flying beneath the radar screen of the national media and of general attention, but I can tell you, it is a disaster, nonetheless. It is a cash flow

crisis. Our farmers in North Dakota have been hit by the double whammy of low prices, combined with terrible outbreaks of disease. As a result, they have seen dramatically lower prices and dramatically lower production.

As a result, there are literally hundreds, and hundreds, and hundreds of auction bills going out across the State. In fact, we now anticipate we may have as many as 2,000 farm auctions this spring. That is unprecedented. A distinguished agricultural economist at North Dakota State University told me he believes the shake-out is going to be worse than the one we faced in the 1980's.

I go back to the Farm Bill debate where we were told, well, we are going to have permanently high farm prices because of the export opportunities. Indeed, for a time prices were very high. But that proved to be an illusion. High farm prices lasted about 90 or 120 days in North Dakota, then they started a steep slide from which they have not yet recovered.

On top of that, as I have discussed, we have been hit by terrible outbreaks of disease, scab, vomitoxin, midge, because of the overly wet conditions. Some of our colleagues have said, well, North Dakota is marginal. I am talking about the Red River Valley of North Dakota, which is certainly not marginal.

I remember growing up and being told there had never been a crop failure in the Red River Valley. Well, we have had 5 years now in a row of dramatically lowered production in the Red River Valley. At the same time, our farmers face a different kind of flood. It is a flood of unfairly traded Canadian grain coming into this country because of loopholes in the Canadian Free Trade Agreement.

As I went around my State, I showed them a series of charts that show what the Europeans are spending to support their producers and what we are spending to support ours, and it tells a very dramatic story. They are spending \$48 billion a year to support agricultural producers, we are spending \$5 billion. They are spending about \$8 billion a year to support agricultural exports, we are spending about \$60 million. That is a ratio of about 140:1.

Understandably, my State's farmers, and perhaps yours as well, are feeling that they have been abandoned. They say, you know, it is completely reasonable to ask us to compete against the French farmer and the German farmer, but you are asking us to compete not only against the French farmer and the German farmer, but you are asking us to compete against the French government and the German government.

Our government seems to be on the sidelines. The support for producers, under the last Farm Bill, is a one-way escalator going down. We have got fixed payments that are declining, and declining sharply. I will tell you, I never saw such depression as I saw as I went and conducted farm meeting after farm meeting in town after town across the State of North Dakota.

I say that not by way of a question, but just as a way of alerting you as a colleague, and my other colleagues whose staffs are here and people in the audience, that we have got a disaster brewing in my State. I do not know how else to describe it. Somehow we have got to find a way to allow our folks to fight back. I hope that all of us that represent farm States can unite.

I can tell you, we are in the first trench. We are feeling this first because of this wet cycle that we are in that has exacerbated low prices and because we are up there next to the Canadian border and we are the ones who have seen a big chunk of our durham market taken because of unfairly traded Canadian grain.

So I just hope that we find a way to respond, and respond soon. I had farmers telling me day after day in North Dakota, Senator, we cannot wait. The auction bills tell the story. Every newspaper in North Dakota is literally loaded with auction notices.

So I just urge you to be part of this effort that we are going to go forward with very quickly to try to have some kind of disaster response. I also hope that we would pursue some of the measures that you discussed in your testimony, because I do not think the United States has been tough enough at representing its own best interests. We have let the Europeans get over on us, and they are doing it the old-fashioned way. They are buying these markets.

Senator BROWNBACK. Buying it. They just buy it.

Senator CONRAD. As I say, I think it is time for the United States to stand up and fight back. I can tell you, the Europeans honestly believe that we are worn out. We have had such a series of good years and so much prosperity that we are not going to fight for agricultural markets.

Senator GRASSLEY. Can I interrupt here? You only have three minutes to go vote. You have been kind enough to hold the chair for me. I want you to be able to vote.

Senator CONRAD. Yes. I do not want to miss this vote. But I just raise that and will have a chance with other witnesses to pursue the point.

Senator BROWNBACK. I thank you.

Senator CONRAD. I very much thank you for the contribution you have made here today.

Senator BROWNBACK. I appreciate it.

Senator GRASSLEY. Senator Brownback, thank you very much for your testimony.

Senator BROWNBACK. Thank you.

[The prepared statement of Senator Brownback appears in the appendix.]

Senator GRASSLEY. We now call our Special Trade Negotiator for Agriculture, the Office of U.S. Trade Representative, Hon. Peter Scher. We also have the Honorable Gus Schumacher, Under Secretary for Farm and Foreign Agriculture Services of the U.S. Department of Agriculture.

Will you folks please come? I think I will have you go in the way I introduced you. For the benefit of those who wondered whether or not we would lose time because of the 10:00 vote, we have not, but we may not be that fortunate on the 10:30 vote. Anyway, proceed. I think that in each case you will not have to ask to put your entire statement in the record.

And also other witnesses on the second panel, your entire statement will be put in the record, and we would ask you to summarize in the 5 minutes that have been allotted.

Would you proceed?

STATEMENT OF HON. PETER SCHER, SPECIAL TRADE NEGOTIATOR FOR AGRICULTURE, OFFICE OF THE U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador SCHER. Thank you, Mr. Chairman. I appreciate the opportunity to join with Under Secretary Schumacher today to discuss the administration's preparations for the next round of multi-lateral negotiations in agriculture.

Mr. Chairman, today's impressive agricultural export numbers which you talked about in your statement reflect both the efficiency and the competitiveness of U.S. agriculture, but they also reflect years of bipartisan work between Democratic and Republican Presidents and Democratic and Republican Congresses to reduce trade barriers and to gain access to foreign markets. But we still have a very long way to go, I think, as the discussion earlier pointed out.

We realized even before the negotiations for the Uruguay Round were completed that more needed to be done to reform world agricultural trade. As you said, it was just a start, or a down payment, as some of us might call it. That is why we insisted on another round of negotiations to begin in 1999.

I believe our task for this round is three-fold. First, we need to solidify and reinforce the gains made in the Uruguay Round, in particular, I would say, with regard to dispute settlement and the sanitary and phyto-sanitary agreement.

Second, we must follow through on that down payment in the Uruguay Round by continuing the market opening reform of the world agricultural trading system.

Finally, we must address new, more sophisticated trade barriers such as those which threaten trade in the products of biotechnology, as you discussed.

Mr. Chairman, on dispute settlement, first and very briefly, we have now a dispute settlement procedure in place where, for countries not living up to their commitments, there is a framework in which other countries can pursue their rights.

The United States has not been shy in using this procedure. We have brought more cases to the WTO, and we are winning more cases, than any other country. Of the 35 cases we have brought so far, over one-third have been related to agriculture. We are winning these cases.

In January, as you know, the WTO reaffirmed our position that the EU's ban on the sale of American beef because of the use of growth hormones violates the EU's WTO obligations. We now expect the EU to comply with this decision, as well as the earlier decision on bananas. It is critical to the credibility of the entire system.

Our SPS agreement, an agreed set of international principles and rules to protect plant, animal, and human health is also a key tool influencing the decisions of many of our trading partners.

Japan has removed restrictions on imported U.S. tomatoes, and we have reached an agreement with Chile to allow the importation of U.S. wheat and citrus, both important agreements under the SPS, but clearly more work needs to be done.

As we develop our objectives for the next round, I believe we need to look toward some key areas. First, market access. U.S. ag-

riculture continues to face high tariffs in many overseas markets. We will push for across-the-board tariff reductions.

Export subsidies. We need to build on the progress we made thus far in reducing export subsidies. As Senator Brownback and others have pointed out, Europe still uses billions of dollars in export subsidies. We need to ensure a more level playing field for U.S. agriculture by reducing these.

We will press for transparency and improved disciplines on state trading enterprises, which can distort trade and frequently operate behind a veil of secrecy.

Finally, as you mentioned in your statement, biotechnology. We lead the world in developing the technologies that hold tremendous promise for global consumers and we must ensure that there are rules in place that will allow our farmers, ranchers, and producers to continue to use these technologies.

As we prepare for this next round, we will call on the advice of Congress and non-governmental groups to help us identify and refine our objectives. Last month, Secretary Glickman and Ambassador Barshefsky appointed 155 experts to the Agricultural Policy Advisory Committee for Trade and the five Agricultural Technical Advisory Committees for Trade. These committees will play a critical role in the development of negotiating positions and in reviewing any final agreement.

Mr. Chairman, if I may conclude on a broader point which I think you talked about during your discussion of fast track. As I travel around the country and as I meet with farmers and agricultural producers, I often hear people blame trade agreements as the cause of trade problems. I strongly disagree with this. It fails to recognize that the United States already has the most open market in the world.

The objective of our trade agreements is to open new markets and create new opportunities for our products. This is why we cannot shrink from the challenges of a global economy. There is nothing more our competitors would welcome than the United States standing on the sidelines and engaging in an endless debate on trade because, as we do that, they move ahead.

While the work can seem daunting, the livelihood of American farm and ranch families depends on our ability to sustain and build a global presence for U.S. agriculture.

Mr. Chairman, thank you. I would be pleased to answer any questions you or the committee might have.

Senator GRASSLEY. Before Gus goes, I want to associate myself with your last point, that the rest of the world is not going to stand still and wait for America. If we do not have somebody at the table, our interests are not going to be protected. That is why it is very essential that we be there with our first citizen, and that is the President of the United States.

Mr. Schumacher.

STATEMENT OF HON. AUGUST SCHUMACHER, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURE SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Secretary SCHUMACHER. Thank you very much, Senator.

Again, it is a pleasure to be here with my great colleague, Peter Scher, who is doing a very, very fine job on the agricultural side. I think I want to make just a couple of supplementary points. Peter has outlined the position very, very well.

I think, first, we look at the daily headlines in Asia, and certainly that has reinforced the understanding that U.S. agriculture's fortunes, profits, and future is really tied to exports. One-third of our agricultural GDP now goes overseas. One-third goes overseas. So, I think we need to move forcefully ahead with an ambitious trade policy as part of a broad-based global export strategy.

Now, Congress, going back for many, many years, has given USDA a broad box of tools, some of which, like P.L. 480, go back to the days of the Marshall plan and the Nation's continuing outward-looking trade policies that followed World War II.

But right now, certainly, as this hearing has indicated, we lack one of the most basic tools to advance agriculture's global interest, and that is the traditional authority granted to Presidents to negotiate new trade agreements under fast track.

As the President has said, this administration will work hard with Congress to build support for fast track. There is not a majority, as the President has said, in either House of U.S. Congress that wishes a return to misguided protectionism.

The export programs, I think, that we would be outlining in the past, and ones we need for the future, there is not one of them that is key to export growth, as we have seen in Korea during the Christmas holidays when we had to be quite aggressive in putting some commercial credit guarantees on the table.

We need open markets and we need fair trade. I just want to illustrate two points. One, is the point that if you look back to 1986, we hit a nadir of exports, down about \$26-\$27 billion. That was a very low plateau.

The Farm Bill was changed and now things are moved back, in the early 1990's, to \$44 billion. As Peter said, we are now up to a new plateau of \$55-\$60 billion, and ERS has indicated in its baseline that we have the capability and ability with the new markets opening up to reach \$84 billion by the year 2007.

So I think we have to look at these different plateaus as we look at some of the issues that Peter has raised, that we need to get through some of these particular difficulties and look at the broad achievements that we have done, that we have had a trade surplus, really, in every year for the last 34 years.

So the challenge for us to move forward. For that reason, we are really working very hard and planning for a number of landmark events, not just the WTO coming up in the new negotiations, but we have, as you indicated, the FTAA, and in Malaysia we will start again on the important issue of APEC.

All three negotiations present an opportunity to substantially advance the global trade reform process, and we are hoping to get things moving very well under Ambassador Barshefsky next month in Geneva.

Let me then conclude on a couple of issues. The Secretary has indicated, as we negotiate new disciplines in agriculture, that we should have no pause in the trade reform process, not stopping to

wait for new agreements to emerge once current commitments are fully implemented.

While U.S. proposals for major new trade disciplines are unlikely to receive an enthusiastic reception from some trading partners, and certainly the debate here a few minutes ago on Europe is an indication, we do have allies.

Two weeks ago, farm ministers in the Cairn's Group adopted a communique calling for further tariff reductions, an end to all export subsidies, open access to approved agricultural technology, and several other objectives that, with a few exceptions—for example, like export credits and guarantees—closely parallel our own.

Mr. Chairman, we have a lot of work to do globally, regionally, and bilaterally in enforcing existing agreements, opening new markets, and leveling the playing field. We also need to move forward on ongoing initiatives with other global, regional, and bilateral initiatives.

That is why Secretary Rubin, in his Brookings statement, I think it was this week, indicated that the benefits of the global economy will only be realized if we and all other nations build broad-based support at home for forward-looking international economic policies. That is why we need to maintain the momentum and the leadership and move forward.

The EU is also interested in a new transatlantic marketplace agreement that was discussed earlier. We agree with many members of Congress and the U.S. Trade Representative Barshefsky that agriculture should be included in the agreement. We will be working with Peter and the fine team at USTR as talks progress on this issue. Mr. Chairman, that completes my statement on trade.

I do want to mention, briefly, that one of the key issues that our mission in USDA would like to work very closely with both Houses of Congress, is the very, very important issue of the Research Bill.

There are three or four things that are critical if we are, in addition to trade, to move forward. We must have the crop insurance, Senator, that we have proposed. Some of it goes into mandatory. It is vitally important. The Research Bill is helping a little bit on the immigrants for food stamps.

The key issue there, we simply must move forward and get support, working closely with you, Congress, and both Houses, because without that, and without the support for the market access program in which major reforms have been made, we simply cannot move forward as well. So our competitors are watching us very closely on that as well. I look forward to working with you on that one as well. Thank you very much.

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

Senator GRASSLEY. I thank you both very much for your testimony and for your being within the time limits, because we are trying to hasten along here.

My first question would be to both of you, asking for a response. This would be to the 1997 GAO report on agricultural exports. We are going to hear testimony from the next panel on this.

That agency found that import restrictions based on sanitary and phyto-sanitary reasons continue to be a major obstacle to U.S. exports and it could cost up to \$5 billion annually.

GAO suggests that the Federal Government lacks a strong, coordinated effort in defining and addressing these trade barriers. In fact, the GAO found that at least 12 Federal entities claimed jurisdiction over these issues, and they often have conflicting views on how to solve the problem, or whether a problem even exists.

So I would like to ask both of you, what is the USDA on the one hand, and the USTR on the other, doing in response to the GAO report to establish a more effective method of identifying and removing sanitary and phyto-sanitary barriers to our agricultural exports?

Also, in regard to your response, whether what you are doing would be indicative of interagency process on agricultural issues, and if so, how it would affect our ability to prepare for the 1999 agricultural talks.

Ambassador SCHER. Mr. Chairman, let me make a couple of points. I think the GAO report, frankly, from the administration's part, was very useful, not only in identifying the problems that we face around the world, but identifying improvements that we could make within the Federal Government to improve our response. We spent a great deal of time with the GAO talking through their recommendations and working with other agencies to respond to that. We have submitted a formal response to the Congress on the report.

We have done several things. First, we have established a senior interagency level working group, steering group, to coordinate guidelines for SPS issues, which will be meeting on a frequent basis.

We are also improving our outreach efforts by strengthening educational materials, working through Gus' team within the FAS, particularly the officers around the world, to help identify offensive foreign practices.

We are also developing a systematic process for reviewing SPS issues and ensuring that all stakeholders' views are taken into consideration on this issue. We need to ensure that we have the full participation of industry and Congress, and we also need to ensure, frankly, that agencies are talking to one another as we address these issues, which is not always the easiest thing to accomplish, but it helps to be reminded of the importance of that.

So I think we are in a strong position. This is something that Secretary Glickman and Ambassador Barshefsky have talked about frequently. There is a renewed effort within the administration to ensure that we are coordinated on these issues and working effectively to address them.

Senator GRASSLEY. Mr. Schumacher?

Secretary SCHUMACHER. Just very briefly, a supplementary comment. One of the things we really work very hard on in USDA is to bring our different groups within USDA together. The Secretary, in October, well before this came up, appointed an interagency task force and that works very, very well.

An example of that, Senator, is that we are pleased to announce—I think it is going to be announced very shortly—that

Brazil now looks very likely to provide a waiver on wheat and we will be able to move wheat back into that very, very important market. I think that is good news for American wheat producers. That came as a direct result of this interagency and intra-USDA task force in our work with the Brazilian government, both here and in Brazil. So that is one example. We could cite other examples as well.

But I think it is moving in the right direction, both inter-department and intra-department, as we prepare ourselves for the existing SPS issues, and as we move forward in addressing the new ones, particularly, I think, if we look to the Codex Elementarius, to this IPPC issue, and others that we have to look forward to under the next round of the WTO. We must have a good, solid commitment so that certain folks in Europe will not be using some of these international things to push agendas that may be inimical to our exports and to world trade in agriculture.

Senator GRASSLEY. Thank you very much.

I want to move on to another question. This would be for Ambassador Scher. You were here when Senator Brownback was testifying. He was testifying about negotiations for the new transatlantic marketplace, that it could jeopardize our ability to gain further trade liberalization for agriculture in 1999.

I want it made very clear that I agree fully with Senator Brownback, not because he is Senator Brownback, but because of a long-held position that I have had, that we have to be able to have broad negotiations for agriculture to win, that if we just negotiate within agriculture we do not gain much progress.

I also come from the point of view that the European Union should address the many outstanding problems that we have in agriculture, and do that before we move forward with any new negotiations.

Now, if the decision is made, and I hope it is not, to move forward with these discussions, and the reason why I hope it is not is I have seen Ambassador Barshefsky stand up very strongly and forthrightly for agriculture, number one, and even to Leon Brittain many times.

Probably, if she had not done that, for instance, we would not have an information technology agreement that we had as a result of that, Singapore as an example. So I know that our interests can be protected by her if she is inclined to do that, and most of the time she is inclined to do that.

If a decision has been made, how can the USTR justify new discussions when so many problems remain unsolved? Second, and lastly, how can we maintain our leverage going into the 1999 talks if we make concessions in negotiating the new transatlantic marketplace? Then I will go to Senator Baucus after you answer that.

Ambassador SCHER. Senator, let me make a couple of points. Thank you for raising this, because I did want an opportunity to make some comments on that.

First, Ambassador Barshefsky has made clear, not only to us but to the European Union, that agriculture must be a part of any initiative with the European Union, period. There are no ifs, ands, or buts about that. Now, let me tell you what we are not talking about.

Senator GRASSLEY. I hope that is beyond just process and procedure and implementation.

Ambassador SCHER. No, no. I understand. Let me make a point. Neither Europe nor the United States are talking about a free trade agreement. We are not talking about negotiations on tariffs or subsidies in any sector, so we will not make tariff concessions to the EU. We are not going to do anything that would give up leverage for the next round in 1999.

What we are evaluating right now, and no decisions have been made, is whether or not we could formulate an initiative that, from an agricultural perspective, can address some of these very difficult bilateral barriers we face with Europe before the next round even begins.

Frankly, from my perspective as a negotiator, if we have an opportunity to get these issues resolved and off the table before we even begin the next round in 1999, without giving up leverage, which is an important qualifier there, that can only be to the benefit of American agriculture.

I think one thing I would say is, with all of the problems we have with the EU, and I have never been soft on the EU, we still export nearly \$8.5 billion worth of agricultural products to EU every year. We have an over \$2 billion surplus.

So if there is an opportunity for us to address some of the barriers that we face and frankly promote the next round, I think that would be in the interest of American agriculture.

Now, obviously we have to do that in consultation with you, and I know you have spoken to Ambassador Barshefsky and with other interested groups, and we will not move forward unless we think we can meet those tests.

Senator GRASSLEY. I would only suggest that there be a very clear tie-in then between what might be taking place with the new marketplace agreement and discussions and with the 1999 talks, and I have not seen that connection.

I am going to turn to Senator Baucus and I am going to go vote. I assume I will be back before he is finished. If he has to go vote, then would you wait, please?

Ambassador SCHER. Absolutely.

Senator GRASSLEY. Then, second, I may have to ask you to wait because Senator Roth may want to ask you questions. If he cannot come right away, I want to start with the second panel and break into the second panel if Senator Roth comes.

Ambassador SCHER. All right.

Senator BAUCUS. Thank you, Mr. Chairman.

I will ask both of you about reports that Europe is sending heavily subsidized feed barley into California, 30 metric tons, I have heard, and also that maybe up to 150,000 more subsidized metric tons into California. What is going on here?

Ambassador SCHER. Let me say a couple of things, Senator. First of all, it is outrageous. This is a perfect example of why we need real reform in the CAP 2000. What we understand, is in the last two weeks Europe sold 30,000 tons of barley in California with an export subsidy of over \$50 per ton on a product that sells for \$100 a ton. It appears that the EU is now trying to make California a

dumping ground for its unwanted grain resulting from its own production.

We are going to be meeting with the barley growers, frankly, at the request of your office this week, and we are also meeting with the EU agricultural officials later today, to raise this issue.

One of the tragedies of this thing is it may be legal under the WTO obligations. So we have to review a range of options and make clear to the EU that this is not acceptable. This is exactly why we need real reform in Europe's agricultural policy because it is hurting world trade, it is distorting world trade, it is hurting our farmers, and it is also hurting European consumers by inflating prices. So we will be addressing this. I know Secretary Glickman made some comments about this yesterday, and we will be working closely with Secretary Schumacher and his team at USDA to address this.

Senator BAUCUS. That raises another question, and that is about CAP 2000. It is my experience that the Europeans are pretty aggressive about subsidizing their agricultural products, both internally within the European Union and also in terms of export subsidies, and to a greater degree than we Americans do, significantly greater. It is the heart of the problem that a lot of our producers face.

Now we hear that something new is coming along, CAP 2000. What do you know about that, and what are we, as Americans, doing about it?

Ambassador SCHER. Well, let me say a couple of things. In fact, I made some comments on this yesterday because I think we need to speak out more on CAP 2000, because if we do not see substantial reform in Europe of its agricultural policies of a program that is hurting, frankly, everybody, it is hurting consumers in Europe by charging them \$1,500 more a year in food prices.

It is interesting. We hear from Europeans so often, they rise to the defense of consumers on so many agricultural issues. I have not heard very many European politicians rise to the defense of consumers and the impact of the CAP on their daily lives. It is hurting our farmers, as an example.

There are clearly pressures within the EU. Because of enlargement, adding Poland and Hungary, for example, to the EU, provides a great deal of pressure. But we also need to provide world pressure, working with our friends in the Cairn's Group. Frankly, so far they have taken some fairly timid steps to reform.

What they need to do, and what is evidenced by this recent action in California, is they need to decouple government support from specific production and acreage requirements. That is the only way we are going to be in a position where they do not have to use these exorbitant export subsidies to push their production onto the world market.

So my view, Senator, is we have to be very outspoken on this and insist that Europe take some real steps. Frankly, there are voices in Europe. Jack Cunningham, who is the agricultural minister in the United Kingdom, said he felt that the steps that have been proposed so far were inadequate. So we have a great stake in this.

Senator BAUCUS. You heard me earlier when Senator Brownback was speaking and I was concerned about leverage. I would like to

hear your thoughts about that, both of you. What is our leverage? What will we have to do for them to finally back off, or at least end up with a more level playing field?

Ambassador SCHER. Well, let me answer broadly. There is no silver bullet answer here, but I think we do have a good number of leverage, not just with Europe, but around the world. As I think you mentioned, or Senator Brownback mentioned, the process of accession to the World Trade Organization. We just finished an agreement with Taiwan that was a huge success for American agriculture.

Our trade agreements. I mean, NAFTA, which you, Senator Grassley, and others were so instrumental in, was a big success. I just looked at the numbers for our exports to Mexico, looking at January 1998 compared to a year earlier. They are up 30 percent in a year. I mean, our exports are booming to Mexico because of NAFTA.

The WTO dispute settlement process is leverage and we are taking cases against the EU. Now what we have to do with cases like beef hormones and bananas, is insist that the EU live up to its obligations and be prepared to back that up.

Senator BAUCUS. On that, what is being done to make sure they live up to the WTO decision on beef hormones?

Ambassador SCHER. Well, the only question from our perspective on this is how long they have to lift their ban. That is the only question here. Conducting another risk assessment is not complying with the decision of the WTO.

Under the Uruguay Round rules, they have a reasonable period with which to comply. Later this week we are going to ask the Director General to appoint an arbitrator of the WTO to set a deadline for WTO compliance, and we will tell the European Union that we will expect them to live by that deadline.

Senator BAUCUS. What is a reasonable deadline?

Ambassador SCHER. Well, it is hard to say. In the past, the WTO has interpreted that as 15 months. Now, this has been something that we in the United States insisted on, frankly, that because of the issues of sovereignty we want to make sure that we would have a reasonable time to comply with decisions.

What has ironically happened, is we are winning most of the cases, so it has not become as much of an issue for us. But I think we do have to give them a reasonable period of time. We are going to look for as short a period of time as possible.

Senator BAUCUS. Any thoughts on leverage on Europe? China accession does not help much in Europe.

Secretary SCHUMACHER. Let me come back to this issue of barley, Senator. I am frankly amazed the Europeans would subsidize barley. It is \$91 a ton, they put \$61 subsidy on it into stock in California at a time when this administration, working with you, is looking at all of our tools on the wheat side.

That certainly does not help their case, and it is something the Secretary and I plan to come and talk to you about very, very shortly at your convenience on all our options on the wheat side. It has certainly brought that to our attention very aggressively.

I have pointed that out in my calls to the European embassies here, and a letter we are going to be sending you, that it is cer-

tainly the wrong thing to do. The timing could not be worse to do that in terms of all of the dialogue that we have been having with the wheat growers, visiting North Dakota and Montana, and having an intensive dialogue right now in the administration and with you in the Congress to using all our options and variations on exports to support the wheat industry.

Senator BAUCUS. I thank you. I have got to leave for a vote. But I think you can get the tone from many of the Senators who have spoken here. We just have to act a little more clearly, definitely, and forthrightly than we have in this general area. I know you want to work with me, I want to work with you, but that is an overworked phrase around here. Let us get something done. Thank you.

The CHAIRMAN. Let me intercede. I regret I cannot be here for the entire hearing, but I want to thank Senator Grassley for chairing this subcommittee hearing on what I consider a matter of extreme importance. I would like to make a couple of observations. As you know, I come from the State of Delaware, which is one of the largest poultry producing States in the U.S. Although the United States is a very competitive producer of poultry, we are not allowed to compete in many markets due to trade barriers disguised as sanitary measures. It does not make sense that, after 7 years of negotiating and agreement on sanitary and phyto-sanitary measures, we are still subject to false SPS barriers around the world.

We need to ensure strict compliance with the SPS agreement by all WTO members so that U.S. farmers have access to all WTO member country markets.

I am very interested in following up what the United States is doing to help resolve this issue, which leads me to express my concern about entering into the new transatlantic marketplace with the EU without the real promise of progress on agriculture.

I am told that this agreement would include agriculture as related to biotechnology sanitary issues, clearly problems remaining in this issue, and it would be worthwhile to resolve any outstanding problems prior to the next round.

That is not enough, however. I fear, by focusing on the easier issues now, we will have nothing left to trade off when it comes time to deal with the more difficult issues of reducing trade and subsidies. I would be interested in your comments on this matter.

Secretary SCHUMACHER. Thank you very much, Senator. Let me address the first issue of poultry. This administration has fought really hard to get access to poultry markets around the world, and we really appreciate your support for doing those difficult negotiations with Russia when there was a hiccup in our exports. It is a billion dollar market and things are going very well after we solved that problem.

Second, the poultry industry has had an outstanding record of exports. It has been remarkable to see the exports rise worldwide, both to Russia and to the Far East, Mexico, and other countries.

The glitch, as you correctly point out, is Europe. They, in using, I think, phony science, have interrupted our exports of about \$50 million out of over \$1 billion worth of trade to the EU. That is gratifying—grating—on our poultry exporters.

We now have an agreement in the veterinary equivalency, and I think what we are working on is getting the scientific study done in a prompt way on the antimicrobiological problems, mainly involving chlorine.

I think we can ship shortly to Europe when we do not use it, but the issue is, this is proven scientifically. The scientific meetings are on schedule. They started in January of this year. We expect them to conclude this fall.

They do have an American representative on it, and they have invited FSIS scientists to participate and observe. So we fully expect that to be done this fall and we fully expect that the science will show American poultry exports worldwide, and especially to Europe, are safe.

The CHAIRMAN. Let me just follow up with my second observation about, why should we enter into new agreements without the promise of real progress on agriculture? I am concerned by the fact that we thought we had reached agreement in these areas before, yet we find sanitary being used as a rational. What assurance do we have that this will not happen in the future, what can we do to correct that?

Ambassador SCHER. Well, Senator, let me say, I cannot give you that assurance that it will not happen in the future. I expect it will happen in the future. What we are seeing is that the countries that want to block our imports are using phony science to do this. As tariff barriers come down, this is becoming, in a sense, the new trade barrier of choice for countries like China, Europe, and others.

We have what we believe is a very good, a very solid, sanitary and phyto-sanitary agreement in the WTO. We are using that. We use that with the Europeans on beef hormone to our success, we have used it with Japan on tomatoes, we have used it with Chile. We are now suing Japan because of their varietal testing of fruits and vegetables, which we do not believe has a scientific basis. So I think there is not going to be a silver bullet answer here.

I think we have to be very aggressive and slog forward and insist that countries live up to their obligations, and particularly look at a country like China in which we have very serious scientific problems, and insist before they get into the WTO that there is a commitment on their part to abide by these rules.

The CHAIRMAN. Well, I realize there is no silver bullet. At the same time, I think it is critically important that we take every measure possible to ensure that when we enter these agreements, that there are not going to be efforts and means to try to circumvent them, otherwise it raises a serious question as to what is the desirability/advisability of proceeding. Certainly, no area is more important than agriculture.

Before you came in, Senator Grassley, and again, I just want to thank you for holding the hearings on a matter I think is of critical importance. I am sorry I cannot stay for the entire hearing, but I will be working with you.

Senator GRASSLEY. Thank you for your kind remarks. If there is anything that you excel in, it is in the area of foreign trade and promoting free trade. Your leadership of the full committee has been very helpful in this whole effort. Thank you very much.

Senator Conrad, then Senator Kerrey, according to the order that they came in.

Senator CONRAD. Thank you very much, Mr. Chairman. I, too, want to thank you for holding this hearing, Senator Grassley. It is absolutely critical.

As I was saying to Senator Brownback before we were called to a series of votes, and I know both of you heard my comments, we have a stealth disaster in North Dakota that is of dramatic proportions. We are going to lose thousands of farmers in North Dakota this year. The auction sales are without precedent. Every publication is loaded with auction notices.

It is a result of the double whammy of disease, coupled with low prices, and all exacerbated by the Canadian Free Trade Agreement that is allowing the Canadians to continue to pump tons and tons of durham wheat into our market, unfairly traded, as well as other crop types. The question is, what are we going to do?

I have just held a series of farm meetings all across North Dakota. I will tell you, I have never seen producers so depressed in my State. It is as if they are in shell shock. I was in town, after town, after town. The turnouts at these meetings were extraordinary, five or six times what I would normally get at a meeting. And not just farmers.

For the first time, I have got city councilmen having meetings with me, and mayors, saying there is something radically wrong out here; bankers at every stop, farm credit services, saying, Senator, there is a disaster going on out here that nobody seems to know about and nobody seems to do anything about, and the clock is ticking.

Now, Gus, you know about this because you came out to the marketplace which we put on every year, and there are 4,000 or 5,000 farmers from around the State who attend that every year. So you heard an awful lot of this.

I can tell you, the decibel level has gone up many fold since you were there in January. People are not getting credit. At bottom, there is not sufficient income. They are not cash flowing.

What do you think are the prescriptions for dealing with this disaster? Honestly, I think we need a disaster bill for our State, for Minnesota, Montana, parts of South Dakota, because what is going on there is truly a disaster. What is your prescription for dealing with this?

Secretary SCHUMACHER. Well, Senator, your agricultural marketplace does get tremendous attention. I try to visit it every January, and we have some very good discussions. That is when you and I first discussed the impending problems that we began to see then and, as you correctly state, things have gotten worse, right across from northeast Minnesota, through the Dakotas, into Montana.

Last week, wheat prices in Idaho were \$2.87, so no wonder bankers are not providing credit. That is why we are seeing a lot of renewed interest in coming to the old farmer's home, FSA. People we have never seen before are coming in.

As I mentioned earlier, we must get the Research Bill passed because of the critical importance of supplementary money for credit to assist those hardworking long-time farmers to get through this major problem.

Second, the insurance bill is critically important to get the mandatory thing done so we do not put your farmers at risk. Third, we are coming up with a whole variety of options, and that is why I mentioned earlier when Senator Baucus was here the extraordinary, I think, mistake, the amazing issue of subsidizing barley into California in the northern plains when you, and I, and others in Congress are looking at a whole package of issues to assist the very, very hard-pressed wheat farmers in the northern plains. It is not good in the northern plains, Senator, you are correct. We are going to be working on this.

We have been discussing this with the wheat growers intensively over the last few weeks, and look forward to working through some of these initiatives, both trade and also on the domestic side on the APH, on the 220, some of the technical issues that you and your staff have brought to our attention.

It is difficult. We have a series of issues that we were looking at. The Secretary said yesterday that we are reviewing a variety of options to help U.S. farmers, especially wheat farmers, compete in the world. We are certainly going to look at the tools, maybe retooling and using some of those tools, and certainly the European aggressive use of some of their subsidies recently, and we are going to be working with you very closely and look at some of these tools much more aggressively.

Senator CONRAD. Let me just say to the Chairman, we now have got the Canadian Wheat Board refusing to let the GAO audit its books for illegal sales that undercut our market. We have got the EU dumping feed barley into the U.S. undercutting our producers and our prices. We have got the EU stalling and refusing to implement WTO rulings on agricultural trade issues like beef hormones. We have got the EU inventing spurious sanitary and phyto-sanitary concerns to hold U.S. exports at bay. I believe the United States has got to fashion a much more dramatic response.

One of the most dramatic things we could do is put more money on the table, because that is what our competitors are doing. They are buying these markets. They are fighting us tooth and nail. They have got a strategy and a plan, and it is working.

I would say to Mr. Scher, what are we going to do about these unfairly traded Canadian imports on grain, specifically durham and other wheats?

Ambassador SCHER. Well, Senator, as you know, we have spent a great deal of time on the issue of Canadian grain. We are now in the process of setting up our own audit of the Canadian Wheat Board to include durham, spring wheat, and barley, and also to look at Canadian Wheat Board sales into third country markets. So we need to keep the pressure on the Canadian Wheat Board.

As you know, we do not have an agreement in place, as we did a couple of years ago, to limit imports into the United States. Despite that, we have kept a lot of pressure on Canada. In fact, last year the imports of Canadian wheat were just slightly above the old MOU levels, about 1.5 to 1.9.

Senator CONRAD. It is my understanding that you continue to tell them that if they go over those MOU limits, those limits that were part of that memorandum of understanding, that we would take further action. Is that still the signal that is being sent?

Ambassador SCHER. Well, what we have told them is that this is an issue that needs to be managed appropriately. As you know, unfortunately, they are not under any trade obligation to limit those imports. Shaun Darra, who is here with me, was just up in Canada several weeks ago meeting with officials of the Canadian government, as well as the Canadian Wheat Board, to do everything we can to ensure that there is not market disruption because of those imports.

It is a difficult issue and it is one that I do not have all the answers for, but I think we need to keep slogging away and keep the pressure on, and also use our other trading partners. Frankly, it is ironic. This is an area in which the European Union actually has been, and can be, more helpful to us.

They have the same concerns about these state trading enterprises that Canada, Australia, New Zealand, use. So we need to look towards the next round of negotiations to really keep the pressure on, and we need to look to the accession of countries like China, Russia, and Taiwan who want to come into the WTO to set the example that we will not put up with monopolies that distort trade. It will be a long battle, but it is a battle that we have to continue to fight.

Senator GRASSLEY. Senator Kerrey.

Senator KERREY. Thank you, Mr. Chairman. First of all, I have got to go to a Medicare Commission hearing. I have come here because I think this hearing that you are holding is extremely important. I hope that coming out of it can be a bipartisan action agenda on trade and agriculture. I just come here to commit myself to you to work with you to try to develop that.

One of the reasons that I am interested in this is, as an advocate of free trade and the advantages of free trade, I am alarmed in Nebraska of how the permission is being withdrawn for me to vote for fast track, as a consequence of a number of things.

One, is the obvious economic problems in the rest of the world. By the way, for me, the goal is a growing middle class worldwide. I mean, that really ought to be one of the things we track constantly, is the status of the middle class here in America and the status of the middle class worldwide, because, as that middle class grows worldwide, it seems to me that life is going to get better. We are going to be not only more prosperous, but likely to have more peaceful relations with one another.

We need, it seems to me, an action agenda on trade, Mr. Chairman, because unless we do, I think we are going to have fewer and fewer members in this body be able to vote for the right trade policies because of what trade is doing to people in the high plains, as a good example.

One of the things Senator Conrad raised on a previous opportunity when we were discussing the fast-track legislation was that if Congress passes a bill that turns out to have the opposite effect that we think it is going to have—and that sometimes happens, it is very difficult in a country as big and complicated as ours to know for certain what a law is going to do. Sometimes it has exactly the opposite impact.

I think of a couple of years ago when we raised the tax on luxury boats. It was a great idea. The problem is, people quit manufactur-

ing luxury boats altogether. We came back and revisited it, and we lowered that tax and we got an industry going again. So we correct our mistakes when we make them. Sometimes, at least, we do. We are at least alert to the possibility that mistakes can be made.

We do not have the opportunity with trade, or at least it seems to me there is resistance to do it, as in, I think, NAFTA, the Canadian Free Trade Agreement, there are other trade agreements, it seems to me. You negotiate in good faith, you think it is going to do one thing, and it does another.

So the question I put to you is, do we need to be looking at mechanisms that allow us, when a legitimate mistake is made and the impact is the opposite of what both sides think it is going to do and intends to do, do we need to be looking, with these trade agreements, for mechanisms to come back and modify it when we see that an error has occurred?

Ambassador SCHER. Senator, we have some of those mechanisms, but it is certainly worth looking at. And not simply when we mistakes, because I hope we do not make too many when we negotiate these agreements, but also when countries do not live up to the obligations that we expect them to.

One of the things we have seen, is we cannot just sign agreements, have a wonderful signing ceremony with lots of flags and applause, then walk away and just assume that everyone is going to live up to their obligations. That is why we need to ensure, for example, that there are enforcement mechanisms within agreements like we have within the WTO, and frankly within the Canadian lumber agreement.

Senator KERREY. Then let me ask you this. Will you help this committee? Again, I do not know if we are going to come up with an action agenda coming out of this. I certainly hope we do. I will tell you, in Nebraska people are saying we are going to be debating expansion of NATO later this week, and they are wondering what that is all about. Is that going to be relevant to their lives?

They are much more concerned about expanding trade and making sure that what you just said is done, that people we have negotiated trade agreements with, with whom we have had agreements, they live up to the obligation in the agreement, or if something has produced an untoward impact. They are willing to compete. They are willing to compete globally if the playing field is level and fair. They think they can compete on the basis of price and quality. But it is not happening over, and over, and over.

I hope that, coming out of this, we can come up with one, two, three, or a few things that we can say that this Congress is going to do, working with the administration. I am telling you, I can see the trend in this deal. It can be a long time before any President again gets the authority to negotiate trade under the terms of fast-track agreements.

Secretary SCHUMACHER. Senator, just one sentence. You were talking about an action plan. One of the most important issues right now that the Secretary and I are working on with the administration is the Research Bill. I have mentioned it before.

But Senator, your wheat growers called me last night, because we work very closely together. They said, Gus, please, if you are testifying tomorrow, explain how important the market access pro-

gram is. It is vitally important for the wheat exports to develop these new markets, whether it is in Indonesia, and all these other issues. So if we have an action program, I think getting the Research Bill passed so we get the crop insurance straightened out, and we get the exports worked, out is important.

Senator KERREY. I agree. I hope the holds get taken off the Research Bill. We do need to get that passed. But I hope you will also take it as constructive advice that the overall allocation of research for agriculture is pitifully low. It is not very jazzy. It does not produce a lot of headlines.

We are going to double our caloric requirements in the world over the next 50 years, and what I see is, we have got pressure right now on the amount of available land, reducing the amount of land that is in production right now.

As a percent of overall Federal research, agriculture is in decline. So I think we are robbing Peter to pay Paul right now when it comes to research. I mean, I think eventually we will be able to get the holds taken off the bill and get the bill passed, but I hope you will take it back up the food chain, both to the Secretary and to the President, that it is unacceptable to allocate a smaller and smaller share. Again, I know it is not as jazzy as NIH, it is not as jazzy as NSF, and DOE, and all that other sort of stuff. It does not make men less impotent, or whatever. It does not produce a big headline. [Laughter.]

Senator KERREY. But all it does is feed the world. Long term, I think we have real serious problems with the current status of public research. The trends right now are more and more private research with strings attached and not available to the general public. You do not get that magic of synergy that occurs. I mean, I am way off of research here.

Anyway, my principal purpose, Mr. Chairman, was to come and thank you for holding this hearing and pledge to you my full support and cooperation in developing an action agenda for the rest of this session that hopefully the administration will support that will enable us to go home and say, we are trying to make trade work so there is a win-win on both sides of the transaction.

Senator GRASSLEY. Just to follow up on that. Your suggestion would also have at the top of the list Congressional action on fast track, because the United States has to be at the table in these negotiations. We can work out specific problems we have, but we are going to fall, as the old saying goes, behinder and behinder all the time if other negotiations move ahead without us.

Senator KERREY. Yes, sir. It would be on my list. But there is a paradox here.

Senator GRASSLEY. I know. I know.

Senator KERREY. Unless we drive a hard action agenda on trade, as I said, I will predict to you, I think it is going to be a long time before any future President gets authority granted by the U.S. Congress to negotiate in the fashion that we allow under fast track.

Senator GRASSLEY. Yes. Then Senator Conrad, for a quick follow-up before I go to the next panel.

Senator CONRAD. Well, the first follow-up would be, I do not think impotence has been the problem in Washington. [Laughter.]

Maybe we need some other research.

Well, the point I wanted to come back to, on a serious note, is the question of correcting mistakes. I said over and over the three C's as we considered fast track here. I voted against fast track. I said, I am against fast track until we solve these three C's.

One, is currency valuation, because in NAFTA we negotiated a 10-percent reduction in the tariff. They then devalued the currency by 50 percent, and we go from a \$2 billion trade surplus to a \$16 billion trade deficit. Now, it seems to me that we ought to insist that any administration examine the currency stability of the country with whom we are negotiating. We do not do that and nobody wants to address that around here. I will tell you, I am going to be against fast track until we require that to be done.

Second, we have got to have a corrections mechanism for past mistakes. I have been in the middle of this problem with the Canadian Free Trade Agreement ever since Clayton Yeutter made a serious mistake and allowed them a loophole that allows them to drive truck, after truck, after truck loaded with grain. They have gone from zero percent of the U.S. durham market to 20 percent of the durham market before we put in place limitations that are now no longer permitted. We saw them exceed the MOU limits last year.

The question is, how do you correct a mistake in a previous agreement? How do you do it? Can you tell me how you do it?

Ambassador SCHER. Well, let me make two points. I think there are processes to go back and to renegotiate certain provisions. I think the one point I would make—

Senator CONRAD. But they never are done.

Ambassador SCHER. Well, I do not think that is correct.

Senator CONRAD. Well, let us go right to the Canadian Free Trade Agreement then, Mr. Scher. You tell me how you would correct the loophole that is in that agreement. You tell me if there are corrections mechanisms available. I have had meeting, after meeting, after meeting in this town about how to correct it and nobody has any answer.

Ambassador SCHER. Well, I think part of the answer is fast track.

Senator CONRAD. Fast track is an answer to the defect in the Canadian Free Trade Agreement?

Ambassador SCHER. No, fast track is the answer to having the authority to go and negotiate new agreements. It is difficult to get countries to come to the table to negotiate agreements without the authority to do that.

Senator CONRAD. There was no request by this administration to get fast track authority to renegotiate the mistakes of the Canadian Free Trade Agreement. Was that the administration's agenda?

Ambassador SCHER. No, it was certainly not the objective. But certainly looking at things like the Canadian Wheat Board, which you brought up, is an issue that we need to be looking at in the next round of agricultural negotiations. It is right on the table. We have a working group on STEs.

Senator CONRAD. I can say this to you. If you have a mechanism that is available to you to correct mistakes in past trade agreements, I would urge you to use it on the Canadian Free Trade.

The fact is, I have met with your office repeatedly and the answer we have gotten from your office, from the Trade Representative herself, is there is nothing we can do absent a Section 301, which is the atom bomb of trade negotiations, and nobody is willing to drop it, for understandable reasons.

So the fact is—the truth is—we do not have a means of correcting mistakes in past agreements that is workable. That is just a fact of the matter and anybody that asserts otherwise is blowing smoke up here. I have been through this ever since the Canadian Free Trade Agreement passed. We had the mechanism. We were able to put in a TRQ and get dramatic results.

Then we had a memorandum of understanding between the countries, which they violated last year, and not a thing has been done. I tell you, you go to North Dakota and say anything about, there is a way of correcting these, it would not be a pretty public meeting because people there know very well there is no way of correcting mistakes. Until we fess up to it and face up to it and do something about it, people are not going to support—I am certainly not going to support—fast track or any of the rest of this agenda because we are not taking care of our own country's interests. That is my judgment.

Until we start fighting for ourselves and have a way of correcting mistakes in past agreements and deal with this currency question—I mean, here in NAFTA we go from a \$2 billion trade surplus to a \$16 billion trade deficit and people are running around this town saying it is a success. I would hate to see a failure.

Senator GRASSLEY. Thank you, Senator Conrad.

I am going to submit some questions to you for answer in writing because I had quite a few more, but I cannot take any more time.

I do appreciate the participation of all the members who have come, because normally subcommittees do not get that sort of participation. So I think that signals to all of you and other witnesses that this is a very important issue, and I think Senator Kerrey highlighted it considerably in his comments.

So I will submit these and say thank you.

[The questions and answers appear in the appendix.]

Senator GRASSLEY. I call the next panel now. We have Mr. Bill Campbell. He is CEO of Central Soya, Inc., and he is here on behalf of the National Oilseed Processors, and also speaking for the producers of oilseeds.

Then we have Mr. Charles Johnson. He is chairman and CEO of Pioneer Hi-Bred International. That is a major corporation in my State, and the leader in corn seed production.

We have Mr. Dean Kleckner, president of the American Farm Bureau Federation; Mr. Carl Peterson is chairman of Agri-Mark, Inc., Delanson, New York; and Ms. Ann Veneman, secretary of the California Department of Food and Agriculture.

I normally go in the way I introduce, but because Ms. Veneman has to catch a plane, I am going to ask her to go first, and also recognize her as a person who previously had been Assistant Secretary of Agriculture.

So thank you for coming, each of you. But we will go in order then of Ms. Veneman, Mr. Peterson, Mr. Kleckner, Mr. Johnson, and Mr. Campbell.

STATEMENT OF ANN VENEMAN, SECRETARY, CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE, SACRAMENTO, CA

Ms. VENEMAN. Thank you, Mr. Chairman. It is a pleasure to be here today to talk about the 1999 WTO negotiations.

As you certainly are aware, agriculture is more dependent on trade than any other sector of the economy, and nowhere is this truer than in California.

For over 50 consecutive years, California has been the number one agricultural producing State in the Nation. We now have a value of our agricultural production of nearly \$25 billion annually.

We are distinguished not only by our size, but by our diversity. We produce more than 350 different crops and commodities and we lead the Nation in 75 of those.

As agricultural production in California continues to grow year after year, we are increasingly relying on the global marketplace. One-third of what we produce is sold overseas, with our food and agricultural exports valued at about \$12 billion annually port value.

The Uruguay Round Agreement on agriculture boosted exports by opening up new markets and lowering trade restrictions. For example, thanks to the Uruguay Round we are now selling rice to Japan and table grapes and citrus to South Korea.

Implementation of the Uruguay Round commitments will be completed by January 1, 2001. However, liberalization of agriculture trade will be far from complete. A new round of negotiations is needed to further open markets to U.S. agricultural exports.

The Uruguay Round Agreement commits WTO members to commence a new round of negotiations in 1999. The U.S. was the architect of this provision and should now take the lead to ensure the reform process continues to move forward.

The principal elements of the reform process are already in place. The Uruguay Round commitments on market access, export subsidies, and domestic support should form the basis for the 1999 negotiations. The focus of the negotiations should now be on how much further we cut each of these three areas. Tariffs should be further reduced and tariff rate quotas expanded.

With respect to export subsidies, I think we have a chance to get countries to agree to complete elimination. Domestic supports can also be further reduced, though the more important objective may be to prevent the green box from being enlarged. Issues not covered in the Uruguay Round, such as disciplines for state trading enterprises and new areas such as biotechnology, should also be included in the 1999 negotiations.

An important factor in the success of the Uruguay Round negotiations was our commitment to the formula approach in negotiating reduction commitments. Unlike the request offer approach which allows countries to exempt certain products or even whole sectors from liberalization, the formula approach guarantees that reductions are made across the board so that even highly sensitive sectors, like rice in Japan, are subject to reform. To make real progress toward further reforms in 1999, we must continue to follow the formula approach.

The Uruguay Round made great strides in beginning the reform process in bringing agriculture fully into the WTO rules frame-

work. However, based on our experience since the conclusion of the round, there are several areas where the rules need to be reviewed.

First, the SPS agreement. Overall, the agreement on sanitary and phyto-sanitary agreements provides a good set of rules for addressing the health and safety issues that have grown in importance as more traditional trade barriers have given way.

Our first priority in the 1999 negotiation should be to protect the integrity of the SPS agreement's science-based requirements for imposing health and safety restrictions on imports. Some countries continue to argue for the right to base such restrictions on non-scientific concerns.

We also need to address the timeliness of risk assessments. In many cases, countries have taken years to conduct risk assessments while continuing to prohibit imports. Japan, for example, took 5 years to complete a risk assessment for Washington State apples and still has not completed one for apples from California. We need to find a way to put some reasonable time limits on these risk assessments.

As in other areas of the agriculture negotiations, the U.S. was the leading force in the negotiation of the SPS agreement because it was clearly in our interest to have strong rules in this area. We need to maintain our leadership role in the 1999 negotiations as we consider how to improve the agreement and extend its coverage to new areas such as biotechnology.

The U.S. is the world leader in developing new agricultural products from biotechnology. The potential benefits of this new technology for producers, consumers, and the environment are enormous.

One of our priority objectives for the 1999 round should be the development of appropriate rules for trade in agricultural products. Sound science has to be the underlying principle. In general, risks should be evaluated in terms of product, not the production method.

The rules in the SPS agreement should apply to products derived from biotechnology. However, under the SPS agreement, international standard-setting organizations are relied on for determining what is sound science.

We should think carefully about whether there are any suitable international standard-setting organizations for biotechnology and, if not, how one might be developed.

Another area—

Senator GRASSLEY. Would you finish your thought, please, or some sort of a summary.

Ms. VENEMAN. Other areas that need to be addressed, and I will summarize just briefly, are state trading enterprises. We need to look at the way we use safeguard rules. The only way we can ensure the continuation of reform in the agricultural trade begun in the Uruguay Round is through multilateral negotiation under the WTO that covers all major sectors. Because of the diversity of agriculture in California, we have faced some unique challenges.

As the trend in U.S. agricultural exports continues to shift from bulk commodities to high value products, trade issues that have not been traditionally a primary concern to agriculture will be

more important. The ability to do business in a global food system is becoming increasingly apparent.

WTO rules on investments, intellectual property protection, technical barriers to trade, and distribution of retail services, among others, have as much relevance for agriculture as for other sectors.

In closing, I just want to say that the success of the Uruguay Round for U.S. agriculture is attributable in no small part to the leadership role of the U.S. Government. We started the Uruguay Round in Punto del Este with our objectives clearly defined. When finalized in Marakesh, the agreement on agriculture bore the clear imprint of the U.S.

U.S. agriculture got what it needed in the Uruguay Round because the U.S. set the agenda and we led, pushed, and pulled the negotiations where we wanted them to go. We need to put the same effort into the 1999 negotiations so that we can complete the reform process.

Senator GRASSLEY. Well, thank you very much. Normally I let each person testify, but since she may have to go I have some questions that I wanted to explore with her.

In your opinion, how effective has the SPS agreement been in opening markets to California of products and your exports?

Ms. VENEMAN. Well, I think that the SPS agreement is very important. We heard a lot of testimony today about the fact that we do have a lot of issues in SPS-related areas that this point.

The fact of the matter is, we recognized in 1986, and the U.S. was a leader in this, that the SPS issues could become more and more important as trade barriers as other trade barriers came down. That is exactly what has happened. I think it is important to recognize that, if we had not shown the leadership and negotiated the SPS agreement in the Uruguay Round, we would not have had a set of rules for dealing with these kinds of issues.

So I think that the Uruguay Round was extremely important in giving us a set of rules saying that such kinds of regulations need to be based on sound science, and that we now have a dispute settlement mechanism within the WTO to address such disputes. That is very important. I think it has been a very important thing as we have tried to deal with these, particularly for a number of California products.

Senator GRASSLEY. In regard to the recent move on the part of the WTO as they implement the SPS agreement, as part of this review the European Union suggested that consumers should be allowed input into the decisions that restrict imports due to SPS concerns. How would that provision affect farmers in your State? Or maybe I would be asking an answer for farmers generally, because I do not think it would be much different from your State than most any State.

Ms. VENEMAN. As you know, Senator, this was an issue that was foremost on the Europeans' agenda during the negotiations of the Uruguay Round, the so-called fourth criterion. We and many other countries, particularly from the Cairn's Group, insisted that SPS measures be based solely on sound science. I think that anything else, putting in any other measures, would be an absolute mistake and that we should not allow the SPS text to be opened up to allow for such measures.

Senator GRASSLEY. Finally, the U.S. has had two high-profile victories in the WTO, one on bananas and one on the beef growth hormones. The EU has yet to implement the decision on either of these cases to our satisfaction. In light of this, would you recommend any change in the SPS agreement or the dispute settlement process?

Ms. VENEMAN. Well, I think it is difficult. Clearly, it is important that we have had some cases to begin to define how the SPS provisions of the Uruguay Round in the WTO are working. I think that it may be important to put some specific time lines on implementation issues and on risk assessment issues, although it is sometimes, under the circumstances, hard to apply such time lines.

So I think one of the things we may want to do is look at some more specific time lines and what would be reasonable and not reasonable for certain kinds of implementation issues.

Senator GRASSLEY. So, for instance, I think it is in regard to the beef hormone, they would like to take 4 years to implement that, is one suggestion from the European community. We are insisting that it be done by the end of the year, is my understanding.

Ms. VENEMAN. They have been negotiating this issue for almost eight or 9 years now.

Senator GRASSLEY. Yes. Since 1989.

Ms. VENEMAN. I remember. I made many trips to Europe on the issue. I think that they have certainly had plenty of time to study the risks. This thing has been studied in Codex, it has been through the WTO. They have had evidence of the risk on these issues presented to them for numerous years now, and I think that four years is extraordinarily long to try to implement such a WTO finding.

Senator GRASSLEY. Have a safe return to California.

Ms. VENEMAN. Thank you.

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

Senator GRASSLEY. Mr. Peterson.

STATEMENT OF CARL PETERSON, CHAIRMAN, AGRI-MARK, INC., DELANSON, NY

Mr. PETERSON. Thank you, Mr. Chairman. I appreciate this opportunity to testify before this committee today. I am a dairy farmer from Delanson, New York. I also serve as chairman of Agri-Mark, a regional dairy cooperative of 1,700 members. We, in turn, are members of the Northeast Council of Farmer Cooperatives, a voluntary association of cooperatives, representing about 12,000 dairy farmers.

As the only dairy farmer on the panel, I am going to address issues that are, I think, specific to dairy. One, is an experience that we have had with our cooperative and in the World Trade Organization. We had an opportunity this last year to export cheddar cheese direct to England and received a lot of publicity for this. But, in questioning our people that did this, we found out that there are many hurdles that you have to do to accomplish this. Our cheese was selected by a British marketer as one that might sell in England, which is the home of cheddar cheese.

But then we found that there is an allotment for that to come into England, and that is apportioned in the country out in parcels that you would need a rowboat to take each parcel over. So you have to assemble the quota enough to get in one group so that you can have a viable export market.

Then we ran into the side of pseudo-sanitary regulations relative to whether the cheese was produced from dairy farmers that met these regulations and the veterinary equivalencies over in Europe.

So these are some of the things that we ran into. Now, this was evidently done without any export subsidies, but we did receive help from the Dairy Export Council. But there are other opportunities for us to do this type of export, but we find out that, under the Dairy Export Incentive Program, a very important part of the dairy, that the dairy export sales over the last few years, this program has not been completely utilized in settling U.S. dairy abroad.

It is also a very significant development tool for future export sales. It allows us to make sales at competitive world prices and it gives us an opportunity to expand sales of other value-added products, such as our cheeses. It provides us with contacts with buyers in foreign countries.

I would like to offer some constructive criticism on the way the DEIP is currently being operated. The concern extends to both commodity products such as bulk butter and nonfat dry milk, and value-added products such as our Cabot brand of cheddar cheese.

On the commodity side, GATT severely restricts the U.S.'s ability to use the DEIP program because it is based on allowable volumes on historical time periods when the United States was doing very little exporting. Each year GATT tightens the noose on the DEIP program.

However, the industry has not been able to make maximum use of even these existing volumes. There is a table here that shows that we have only less than half of the allowed sales of dry milk and only 5 percent of the allowable butter fat were shipped during 1995 and 1996.

The USDA needs to be flexible to allow that ghost tonnage of DEIP sales approved. Ghost tonnage refers to sales that were on the books to be made but no product was ever shipped. They are considered under DEIP to have been made, but they actually were not. A fact sheet on this issue is attached.

The issue becomes crucial as 45 million pounds of surplus nonfat dry milk has already been purchased through USDA at the full support price this fiscal year. If that product or more important future products could be part of the DEIP program it would save the government substantial money, since DEIP subsidies represent only a fraction of the support price.

Relative to the value-added products, USDA does not have a good accommodation mechanism for these under the DEIP program. This is particularly troubling because the value-added market is what we need to get into where the U.S. name and image are particularly strong.

Our cheese recently won an award as "The Best Cheddar in the World" at the biannual World Cheese Contest in Green Bay, Wisconsin. But we find that as we go to USDA with this type of cheese,

it seems to have technical problems in giving the help to get into other nations.

I would like to submit that the value-added products that we get from dairy and that type of stuff can accommodate for a tremendous amount of our other grains and stuff as we put them through the cows, and we add the value and it certainly benefits our entire agricultural industry as we do this.

I would like to briefly discuss the problems the U.S. has had with Canada in respect to the sale of dairy products to our neighbor in the north. As you know, Canada has long had a quota system for dairy farmers. Their blend price is higher than ours.

The program was identified in the last Uruguay Round as a clear subsidy that they had and would not pass muster under the final GATT agreement. But what has happened now, is Canada has developed a Class V price for milk that goes into exports out of the country, and they found a mechanism to blend that back into their price paid to farmers. This is being petitioned under Section 301 by the National Milk Producers Federation, and we support that action.

I would like to summarize with three things that I have talked about here. That is, USDA must make the corrections in the administration of DEIP that I have discussed in the testimony. We must vigorously pursue the elimination of export subsidies such as Canada as initiated following the implementation of GATT.

The European Union subsidy program must be scrutinized very carefully as well. We ask that dairy trade issues become a very high priority in the next WTO round of negotiations. We felt that this was not necessarily Uruguay Round.

I will be glad to answer any questions. Thank you for the opportunity to testify.

Senator GRASSLEY. Thank you, Mr. Peterson.

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

Senator GRASSLEY. Mr. Kleckner?

STATEMENT OF DEAN KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, PARK RIDGE, IL

Mr. KLECKNER. Thank you, Mr. Chairman. I am Dean Kleckner, the elected president of the American Farm Bureau, but in my real life a North Iowa farmer, as you are, Mr. Chairman, in your real life. We are in neighboring counties.

International trade agreements are critical to the success of my farm, as they are for your farm, Mr. Chairman, and every farm in the country. WTO is now celebrating 50 years of meeting its goals that were laid out in the preamble to the GATT in 1947, and they said this: "Trade liberalizing should be conducted with a view to raising the standards of living, ensuring full employment, and a large and steadily growing volume of real income." That is what the GATT said 50 years ago, and it is still there.

World trade flow has increased 14 times since 1950. That is not agriculture, that is total—and now exceeds \$6 trillion. It did that for the first time in 1995. The WTO placed the trading system on a firm foundation of rule of law rather than the rule of power.

I attended the first ministerial meeting of the WTO in Singapore last fall, I guess it was, and plan to attend the upcoming meeting in Geneva in mid-May. In Singapore, we went with a twofold agenda. One, it was important that the WTO agenda proceed as scheduled for 1999 to renegotiate the GATT agricultural agreement.

The second message was to our negotiators that U.S. agriculture must be taken seriously as a player in the world and our government must be willing to commit to resolving agriculture's trade problems.

Too often agriculture is taken for granted by policy makers who tend to focus on flashier issues like information technology, intellectual property rights, or on social concerns like labor standards and environmental issues. They are important issues, but they must be preceded by economic developments that meet the people's basic needs for food and employment.

I think two significant things happened in Singapore that are crucial to agriculture. First, the schedule for 1999 was kept on track, number one. Two, they said to begin preparatory work in 1997 to get ready for the 1999 negotiations. We have not moved forward, I believe, with the preparatory work as early as we should have.

We are pleased now that the administration has finally named the Agricultural Technical and Agricultural Advisory Committees. We went over a year without them. That meant throughout 1997 they were not in place as we talked about fast track and some of the disputes with the European Union and others around the world.

I just ask, what can we expect to accomplish without fast-track negotiating authority? I just find it unconscionable that this administration and this Congress has not been able to move beyond the rhetoric to the reality of why we have the lowest unemployment and the soundest economy that any of us can remember, and we do have. Exports mean more jobs and better income, and that seems to get lost in the shuffle somehow.

Without fast track, we are worried that talks will not start on time or they will proceed without the U.S. at the table. If that happens, we have given up our leadership role and we are likely to get agreements coming out of the upcoming round that are bad for this country if we are not there.

I recently led a team of Farm Bureau leaders to the fourth Business Forum of the Americas that preceded the ministerial meeting in Costa Rica a few weeks ago. We believe that we must be a part of the process if trade is going to work for our industry.

Mr. Chairman, we are especially concerned about the European's commission's proposal to move forward in the new transatlantic marketplace, and I heard your comments on that, and many others' comments, this morning.

The agenda the commission wants may include agriculture, maybe, but may not, and probably does not, include all the sectors that agriculture needs to have on the table. The Farm Bureau is strongly opposed to moving forward with this transatlantic marketplace effort if the EC proposal is such that all agricultural issues are not on the table.

USDR has told me, as they have told you, that we are included. I just need to be reassured that this package is not just food safety or biotechnology, but a comprehensive agricultural package. Without it, I have told Ms. Barshefsky, the Farm Bureau will oppose it, and I do not care how good the rest of the package is. We are going to oppose it if agriculture is not included comprehensively.

To go on, there are very specific issues facing WTO that are of great concern to us, and most of them have been mentioned: resolution of the state trading enterprise issue, the trade distorting practices that they use; two, and this is, to my estimation, extremely important, tariff reduction on the way to total elimination by a date certain, and this includes export subsidies.

I think if we could do one thing, that ought to be what we do in the next round and take 10 or 15 years to do it. Do it a percentage each year. Do not do 2 percent a year for 9 years, and 82 percent the tenth year. That is not going to happen. It will not work that way.

Changes in the dispute resolution process that addresses the needs of perishable commodities. When our crops are rotting in the field, an 18-month process does not work when you need 2 or 3 weeks.

The place of biotechnology and GMOs must be resolved. Sanitary and phyto-sanitary, as Ann Veneman and others have mentioned that are not based on sound science. Accession of China, Russia, and others into the WTO is important, but all countries gaining accession to the WTO must abide by the rules. China needs to be brought into the WTO, but when it can commit to opening its market through the rules-based system and only as a developed nation, not as a developing nation.

The Farm Bill moved agriculture away from government support and toward dependence on the market system. But now we are not having the follow-through that was promised. To compete, we must have fast track, economically stable trading partners, and that includes IMF funding to get them going again. We must have a well-funded USDA, which means MAP, market access program, and now we are talking about cutting that out. Foreign market development programs. We have got to maintain the leadership role.

I wish Senator Conrad were here. Some of the problems—and they are special in North Dakota, I agree—we are having as farmers is we are not getting the follow through that we were promised as we move toward the Freedom to Farm program, which most farmers do still support.

We remain committed at the Farm Bureau to the pursuit of freer trade and expanding trade agreements. There are disputes out there. Senator Conrad is one that mentioned that, and Senator Baucus. I hear it too when I go to North Dakota and Montana, and some in Minnesota, Idaho, and Washington State, more along the borders.

There are issues that have got to be resolved. Canada put on a 350 percent tariff, well beyond what any of us thought it would be, on some dairy products and some poultry products. I think we ought to start the next round of talks with a position that the maximum tariffs allowed are 50 percent. Then we take 10 years or so, or 15 years at the maximum, to wind them down to zero. But start

them at 50, not above that. And we have got the unresolved disputes with the European Union that have already been enumerated.

The Uruguay Round, Mr. Chairman, was the beginning. We have got to move forward from that in the WTO starting in 1999. Thank you for holding this hearing.

Senator GRASSLEY. Thank you, Mr. Kleckner.

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

Senator GRASSLEY. Mr. Johnson? Thank you. Welcome.

**STATEMENT OF CHARLES JOHNSON, CHAIRMAN AND CEO,
PIONEER HI-BRED INTERNATIONAL, INC., DES MOINES, IA**

Mr. JOHNSON. Good morning, Chairman Grassley. I am Chuck Johnson, chairman, president and CEO of Pioneer Hi-Bred International, Des Moines, Iowa. We are in Senator Grassley's district. Thank you.

We thank you for the opportunity to comment on the World Trade Organization agricultural trade negotiations, and particularly the role of biotechnology in our trading regime.

I would like my formal remarks to be entered into the record and I will just try and briefly summarize them here.

I would like to say a quick word about our company. Pioneer is the world's largest independent agricultural seed research production, sales, and marketing organization. It is recognized as a world leader in agricultural and plant sciences. Our major seed products in North America include corn, soybeans, sorghum, sunflower, canola, and alfalfa.

At Pioneer, we probably view the world trade markets and the importance of the Uruguay Round a bit differently than others. We see the world market on two levels. First, is the company and our products. At the seed level, the export market is not particularly large, perhaps \$150 million. We also view it from the level of our customers, the American farmer, who exports the products produced from our seed. Here we are talking billions of dollars, as has been noted earlier in the comments in this forum.

My comments are designed to address you today from both levels, from the perspective of our own operations and from the perspective of our customers.

As the United States prepares for the 1999 WTO multilateral trade negotiations on agriculture, I ask that our negotiators remember three key principles which Pioneer and the U.S. farmer must remember every day.

The first principle, is that we must produce what people want. The second principle, is we must have the freedom to operate or sell what we produce. The third principle, is that each of our respective customers must have the ability to buy; after all, we have to have money to move from need to demand. It is the demand that will drive our agricultural prosperity in this country and other producing nations. We believe our negotiators must enter into the upcoming negotiations with these three simple principles in mind.

In the game of winners or losers, I am afraid the losers in this scenario will be the backbone of the U.S. agricultural industry, the

farmer, as well as the growing populations around the world who must be fed if we do not keep those principles clearly in mind.

I was a member of the U.S. delegation to the World Food Summit in Rome in 1996, and I am very aware of the task we face in meeting our responsibility to help the world feed itself.

Like others, I believe biotechnology will play an important role in this endeavor as we attempt to feed considerably more people from the same, or fewer, units of land.

The time is short and I will not develop the principles at great length, but I would suggest a short list of things that can be done that are consistent with these principles. As has been said many times in this hearing, Congress must approve fast-track trade authority for the United States.

The 1999 WTO negotiations and the intellectual property negotiations which will begin this year are two areas in which the ability to negotiate with fast-track trading authority will specifically benefit agriculture. In each of these areas the United States is the most competitive Nation in the world and stands to benefit the most from writing the rules of trade.

Without fast track, we will not be a strong, or even credible, participant during these discussions. Other countries will not negotiate with the assurance that the deal will be the deal without fast track.

Second, as we enter this round of multilateral trade negotiations on agricultural trade we urge the administration not to use agriculture as a bargaining chip in discussing other non-agricultural sector negotiations. This has been discussed thoroughly at this hearing and we agree with that fully.

The U.S. producers are always worried, as the U.S. enters into multilateral trade negotiations, that agricultural interests may be traded off in an effort to get a deal in another sector. This must not be allowed to happen.

Third, I think Congress must approve without delay or any unreasonable restrictions or conditions measures to replenish the International Monetary Fund accounts. Clearly, some of the problems we are hearing today are as a result of the slow-down or the decline of the economies in Asia, and these must be addressed. That is one of the tools we have to address it if we are going to, in fact, be able to realize the benefit of trade, particularly in agriculture, and we need to recognize that.

I think, fourth, the Senate must ratify the Convention on Biodiversity. This is too important a treaty for U.S. agriculture to have our government on the sidelines as the protocols are negotiated.

It has too many implications to our ability to move agricultural seed, let alone the possibility that it could restrain trade and agricultural commodities if we do not clearly define those protocols in a manner that is of support for the interests of the U.S. and world farmers.

I think it is also equally important that the Senate ratify the 1991 International Convention for the Protection of New Varieties of Plants, better known as UPOVP. We have our laws in conformity with it, but we have never ratified it.

If we are going to be a leader in the argument for the protection of intellectual property, it seems clear that we ought to also recog-

nize the importance of our having ratified this important piece of legislation for plant intellectual property protection. I think failure to do that is inconsistent with our position as a leader in the protection of intellectual property.

I think we have talked a great deal about the sanitary and phyto-sanitary agreement. We would strongly suggest that all member countries implement the agreement and abide by the intent that it be science based and it not be allowed to be used in any way that is a nontariff trade barrier, which we see significant evidence of that taking place.

Finally, I think we should, as I indicated earlier, relative to the SPS, that we have in conjunction with that clearly defined, mutually acceptable standards between countries as to how we evaluate the safety and the risks associated with the products that are being exported and that these be consistent across countries and again not be an artificial trade barrier.

I thank you for the opportunity. We strongly support the comments that have been made at this hearing that we have a very strong, a very clear, and a very aggressively pursued trade policy position relative to agriculture, and that it be a center point, not a side issue, of the trade negotiations.

Senator GRASSLEY. Thank you, Mr. Johnson.

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

Senator GRASSLEY. Mr. Campbell?

**STATEMENT OF BILL CAMPBELL, CEO, CENTRAL SOYA, INC.,
ON BEHALF OF THE NATIONAL OILSEED PROCESSORS ASSO-
CIATION, FORT WAYNE, IN**

Mr. CAMPBELL. Thank you, Mr. Chairman. I am appearing before you today on behalf of the American Oilseed Coalition and the National Oilseed Processors Association. The American Oilseed Coalition, or AOC, as we call it, includes both producer and processor organizations. Members of this coalition are the American Soybean Association, the National Sunflower Association, the U.S. Canola Association, the National Cottonseed Products Association, and, of course, NOPA.

The U.S. oilseed industry is one of the most economically significant sectors in the entire U.S. food production complex. The output of this industry in recent times, as to its value, exceeds \$31 billion. While the domestic market is still the largest outlet, our exports have reached the \$12 billion mark. Continued growth for our industry depends on continued growth in our exports.

Our interest is just broader than oilseeds. Our industry benefits from exports of pork, exports of poultry, and exports of processed foods that contain vegetable oils. As an example, every ton of pork exported is equivalent to 45 bushels of soybeans exported.

The Uruguay Round established a framework for agricultural trade liberalization and has taken the first steps in reducing import barriers, export subsidies and trade distorting domestic supports.

But this, of course, is not the end of the reform process for agricultural trade. We are on the threshold of the next round of nego-

tiations, and I would like to offer the views of NOPA and the AOC on the priorities for our industry as these negotiations begin.

The cornerstone of our objectives is something we call the level playing field initiative. This proposal calls for the global elimination of all trade barriers on oilseeds and their product. This includes tariffs, tariff rate quotas, export subsidies, and differential export taxes.

NOPA and the AOC have been widely promoting the level playing field since the latter stages of the Uruguay Round and I am pleased to report that a number of countries have signed on in support of a level playing field. It is also noteworthy that last November the APEC chose oilseeds and their products as one of the 15 sectors for eventual trade liberalization in that forum.

The U.S. industry has been the clear leader in promoting this concept in the last years and, as we approach the 1999 negotiations, we deeply appreciate the support of the government as it joins us in a vigorous campaign to achieve this objective.

Let me touch quickly on some of the specific objectives within the broad context of a level playing field that we hope to achieve. First, export subsidies. While these were addressed in the Uruguay Round, some practices escaped or were overlooked.

In our view, the most trade distorting practice still in play is the use of differential export taxes. It is essential to the U.S. industry that this example of protectionism be prohibited going forward. Our ability to compete for export markets has been seriously undermined by those who use this device.

With that in mind, we applaud the recent decision by Brazil to discontinue this practice and we ask for the government's support in bringing about an end to its use by Argentina.

Next, we have market access objectives. In the Uruguay Round some progress was made in reducing tariffs, yet they still distort or prohibit trade between the U.S. and many importing nations. Both India and Japan impose prohibitive tariffs on soybean oil, for instance. A phase-out of tariffs such as these is an important objective for us in this next round.

Another market access issue others have talked about is the agreement on sanitary and phyto-sanitary measures. This was one of the key successes in the Uruguay Round and we have to remain alert to any attempts to impose unjustified, unscientific restrictions on U.S. exports.

Another access issue is the fair treatment of trade and products containing genetically modified organisms. We have to guard against the imposition of trade barriers such as unnecessary labeling requirements that some countries would impose. Sound science must be adopted as the only standard by which trade on these products can be regulated.

Everything I have said to this point is a request for other countries to take steps to open their markets or to stop subsidizing their exports. A level playing field initiative includes the belief that the U.S. can, and should, put its own practices on the negotiating table as well.

This would include, for instance, the use of the export enhancement program, as well as our own tariff structure. I can tell you that our industry stands ready to do that, just as long as we have

a complete buy-in and the full participation from all the world's leading participants.

Finally, as everyone else here has said today, before we even begin the 1999 negotiations there is one thing we absolutely have to do, and that is pass fast track. U.S. agri-business depends on foreign trade and we have to send our negotiators to the table with all the strength we can give them. Without fast track, we are conceding our leadership position in the WTO and our industry just has too much at stake to let that happen.

Thank you, Mr. Chairman. Our organizations appreciate the opportunity to share our views with you.

Senator GRASSLEY. Thank you.

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

Senator GRASSLEY. I know it is late, but I would like to ask some questions, if I could. Is there anybody that is under a time constraint? It probably will not take too long.

I will start with you, Mr. Johnson. As a member of the Agriculture Committee, last year I heard testimony that suggested that food production would have to triple in the next few decades in order to feed what we would expect to be a world population nine billion people.

There are basically two ways to do it. We can continue to cut down the rain forest and plow under other environmentally sensitive land to produce food, or the preferred method is to increase the production on existing acres. That is what you are suggesting, and Pioneer Hi-Bred is suggesting that we currently should continue to do.

I view biotechnology as not only environmentally friendly, but a moral necessity. It is the only way we will be able to feed a growing hungry population of a developing world. That is why I think it is ironic that so many trade barriers have been targeted at these biotechnology products. One reason may be that the technology is so new our trade negotiators could not have anticipated these potential problems even 5, 10 years ago.

As chairman and CEO of your company, and it is on the developing, cutting edge of technology, what do you think agriculture will look like in the next 10 years and what advice would you give to our trade negotiators in 1999 in order to prepare for the expected advancement in technology of agriculture?

Mr. JOHNSON. Well, we are, Mr. Chairman, in a significant rate of change relative to the technologies and their application to agriculture. But I would anticipate that if we looked 10 years into the future that virtually all of the commodities in the feed grains area—in particular, corn, soybeans, perhaps sunflower, and some of the others—will have some element of genetically modified organism characteristic to them, whether it be the BT in corn, whether it be the herbicide tolerance in some of the plants, whether it be modifications to the grain.

I think one of the significant opportunities we have to enable ourselves to feed the numbers of people we are talking about 20, 30, or 40 years from now off of basically the same acreage that we are cultivating today will be the ability to increase the productivity

both in terms of grain yield per acre and the productivity of the grain relative to its conversion into meat or other products.

Almost all of that will be as a result of some genetic modification of the plant or of the grain that it produces. We are going to have to recognize that it is going to be the material that is in trade and we are going to have to recognize mechanisms that allow that to move freely and to recognize how to assure that it moves freely with safety, comfort, and the population understanding that, in fact, this is a safe food.

Senator GRASSLEY. As the head of a major company like yours is doing so much business internationally, you obviously negotiate and interact with officials of the European Union, and you have had considerable experience in that area.

And particularly after hearing the earlier discussions that we had in the first panel on whether or not we should move ahead with a new transatlantic marketplace on the eve of our next agricultural discussions just 15 months away, what advice would you give the U.S. Trade Representative on how to proceed in negotiating the best agreement with agriculture?

Mr. JOHNSON. Well, there is a strategy that is known as divide and conquer. I think the strategy that appears to be on the plate for the European Union relative to that proposal would be to say if we could divide the United States into segments we can deal from our strength and eliminate ours, and that is to our advantage. I think that is exactly what they are doing.

I think it would be very unwise for us to talk about one sector of the economy and leave agriculture out, or several sectors of the economy and leave agriculture out, and expect out of that discussion that agriculture is going to get a fair shake. I think the comment was made earlier by one of the presenters that we should say no to that, and I agree with that.

Senator GRASSLEY. All right. Mr. Campbell, obviously you put forth an initiative called the level playing field. At least on first look, it is something that impresses me with the hard work your industry has done. You seem to be way ahead of others in preparing for not only the 1999 negotiations, but also for APEC and the Free Trade Area of the Americas.

So, as you push this agenda, and probably in different venues, can you tell us how the lack of fast-track authority has affected your efforts to achieve the objectives set out in your level playing field initiative and how will it affect the negotiations within the WTO starting for 1999?

Mr. CAMPBELL. Well, I think we have not seen the impact yet of the lack of the presence of fast track, in that the debate on that issue has been recent enough that moving forward a level playing field has not really felt the impact of it.

As we do go forward and we get to the 1999 negotiations, if we do not have fast track, then, of course, we are very concerned that the ability to push that initiative to a conclusion is seriously jeopardized. Our reasons are the same as those that have been recited by many others here this morning and we feel that the fast track issue is a prerequisite, really, to accomplishing the things that seem doable today.

Senator GRASSLEY. Yes. Not to disagree with you, but to supplement what I think you are saying. And I cannot relate specific instances, but I have read of so many specific instances where American agriculture, as well as American manufacturing, have been hurt by the fact that there have been some free trade agreements negotiated. We have been left out. Consequently, we find our people at a competitive disadvantage with certain specific countries.

I have another question related to fast track and that is in regard to there being several options discussed here in Congress to give the President fast-track authority. One option is to approve fast track only for agriculture in anticipation of the 1999 negotiations. Your testimony seems to be a strong endorsement of a multi-lateral, cross-sectoral approach to trade negotiating. How would you view an agriculture-only fast-track initiative?

Mr. CAMPBELL. Well, as most of the others have already commented this morning, we would view it as a very bad way to begin an agricultural negotiation. We have to preserve our leverage points, as others have said, and if we take on only an agricultural negotiation then we start out with a weakened hand. We would not like to see that take place.

Senator GRASSLEY. Mr. Kleckner, I agree with your statement regarding the 1996 Farm Bill. For the first time since I have been in Congress we have recognized that the American farmer must and can compete in the global marketplace.

As a result, we have given him for the first time the tools to compete. Obviously that includes removing government restrictions on planting decisions and the idling of acres, very productive acres. We certainly do not have an over-supply of food in the world. What we have is an over-supply of trade barriers.

I would like to ask you about a recent statement by Secretary Glickman indicating the administration's desire to make changes in the current farm program. What is your view of amending the current farm program, and how would the Glickman proposal affect our farmers' ability to compete in export sales with our competitors?

Mr. KLECKNER. Mr. Chairman, we have got a lot of concerns about the proposal, as I read it. I have not talked to Secretary Glickman about it. I hope to, before long.

We have moved away, in the last farm bill, with a not complete, but a reasonably complete support from agriculture and from farmers away from government management, from micromanaging, from command control, to the open market system.

I think, despite lower prices now—goodness sakes, if you have farmed as many years as I have and as you have, Senator, prices go up and down. We knew they could not stay—at least I knew they could not stay—at the 1996 levels, and even into 1997.

Secretary Glickman, when he was at our National convention in January, commented that had the old Farm Bill still been in place, there would have been no payments made to agriculture in 1996, and hardly any in 1997. I think he said \$8 billion plus of payments that were made that would not have been made under the old Farm Bill.

As a farmer, I have just got to ask myself, I know prices are low now, but what do I do with the money? I knew poor times were

coming. Would I want to go back to that old system and pay the money back that I got in the last 2 years? I think the answer is clearly no.

We simply do not need an overhang of grain over the market depressing prices that we would get, in my view, if we raised a loan rate or even extended the loan period from, is it 9 months currently to the proposed 15 months.

We have got a lot of concerns and questions in this area, although I have to admit that from a farmer that is really suffering, there seems to be a little life preserver, but it is not going to be the life raft that we need. I think there we need to go on to better crop insurance, certainly more research, the areas that are in the bill that have now got the hold in the U.S. Senate.

We need to break that hold some way quickly, this week, hopefully, before that money gets over into the Transportation Bill of, what, \$1 billion, roughly, that would go into research and crop insurance that comes out of agriculture and ought to stay in agriculture.

Senator GRASSLEY. Now, you have expressed our support for the view that agriculture ought to be a part of any trade liberalization negotiations with the European Union. With what you know right now about the EU's proposal and the European Union's failure to comply with these beef hormone and the banana panel decisions, would you advise Charlene Barshefsky to move ahead with this initiative? And how could we, if she decides to move ahead, affect the agricultural talks in 1999?

Mr. KLECKNER. Senator, there is a lot more down side than up side to these negotiations. From what I am hearing and reading with the minimal part of agriculture that would be involved, which would be biotechnology and food safety—and they are important, but they are not really cutting to the core, to the gut issues of subsidies, tariffs, market access, and sanitary, phyto-sanitary, and all the rest of the issues we have talked about—I just do not think we ought to proceed with that. If we cut a deal that leaves out most of agriculture, that takes care of some of intellectual property—I know for Chuck Johnson and for all of us intellectual property rights are very basic, and services, and insurance, and transportation, and all the rest that are out there that have to be negotiated.

If we negotiate something in those areas we have given up the leverage points that we need to get something for agriculture because Europe does not want to deal with agriculture.

I think we are cutting off our nose to spite our face, or cutting our own throats if we proceed without all of agriculture involved. Europe does not want all of agriculture involved. That should be left for the comprehensive WTO negotiations starting in 1999, hopefully.

Senator GRASSLEY. Mr. Peterson, I think it is fair to say that the U.S. dairy industry has not been a major exporter, probably less than 1 percent of our annual production, because I think you have spent most of your time focusing on serving our domestic market.

With the policy changes in the recent farm bills and the increasing import competition in the U.S. market, it appears that the market is increasingly interested in taking advantage of export oppor-

tunities. Is the U.S. industry ready to play a significant role in the upcoming WTO negotiations, and what would you expect to accomplish in these talks for the dairy industry?

Mr. PETERSON. I would say, in answer to your question, yes, we are willing to participate and hope to be a major participant in the future. You are absolutely right that dairy, in the past, has not had a long history of being in the international market as far as the U.S. dairy is concerned.

But the 1996 Farm Bill phases out price supports and it really means that with the efficiencies that we are gaining, as all agriculture is in production with less cows and more milk, that we have actually got to look to new markets. Someone has said that more than 90 percent of all the people that eat in the world are outside of the U.S. So that is the biggest new market.

To emphasize what I said earlier, dairy represents a tremendous value added. Mr. Campbell used statistics to show what putting a bushel of corn into a hog and selling it as pork would do, and I would submit that dairy can do the same thing in increasing the value of our agricultural exports.

The opportunity to do this, although it may be temporarily derailed by the Southeast Asian monetary crisis, is tremendous as people get more money for food and they want to upgrade their diets from a meager subsistence to something that has some added value or additional appeal. We only need to look to countries like Japan and some of those that have changed their diets dramatically to use our value added products. So we in the industry, yes, look at this as a real opportunity.

The Canadian issue, of how they are able to export, how they have actually been able, through their reblending program, to get into those markets. Although Canada is seen as a country with a quota system that takes care of its own, it actually does not because with such a practice they take markets away from free markets in the other part of the world. So we need to address that one. If they can get away with that one, well, why can't we?

Senator GRASSLEY. That is the end of my questioning. I probably will not have any follow-up questions in writing, but you may want to remember that some of the members that could not be here may submit some questions to you.

Also, I would invite each of you to follow up on the Grassley-Kerrey effort to put together a bipartisan plan in order to help with the process of satisfying the people of this country who feel that fast track is a threat rather than a useful tool to help us accomplish our goals of advancing foreign trade.

We would invite you to participate, not only as members of this panel, but any groups in the audience that follow international trade to a considerable extent, because we would appreciate any input, although we will proceed ahead anyway.

So thank you all very much for participating, and I will adjourn the hearing. I thank everybody for their extra time that they gave to this important issue.

[Whereupon, at 12:15 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. MAX BAUCUS

Good morning, Mr. Chairman. Let me thank you for calling this hearing today. As a member of both the Senate Committee on Finance and Committee on Agriculture, I am pleased that we will have an opportunity to discuss our upcoming trade agenda as it pertains to the World Trade Organization.

Agriculture and the World Marketplace—the homefront and the next frontier—no two entities rely on each other more. We produce food to feed the world. And the world buys our agricultural products more often and in greater quantity than cars, semiconductors, apparel and airplanes.

The contributions of agricultural exports to the U.S. economy are impressive. The most recent figures for my state are also staggering. In Montana alone, our ag exports totaled \$850 million—\$746 million in wheat, \$57 million in feed grains, \$11 million in live animals and meat, \$30 million in feeds, and \$7 million in seeds. Montana ranks third in the export of wheat and wheat products, one-tenth of the nation's supply—yet we still can't do business with China due to a phone and unnecessary barrier.

It is evident from these statistics that America's farmers and ranchers depend on foreign trade. However, even with a positive trade balance, our producers continue to suffer because of unfair trade barriers. For instance, after U.S. agricultural exports reached a record \$60 billion in 1996, that figure dropped to \$58 billion in 1997 and remains at that benchmark for this year. Without Fast Track authority, our exports may well remain stagnant.

With that in mind, many farmers and their organizations are concerned that when the U.S. enters the next round of WTO negotiations, the voice of the agricultural community will not be heard. That is a big concern. Many producers agreed to support the current farm bill with the express reservation that the U.S. Department of Agriculture would aggressively seek, secure, and augment foreign markets.

What that means to American farmers and ranchers—producers in my state and across this nation—is simple: Pry open foreign markets to quality U.S. agricultural products.

Clearly, with exports down, farmers and ranchers are beginning to think they are getting the raw end of the deal. I'm starting to think that way, too, as I listen to farmers and ranchers in my state complain about unfair trade relationships and grain dumping. Their voices are starting to get louder—and angrier.

Furthermore, foreign countries continue to impose very stiff barriers on our agricultural products. China, for example, refuses to buy Pacific Northwest wheat, arbitrarily blaming TCK smut as a justification. Closer to home, Canada continues to impose sanitary standards that make it very difficult for our ranchers to sell feeder cattle to feedlots up north. And the European Union has banned American beef, the best in the world, based on unscientific complaints about bovine growth hormone. Clearly, if we can successfully remove these unfair barriers to trade, our farmers will be able to sell more commodities at better prices.

It is also important to remember that U.S. exports are growing three times faster than domestic demand for food, and that more than 95 of our current consumers live outside our borders. Thus, the only sure way to ensure that prices stay strong and farmers and ranchers stay in business is to continue to expand markets outside the United States.

I think we have made some progress. Last December when I was in the Philippines, I met with that nation's Department of Agriculture and Department of Trade. One official said our problem with the exorbitant TRQ (Tariff-Rate Quota)

on pork was an agricultural issue; the other said it belonged with trade. Neither would face the issue. While there is a positive note—this case seems to have resolved itself—the message was still clear—no one wanted to take full responsibility for dealing with the problem. I believe this situation demonstrates that agriculture dangles in the abyss of quasi-foreign trade, quasi-domestic policy. We may have several schools of thought here in the United States. But there is no doubt—our aggressive trade agenda must include agriculture.

Continued support for agriculture in the next round of WTO talks is a priority for me and I hope for USTR. I know that Ambassador Scher and Under Secretary Schumacher are strong advocates for US agriculture. But much more work must be done. We must use our clout as a powerful member of the World Trade Organization to identify and then erase specific barriers to trade. We cannot allow questionable scientific criteria to be used to slam the door shut on American agriculture.

The United States government must guarantee that our trading partners work toward and establish open, transparent markets.

We must aggressively promote our products abroad.

And we must set clear priorities as we press these issues both bilaterally and multilaterally.

Agriculture is an opportunity for U.S. growth. We have the safest, most abundant and most affordable food supply in the world. Our challenge is to maintain that trifecta of production. I believe that we can succeed as we work to build a more open, efficient, and honorable system of foreign trade with ag at the forefront.

Thank you, Mr. Chairman. I look forward to the testimony of our witnesses today.

PREPARED STATEMENT OF HON. SAM BROWNBACK

Chairman Grassley, Chairman Roth, distinguished members of this panel, thank you for providing me with the opportunity to testify before you today on this extremely important issue. As the only Senator to have worked at USTR and as the former Secretary of Agriculture for the State of Kansas, I hope that I will be able to provide the subcommittee with some valuable insight into the importance of agricultural exports to the U.S. economy as well as into the nature of the trade negotiating process.

Free trade has driven U.S. economic growth during the 1990s. The current decade's unprecedented economic growth would never have occurred if we had not created new markets for U.S. products by knocking down tariff and non-tariff barriers to trade. U.S. products are the most competitive in the world. When U.S. products are uninhibited by trade barriers, they enjoy tremendous sales throughout the world.

The success of the U.S. agricultural sector is a great example of what happens when tariffs and non-tariff barriers are reduced. The United States exported more than \$57 billion worth of agricultural products in 1997. Wheat exports totaled more than \$4 billion. Meat exports totaled almost \$4 billion. Exports of coarse grains totaled almost \$7 billion. Kansas, as the number one producer of wheat and grain sorghum in 1997, strongly benefitted from these export levels. Kansas agricultural exports have risen 74% since 1994.

While we should be extremely pleased with the increases that we have experienced in agriculture exports, many foreign barriers to U.S. farm products remain. These barriers unfairly discriminate against U.S. exports and distort the competitiveness of these products. For example, the EU grants export subsidies on a wide range of agricultural products such as wheat, wheat flour, beef, dairy and poultry. The EU has banned the use of specified risk materials (SRMs) and imports of beef produced with growth promoters. The EU has also refused to accept the use of antimicrobial treatments in poultry production, and has blocked U.S. exports of genetically engineered commodities.

The EU is hardly alone in hindering the growth in U.S. agricultural exports. China only permits the import of meats for the retail market on a trial basis. Pork imports in China face import licensing restrictions. Russia lacks a transparent, science-based food inspection system. In addition, both China and Russia purchase many agricultural commodities exclusively through state trading enterprises (STEs) that are not transparent and that do not make purchasing decisions based upon commercial considerations.

It is critical that the United States use all of its available leverage to knock down these and other barriers that limit U.S. agricultural exports. In particular, I would like to discuss two policies that the United States needs to adopt to end unfair trade practices.

First, agriculture negotiations should proceed as scheduled at the WTO under the timetable established during the Uruguay Round. At these negotiations, the United States should take an aggressive posture with respect to tariffs, subsidies, and state trading enterprises. Our goal should be a date-certain for the elimination of tariffs on agricultural goods. We should also strive to wipe out foreign agricultural subsidies. Freedom to Farm liberated farmers across our nation, but it also put them on a glide path that will end most U.S. farm subsidies. Our liberated farmers should not have to compete against unfairly subsidized foreign farmers. In addition, the agriculture negotiations must strengthen the WTO's current inadequate mechanism for dealing with state-trading enterprises. Countries that want to join the WTO must be willing to make their STEs more transparent and subject only to commercial considerations.

Second, the United States must not pursue trade initiatives with the EU or other trading blocs that would under-mine our ability to eliminate unfair barriers to U.S. farm exports. Both Ambassador Barshefsky and Sir Leon Brittain have discussed publicly the idea of negotiating a broad-based agreement to remove trade barriers between the U.S. and the EU. However, they have also made it clear that they have no intention of including agriculture in those negotiations. Mr. Chairman, I can think of nothing that would be more destructive to agricultural communities throughout the United States.

The United States' most vexing trade disputes with the European Union involve agriculture. These disputes should be resolved before the United States makes tariff and other concessions to the EU, not after we have given away the farm. The only way that the United States maintains leverage over the EU on agriculture issues is by applying cross-sectoral leverage. The so-called New Transatlantic Marketplace (NTM) or any broad-based trade deal that excludes agriculture is totally unacceptable.

Clayton Yeutter, the only person who has served as both U.S. Secretary of Agriculture and USTR, has commented on a potential NTM. Ambassador Yeutter has indicated that, for years, the EU has attempted to isolate agriculture from other issues in order to destroy our leverage. According to Ambassador Yeutter, "Where they've successfully isolated agriculture from other trade issues, we've not been able to do much because we've not had much agricultural trading stock of interest to the EU."

Yeutter has also stated that "[o]ne immediate danger may lie in the recent Barshefsky/Brittain discussions under the so-called Transatlantic Dialogue. In my view there is substantial risk that the U.S. will, in essence, be persuaded to isolate agriculture once again. When one looks at the U.S./EU trade agenda, most of the controversies are in the food/agriculture arena—export subsidies, import restrictions, food safety regulations, biotechnology, etc. Agriculture needs to be front and center in any U.S./EU negotiation, not pushed off to the side."

Mr. Chairman, when it comes to the EU, or any other nation or trading bloc, the United States must use the Uruguay Round as a model for negotiations. In the Uruguay Round, everything was on the table, and, as a result, the EU could not ignore our agriculture trading objectives. If Ambassador Barshefsky moves forward with comprehensive negotiations with the EU, or anyone else for that matter, such negotiations and any resulting agreement must achieve our agriculture trading objectives.

Mr. Chairman, you and I have introduced a resolution expressing the sense of the Congress that transatlantic negotiations to reduce trade barriers must include agriculture. You and I have also introduced a bill designed to reform the activities of STEs. I hope that the Senate acts on both of these measures as soon as possible. Such action will send a message to the Administration as well as to our trading partners that the Senate is serious about removing obstacles to U.S. agricultural exports.

Mr. Chairman, thank you again for the opportunity to testify before you today. I look forward to working with you and your colleagues to knock down barriers to U.S. farm exports. We must be vigilant in our efforts to level the playing field for U.S. farmers and ranchers. And we must not allow our trading partners to isolate agriculture by promising to remove barriers in other sectors. Such an action would be bad negotiating policy and even worse trade policy.

PREPARED STATEMENT OF WILLIAM B. CAMPBELL

Thank you Mr. Chairman.

I am appearing before you today on behalf of the American Oilseed Coalition and the National Oilseed Processors Association, or NOPA.

The American Oilseed Coalition (AOC) includes both producer and processor organizations. Member organizations are the American Soybean Association (ASA), National Sunflower Association (NSA), United States Canola Association (USCA), the National Cottonseed Products Association (NCPA), and, of course, NOPA. ASA represents 32,500 farmers in 26 states. NSA represents producers, processor and seed companies in North Dakota, South Dakota, Minnesota, Kansas, Colorado, Texas, and Nebraska. USCA represents farmers and allied industries in North Dakota, Minnesota, Idaho, Montana, Washington, Utah, Georgia, Michigan, Indiana, and Kansas. NCPA represents 30 processors across the Cotton Belt. Finally, NOPA's 15 regular member firms process an estimated 1.5 billion bushels of oilseeds annually at 75 plants in 22 states.

The U.S. oilseed industry is one of the most economically significant sectors in the U.S. food and fiber complex. The value of U.S. oilseed, oil, and meal production exceeds \$31 billion annually. While the domestic market is still the largest outlet for the U.S. oilseeds industry, exports have reached the \$12 billion mark. Continued growth for our industry depends on our continued ability to export. And our interest is broader than just oilseeds and oilseed products. Our industry benefits from exports of pork and poultry as well as processed foods that contain vegetable oils and other oilseed-based products. Every ton of pork exported is equivalent to 45 bushels of soybeans.

The 1996 Farm Bill improved the competitiveness of U.S. oilseed industry by allowing producers and processors to respond to market signals for additional oilseed production. However, domestic policy changes alone will not secure our future. We need global trade liberalization.

The Uruguay Round of trade negotiations established a framework for agricultural trade liberalization and took the first steps in reducing import barriers, export subsidies, and trade-distorting domestic supports. By January 1, 2001, countries will have fully implemented their Uruguay Round commitments. However, this is not the end of the reform process for agricultural trade.

The Uruguay Round Agreement on Agriculture commits countries to a new round of negotiations beginning in 1999. I would like to offer NOPA's views on the priorities for the 1999 negotiations.

Since the conclusion of the Uruguay Round the AOC has been promoting the Level Playing Field Initiative, or LPF. The LPF calls for the elimination of all barriers to trade in oilseeds and oilseed products globally. It encompasses tariffs, tariff-rate quotas, export subsidies, differential export taxes, and other trade-distorting measures. The LPF would increase global consumption of oilseeds and oilseed products and would lead to an increase in U.S. exports.

We have been working with our counterparts in other countries to develop multilateral support for the LPF initiative. The momentum behind the LPF was given a boost in November 1997 when the APEC Ministers approved oilseeds and oilseed products as one of 15 sectors for eventual trade liberalization. Although the Asia Pacific Economic Cooperation forum is not global, it does include all but a few of the largest producing and trading countries in the oilseeds and products sector. Therefore, a commitment to liberalization by APEC members would help to launch the LPF as one of the key initiatives in the 1999 negotiations. Our industry is working closely with the U.S. government as well as processor and producer organizations in APEC countries to advance the LPF within APEC.

The ultimate success of the LPF initiative, which we feel is vital to the continued prosperity of the U.S. oilseeds and products sector, depends on the 1999 negotiations. The U.S. industry has taken the lead in promoting the LPF initiative internationally. We now look forward to U.S. Government taking the lead in setting the agenda in the WTO.

The 1999 negotiations should follow the "built-in agenda" from the Uruguay Round Agreement on Agriculture—Market Access, Export Subsidies, and Domestic Support. The work of establishing the framework for reform has already been done. The question for 1999 is, based on that framework, how much further toward complete liberalization of agricultural trade can we go.

In the area of market access we need to continue to bring down tariffs and open-up markets. Prior to the Uruguay Round, quotas and other non-tariff barriers in agriculture were permitted under the General Agreement on Tariffs and Trade. The rules changed in the Uruguay Round Agreement and non-tariff barriers are now prohibited, but we are still faced with very high tariffs in some countries. India, for example, has a bound tariff rate of 30% on soybean oil imports. In sectors other than oilseeds and products, some countries apply tariffs well over 300%.

Negotiations on tariffs should follow the formula approach. As a general approach, the Uruguay Round model—an overall average cut with a minimum reduction for each tariff line—has worked well and would be worthwhile to pursue in 1999. How-

ever, even a substantial cut of 50% may not increase market access where tariffs are 200 to 300%. In the case of such prohibitive tariffs, we may want to consider negotiating a maximum tariff rate.

The LPF initiative calls for the harmonization and eventual elimination of all tariffs for oilseeds, oilseed meals, and vegetable oils. Tariffs for oilseeds and products should be harmonized at low levels as an intermediate step toward full liberalization, but in no case should tariffs be increased above current levels.

The Uruguay Round resulted in significant reductions in export subsidies. Our objective in the 1999 negotiations should be to continue the reductions. We believe the time is ripe for an agreement to eliminate export subsidies, and we would urge the U.S. to set as its objective elimination of export subsidies by the end of the implementation period of the next WTO Round.

While explicit export subsidies were successfully addressed in the Uruguay Round, other trade-distorting export measures were not. Specifically, differential export taxes and the practices of exporting state-trading enterprises were not disciplined. The U.S., like other countries that have accepted disciplines on their use of export subsidies, should demand that countries employing differential export taxes phase them out, and that state-trading enterprises should not be allowed to maintain export monopolies.

The LPF initiative would require the elimination not only of export subsidies, but differential export taxes and other trade-distorting practices as well. Argentina and Malaysia, both major vegetable oil exporters, have been using differential export taxes for years to support exports. Indonesia has recently begun using the same practice. Brazil, another major exporter, recently eliminated its differential export taxes.

In the area of domestic support, perhaps the most significant goal for the 1999 negotiations could be protecting the integrity of the Green Box—that is, the rules for determining which domestic support policies are not trade-distorting and are therefore exempt from reduction commitments. Some countries may argue that support provided to agriculture that is tied to environmental, social, or other policy objectives should be exempt from disciplines. In our view, the Green Box is sufficiently large to allow for such policies. Support can be provided for environmental, social or other objectives as long as it is not tied to production. In other words, supports must be decoupled from production.

Other issues that will be important for the U.S. oilseeds industry in the 1999 negotiations are the Agreement on Sanitary and Phytosanitary Measures (SPS), rules for trade in agricultural products containing genetically modified organisms, the treatment of developing countries, and reform of anti-dumping measures.

The United States won a hard-fought battle in the Uruguay Round to keep non-scientific concerns out of the SPS Agreement. We need to remain vigilant in the 1999 negotiations against efforts to re-open that issue. The SPS Agreement was one of our key successes in the Uruguay Round, but we have to be aggressive in enforcing the rules to ensure that countries don't impose unjustified, unscientific restrictions on U.S. exports.

With respect to products containing genetically modified organisms, the lack of internationally accepted scientific standards or guidelines hampers the effectiveness of the SPS Agreement and other WTO rules. In our view, this issue needs to be discussed during the Triennial Review of the SPS Agreement, which is taking place this year, with a view to including trade in GMOs on the agenda for the 1999 negotiations. An early start to a discussion of the GMO issue is needed to ensure that the international trade rules for GMOs are set by the WTO and not by environmental treaties or agreements such as the U.N. Biosafety Protocol, which is currently being negotiated without full U.S. participation.

In the Uruguay Round Agreement, developing countries were allowed to undertake smaller reduction commitments over a longer time period. We need to encourage the more full and active participation of developing countries—particularly those who are significant traders—in the 1999 negotiations. We also need to consider whether specific criteria for developing country status should be developed.

The antidumping measures agreed in the Uruguay Round are biased in the direction of protectionism. This is particularly true for agricultural commodities, which are subject to ongoing price fluctuations as global supply and demand strive to remain in balance. Since export sales frequently are made at times when market prices are low, the formula used to determine whether products have been dumped often concludes erroneously that they have been. With the United States being the world's largest agricultural exporter, our country has a special interest in reforming antidumping rules so they cannot be used to thwart open trade in agricultural commodities.

As part of the process of negotiating reforms in other countries, we must be willing to accept additional reforms in U.S. policies. For instance, this may include further reductions in the U.S. soybean oil tariff.

In our view, global trade liberalization for oilseeds and products can only be achieved through the WTO process. Bilateral trade and regional trade agreements are important market opening efforts, but they cannot substitute for a global multilateral trade negotiation. We also firmly believe that to be successful for U.S. agriculture, the 1999 negotiations should not be limited to agriculture and one or two other sectors, but should cover all sectors. Comprehensive, cross-sectoral negotiations give the U.S. the greatest possible leverage because major importers of agricultural products—like Japan—will only have an incentive to negotiate on agriculture if there is the possibility of trade gains in sectors other than agriculture where they have an export interest.

We live in a global economy where sectors and countries are interconnected. We cannot isolate some from others—either countries or sectors—and still achieve our objective of global trade liberalization. And our industry needs global trade liberalization to continue to expand and thrive.

In the last few years we have seen progress in some countries in reducing government support in the oilseeds sector. In the United States the 1996 Farm Bill removed distortions in the market caused by domestic support policies. Brazil has eliminated its export taxes. The European Union has limited support for oilseeds production to comply with the Blair House Agreement and is now considering further reducing support as part of its Agenda 2000 reform program. An agreement on the LPF initiative in the 1999 negotiations would consolidate the progress we have made to date and level the playing field for the U.S. oilseeds industry in the global market.

However, before we begin the 1999 negotiations there is one thing we absolutely have to do. We have to pass fast track. To maintain its preeminent position in world trade, the United States has to take a leadership role. Without fast track authority we are severely handicapped and we will eventually forfeit our leadership in world trade and in the WTO. We must not allow that to happen. U.S. agriculture, indeed the entire U.S. economy, has too much at stake. We are too dependent on trade to risk losing control of our future. We urge the Congress and the Administration to get together and pass fast track legislation as soon as possible. Thank you.

PREPARED STATEMENT OF HON. ORRIN G. HATCH

Mr. Chairman, I want to commend your initiative in organizing this hearing. U.S. agricultural trade is too important to our economy to enjoy anything less than our closest scrutiny regarding the ability of our farmers and ranchers to compete in the global marketplace.

We all know the statistics: 10 percent of all of our exports are from American farms, including my own state of Utah which sends the same percentage of its farm production going overseas. Farm exports give us a \$21 billion surplus which ought to command the attention of those who wring their hands over the U.S. trade deficit. And agricultural exports touch every farm family in a way that few other merchandise exports do. According to figures from the Departments of Agriculture and Commerce, one in three cultivated acres on our farms and ranches generate exports; those exports generate 30 percent of gross cash receipts for farms and ranches—which is more than double the reliance of any other business sector on the export trade.

But, Mr. Chairman, the very need for this hearing suggests that all is not well. We know that we face substantial numbers of complex tariff and non-tariff as well as other structural barriers to American agricultural exports. I am certain that we will hear much on market access and related competition issues from today's witnesses.

For my part, I want to ask Ambassador Scher, the lead administration witness, to clarify U.S. agricultural trade policy with the EU.

I have heard a rumor that the administration, in its talks with the EU, intends to take two actions which trouble me a bit: first, that the administration intends to focus more on regulatory barriers at the expense of tariffs and subsidies. And, secondly, that the U.S. will not encourage bilateral negotiations on subsidies and tariffs before the agriculture talks with the WTO begin in 1999. I would be pleased to have written responses to these questions.

I thank the chair.

Testimony of

Charles S. Johnson
Chairman, President and CEO
Pioneer Hi-Bred International, Inc.
Des Moines, Iowa

before the

Senate Finance Subcommittee on International Trade
April 21, 1998

Good morning, Chairman Grassley. I'm Chuck Johnson, Chairman, President and CEO, of Pioneer Hi-Bred International in Des Moines, Iowa. I thank you and the other members of your subcommittee for this opportunity to comment on the upcoming World Trade Organization (WTO) agricultural trade negotiations, and the role of biotechnology in our trading regime. I'd like my formal remarks to be entered into the record, and I'll briefly summarize those remarks for you this morning.

First, let me offer a quick word about our company. Pioneer is the world's largest independent agricultural seed marketing, sales, production and research company. It is recognized as a world leader in agriculture and plant sciences. Our major seed products in North America include corn, soybean, sorghum, sunflower, canola, and alfalfa. We were founded in 1926 by a great Iowan, Henry A. Wallace, an agricultural visionary who went on to become U.S. Secretary of Agriculture and Vice President in the Franklin Roosevelt Administration. Wallace and the others who created Pioneer to commercialize hybrid corn seed had a genuine interest in using plant genetics to help the people of the world feed themselves.

At Pioneer, we probably view world trade markets and the importance of the Uruguay Round a bit differently than others. We see the world market on two levels. First, is the company and our products. At the seed level, the export market is not very large – perhaps \$150 million. We also view it from the level of our customers, the American farmer, who exports the products produced from our seed. And here we're talking billions of dollars. For example, last year the corn export market alone was estimated at \$1 billion. As such, I will be addressing you today from both levels – from the perspective of our own operations, and hopefully, from the perspective of our customers.

As the United States prepares for the 1999 WTO Multilateral Trade Negotiations on Agriculture, I ask that our negotiators remember three key principles which Pioneer and the U.S. farmer must remember every day:

- The first principle is we must *produce what people want*.
- The second principle is we must have *the freedom to operate or sell*.
- And the third principle is each of our respective customers must have *the ability to buy*. It takes money to move from need to demand.

We believe our negotiators must enter into the upcoming negotiations with these three simple principles in mind, or we have the chance of getting overrun by issues we won't be able to control. In the game of winners and losers, I'm afraid the losers in this scenario will be the backbone of the U.S. agriculture industry -- the farmer -- as well as the growing populations around the world who must be fed.

I was a member of the U.S. delegation to the World Food Summit in Rome in 1996, and I am very aware of the formidable task we face in meeting our responsibility to help feed the world. Like others, I believe biotechnology will play an important role in this endeavor as we try to feed more and more people on fewer and fewer acres. Everyone at Pioneer remains guided by Henry Wallace's vision seventy years later – helping the people of the world to feed themselves.

We believe the ability to meet this enormous challenge is interwoven in the three principles I mentioned – we must provide what the consumer desires, we have to be able to sell and deliver our products, and those around the world must be able to buy the products.

Producing What People Want.

Mechanization and chemicals revolutionized how we farm. Biotechnology will help revolutionize what we farm. This new era is just beginning. We envision farmers around the world growing customized crops that benefit people and businesses across the agri-food chain. Today, it is a better corn. Tomorrow, it will be the delivery of better food and feed nutrition, improved fibers, medicines, and many industrial products while protecting our environment. In its truest sense, these advances will offer all of us better things for better living.

To date, biotechnology and the debate around it has not centered on increasing the quality or uses of grains and oilseeds to improve the food supply, but rather on the delivery of better pest and weed control through genetics. These environmentally friendly and cost-effective options are important, and are proving to increase yields and provide more value for farmers.

Yet our vision at Pioneer, with our alliance with DuPont, goes a step further by focusing on improving crops to make them better raw materials for feed, food and industrial applications. We believe this focus on the crop output side will directly benefit the consumer. Producing what people want.

And the future is very bright for these value-added crops, judging by the enthusiasm expressed to us by our customers. They are telling us they want these improved value-added seed products. In 10 years, I believe value-enhanced corn will occupy 25 percent of the corn production area in the United States. Today the value of the U.S. corn crop is about \$25 billion at the farm gate. The National Corn Growers Association believes the value for U.S. corn will increase to over \$40 billion early in the next century. Most of this increase in value will come through biotechnology's ability to fundamentally change and improve the crop as a raw material for feed, food and broad industrial product uses. In soybeans, we envision similar growth opportunities, with a minimum of some 20 to 25 percent of U.S. soybean acres planted to value-enhanced soybean varieties.

I've devoted some time about where we view U.S. agriculture is headed because I believe it is very important in helping set the stage for what must be addressed during next year's round of agriculture negotiations on trade access and sanitary and phytosanitary rules. Which leads me to my second principal – we must have the freedom to operate or sell our product.

The Ability to Sell.

This new era of agriculture we are entering requires a greater ability to operate around the world. As such, we feel the 1999 negotiations should seriously look at emerging issues that have arisen since the negotiations concluded in 1993 regarding our ability to move our products around the world and our customers ability to sell their harvests around the world.

We would like the WTO negotiators to take a page from Congress when in 1996 you approved the Freedom-to-Farm Act. This historic moment for U.S. agriculture took the planting decisions away from the government and placed them squarely in the hands of the producer. In 1999, we would like the WTO negotiators to adopt a Freedom-to-Operate concept. This would assure Pioneer that the innovative products we develop, and which are grown by our customers, can be sold throughout the world.

And this is a critical point, given there are only two places our customers can obtain income – the government, and the marketplace. Since the decision has been made to phase out direct government price supports, that lost income must come from the marketplace. And I don't need to remind you the U.S. farmer was promised a significant portion of that income would be from the international market.

What are some roadblocks to Pioneer's and our customers ability to operate freely around the world and to sell our products? While the list is long, and becoming longer, I will

focus this morning on a couple of areas which are rapidly becoming barriers to trade: questionable sanitary and phytosanitary restrictions and the scope of non-trade related negotiations or agreements.

Unjustified Sanitary and Phytosanitary Barriers

Let me first address unjustified sanitary and phytosanitary barriers. As the world's largest plant genetics company, we have to focus much of our attention on the rules for approving products from genetically modified organisms (GMO), and the rules for the international trade of these products.

The WTO Sanitary and Phytosanitary (SPS) Agreement was negotiated to ensure that WTO members would not impose protectionist trade barriers disguised as SPS measures. Although not yet fully implemented in every WTO member country, we view the SPS Agreement as a positive development because it requires that any trade restriction to protect human, animal and plant health and life must be based on science, rather than tradition or emotion.

Unfortunately, as some of our trading partners are beginning to develop their environmental and food safety regulations and regulatory processes covering GMOs, they are raising a number of issues we find troubling for the American farmer and plant genetic companies. In fact, a recent General Accounting Office (GAO) report indicated that there are a growing number of unjustified or phony sanitary and phytosanitary regulations being developed by our trading partners intended only to restrict U.S. agricultural products. It is estimated these non-science based regulations restricted nearly \$5 billion of U.S. agricultural exports in 1996.

It doesn't stop there though. Many of our foreign partners, along with some international organizations, are suggesting we need to reopen the SPS agreement to account for consumer concerns as well.

Make no mistake - unfair, delayed or complicated product approval decision-making processes based on bogus sanitary or phytosanitary regulations by our foreign partners hurt U.S. producers. The promise of producing greater yields at a lower cost is threatened by the uncertainty of whether they will even be able to market their crop.

Further, we believe any non-science based sanitary or phytosanitary restrictions is not only an impediment to the export of U.S. commodities, it is also counterproductive to the efforts to raise the standard of living and to grow the economies of many of these nations.

I should mention we are extremely pleased with our government's commitment to seeing that these rules governing international commerce in grains, oilseeds, food and food products which contain genetically modified material are based on sound science. However, the GAO report I mentioned earlier did express the view the U.S. government must improve its ability to define the nature and scope of these unjustified foreign SPS

measures on U.S. exports. The GAO report also expressed concern that the current government structure to challenge these restrictions before the WTO needs better coordination among the various agencies responsible.

Mr. Chairman, before we enter into the 1999 agriculture negotiations, the U.S. agriculture industry needs to be assured that our government efforts in monitoring and challenging unjustified sanitary or phytosanitary barriers is coordinated and effective in order to accurately address these issues at the negotiating table. We understand USDA and USTR have begun efforts to address the concerns outlined in the GAO report.

Non-trade Related Restrictions to Trade

The second roadblock Pioneer and our customers are facing in meeting our freedom-to-operate principle is the scope of some international non-trade negotiations. As we are all aware, there are a number of international forums in place which facilitate discussion and negotiation on a wide variety of topics ranging from labor issues, to human rights, to environmental matters. These are all important issues which deserve an opportunity for debate in the international arena. Yet, we also believe these efforts should not be used as a means to discuss, resolve, or negatively impact trade-related matters.

The first of these is the current development of a Biosafety Protocol under the auspices of the Convention on Biodiversity. The United States has signed the Convention on Biodiversity, which was negotiated to address the potential threats to habitat and species worldwide. It has yet to be ratified by the Senate, however, and as such, our government will not be able to vote at any time during the negotiation of the final Biosafety Protocol document.

This is unfortunate since it is intended to deal with the "transboundary movement" of genetically modified organisms. Although the protocol is being negotiated as an environmental agreement, as you can imagine, it has significant trade implications. Severe restrictions on the movement of living modified organisms (LMOs) – as defined by the participants in the negotiations -- could impact our research and seed operations, as well as the exports of our customers' products. In addition, the protocol negotiations are providing a negative context for biotechnology in the international community. Many delegations, particularly those from developing nations, have been heavily influenced by environmental groups who view products of biotechnology in the same light as hazardous waste. As a result, the debate is focusing on safety issues rather than the benefits of biotechnology.

We are also finding increased pressure to use trade measures to promote non-trade related issues, such as the environment. Most alarming were suggestions during a recent WTO conference which raised the possibility of lowering tariffs for products determined to be "made with methods that promote sustainable development" and/or the negotiation of side agreements which would allow "processing or production-method based" trade restrictions under the WTO.

If forums and negotiations are taking place on non-trade related issues, such as these, which in the end recommend or implement policies that negatively impact trade, what is the purpose of the WTO? We strongly believe trade related discussions must remain solely within the purview of the WTO.

The Ability To Buy.

My final principle is, what must we do to ensure that our trading partners have the ability to buy our products? Without a doubt, the liberalization of trade rules as a result of the 1994 Uruguay Round has created enormous economic opportunity throughout the world. Estimates peg the changes made by the Uruguay Round is bringing in \$500 billion each year to the global economy. As we begin these negotiations, we must remember to place as much importance in ensuring our trading partners are able to purchase our agricultural products, as we do in ensuring we are able to move our products throughout the world. To that end, I have the following suggestions – some WTO related and some not.

First, Congress must approve fast-track trade authority for the United States. The 1999 WTO agriculture negotiations and the intellectual property negotiations which will begin this year are two areas in which the ability to negotiate with Fast Track trading authority will specifically benefit agriculture. In each of these areas, the United States is the most competitive nation in the world and stands to benefit the most from writing the rules of trade.

Without Fast Track, however, we won't be a strong or even credible participant during the trade negotiations. Other countries simply won't negotiate with us without the assurance that Congress won't change the terms of the deal. Those assurance cannot be made without Fast Track. I understand that House Speaker Gingrich needs fewer than ten votes to bring the legislation to the floor of the House. Maybe the U.S. Senate should take the lead and produce a strong vote to help the Speaker find the votes he needs on his side to approve this legislation. You have my commitment to work to find those votes.

Second, as we enter this round of multilateral trade negotiations on agricultural trade in the World Trade Organization, we urge the Administration not to use agriculture as a bargaining chip in discussing other non-agriculture sector negotiations. U.S. producers are always wary as the U.S. enters into multilateral trade negotiations that agriculture interests may be traded-off in an effort to get a deal in another sector. While agriculture is one of the bright spots in the U.S. trade picture, there remain a number of outstanding agricultural issues which U.S. producers are relying upon to be resolved during these negotiations, including the continued efforts to improve market access and reduce market-distorting domestic support policies.

Third, Congress must approve, without delay or with any unreasonable restrictions or conditions, the measure to replenish the International Monetary Fund accounts. Agriculture Secretary Dan Glickman accurately painted the picture in February when he said the main reason we haven't lost more agricultural exports from the Asian financial

crisis is because USDA extended \$2.1 billion in export credit guarantees. He said these guarantees, which depend on credit-worthiness, would not have been possible if the IMF hadn't stepped forward to help stabilize these economies. Equally important, the IMF pushed these countries toward serious financial reforms, greater market transparency, freer markets, and an end to cronyism. According to Secretary Glickman, without these IMF actions, another \$2 billion in agricultural exports would have been at risk in the short-term and far larger amounts in the long-term. Remember, our trading partners need the ability to buy our products.

Fourth, the Senate must ratify the Convention on Biodiversity. This is too important a treaty for U.S. agriculture to have our government on the sidelines as protocols are negotiated.

Along the same line, we urge the Senate to ratify the 1991 International Convention for the Protection of New Varieties of Plants (UPOV), which was negotiated to recognize and ensure an intellectual property right to the breeder of new plant varieties. Pioneer simply won't sell our best products in countries where they cannot be protected. Our situation is similar to that of the computer software industry. While U.S. law already conforms to the international agreement, the treaty has never been ratified. As the largest exporter of agricultural products in the world, the U.S. has a responsibility to advocate reciprocal intellectual property rights between countries. Failure to join the UPOV Convention is inconsistent with our overall trade policy, and is an abandonment of international leadership in the area of intellectual property rights.

For both the Biosafety Protocol and the UPOV Treaty, it is unreasonable for us to accept that our government will not have a voice or a vote in international negotiations which may have a significant impact on the flow, or intellectual property protection, of U.S. agricultural goods. Other nations can't buy our products if we can't protect them or move them.

Fifth, we believe the U.S. must continue to push for full implementation of the WTO SPS Agreement. Before we even begin to discuss changes to the SPS Agreement, we need every WTO member country to implement the Agreement. Further, we urge the U.S. to protect the "science based" integrity of the Agreement by making sure that science, not internal politics, emotion, or protectionism, is the basis for public, animal, and health rules.

Finally, the government should continue to support and promote efforts to develop mutually accepted standards between countries. Given the significant amount of agricultural trade throughout the world, we believe future trade barriers can be avoided if the final safety assessment criteria are fully shared among the regulatory authorities and mutually accepted by political decision makers. We believe the ultimate goal should be to arrive at compatible regulatory requirements leading to full consensus on, and mutual recognition of, safety assessments.

Conclusion

Once again, Mr. Chairman, as we enter into the 1999 agriculture negotiations, we will go a long way toward meeting our challenge of feeding the world if we remember that:

- Innovation and technology will meet the consumer demand for healthier, high quality foods.
- Allowing U.S. producers the freedom to operate around the world, creates cash value and contributes to their self-sufficiency.
- And fair and open trade creates opportunity and an expanding economic pie, which will give more people the ability to buy our products.

Last September, I joined Harry Cleberg, CEO of Farmland Industries, and Secretary Glickman in Kansas City to help kick-off the effort to approve fast-track trade negotiating authority legislation. At that event I said the challenge we face as we prepare for the 21st Century is captured in two options: Embrace the global economy, the opportunities associated with it, and shape it to our advantage; or turn back to the past and fail to compete effectively in the world agricultural arena? I still believe that holds true today.

This concludes my formal remarks. I would be happy to try to answer any questions you may have. Once again, Mr. Chairman, my thanks to you and the Subcommittee for this opportunity.

PREPARED STATEMENT OF CARL PETERSON

Mr. Chairman, members of the Senate Finance International Trade Subcommittee, I appreciate the opportunity to testify today. I am Carl Peterson, a dairy farmer from Delanson, New York. I serve as Chairman of the Board of Agri-Mark, Inc., a dairy cooperative which represents 1,700 dairy farmers in New York and New England. Agri-Mark is a member of the Council of Northeast Farmer Cooperatives, a voluntary association of five dairy cooperatives representing more than 12,000 dairy producers throughout the Northeast.

I had the pleasure of testifying before this subcommittee last May. I appreciate the opportunity of being asked to take part in your hearings again. I would also like to express my appreciation to Senator Moynihan for asking me to appear at this hearing.

As you know, the Northeast is a large dairy producing region and therefore, we have a strong interest in the upcoming negotiations on agriculture in the World Trade Organization. Our dairy industry recognizes the importance of increasing exports for U.S. dairy products throughout the world. When I testified last year I mentioned that U.S. dairy exports amount to about 3.5% of our national annual production. That percentage of exports has not changed much in the past year. We are currently in a market development stage for increasing the sales of U.S. dairy products internationally and therefore the future World Trade Organization negotiations are of vital concern to us. The international market is still primarily untapped potential for the sale of our dairy products. We have made some progress but we have a long way to go. Agri-Mark recently made a significant sale of our Cabot brand cheddar cheese to Great Britain. We have also sold non-fat dry milk powder to a number of countries in the Middle East.

I would like to address a couple of important issues that effect our industry as part of my testimony.

The first involves the Dairy Export Incentive Program (DEIP). This program has been a very important part of dairy export sales over the last several years. DEIP has not only been an important program for facilitating sales of U.S. dairy products abroad, it is also a very significant market development tool for future export sales. It allows us to make sales at competitive world prices and at the same time it gives us an opportunity to expand sales of other value added products through the contacts we make with buyers in foreign countries. However, with that being said, I would like to offer some constructive criticism on the way that DEIP is currently being operated.

The dairy industry is very concerned about how the DEIP program is being administered by USDA. This concern extends to both commodity products such as bulk butter and nonfat dry milk, and value-added products such as our Cabot brand of cheddar cheese.

On the commodity product side, GATT severely restricts the United States' ability to use the DEIP program because it based allowable volumes on historic time periods when the U.S. was doing very little exporting. Each year, GATT tightens the noose on the DEIP program. However, the industry has not been able to make maximum use of even these existing volumes. The following table shows the amount of product involved with the DEIP program

	GATT allowed	USDA approved (million pounds)	Volume Shipped (million pounds)	Volume Shipped as % of GATT Allowed
Nonfat Dry Milk:				
1995/96	239	185	77	32%
1996/97	221	147	126	57%
Combined	461	332	203	44%
Butterfat				
1995/96	95	0	0	0%
1996/97	85	17	9	10%
Combined	180	17	9	5%

As you can see, less than half of the allowed sales of dry milk and only 5 percent of the allowable butterfat sales were shipped during the two-year period. USDA needs to be flexible to allow that "ghost tonnage" of DEIP sales approved, but not shipped, to find a home somewhere else overseas. A fact sheet on that issue is attached. This issue becomes crucial as 45 million pounds of surplus nonfat dry milk

has already been purchased by USDA at the full support price this fiscal year. If that product, or more importantly future product could be part of the DEIP program, it would save the government substantial money since DEIP subsidies represent only a fraction of the support price. USDA needs to be challenged to find a way to make this work.

In regard to value-added products, USDA does not have a good mechanism to accommodate those products under the DEIP program. This is particularly troubling because it is these value-added markets that we need to be getting into and are where the U.S. name and image are particularly strong. Our Cabot brand of cheddar just won the award as "The Best Cheddar in the World" at the biannual World Cheese Contest in Green Bay, Wisconsin. When put against all cheese varieties, our cheddar came in as the second "Best Cheese in the World" behind a blue cheese from Denmark. Our flavored cheese (with peppercorn) was judged "The Best Flavored Natural Cheese in the World." These are distinctive awards, but when we approached USDA to get DEIP funds so these cheeses could be priced competitively while we introduce them overseas, we were told of "technical problems" and given little help. Other nations, such as Canada, New Zealand, and Europe find ways to correct technical problems and reach solutions that work best for their domestic industries. USDA must do likewise.

If DEIP is going to be an effective sales vehicle and market development aid, it must be administered properly.

Now I would like to briefly discuss the recent problems the U.S. has had with Canada in respect to the sales of dairy products to our neighbor to the north. As you know, Canada has long had a quota system for its dairy farmers. The blend price for milk in Canada generally runs two to four dollars per hundred weight higher than it is in the U.S. In order to make their dairy products competitive on the world market, Canada in the past assessed their dairy farmers milk checks and used those funds to subsidize dairy exports. However, this program was identified in the last Uruguay Round as a clear subsidy that would not pass muster under the final GATT agreement. But this did not stop the Canadians from instituting a lower price for a special class of milk (Class V) that would be used in export sales. All they did was hide the subsidy by incorporating it into the blend price their dairy farmers would receive for their product. The National Milk Producers Federation has filed a Section 301 petition to remove this rather "innovative" subsidy from the Canadian milk pricing program. We strongly support NMPF's effort and we hope the WTO dispute panel will rule in our favor later on this fall.

I bring up this matter because it illustrates a very fundamental issue that must be resolved in the next round of trade negotiations. Back a few years ago, the U.S. dairy industry tried to initiate a Self-Help program. that would have established a fund in which all dairy producers would have paid into a program to increase U.S. exports. This proposal required legislation at the federal level. However, the U.S. government was opposed to this kind of program since it ran counter to our trade negotiators position on international export subsidies.

Now we see that Canada has initiated its own back door subsidy program and Australia still subsidizes dairy export sales. So far, they seem to be getting away with it. In addition, the European Union under GATT still has a very large quantity of dairy product tonnage it can subsidize.

All of this makes the upcoming WTO negotiations even more important. If the U.S. dairy industry is going to increase our export sales beyond the current 3.5 percent of our total annual production then the following actions need to be taken:

- USDA must make the corrections in the administration of DEIP that I just discussed in my testimony.
- The U.S. must vigorously pursue the elimination of export subsidies that countries such as Canada have initiated following the implementation of GATT. The European Union subsidy program must be scrutinized very carefully as well.
- Make dairy trade issues a very high priority in the next WTO round of negotiations. This was not the case in the Uruguay Round.

If we cannot level the playing field, the U.S. will not substantially increase its export sales in the future. As I mentioned earlier, over the last six months, the USDA's Commodity Credit Corporation has purchased 45 million pounds of nonfat dry milk powder off the domestic market under the federal price support program. That program is scheduled to be phased out just twenty months from now in December, 1999. Any future dairy surpluses will have to be handled by the industry itself. We should be exporting this powder along with other value added dairy products such as cheddar cheese. I have not mentioned USDA's Market Access Program for Branded Products. This is a good program and we need to make better use of it.

If we do not improve our export potential in the next few years, we will never be able to expand our domestic milk production to take advantage of growing world

markets. The U.S. dairy industry has great ability to produce milk—but our domestic market is very mature and therefore exports are of primary importance to the growth of our industry in the future.

I hope this subcommittee will work closely with us on resolving some of the problems that I have mentioned today. I look forward to answering any questions you might have. Thank you.

ACTION NEEDED TO ENSURE THAT ALL CONTRACTED/REPORTED DEIP TONNAGE IS SHIPPED

The DEIP Coalition proposes that the Department of Agriculture take steps to ensure that the all of the nonfat dry milk contracted for export and reported as having been exported under DEIP in the first and second Uruguay Round implementation years is actually shipped. It is vital that this step be taken—to ensure that we make effective use of the limited DEIP tonnage available to the U.S. dairy industry, to avoid shutting DEIP down for the remainder of this GATT-tonnage year, to stabilize and strengthen the U.S. dairy markets, and to continue market development efforts already in progress.

WHY ACTION IS NEEDED

Until recently, there has been substantial loss of DEIP tonnage allocations under the 1994 Uruguay Round Trade Agreement. DEIP exports have been contracted and the tonnage reported to the World Trade Organization (WTO) as being exported from the United States under DEIP, but customers have defaulted on their DEIP contracts, so the reported tonnage has not yet actually left the country. While USDA's Foreign Agricultural Service (FAS) has taken steps to reduce the occurrence of defaults in the future, there are some 40,000 tons under DEIP contracts reported to the WTO that are still waiting to be shipped.

HOW CAN WE FIX THIS PROBLEM?

The solution to the problem is straightforward—DEIP contracts in default should be revitalized by re-bidding the tonnage, either to the same region or to other regions also. However, to ensure that this process is consistent with our trade policy goals, the bidding for the remainder of the current DEIP year should be focused on regions where the European Union (EU) is an important supplier, such as the Middle East and Central/South America.

IS THIS GATT LEGAL?

Yes. Actually, GATT and WTO rules are silent on how export subsidies are awarded and reported. Further, the U.S. already has achieved WTO transparency on this tonnage, since we've notified the WTO that the tonnage is being shipped.

ARGUMENTS AGAINST?

The only argument anyone could make against this proposal is that a substantial part of a prior year's tonnage will be shipped in a different year. However, the world already knows that the United States reports on the basis of when the decision to export is made and that, in many cases, the reported tonnage is not shipped until a later year.

WILL THIS INVOLVE USE OF ROLL-OVER/CARRY-OVER TONNAGE?

No, that is a separate issue. The terms "roll-over" and "carry-over" refer to tonnage made available for subsidized exports of a commodity during a year that is not actually used, but "rolled over" into the next and following years. But, our proposal has nothing to do with roll-over tonnage—our focus is on completing shipments already booked. Thus, any concerns about others, such as the EU, using this to justify their use of roll-over are unfounded.

WILL THIS PROPOSAL HAVE BUDGETARY OR MARKET EFFECTS?

Actually, the budgetary and market effects of implementing an effective program of reclaiming unshipped DEIP tonnage will be positive, especially during the current GATT year (which runs to June 30, 1998). It is anticipated that USDA's Commodity Credit Corporation (CCC) will buy 62,000,000 pounds of nonfat dry milk this year. It is more cost-effective to remove these millions of pounds of product into foreign markets with a small DEIP bonus, than to pay the full cost of price support in CCC purchases. And, it will keep the powder from overhanging and depressing U.S. markets, as they would if it stayed in CCC stocks.

International Trade Hearing
April 21, 1998
Questions for Peter Scher, USTR's Special Trade Negotiator
for Agriculture
Submitted by Senator Orrin G. Hatch

Question: I have heard a rumor that the Administration, in its talks with the EU, intends to take two actions which trouble me a bit: first, that the administration intends to focus more on regulatory barriers at the expense of tariffs and subsidies. And, secondly that the U.S. will not encourage bilateral negotiations on subsidies and tariffs before the agriculture talks with the WTO begin in 1999. I would be pleased to have written responses to these questions.

Answer: Sir Leon Brittan and Ambassador Barshefsky have been discussing for some time how we can logically move forward within the New TransAtlantic Agenda to identify new steps that would substantially expand U.S.-EU trade and cooperation in a variety of economic areas. Neither side is proposing a traditional comprehensive Free Trade Agreement. Specifically, we are considering an initiative in which the main emphasis of our negotiations would be in regulatory barriers and services, with largely cooperative efforts in intellectual property, government procurement, and labor and environment.

We are doing our own independent analysis of what might make sense and have been consulting with the Congress and the private sector in order to take on board its ideas on what would be most in its interests for inclusion. Obviously, agriculture issues are important for the United States, and agricultural elements will have to be included in anything we do.

Among the first issues that we would want to address would be regulatory barriers to our trade--and specifically those related to agricultural biotechnology. These types of barriers pose real and present obstacles to our agricultural exports. But we have been clear that we will not address these issues at the expense of other agricultural issues.

We would not give up any leverage for resolving regulatory disputes that we could use later in the multilateral round. We would be preserving our leverage for agricultural tariffs and subsidies, because we would not be negotiating tariffs or subsidies in any sector as part of this initiative.

Another of our principle objectives in any initiative with the EU would be to pave the way for success in the upcoming WTO negotiations in agriculture. We believe that it is in the multilateral forum that some issues, specifically those related to subsidies and tariffs, would be most successfully addressed.

With this approach we can have two opportunities to improve market access for our agricultural products, instead of only one.

International Trade Hearing
April 21, 1998
Questions for Peter Scher, USTR's Special Trade Negotiator
for Agriculture
Submitted by Senators Connie Mack and Bob Graham

Question 1: Many agricultural interests have argued against going forward on any broad-based trade agreement that excludes agriculture. These interests maintain that the only way the U.S. can get a fair agricultural agreement is by applying cross-sectoral leverage. Of particular concern is the so-called New Transatlantic marketplace, an agreement with the European Union (EU), which is reportedly attempting to exclude agriculture from the agreement. Given the EU's record on agriculture, does it make sense to give up cross-sectoral leverage and pursue agriculture agreements in isolation?

Answer 1: Sir Leon Brittan and Ambassador Barshefsky have been discussing for some time how we can logically move forward within the New TransAtlantic Agenda to identify new steps that would substantially expand U.S.-EU trade and cooperation in a variety of economic areas. Neither side is proposing a traditional comprehensive Free Trade Agreement. Specifically, we are considering an initiative in which the main emphasis of our negotiations would be in regulatory barriers and services, with largely cooperative efforts in intellectual property, government procurement, and labor and environment.

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Question 2: The Standards Code agreed to in the Uruguay Round sought to limit technical barriers to trade. Among other things, it provides that a country's regulations:

- will not discriminate against domestic goods;
- be no more restrictive than necessary to meet a legitimate objective, and ;
- shall use international standards where they exist.

However, exempt from the Standards Code are regulations relating to "Process and Production Methods" (PPMs). The EU has argued that the hormone ban was a legitimate PPM, and for it to be a GATT violation, the U.S. would have to prove that it was the challenged party's intent to evade the Standards Code. Obviously, such a standard would be nearly impossible to prove.

Compounding matters, nearly all standards can be drafted in terms of a PPM. Clearly, this has the potential to create major trade barriers for a variety of agricultural goods. How does USTR plan to address this issue?

Answer 2: As a result of the Uruguay Round, *all* WTO Members are obliged to adhere to the obligations of the Agreement on Technical Barriers to Trade which is enforceable through the provisions of the WTO's Dispute Settlement Understanding. This contrasts with the Tokyo Round Agreement on Technical Barriers to Trade (commonly referred to as the "Standards Code") which countries could choose to join, or not, and which had its own unique dispute settlement procedures. Among the core disciplines of the Uruguay Round TBT Agreement is that each government must ensure that products imported from other member countries are treated no less favorably with respect to technical regulations than like goods of domestic origin and like products from any other country. In addition, no government may prepare, adopt, or apply a technical regulation with a view to, or effect of, creating "unnecessary obstacles to international trade." And, among other things, governments are to use relevant international standards as a basis for their technical regulations except where they would be an ineffective or inappropriate means to fulfill the government's legitimate objectives.

It is true that when the United States first brought its complaint against the European Commission's (EC) hormone ban under the *Tokyo Round* Standards Code, the EC argued that the United States would have to prove the EC had *intended* to evade the obligations of the Code by drafting its requirements in terms of processes and production methods (PPMs) rather than in terms of characteristics of products. The EC also emphasized the fact that under the Standards Code the obligations concerning PPMs were limited to provisions relating to dispute settlement and not elsewhere explicitly referenced in the obligations. The United States did not share the EC's interpretation of the Tokyo Round Agreement.

In the Uruguay Round negotiations, the U.S. was successful in amending the Agreement to make clear that PPMs are subject to the full obligations of the Agreement by including reference to "processes and production methods" in the definitions for "standard" and "technical regulation."

(The WTO Agreement on Sanitary and Phytosanitary Measures also provides explicit coverage for PPMs in its definition for sanitary and phytosanitary measure.) In addition, the more limited reference to a right to pursue dispute settlement where requirements were drafted in terms of PPMs was removed. Thus, under the Uruguay Round TBT Agreement technical regulations drafted in terms of PPMs are clearly covered by the obligations of the Agreement and the basis for the original EC argument has been eliminated. USTR certainly will pursue U.S. rights under the TBT Agreement where another Member has used a PPM to create an unnecessary obstacle to trade.

Question 3: In a related concern, the Uruguay Round implemented Sanitary and Phytosanitary Standards (SPS). SPS measures are applied only to the extent necessary to protect human, animal or plant health. They are supposed to be based on scientific principles and not maintained against available scientific evidence. Moreover, these measures require nations to take into account international risk assessment techniques, and the objective of minimizing negative trade effects.

Like PPMs, it appears that SPSs are prone to abuse as they are based on "scientific principles," a term that has been loosely defined. Consequently, many countries have been able to restrict U.S. imports. Again, this is an area which disproportionately impacts agricultural goods. What, if any, plan does USTR have to address this problem?

Answer 3: The United States and other WTO members apply a wide range of sanitary and phytosanitary measures which are necessary to ensure food safety, protect valuable agricultural crops, and otherwise safeguard human, animal and plant life or health. However, as WTO members have successfully lowered tariffs, quotas and other trade barriers affecting agricultural products, there appears to be a growing tendency for some countries to use purported SPS measures to disguise protectionist trade restrictions. Aware of the need to address this emerging problem, the United States worked hard during the Uruguay Round to conclude the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement).

The SPS Agreement protects WTO members' right to apply measures necessary to protect human, animal and plant life or health, while seeking to prevent measures which arbitrarily or unjustifiably discriminate among members' products or which constitute disguised trade restrictions. It accomplishes this by requiring that SPS measures be based on science and risk assessment. The Administration strongly supports this principle as a foundation of an effective rules-based trading system for food and agricultural products.

The SPS Agreement has been in effect for three years. During that time, the Administration has used the SPS Agreement's new trade rules aggressively. An important success was the WTO Appellate Body's recent confirmation that the EU ban on residues of certain hormones in meat was not justified under the SPS Agreement. Perhaps more importantly, our ability to point to the rules set out in the SPS Agreement has been instrumental in removing many more trade barriers through bilateral consultations. The SPS Agreement's transparency provisions have allowed us to

discuss regulatory proposals with our trading partners in advance, thereby avoiding unnecessary trade disruptions.

In some areas, implementation of the SPS Agreement is not yet satisfactory. The Administration is particularly concerned by indications that the EU may resist prompt implementation of the Appellate Body's decision in the hormones case, and continue to apply a measure which has no scientific basis. We are pressing the EU to implement this decision as quickly as possible, in accordance with its WTO commitments.

The Administration is working forcefully in a wide range of other international activities to remove unjustified SPS trade barriers. USTR coordinates our policies and strategies in this area, working closely with USDA and a range of other trade and regulatory agencies. In response to a recent report by the General Accounting Office, entitled "Agricultural Exports, U.S. Needs Sound Approach to Address Sanitary/Phytosanitary Issues," the Administration is in the process of setting up a high-level interagency Steering Group to provide further policy guidance and oversight on key SPS issues. This and a number of other managerial actions which respond to the GAO report will be implemented this year.

Question 4: Continuing on the subject of SPSs, in your testimony, you discussed a "senior interagency steering group" that was formed to coordinate the activities of the numerous Federal agencies that are responsible for examining SPSs, as well as the trade barriers posed by SPSs. To date, what has this steering group accomplished to address the concerns of the General Accounting Office in their report on SPS barriers to trade? How long is the steering group planning to remain in existence? In addition to coordinating the activities of numerous Federal agencies, could this group provide recommendations to assist U.S. negotiators in future trade talks?

Answer 4: USTR welcomed the GAO report on SPS issues, and provided a written response to it on March 26. Our response was the result of a coordinated effort involving USDA, EPA, FDA and the State Department. Building on the Administration's SPS successes to date, our response noted that we intend to address the specific concerns raised in the GAO report by taking a number of additional steps to ensure a consistent and coordinated approach to these issues in the full range of relevant international activities. All of these steps are to be completed by October 1, 1998.

One of these steps is the establishment of a senior interagency SPS Steering Group to proactively develop and coordinate policy guidance for addressing high-priority SPS-related trade issues. We are currently in the process of setting up this Steering Group. As SPS issues are likely to be an increasingly prominent element of our overall trade agenda, we expect the Steering Group to serve indefinitely. One of the Steering Group's key responsibilities in 1998 and 1999 will be to develop strategies for integrating the Administration's ongoing efforts to remove unjustified SPS restrictions into our broader trade agenda, including the new round of multilateral agricultural trade negotiations scheduled to begin in 1999 under the auspices of the WTO.

International Trade Hearing
April 21, 1998
Questions for Peter Scher, USTR's Special Trade Negotiator
for Agriculture
Submitted by Senator Charles E. Grassley

Question 1: I was glad to hear last week that USTR is insisting that the EU comply with the WTO panel decision on growth hormones within ten months. While the EU wants to take up to four years to comply with the decision. In light of this disagreement, and others over the past four years, will USTR recommend any changes to either the sanitary and phytosanitary agreement or the dispute settlement process as part of the 1999 negotiations?

Answer 1: The EU told us it would have to do a risk assessment before initiating any legislative procedures to implement the WTO panel and appellate body rulings on its hormone ban, and the time period it requested was four years: two years for the necessary scientific studies and two years for appropriate legislative changes in light of the scientific studies. We told the EU that the four year proposal was completely unacceptable. No additional studies are necessary because the necessary science already exists to remove the ban and the time period for implementation therefore should not include time to perform other risk assessments. We are now in the process of establishing, through binding arbitration, the time period within which the EU must comply with the WTO recommendations.

We have pointed out to the arbitrators that in the agricultural area, the time between Commission proposal and Council adoption of a regulation or directive often has been less than six months. Therefore, allowing a ten month implementation period (commencing with the February adoption of the dispute settlement reports by the DSB) would permit sufficient time for the EC to complete this process. The arbitration process will be completed by the end of this month.

At this point in time, USTR does not intend to recommend any changes to either the sanitary and phytosanitary agreement or the dispute settlement process as part of the 1999 negotiations.

Question 2: We heard testimony from the final panel expressing support for a multilateral, cross-sectoral approach to negotiating further trade liberalization for agriculture. Many in agriculture are hesitant to make "trade-offs" within agriculture. They would prefer to gain concessions in agriculture by trading in other sectors, where the U.S. may still have significant trade barriers.

I understand Sir Leon Brittan is advocating a Millennium Round for the year 2000, that would allow for these cross-sectoral trades. Does the Administration have a position on this proposal? And, if you don't support it, what is the most effective way to achieve further trade liberalization for agriculture. Is it in an "ag only" round like we may see in 1999 or a cross-sectoral approach?

Answer 2: The agriculture negotiations that are foreseen in the Uruguay Round's Agriculture Agreement to begin not later than December 31, 1999 are part of the WTO's "built-in agenda." Later this month, ministers will be meeting in Geneva to set in motion the process for preparing the important negotiations as well as begin consideration of other issues that could be included in further WTO negotiations that will be launched in the Fall of 1999. Some of the issues in the built-in agenda include, for example, services and intellectual property rights protection.

At recent meetings of the OECD and the Quad, there was agreement that we are looking to have broad-based negotiations in the WTO. Whether the issues need to be part of a comprehensive "round" type approach like the Uruguay Round or whether there are other ways to structure negotiations is an open question. It is clear to us that to be acceptable to our partners, it must be part of a broader set of negotiations. How much broader than the built-in agenda remains to be seen, and what kind of timetables need to be established are issues that we will have to determine. We need to be careful that we do not unnecessarily delay progress in agriculture by tying it to issues that may not yet be ripe for negotiation, including issues such as investment and competition which are only now the subject of an initial work program in the WTO.

International Trade Hearing
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Question 1: At the present time, the U.S. is precluded from exporting pork to Argentina, Australia, and South Africa due to unfair and unjustified sanitary barriers. However, there is no instance in which swine diseases such as PRRS (Porcine Reproductive and Respiratory Syndrome) or PRV (Pseudorabies) have been transmitted to domestic livestock through imported pork. Given that these 3 countries are Cairns Group members, their behavior is especially troubling. Can you assure me that the Administration will work expeditiously to open these three markets to U.S. pork exports?

Answer 1: Sanitary requirements affect our pork exports to Australia, South Africa and Argentina. South Africa is concerned about Pseudorabies. USDA's Food Safety Inspection Service (FSIS) is working with the South Africans to convince them that Pseudorabies is not transmitted in raw pork. We are currently exporting pork to South Africa under an agreement in which we certify our pork exports have been frozen for 20 days at a certain temperature prior to shipment.

Argentina restricts U.S. pork exports because of Porcine Reproductive and Respiratory Syndrome (PRRS). Argentina recently conducted a risk assessment on Canadian pork and will now permit pork for processing from Canada. We understand USDA's Animal Plant Health Inspection Service (APHIS) is looking at the risk assessment data Canada submitted with the intent of following a similar scenario with respect to U.S. pork.

Australia has not as yet conducted a risk assessment analysis on U.S. pork. Australia has, however, completed risk assessment analyses on pork imports from Denmark and from Canada. Canada can ship pork to Australia provided it is cooked to certain time and temperature requirements. USDA is checking with the U.S. pork industry to see if the conditions imposed by Australia on Canadian pork are worthwhile for U.S. exporters. If they are, USDA will pursue similar arrangements with Australia for U.S. pork.

Question 2: Danish exporters are selling pork at very low prices (up to \$600 a ton less than U.S. prices) in South Korea. However, the cost of producing pork in Denmark is significantly higher than the cost of producing pork in the United States. It appears the Danes may be dumping pork into South Korea. Indeed, I am told that Denmark has so much surplus inventory that its cold storages are full and Danish pork is being stored in freezers in France and Spain. I understand that while Denmark is the top offender, other EU countries may be dumping pork into the South Korea market. Will you please raise this issue with Denmark and the EU?

Answer 2: We have asked the Danish embassy in Washington to look into the pork industry concerns and expect to hear back from embassy agriculture officials shortly. The USDA's Foreign Agriculture Service has asked its Agriculture Minister Counselor in Seoul to provide additional information on prices and market competition for pork bellies, the predominant cut imported by South Korea. We will share this information with you and with the pork industry when we receive it.

Question 3: There are about a dozen countries (Latvia, Lithuania, Caucasus Region, Czech Republic, Slovakia, Kazakhstan, Romania, Tunisia, Turkey, Croatia, and Slovenia) for which USDA has made GSM Credit Guarantees and/or Supplier Credits available for pork that cannot be used because the U.S. has not negotiated sanitary/veterinary agreements with these countries. Will USDA work to expedite the negotiation of agreements with these countries so that exports of U.S. pork can commence?

Answer 3: USDA is working with the pork industry to negotiate veterinary agreements with these countries. Given the number of countries involved and resource limitation considerations, there will have to be some prioritizing but this will be done in full consultation with the industry. Discussions with Estonia and Azerbaijan are already underway.

Question 4: President Clinton recently issued a Jackson-Vanik waiver for Vietnam. Vietnam has 73 million people, making it the second most populous country in southeast Asia after Indonesia. Pork is the meat of choice in Vietnam constituting between 75-80 % of the animal protein in the average diet. Through a mix of restrictive and non-transparent import licensing requirements, state trading arrangements, and high tariffs, Vietnam effectively bars pork imports. What can you do to open the Vietnamese market to U.S. pork exports?

Answer 4: The United States has been intensively working on a bilateral trade agreement with Vietnam that will address market access issues for goods and services, IPR protection and investment rules. USTR and USDA are trying to accommodate in the agreement all the comments we received from U.S. industry in response to our 1996 Federal Register notice including those comments we received a few months ago from the U.S. pork industry.

PREPARED STATEMENT OF AUGUST SCHUMACHER, JR.

Mr. Chairman, members of the Committee, it is a pleasure to appear before you with Ambassador Peter Scher to discuss preparations for the next round of multilateral agricultural trade negotiations.

TRADE POLICY SUCCESSES BRING REAL OPPORTUNITIES

The Uruguay Round Agriculture Agreement stands as a landmark achievement, creating new opportunities and setting a new path in world trade. Renewed fast track negotiating authority will be needed for the next major steps.

Recent trade agreements have opened new opportunities for American farm and food products around the world. They opened rice markets in Japan and Korea for farmers in Arkansas, California, Louisiana, and other rice-producing states. Beef and pork producers in states like Texas, Nebraska, Kansas, Iowa, Colorado, and a dozen others are benefiting from sharply increased access to Japan, Korea, and Mexico.

For fruit and vegetable producers in California and across the country, trade agreements have expanded access for many products going into Canada, Mexico, Japan, the Philippines, and other countries. Poultry producers in Arkansas, Georgia, North Carolina, Alabama, and other states are benefiting from freer access and increased sales to Mexico, Poland, South Korea, the Philippines, and other countries.

Combined with an aggressive trade policy, the big agreements pave the way for smaller successes as well. The single-sector openings are important, too—the first commercial shipment of U.S. tomatoes to Japan, gaining access for sweet cherries to Mexico, re-opening the Chilean market to U.S. wheat. Market by market, they add up, bringing real benefits to our farmers and ranchers.

Take a look at the Japanese wood products market. In 1990, the United States and Japan reached a bilateral agreement that greatly improved access for U.S. value-added wood products. In 1996, a second agreement improved the situation even further. As a result of these two agreements, U.S. producers dramatically expanded sales of certain value-added wood products to Japan. A Portland, Oregon company, Willamette Industries, now sells \$14 million worth of these products to Japan—a 600 percent increase during 1990-1997 period. Ondo and Company, another major U.S. producer based in Kirkland, Washington, increased sales to Japan 20-fold to over \$14 million.

We continue to monitor closely how other countries are implementing their Uruguay Round commitments, and the United States has not been slow in using the dispute-settlement process of the World Trade Organization (WTO). Of the 35 complaints filed by the United States, just over one-third have involved agriculture. And we have scored significant victories, such as the recent decision against the European Union's (EU) hormone ban, upheld by the WTO's Appellate Body earlier this year.

The U.S. Trade Representative (USTR) and USDA have also used the WTO process to convince countries to reach favorable settlements without having to proceed all the way through the panel process, as was the case, for example, with South Korea's shelf-life restrictions on processed foods and Hungary's excessive export subsidies. Earlier this year, the United States concluded an understanding with the Philippines under which the Philippine government agreed to reform the way it administers tariff-rate quotas that had severely restricted access for U.S. pork and poultry meat. We are currently challenging the way Canada subsidizes dairy exports and Japan's varietal testing program for horticultural products.

These actions are part of our continuing effort to make sure countries live up to their Uruguay Round obligations. We also insist that countries wanting to enter the WTO first undertake a serious commitment to trade reform—just as we are working on with Taiwan. In February, the United States and Taiwan signed a bilateral agreement in which Taiwan committed to opening its market at significantly reduced tariff rates to a broad range of U.S. products upon accession to the WTO. The agreement on rice will, for the first time, provide real access to Taiwan's consumer market. Taiwan also agreed to immediate market access for a number of U.S. products, including lifting its import bans on several beef, pork, and chicken products.

Slowly but persistently, these efforts have been stripping away many of the trade barriers to U.S. products and challenging the unfair trade practices that exist. The benefits are evident in export numbers that are running about 40 percent higher than they were at the start of the 1990's—and that's despite the current Asian situation and despite the stronger U.S. dollar.

However, the hard work is not done. We are going to continue to pursue an active, aggressive, ambitious trade policy agenda.

WTO 1999: NEXT STEPS IN GLOBAL AGRICULTURAL TRADE REFORM

One of the most important initiatives of the Administration's trade agenda is continuing the global reform process begun in the Uruguay Round. Planning is already underway for the next round of multilateral agricultural trade negotiations, set to begin late next year. For more than a year now, USDA, working in partnership with USTR, has been laying the groundwork for success in the difficult negotiations that will take place. We are placing special emphasis on technical and regulatory trade restrictions.

USDA, in coordination with other agencies, will be consulting with Congress, with members of the Agricultural Policy Advisory Committee for Trade, the five Agricultural Technical Advisory Committees for Trade, and with others in agriculture on specific negotiating priorities. Generally we will be seeking substantial improvements in the trading environment for U.S. farm products. These negotiations will provide us with a significant opportunity to reduce further tariffs, open new markets, and address unfair trade practices on a global scale.

Several key issues stand out:

- Our trading partners need to make substantial further reductions in tariffs. Agricultural tariffs worldwide still average about 56 percent, while our own tariffs are about 5 percent on average. High tariffs raise the price for U.S. commodities and can shut them out of markets.
- We believe that tariff-rate quotas (TRQs) should be increased substantially or effectively eliminated by cutting the level of the out-of-quota duty. Small TRQ quantities and high out-of-quota duties curtail exports, and restrictive methods of administering TRQs also impede trade.
- Exporting countries should further cut or eliminate export subsidies. The EU, for example, carries out an extensive subsidy program—the EU budgeted \$6.1 billion for export subsidies in 1997. This level of EU subsidization makes a very strong case for further negotiations.
- The next agreement should impose rigorous discipline on state trading enterprises (STE). We have been seeking greater transparency in the operation of these entities—both import and export monopolies—through the WTO Working Party on State Trading Enterprises. We believe this effort will help identify practices that may need to be disciplined in the upcoming negotiations. We can then move beyond the transparency issue and curb trade distorting practices employed by STEs.
- The negotiations should impose tighter disciplines to prevent countries from circumventing their trade commitments through disguised subsidies, non-tariff measures, or technical measures, such as unnecessarily rigid labeling requirements.
- WTO members should continue the process of delinking domestic support measures from farmers' production decisions, so that government assistance does not distort trade.
- The parties should reaffirm and where necessary more clearly define and tighten rules on sanitary and phytosanitary measures to ensure fair competition. While maintaining the rights of countries to use legitimate measures to protect health and safety, we want to make sure that science, not internal politics or protectionism, is the basis for public, animal and plant health rules.

These last two goals should lower some of the more elusive trade barriers that range from unnecessary red tape to regulatory practices that erect unjustified sanitary and phytosanitary barriers. For example, the major trade disputes causing tension in the U.S.-EU relationship—the EU hormone ban, specified risk materials, and EU approvals for new biotech products—all demonstrate the need for greater international harmonization on the basis of more clearly defined rules on technical barriers.

When we enter this new round of agricultural talks, the process of global trade reform must not come to a halt. However, this could happen if negotiations on new actions and larger tariff cuts are not completed by 2001, when most Uruguay Round commitments will be fully implemented by the developed countries.

We are beginning to explore with our WTO trading partners ways to continue implementing tariff and export subsidy cuts and other measures, even as we work on new disciplines that will need to be negotiated. The Uruguay Round commitments were just the first step in agricultural trade reform and we still have a long way to go. So, any pause in reform would be unfortunate. In the Uruguay Round, countries agreed to continue the reform process beyond the year 2000, and we will work with our trading partners to see that this commitment is met without a pause. Our initiative is simple—No stopping and waiting for a new agreement to emerge—no pause.

U.S. LEADERSHIP MUST CONTINUE

We have a lot of work to do—globally, regionally, and bilaterally—in enforcing existing agreements, opening new markets, and leveling the playing field. That is why we need to maintain the momentum and U.S. leadership of the trade reform agenda. Much of the world still looks to us for leadership, but countries will not sit around waiting. Our neighbors in this hemisphere are signing new trade agreements among themselves, often leaving U.S. producers at a disadvantage. The European Union and others recognize these opportunities and are pursuing these markets. Recently, the European Commission announced plans for a free trade agreement with Mexico.

The EU is also interested in pursuing a "New Transatlantic Marketplace Agreement" with the United States. We agree with many members of Congress and U.S. Trade Representative Barshefsky that agriculture should be included in any agreement. We will be working with USTR as talks progress on this issue.

We also need to move forward with ongoing initiatives and with other new global, regional, and bilateral initiatives. We need to stay out front, where we can continue to play a leadership role in setting the agenda and writing the future rules for trade.

The trade policy successes of the past few years have brought new opportunities to U.S. agriculture. We must continue to build on those successes, and we at USDA are committed to that task.

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

PREPARED STATEMENT OF ANN M. VENEMAN

Thank you Mr. Chairman.

I am pleased to be here today to talk about the 1999 WTO negotiations.

Agriculture is more dependent on trade than any other sector of the economy, and nowhere is this truer than in California.

For over 50 consecutive years, California has been the number one agriculture producing state in the nation, with a value of nearly \$25 billion. Agriculture is a vital industry in the California economy, providing for nearly 1 in 10 jobs and more than \$70 billion in related economic activity.

California agriculture is distinguished not only by its size, but by its diversity. We produce more than 350 different crops and commodities, and we are the leading U.S. producer of more than 75 of these. California produces nearly 14 million tons of fruits and nuts and 20 million tons of vegetables, accounting for more than half of U.S. production.

As agricultural production in California continues to grow year after year, we increasingly rely on the global market—with its 6 billion consumers—to expand our sales. One third of what we produce is sold overseas. California's agricultural exports are valued at nearly \$12 billion.

The Uruguay Round Agreement on Agriculture boosted exports of our products by opening up new markets and lowering trade restrictions. For example, thanks to the Uruguay Round we are now selling rice to Japan and table grapes and citrus to South Korea.

Implementation of the Uruguay Round commitments will be completed by January 1, 2001. However, the liberalization of agricultural trade will be far from complete.

A new round of negotiations is needed to further open markets to U.S. agricultural exports.

The Uruguay Round agreement commits WTO members to commence a new round of negotiations in 1999. The United States was the architect of this provision and should now take the lead to ensure the reform process continues to move forward.

The principal elements of the reform process are already in place. The Uruguay Round commitments on market access, export subsidies, and domestic support should form the basis for the 1999 negotiations.

The focus of the negotiations should be on how much further we cut in each of these three areas. Tariffs should be further reduced and tariff-rate quotas expanded. With respect to export subsidies, I think we have a chance to get countries to agree to complete elimination. Domestic supports can also be further reduced, though the more important objective may be to prevent the Green Box from being enlarged. Issues not covered in the Uruguay Round, such as disciplines for State Trading En-

terprises, and new areas, such as biotechnology, should also be included in the 1999 negotiations.

An important factor in the success of the Uruguay Round negotiations was our commitment to the "formula" approach in negotiating reduction commitments.

Unlike the "request-offer" approach, which allows countries to exempt certain products or even whole sectors from liberalization, the formula approach guarantees that reductions are made across the board so that even highly sensitive sectors—like rice in Japan—are subject to reform.

To make real progress toward further reforms in 1999, we must continue to follow the formula approach.

The Uruguay Round made great strides in beginning the reform process and bringing agriculture fully into the WTO rules framework. However, based on our experience since the conclusion of the Uruguay Round, there are several areas where the rules need to be reviewed.

1) The SPS Agreement—Overall, the Agreement on Sanitary and Phytosanitary Measures provides a good set of rules for addressing the health and safety issues that have grown in importance as more traditional trade barriers have given way.

Our first priority in the 1999 negotiations should be to protect the integrity of the SPS Agreement's sciencebased requirements for imposing health and safety restrictions on imports. Some countries continue to argue for the right to base such restrictions on non-scientific concerns.

We also need to address the timeliness of risk assessments. In many cases countries have taken years to conduct risk assessments while continuing to prohibit imports. Japan, for example, took 5 years to complete a risk assessment for Washington State apples, and still hasn't completed one for apples from California. We need to find a way to put some reasonable time limits on risk assessments.

As in other areas of the agriculture negotiations, the United States was the leading force in the negotiation of the SPS Agreement because it was clearly in our interest to have strong rules in this area. We need to maintain our leadership role in the 1999 negotiations as we consider how to improve the agreement and extend its coverage to new areas such as biotechnology.

2) Biotechnology—The United States is the world leader in developing new agricultural products from biotechnology. The potential benefits of this new technology for producers, consumers, and the environment are enormous.

One of our priority objectives for the 1999 round should be the development of appropriate rules for trade in agricultural products. Sound science has to be the underlying principle. In general, risks should be evaluated in terms of the product, not the production method.

The rules in the SPS Agreement should apply to products derived from biotechnology. However, under the SPS Agreement international standards setting organizations are relied on for determining what is sound science. We need to think carefully about whether there are any suitable international standards setting organizations for biotechnology, and if not, how we can develop one.

3) State-Trading Enterprises—Countries using export subsidies committed to substantial reductions in the Uruguay Round Agreement on Agriculture. However, exporting state-trading enterprises and other export practices, such as differential export taxes, were not disciplined. The 1999 negotiations should close this loophole and bring all trade-distorting export practices under the Agreement on Agriculture.

4) Safeguard rules—The tit-for-tat principle also applies to safeguard and anti-dumping actions. Safeguards and other temporary relief measures must be used with great restraint. Any initiatives to loosen the conditions required for imposing such measures should be considered very carefully. As the world's leading agricultural exporter, we should be doing everything we can to keep markets open, not making it easier for countries to close them.

Finally, I want to say a few words about regional agreements and sectoral initiatives and how they relate to the 1999 negotiations.

California was a strong supporter of NAFTA and we have benefited greatly from the agreement with Mexico, though it has not been without its problems. Further regional initiatives can benefit U.S. agricultural exports, but they require picking the right regions, which the current Asian crisis should demonstrate is not always easy.

Similarly, I am sure there are a number of industry sectors that have benefited from sectoral free trade initiatives, such as the Information Technology Agreement.

However, the ITA was unique—it is not a template for future trade negotiations. We must continue to support comprehensive, cross-sectoral negotiations to bring the

greatest possible leverage and political will to the process. The sectoral approach should be used when there is a "niche" opportunity, but not in lieu of global negotiations.

The only way to ensure the continuation of the reform in agricultural trade begun in the Uruguay Round is through a multilateral negotiation under the WTO that covers all of the major sectors.

Because of the diversity of California agriculture, we have faced some unique export challenges. Over 90 percent of our exports are high-value products, compared to less than 60 percent for the U.S. as a whole.

As the trend in U.S. agricultural exports continues to shift from bulk commodities to high-value products, trade issues that haven't traditionally been of primary concern to agriculture will become more important.

The ability to do business in a global food system is becoming increasingly apparent. WTO rules on investments, intellectual property protection, technical barriers to trade, and distribution and retail services, among others, have as much relevance for agriculture as for other sectors.

If discriminatory investment rules hamper construction of port facilities, refrigeration capacity, and transportation infrastructure in overseas markets, U.S. agricultural exports are affected. If China doesn't provide intellectual property protection for branded U.S. food products, our exports are affected. If food packaging and labeling rules are discriminatory, if rules for the distribution of food products through retail and food service chains are discriminatory, U.S. exports are affected.

This is another reason why agriculture should not be a standalone negotiation in 1999. The WTO rules affecting agricultural trade aren't limited to the Agreement on Agriculture. We need to ensure that the WTO rules are adequate to meet the needs of the evolving global food system.

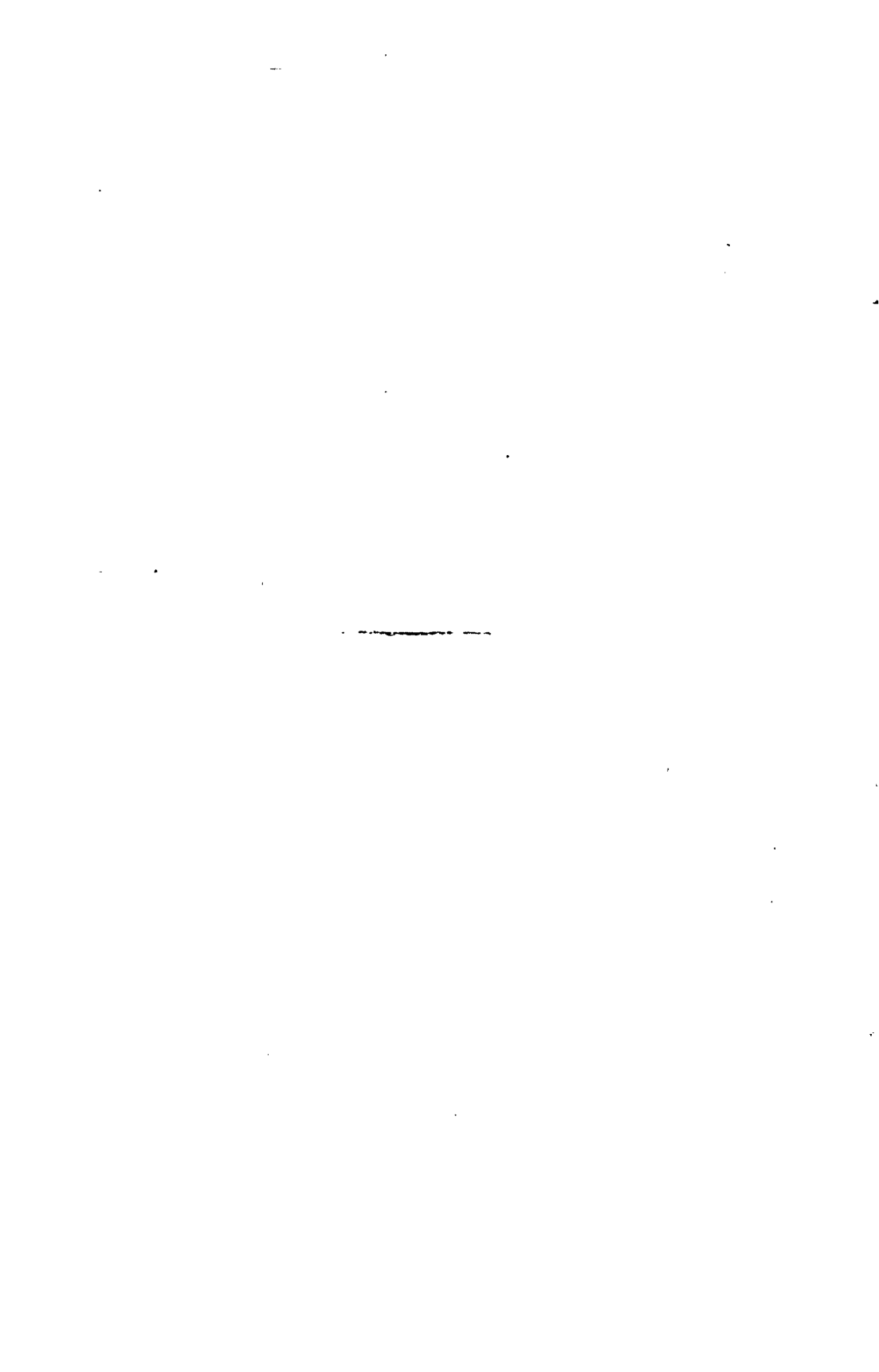
The 1999 negotiation, with its built-in agenda, offers us the opportunity to start the new millennium by completing the reform process begun with the Uruguay Round. For the sake of U.S. agriculture, this is an opportunity we cannot afford to pass up.

One of the first steps we need to take in preparing for the 1999 negotiations is to pass fast track legislation. Passage of fast track will demonstrate to the world that we are serious about moving forward with trade liberalization. We may not need fast track to start negotiations, but we need it before other countries will engage us seriously. We should get this necessary step out of the way as soon as possible so we can focus all of our attention on the substance of the negotiations.

The success of the Uruguay Round for U.S. agriculture is attributable in no small part to the leadership role of the U.S. Government. We started the Uruguay Round in Punta del Este with our objectives clearly defined. And when finalized in Marrakesh, the Agreement on Agriculture bore the clear imprint of the United States.

U.S. agriculture got what it needed in the Uruguay Round because the United States set the agenda and we led, pushed and pulled the negotiations where we wanted them to go. We need to put the same effort into the 1999 negotiations so we can complete the reform process.

Thank you.



COMMUNICATIONS

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

(SUBMITTED BY DEAN KLECKNER, PRESIDENT)

Mr. Chairman, members of the Committee, I am Dean Kleckner and I am president of the American Farm Bureau Federation. I am a hog and soybean farmer in Iowa. International trade agreements are critical to the success of my farm as they are to the other 4.8 million member families of the American Farm Bureau Federation, the nation's largest organization of farmers and ranchers. American farmers produce more than the United States can consume. We are dependent on strong and stable international markets for the sale of over one-third of what we produce.

Thank you for holding this hearing on the importance of the World Trade Organization (WTO).

Let me begin by saying that although the United States is a signatory to only two of the many trade agreements that have been negotiated in the last four years, the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA), these two have been good for American agriculture, the American economy and the world. The Uruguay Round, which gave us the WTO, laid the most important framework for moving world trade forward and providing an engine for world economic growth that we will probably see in our lifetimes. It took seven years and, although the result was not perfect, it produced a structure for globalizing world trade.

We must now take the responsibility to protect all the good attributes in the WTO, change those that do not work well and guarantee that the system is allowed to grow and change as opportunities and economies expand. For agriculture, the provisions regarding sound, internationally-recognized scientific principles must be protected and at the same time allow for the ever-increasing scope of technology and science to bring us new opportunities.

I attended the First Ministerial Meeting of the World Trade Organization (WTO) in Singapore and plan to attend the upcoming meeting in Geneva. I believe that the actions taken in Singapore were crucial to the future of the WTO and especially to moving forward in reducing agricultural trade barriers. The Geneva meeting scheduled for mid-May will also be a critical step for the future of trade liberalization world wide.

Not only did the Farm Bureau view the Singapore meeting as important enough to attend, but also about half of the 100-member, private sector U.S. delegation represented agriculture and agribusiness. This was a significant investment in time and resources by agriculture's leaders to be sure that they had a voice in shaping world trade policy. Even though it was recognized that the discussions in Singapore were not focused on agriculture, the industry clearly recognized the importance of the WTO as indicated by its large presence.

The U.S. agriculture leaders attending the Singapore meeting went with a two-fold agenda. With the work to liberalize international trade for agriculture far from complete, it was important that the WTO agenda proceed as scheduled for 1999 to renegotiate the GATT agricultural agreement. The second message was to our negotiators—that U.S. agriculture must be taken seriously as a player in the world and our government must be willing to fully commit to resolving agriculture's trade problems. I am here today to reiterate these concerns.

We believe that agriculture is basic to the economic development and well-being of the world. But too often agriculture is taken for granted by our policy makers who tend to focus on flashier, less basic, issues such as information technology and intellectual property rights, or on social concerns such as labor standards and environmental issues. Before these issues can take center stage, they must first be preceded by economic developments that meet the people's basic needs for food and em-

ployment. Sound agricultural policies allow these steps to take place in developing countries. If agricultural policies are in place to meet primary needs, countries can move toward further development and trade.

Two significant things did happen in Singapore that are crucial to agriculture in the WTO. First, the schedule for the next round of agricultural talks in 1999, as agreed to in the Uruguay Round, was kept on track. This is important because the playing field is not yet level and several of our major trading partners would like to delay the next round as they would like to preserve many of their protectionist measures. I am referring particularly to Japan, the European Union (EU) and South Korea.

The second and equally important agreement was to begin preparatory work in 1997 to get ready for the 1999 talks. The Ministers agreed to a process of "analysis and information exchange," recognized as a euphemism for the desired wording of a "work program," which was objected to by Japan and several other countries.

I must report that I believe that we have not moved forward with the preparatory work as thoroughly as we should have. We are pleased that the administration has named the agricultural trade advisory committees; however, over a year was lost without their valuable input and consultation.

That means that throughout 1997, throughout the entire effort to pass fast-track legislation and through many trade disputes such as those with the EU, the official agricultural advisory teams were neither appointed nor reappointed. We would urge you to work closely with the administration and encourage them to begin serious preparations and industry consultations for the 1999 round of negotiations.

This brings me to the question of what we can expect to accomplish without current fast-track negotiating authority. I find it unconscionable that this administration and this Congress has not been able to move beyond the rhetoric to the reality of why we have the lowest unemployment and the soundest economy that any of us can remember. Exports mean more jobs and better incomes. Without the negotiating tools to continue to expand exports we do not see expanded economic growth in our future.

The 1999 WTO agriculture talks must not drag on for seven years as did the previous round. Without fast-track, we are worried that talks will not start on time or they will proceed without the United States at the table. If the United States does not have a leadership role in the debate from the beginning, we may see agreements that are bad for this country.

I recently led a team of Farm Bureau leaders to the Fourth (IV) Business Forum of the Americas that preceded the Free Trade Area of the Americas (FTAA) ministerial meeting in San Jose, Costa Rica. Again, we were there with American agricultural leaders from the feed grains, dairy, fruit and vegetable and agribusiness industries because we believe that we must be a part of the process if trade is going to work for our industry. These discussions must also be in agreement with the WTO agenda.

With loss of sales in Southeast Asia due to the fiscal crisis, our neighbors to the south should be our growth market. How do we expand these markets without fast-track? We were in Costa Rica to make it clear that we intended to be part of this process. We want our negotiators to recognize that agriculture is serious about being part of the process and in opening these markets. We also want our neighbors to realize that all trade negotiations must include all sectors of our industry and result in good, sound agreements.

Farm Bureau has concerns with the ability of our agencies to move forward with new agreements and manage the growing bilateral arrangements that are being proposed. We are especially concerned about the European Commission's (EC) proposal to move forward with the New Transatlantic Marketplace. The agenda the EC wants may include agriculture, but may not include all the sectors that agriculture needs to have on the table when the next WTO round begins. If the EC is able to move forward with its agenda, I believe it will have successfully forestalled resolution of many of the concerns we have with its agricultural policies.

Farm Bureau is strongly opposed to moving forward with the EC proposal if all of agriculture's issues are not on the table. Although USTR officials have assured me that agriculture will be included, I need to be assured that this package is not just food safety or biotechnology, but a comprehensive package.

How can the administration address issues of tariff reductions and subsidies without fast-track? Agriculture has reduced its tariffs and subsidies. We do not have much more to give. It is important that we be at the table with other industries during negotiations of the scale proposed by the EC. The EC issues will be the basis for the next major multilateral round within the WTO.

There are very specific issues facing the WTO that are of great concern to us. Some of these will have to be addressed in the next WTO agricultural discussions and all are important. They include:

Resolution of state trading enterprise (STE) trade distorting practices and their lack of transparency. This includes both importing and exporting STEs.

Tariff reduction or total elimination by a date certain. When we negotiate an end to tariffs we need to have a firm commitment for when they will end and an enforcement mechanism to guarantee compliance.

Changes in the dispute resolution process that address the needs of perishable commodities. No industry can afford to have its product deteriorate while trading partners decide to negotiate.

The place of biotechnology and genetically-modified organisms in the WTO system must be resolved.

The sanitary/phytosanitary (SPS) agreement must not be changed or "put off" to account for social or consumer concerns that are not based in sound science.

Subsidies and other non-tariff barriers are now being used more than ever.

Accession of China, Russia and others into the WTO is important. All countries gaining membership into the WTO must abide by the rules. China needs to be brought into the WTO when it can commit to opening its market through the rules-based system and only as a developed nation.

We will work hard to ensure that the proper background work is done so that negotiations can begin on these and other WTO issues in earnest in 1999.

In our own country, we need to work on eliminating trade sanctions that keep us out of foreign markets as well.

Why are the WTO and the business of moving trade forward important to America? First the agri-business industry is made up not only of farmers and ranchers, but also processors and packers, food preparation and service employees, truckers and rail operators. Added together, all workers who provide your food and fiber make up the largest employment sector in this country. Approximately 20 percent of the U.S. work force depend upon agriculture for their jobs.

Second, agriculture has consistently returned the largest trade surplus of any sector of the U.S. economy over the last decade. In 1996, U.S. agriculture returned a trade surplus of over \$28 billion. This year, even with a shrinking Asian market, this trade surplus is expected to be in excess of \$18 billion. We cannot continue to do this if trade barriers to agriculture are allowed to increase.

Third, with the removal of quotas under the Uruguay Round, our trading partners are finding other ways to disrupt trade. Consequently, the greatest number of disputes currently before the WTO involves agricultural products.

Finally, the U.S. population represents only 5 percent of the world's consumers. In order to prosper, American farmers and ranchers must have free access to the other 95 percent of the world's food and fiber market. We must have access to international markets to fully utilize our tremendous investment in capital and infrastructure necessary to continue to provide reasonably priced food and fiber to American consumers. Today, Americans spend less than 10 percent of their income on food—among the lowest levels in the world because we are able to sell about one-third of our production overseas. This will not continue without strong international markets and quick resolution to trade disputes.

The 1996 FAIR Act—the farm bill—moved agriculture away from government support and toward dependence on the market system. This was a well-supported move. However, with it the agricultural industry put its faith in Congress to provide the tools necessary to compete in the world market. To compete we must have fast-track, we must have economically stable trading partners, which means funding for the IMF, and we must have a well-funded USDA which includes maintaining the funds for the Market Access Program and the Foreign Market Development Programs. The United States must be committed to maintaining a leadership role as negotiations move forward in the WTO, FTAA and in all other trade arenas.

Farm Bureau remains strongly committed to the pursuit of freer trade and expanding trade agreements. However, we must acknowledge that some American farmers and ranchers are not convinced that the WTO and NAFTA agreements are helping them. Several major trade disputes have not been resolved in a manner consistent with establishing freer and fairer trade as promised by the WTO and NAFTA. For example, the Canadian government is being allowed to put tariffs as high as 350 percent on dairy and poultry products. Unresolved disputes with the European Union, such as the ban on meat produced using growth enhancers and harmonization of standards for meat processing are costing livestock producers millions of dollars each year. The Uruguay Round was the beginning. We must move forward.

I want to thank you for your interest in the WTO and international trade. Thank you for holding this hearing so that we might have the opportunity to voice our commitment to continued expansion of free trade and the critical efforts needed to make international trade a fair deal for American agriculture and the American people.

STATEMENT OF THE AMERICAN PEANUT COALITION

[SUBMITTED BY LAWRENCE T. GRAHAM, PRESIDENT, NATIONAL CONFECTIONERS ASSOCIATION AND THE CHOCOLATE MANUFACTURERS ASSOCIATION, MCLEAN, VA]

Mr. Chairman and Members of the Subcommittee:

I am submitting these comments on behalf of the American Peanut Coalition (APC) about the results of the Uruguay Round negotiations and the NAFTA, the United States' efforts to reduce barriers to trade in agriculture, and the resumption of multilateral trade negotiations on agricultural policies under the World Trade Organization (WTO) in 1999. We believe that the U.S. can only take full advantage of tremendous opportunities to expand its agriculture exports if it pursues a progressive trade policy and Congress moves forward and provides the Administration with fast track negotiating authority.

The APC is a coalition of associations representing taxpayer, consumer, public interest, union, manufacturer, distributor, retail and wholesale organizations who believe that U.S. agricultural growth and prosperity will only come from competitiveness in the international marketplace. APC members include the American Bakers Association; American Frozen Food Institute; American Peanut Products Manufacturers, Inc.; American Wholesale Marketers Association; Americans For Tax Reform; Bakery, Confectionery, and Tobacco Workers International Union; Biscuit and Cracker Manufacturers' Association; Chocolate Manufacturers Association; Citizens For A Sound Economy; Competitive Enterprise Institute; Cookie and Snack Bakers Association; Consumers for World Trade; Council for Citizens Against Government Waste; Food Distributors International; Food Marketing Institute; Grocery Manufacturers of America; Independent Bakers Association; National Confectioners Association; National Food Processors Association; National Taxpayers Union; Peanut and Tree Nut Processors Association; Public Voice for Food and Health Policy; Retail Confectioners International; and Snack Food Association.

Our main objective is to bring about meaningful reform of the federal government's peanut program by reducing and eventually eliminating excessive domestic support levels that are almost twice the world price and further increasing imports and exports of peanuts. We are pro-farmer, pro-consumer, pro-growth, and pro-competition. We believe that the current restrictive peanut program is detrimental to the export opportunities of all of American agriculture.

GATT TREATMENT OF PEANUTS

Prior to the Uruguay Round, there had been seven rounds of multilateral trade negotiations under the auspices of the GATT, beginning in 1947. During those rounds, the United States agreed to tariff concessions for binding and/or reducing tariff rates on imports of virtually all industrial and agricultural products.

However, no tariff concessions were ever made on imports of peanuts, peanut butter and peanut paste. In each and every negotiating round these products were singled out for protection from international competition.

The Uruguay Round was intended to produce substantial reforms of agricultural policies by reducing domestic and export subsidies and expanding market access. However, the peanut price support program escaped any reform and ended up with greater border protection than provided before the round.

TARIFF-RATE QUOTA PLACED ON PEANUT IMPORTS

The absolute quota on imports of peanuts was converted to a tariff-rate quota in a process known as tariffication. The over-quota tariff rates were supposed to have been limited to the price gap between the U.S. support price and the comparable world price, but so-called "dirty" tariffication resulted in much higher tariff rates for peanuts.

As a consequence, the over-quota tariff rate for shelled peanuts began at 155% ad valorem and will be reduced by only 15% over six years. This leaves a tariff rate of 131.8% ad valorem, which should assure a U.S. price of more than double the world price even after the so-called reforms are fully implemented. The over-quota tariff rate for peanuts in the shell started at 192.7% ad valorem and will end up being 163.8% by the year 2000. Furthermore, the U.S. is entitled to supplement

these tariff rates with special safeguards in case a few peanuts manage to get imported at such rates.

These astronomical tariff rates on peanut imports are at levels which would justly provoke U.S. complaints if they were maintained by other countries. Tariff rates on peanuts are well in excess of 100% and stand in stark contrast to the ad valorem tariffs on so-called "import sensitive" products, such as wheat tariffs at about 4%, steel tariffs ranging from 3 to 4%, and automobile tariffs at 2.5%. The U.S. receives constant complaints from its foreign competitors about the tariffs on these products being excessive even though such tariffs are no where near as high as the tariffs imposed on peanut imports.

A NEW QUOTA ON PEANUT BUTTER

The U.S. made a minor concession for peanuts in the form of granting "minimum access opportunities" of at least 3% of domestic consumption, or 33,770 metric tons, growing to 5% of consumption (56,283 metric tons) by the year 2000. But this was offset by establishing a tariff-rate quota for imports of peanut butter and peanut paste that previously had not been subject to any import restrictions. Clearly, the addition of a new tariff-rate quota on peanut butter and paste was a slap in the face to the peanut using industry, when it already had the burden of an over-quota rate on shelled peanuts that greatly exceeded such tariffs on other commodities.

WTO COMMITMENTS FAILED TO FORCE PEANUT PROGRAM REFORM

The WTO's Agreement on Agriculture requirements for internal support reductions had no effect on the peanut program. Internal support reductions were based on an aggregate measure of support (AMS) encompassing all domestic subsidies and support for agricultural commodities.

The U.S. did not need to reduce internal support to meet the AMS reduction requirements because it had a large "credit" for reductions of support for agricultural commodities in the Food Security Act of 1985 and the Food, Agriculture, Conservation and Trade Act of 1990. The peanut program did not contribute to this credit since the support level was not reduced by either the 1985 or 1990 farm bills, but rather was increased by 20% between 1985 and 1995. Thus, the Uruguay Round yielded no significant reform of the peanut program in terms of trade liberalization nor reduction of domestic price support levels.

NO "FREEDOM-TO-FARM" PEANUTS IN 1996 FARM BILL

Congress moved to "decouple" farm income support from production decisions in the Federal Agriculture Improvement and Reform Act of 1996 (the "FAIR" Act). This "freedom-to-farm" bill eliminated deficiency payments and marketing loans and replaced them with transition payments for virtually all farm commodities. This was in keeping with the concept of "decoupled income support" in the "green box" of permitted policies that were exempt from reductions in the Uruguay Round.

As a result of the 1996 Farm Bill, farmers now have the freedom to farm almost everything, except peanuts. Only farmers who own or lease a production quota can legally grow peanuts to be sold for edible use.

The FAIR Act continued the peanut program without real reform. The only modest reform in the peanut program was a 10% reduction in the price support level. This means that the peanut program avoided meaningful reform in both the Uruguay Round and the 1996 Farm Bill. In fact, the peanut program continues to force consumers to spend up to an extra \$500 million each year because of artificially higher prices.

Even though Americans have more freedoms than any other country in the world, our federal peanut program continues to be operated in a feudalistic fashion where some growers are granted privileges denied to others. To grow peanuts that can be sold for edible use in the U.S. market, a farmer must own or lease a production "quota." The peanut quota system clearly prohibits farmers from competing on a fair and open basis.

The jarring inequities between the current peanut program and other agricultural commodity programs cannot be justified or overlooked. We do not think Congress can continue to support the status quo for peanut quota holders, while other commodities have taken significant cuts in price supports that will be completely phased out by year 2002. The 1985 and 1990 farm bills lead to more than a 40% reduction in government price support for corn, wheat, sorghum and cotton, while peanut quota holders received guaranteed price increases of 20% in their support price. The preferential treatment of peanut quota holders is only further highlighted with passage of 1996 Farm Bill provisions that reduced price supports for most all commod-

ities to zero, but continued the peanut price support for quota peanuts at nearly twice the world price.

CONSTRAINTS ON U.S. PEANUT PRODUCTION HURT PEANUT EXPORTS

Two of the adverse consequences of the peanut quota system that restricts the production of peanuts each year, is a decline in the quantity of U.S. peanuts available for export, and the strong incentive it provides for other countries to expand their production to capture a larger share of the world peanut export market. Quota constraints on U.S. peanut production, which were exacerbated by FAIR Act provisions that remove the statutory minimum national poundage quota in prior law, have conspired to cause the U.S. to drop from the second to third largest peanut exporter in the world. Constraints on U.S. peanut production clearly work contrary to American peanut farmers' ability and capacity to grow peanuts for both domestic and international markets.

DUAL-PRICING SCHEME TO BE CHALLENGED AS AN EXPORT SUBSIDY

In spite of the peanut program, the U.S. is a significant exporter of peanuts, having a 25% share of the world market. This occurs as a result of the fact that U.S. peanuts grown outside of the peanut quota are required to be exported or put to non-edible uses. This proves that U.S. peanuts can be competitive in export markets, if given the opportunity.

It should be noted, however, that the U.S. and New Zealand have challenged the Canadian dairy policy of dual pricing as an export subsidy and will present such arguments to a WTO panel this year. As the U.S. challenges the dual-pricing systems of other countries, we should recognize that the peanut program is a prime example of a dual-pricing system that could be treated as an export subsidy. The dual-pricing scheme of the peanut program also compromises the U.S. ability to break down dual-pricing systems that inhibit the export of U.S. products.

NAFTA MAY HELP REFORM THE U.S. PEANUT PROGRAM

In the context of North American Free Trade Agreement (NAFTA) negotiations, there was a recognition of the need to liberalize import duties on peanuts and peanut butter from Mexico. Unless reforms are made in the U.S. peanut program, Mexico could increase its production of peanuts and ultimately have the opportunity to compete head-to-head with U.S. peanut producers. NAFTA does contain special rules of origin for peanut butter and peanut paste to prevent Mexican processors from using third country peanuts to make products for the U.S. market.

FAST TRACK SIDE-AGREEMENT ON PEANUTS IS UNACCEPTABLE

When seeking fast track authority last year, President Clinton sent a letter to Congressman Charles Stenholm suggesting that he would give preferential treatment to peanuts in future trade agreements in return for support on fast track. This letter serves as a further example of peanut quota holders receiving special protection at the expense of the remainder of American agriculture.

This is particularly troublesome because peanuts are the only food item still subject to the outdated policy of domestic supply control and import supply control. Peanut quota holders reap fantastic benefits from the federal program, even though the vast majority of them are not peanut farmers, and these benefits are concentrated in the hands of very few persons.

U.S. PEANUT POLICY IS INCONSISTENT WITH U.S. AGRICULTURAL TRADE POLICY

The U.S. peanut program is a glaring example of inconsistency with well-established agricultural trade policy and principles supporting fair and free trade. In a new era of U.S. agriculture, where almost every food commodity is produced and exported competitively in the world market, peanuts and sugar stand out as completely contrary to the objectives of the rest of agriculture.

A 1996 NAFTA case involving dairy, poultry and eggs illustrates the problems the U.S. peanut program creates for other American commodities. In its pleadings before the NAFTA panel, the government of Canada pointed out how the U.S. unfairly protected its own domestic peanut market. Specifically, the Canadians took issue with the introduction of a tariff-rate quota on peanut butter. The Canadians even threatened retaliation in the form of a trade case against the peanut program, had there been an adverse panel decision against Canada in the dairy/poultry/egg case.

OTHER AGRICULTURAL EXPORTS ARE JEOPARDIZED

Imports of foreign peanuts are strictly limited as part of a scheme to keep domestic peanut prices well above the world market price. This gives other countries a basis to deny access to U.S. agricultural commodities.

In fact, the U.S. will find it difficult to make a persuasive case for free trade in agriculture as long as it maintains a program as restrictive as the peanut program and severely limits peanut imports. If the U.S. continues to unfairly deny access to its market for peanuts and peanut products, we can expect other countries to deny access to their markets, worth billions of dollars in U.S. agricultural exports.

With exports of U.S. agricultural commodities totaling nearly \$60 billion annually, and many more billions of dollars of export potential (the total world agricultural market is estimated at \$600 billion), it is difficult to understand why both policymakers and growers of other commodities would jeopardize this export market in the interests of a relatively small group of peanut quota holders who refuse to compete in world markets. Almost all U.S. commodity programs stepped up to the plate during the 1996 Farm Bill and agreed to remove restrictions on production. At the same time, peanut quota holders clung to the past and ignored market realities.

The many sectors of agriculture that compete in world markets should no longer allow the peanut program to impair their export opportunities. The future of U.S. agriculture lies in exporting commodities where we have a competitive advantage. Maintenance of the peanut quota program and severe import restrictions on peanuts are contrary to the interests of corn, wheat and other commodity producers who need to take advantage of expanded export markets.

We cannot afford to let bad trade policy on peanuts interfere with our need to reduce barriers and level the playing field in the \$600 billion global agriculture market. If we are to continue to be a strong player in world markets and to expand our agricultural prosperity, we must push for further reductions in trade impediments. Needless to say, it would be extremely ill-advised for us to allow peanuts to undercut our bargaining position for the rest of American agriculture. Insisting that peanuts receive special treatment in trade negotiations will certainly cause other countries to insist on receiving such special treatment for their politically sensitive crops. This will jeopardize U.S. efforts to get market access for corn, wheat, rice and many other commodities.

REQUEST FOR MORE OPEN TRADE IN PEANUTS

For all of these reasons, Congress must make sure that peanuts are on the table in the next round of negotiations and that peanuts do not get singled out for special protection. We urge the Subcommittee to seek more open trade in peanuts and to provide the same treatment for peanuts in future trade agreements that has been afforded to virtually every other agricultural commodity. If trade in peanuts and peanut products is not significantly liberalized, you can expect the demise of the U.S. peanut industry as well as the undermining of future trade opportunities for the rest of U.S. agriculture.

We thank the Subcommittee for providing us the opportunity to submit this testimony on agricultural trade policy and peanuts.

PREPARED STATEMENT OF THE AMERICAN SUGAR ALLIANCE

(SUBMITTED BY CAROLYN CHENEY)

Thank you for the opportunity to submit testimony for this important hearing. I am Carolyn Cheney, Washington Representative for the Sugar Cane Growers Cooperative of Florida. I also serve as chairman of the American Sugar Alliance, of which my cooperative is a member. The ASA is a national coalition of growers, processors, and refiners of sugarbeets, sugarcane, and corn for sweetener. I am proud to present the views not only of the Sugar Cane Growers Cooperative of Florida, but also of the American Sugar Alliance.

SUMMARY

The U.S. sugar industry has long endorsed the goal of global free trade because we are efficient by world standards and would welcome the opportunity to compete on a genuine level playing field. Until we achieve that free trade goal, however, we must retain at least the minimal, transitional sugar policy now in place to prevent foreign subsidized, dump market sugar from unfairly displacing efficient American producers. This policy was substantially modified by Congress in the 1996 Farm Bill, but remains highly beneficial to American taxpayers and consumers.

Despite its free trade goal, however, the sugar industry has some serious concerns about the structure of future multilateral or regional trade agreements.

Multilaterally, we are concerned that, while U.S. agriculture unilaterally far surpassed its Uruguay Round commitments through huge government cutbacks in the 1996 Farm Bill, many foreign countries have yet to even minimally comply with their Uruguay Round commitments.

Regionally, we are facing serious problems with both Canada and Mexico. Canada is exploiting a loophole to circumvent the U.S. tariff-rate quota for sugar and threaten the no-cost operation of U.S. sugar policy. Mexico, four years after the NAFTA went into effect, is calling into question the validity of special sugar provisions to which it agreed before the NAFTA was voted upon and approved.

American sugar farmers want free trade. But we have trouble moving further in that direction when past free trade agreements are being ignored, or circumvented, by our trading partners, to the possible detriment of our farmers.

I would like to provide some background on the United States' role and standing in the world sugar economy and on U.S. sugar policy's effect on American consumers and taxpayers and discuss the U.S. sugar industry's trade policy goal, concerns, and recommendations, with special focus on the next round of World Trade Organization (WTO) talks.

BACKGROUND ON U.S. SUGAR INDUSTRY, POLICY

Size and Competitiveness. Sugar is grown and processed in 17 states and 420,000 American jobs, in 40 states, are dependent, directly or indirectly, on the production of sugar and corn sweeteners. The United States is the world's fourth largest sugar producer, trailing only Brazil, India, and China. The European Union (EU), taken collectively, is by far the world's largest producing region. It benefits from massive production and export subsidy programs.

Despite some of the world's highest government-imposed costs for labor and environmental protections, U.S. sugar producers are among the world's most efficient. According to a study released in 1997 by LMC International, of Oxford, England, American sugar producers rank 19th lowest in cost among 96 producing countries, most of which are developing countries. According to LMC, fully two-thirds of the world's sugar is produced at a higher cost per pound than in the United States.

Because of our efficiency, American sugar farmers would welcome the opportunity to compete against foreign farmers on a level playing field, free of government subsidies.

Unfortunately, the extreme distortion of the world sugar market makes any such free trade competition impossible today.

World Dump Market. More than 100 countries produce sugar and the governments of all these countries intervene in their sugar markets in some way. The most egregious, and most trade distorting, example is the EU. The Europeans are higher cost sugar producers than we are but they enjoy price supports that are 40% higher—high enough to generate huge surpluses that are dumped on the world sugar market, for whatever price they will bring, through an elaborate system of export subsidies. World trade in sugar has always been riddled with unfair trading practices. These practices have led to the distortion in the so-called "world market" for sugar. These distortions have led to a disconnect between the cost of production and prices on the world sugar market, more aptly called a "dump market." Indeed, for the period of 1984/85 through 1994/95, the most recent period for which cost of production data are available, the world dump market price averaged just a little more than 9 cents per pound raw value, barely half the world average production cost of production of over 18 cents. (See chart, Attachment A.)

Furthermore, its dump nature makes sugar the world's most volatile commodity market. Just in the past two decades, world sugar prices have soared above 60 cents per pound and plummeted below 3 cents per pound. Because it is a relatively thinly traded market, small shifts in supply or demand can cause huge changes in price.

As long as foreign subsidies drive prices on the world market well below the global cost of production, the United States must retain some border control. This is our only response to the foreign predatory pricing practices that threaten the more efficient American sugar farmers.

The reformed sugar policy of the 1996 Farm Bill does retain the Secretary of Agriculture's ability to limit imports, and also provides a price support mechanism, though only when imports exceed 1.5 million short tons. We are currently only 240,000 tons above that critical trigger level.

Sugar Reforms. The 1996 Farm Bill drastically changed U.S. sugar policy, as it did other commodity programs. All American farmers, including sugar farmers, now

face a less certain future, with less government intervention, higher risk, and the prospect of lower prices.

There were six major reforms to U.S. sugar policy in the 1996 Farm Bill:

1. **Marketing allotments eliminated.** With no production controls, we now have a domestic free market for sugar. Less efficient producers are more likely to go out of business; more efficient producers are free to expand. Just last month the only sugarbeet processing company in Texas announced it is closing, ending sugarbeet production in that state, because of low returns.
2. **Guaranteed minimum price eliminated.** Sugar is the only program crop that has lost the guarantee of non-recourse loans and a minimum grower price. Sugar producers will have access to non-recourse loans only when imports exceed 1.5 million short tons.
3. **Minimum imports effectively raised.** Under the Uruguay Round of the GATT, the U.S. was required to import no less than 1.256 million tons of sugar per year. The non-recourse loan trigger of 1.5 million tons effectively raises our import minimum to that level, a unilateral increase of 20%.
4. **Marketing tax raised.** The special marketing assessment, or tax, sugar producers must pay to the government on every pound of sugar was raised by 25%, to 1.375% of the loan rate on every pound produced. This added burden on sugar farmers will generate about \$40 million per year for the U.S. Treasury, with all this money earmarked for federal budget deficit reduction.
5. **Forfeiture penalty initiated.** To discourage forfeiture of loans to the government when non-recourse loans are in effect, and to raise even more money for the U.S. Treasury, a 1-cent per pound forfeiture penalty was initiated.
6. **Commitment to further reductions.** A provision called "GATT Plus" requires that the U.S. will reduce its sugar supports further if, and when, foreign countries surpass their Uruguay Round commitments, as the U.S. has done.

Effect on Consumers. American consumers and food and candy manufacturers benefit from high-quality, dependable, reasonably priced supply of sugar. Consumer prices in the United States are fully 32% below the developed-country average, according to a world survey by LMC International. Compared with consumers worldwide, and taking varying income levels into account, LMC found that in terms of minutes worked to purchase one pound of sugar, American consumers are the second lowest in the world, trailing only the tiny country of Singapore. (See charts, Attachments B and C.)

Consumer Cost Myths. The food manufacturer critics of U.S. sugar policy repeatedly point to a severely flawed 1993 General Accounting Office study that estimated a consumer cost of U.S. sugar policy at \$1.4 billion per year. Experts at the U.S. Department of Agriculture have twice vilified this flawed report, as have noted academicians. More recently critics are citing a Public Voice "update," which mimicked the faulty methodology of the GAO report and dropped this supposed cost to \$1.2 billion.

Both of these absurd studies assumed that: 1) All U.S. sugar needs could be supplied from the world dump market at a price well below the world average cost of production; 2) We could fulfill our needs from this thinly traded, highly volatile world market without that price increasing at all; and 3) Every penny of the food manufacturers' and retailers' savings from the lower dump market sugar prices would be passed along to consumers.

For reasons I have already outlined, it is clear that if the United States destroyed its sugar industry and shifted all its demand for sugar to the thinly traded world dump market—which would increase demand on that market by about 50%—the price would skyrocket, as it has in the past with far smaller surges in offtake.

To address the third and most outrageous of these assumptions, one need only examine price behavior of the past year, or the past decade. History shows absolutely no passthrough.

No Passthrough to Consumers. Since Farm Bill reforms went into effect in October 1996, both raw cane and wholesale refined beet sugar prices to producers have dropped dramatically, wholesale refined prices by a whopping 12%. But at the retail level, not even the price of sugar on the grocery shelf has dropped at all. And prices for sweetened products, such as candy, cereal, ice cream, cakes, and cookies have all risen by 1-5%. Looking back to price changes since 1990, the story remains the same: producer prices down, by 6-10%, but consumer prices for sugar and products up, with product prices rising 18-26%.

The disconnect between producer and consumer prices is even more pronounced with regard to beverages. Over the past year high fructose corn syrup producers have suffered a catastrophic 50% drop in the price for their product, the principal sweetener used in American soft drinks. Have cola consumers seen any benefit? Not

a bit. Carbonated soft drink prices are up, by almost 1%, over the same period. (See charts, Attachments D, E and F.)

Effect on Taxpayers. Not only has U.S. sugar policy been run at no cost to the government since 1985, but since 1991 it has been a revenue raiser. The marketing assessment burden on sugar farmers will generate an estimated \$288 million for federal budget deficit reduction over the seven years of the 1996 Farm Bill.

SUGAR AND THE URUGUAY ROUND

Little Effect on World Sugar Policies. More than 100 countries produce sugar and all have some forms of government intervention. Unfortunately, these policies were not significantly changed in the Uruguay Round Agreement (URA) of the GATT.

- The agreement failed to reduce the European Union's lavish price support level and requires only a tiny potential drop in their massive export subsidies.
- Developing countries, which dominate world sugar trade, have little or no labor and environmental standards for sugar farmers, have no minimum import access requirements, and often have high import tariffs. Nonetheless, developing countries were put on a much slower track for reductions, or were exempted altogether.
- Important players such as China and the former Soviet republics are not GATT members, and need to do nothing.
- State trading enterprises (STE's) that are prevalent in sugar-producing countries were ignored.

Furthermore, many countries have not yet even complied with their URA commitments.

U.S. Sugar Surpasses URA Requirements. The United States is one of only about 25 countries that guarantees a portion of its sugar market to foreign producers and it has far surpassed its URA commitment on import access. The URA required a minimum access of 3-5% of domestic consumption. The United States accepted a sugar-import minimum that amounts to about 12% of consumption. In practice, U.S. imports the past two years have averaged 24%—double the promise we made in the GATT, and about six times the global GATT minimum.

All this sugar imported from 41 countries under the tariff-rate quota enters the United States at the U.S. price, and not at the world dump price. Virtually all this sugar enters duty free. Just five countries (Argentina, Australia, Brazil, Gabon, and Taiwan) that lack Generalized System of Preferences (GSP) status pay a duty, and that is quite small, about 0.6 cents per pound.

The United States calculated its above-quota tariff rate in the manner dictated by the URA. These tariff levels are totally GATT consistent, and are dropping by 15%, as we promised they would in the Uruguay Round.

SUGAR AND THE EUROPEAN UNION

Huge Disparities, Huge Distortions. As recently as the early 1970's the European Union was the world's second leading importer of sugar. For several years now, however, the EU has been the world's leading producer and exporter of sugar. All of this sugar has been produced and exported with the benefit of generous government programs, and has substantially depressed world sugar prices.

European sugar producers are less efficient than American producers. But their level of government support is far higher. As the attached table (Attachment G) indicates, European producers enjoy: 1) A price support level that is 40% higher than American sugar farmers'; 2) A minimum price guarantee, which American sugar farmers do not; 3) Export subsidies, which American sugar farmers do not; and 4) A host of other subsidies not available to American sugar farmers. Subsidies this high induced European sugar producers to increase production so dramatically that the EU rapidly made the transition from importer to exporter. After covering their cost of production on domestically sold sugar, EU producers dump their surpluses on the world market for whatever price they will bring—even when the world price is less than half their cost of production. These dump supplies severely depress the world price. EU subsidized exports, which run around 5-6 million tons per year, constitute the most trade-distorting practice on the world sugar market.

U.S. SUGAR INDUSTRY'S FREE TRADE GOAL

Because of our competitiveness, with costs of production well below the world average, the U.S. sugar industry supports the goal of genuine, global free trade in sugar. We cannot compete with foreign governments, but we are perfectly willing to compete with foreign farmers in a truly free trade environment.

We were the first U.S. commodity group to endorse the goal of completely eliminating government barriers to trade at the outset of the Uruguay Round, in 1986.

We understand we are the first group to endorse this same goal prior to the start of the 1999 multilateral trade round. We described our goals and concerns to the Administration in a letter last May to Trade Representative Barshefsky and Agriculture Secretary Glickman. A copy of that letter is attached to this testimony (Attachment H).

The U.S. sugar industry does not endorse the notion of free trade at any cost. The movement toward free trade must be made deliberately and rationally, to ensure fairness and to ensure that those of us who have a global comparative advantage in sugar production are not disadvantaged by allowing distortions, exemptions, or delays for our foreign competitors.

To achieve a free trade transition process that is rational and fair, we offer the following concerns and recommendations.

CONCERNS REGARDING THE 1999 TRADE ROUND

Export Subsidies. The most distorting practice in world agricultural trade is export subsidies. In the world sugar market, subsidized exports by the EU alone amount to as much as a fourth of all the sugar traded each year.

Export subsidies provide countries the mechanism to dispose of surpluses generated by high internal production subsidies. In the absence of export subsidies as a surplus-removal vehicle, countries would have to reduce their production supports.

The Uruguay Round did not significantly reduce the amount of sugar sold globally with export subsidies.

State Trading Enterprises (STE's). STE's are quasi-governmental, or government-tolerated organizations that support domestic producers through a variety of monopolistic buyer or seller arrangements, marketing quotas, dual-pricing arrangements, and other strategies. These practices were ignored in the Uruguay Round, but are, unfortunately, common in the world sugar industry. Major producers such as Australia, Brazil, China, Cuba, and India have sugar STE's, but were not required to make any changes in the Uruguay Round.

Compliance with Past Agreements. While the United States has far surpassed its Uruguay Round commitments, many other countries have yet to even minimally comply. Numerous examples exist where export subsidies, internal supports, and import tariffs for many crops are not in compliance with GATT. A key example in sugar is the Philippines' failure to lower its import tariffs.

In the NAFTA, Mexican sugar producers are casting doubts on the validity of the sugar provisions, three years after the agreement's inception, and have slammed the door on imports of U.S. corn sweeteners with duties as high as 100%.

Widely Varying Levels of Support. Unilateral reforms to U.S. agriculture policy in the 1996 Farm Bill far exceeded U.S. commitments made the year before in the Uruguay Round. Furthermore, developing countries, which dominate world agricultural trade and particularly sugar trade, were subject to a slower pace of reductions, if any.

As a result, the United States is way out in front of the rest of the world in removing its government from agriculture and has placed its farmers in a domestic free market situation. This gap makes American farmers uniquely vulnerable to continued subsidies by foreign competitors.

In sugar, two examples come to mind: 1) The EU sugar support price is approximately 40% higher than the stand-by U.S. support price. The Uruguay Round's formula-driven percentage reductions in support levels do not reduce the gap between the EU and the U.S. at all. 2) Actual U.S. sugar imports the past two years have been nearly double the 1.26-million-ton minimum import commitment the U.S. made in the Uruguay Round and about six times the URA global minimum.

It is key that American farmers not be penalized for attempting to lead the rest of the world toward free agricultural trade. American farmers must be given credit for the reforms they have endured.

Labor and Environmental Standards. The gap in government standards—and resulting producer costs—between developed and developing countries is well documented and immense. In sugar, the gap is particularly pronounced because, while the EU and the U.S. are major players, production and exports are highly dominated by developing countries, especially in the cane sector.

For example, the LMC International survey of global production costs revealed labor costs—per worker, per day—in Malawi, ostensibly one of the world's lowest cost producers, to be a mere one-hundredth of the average wages paid to sugarcane workers in Hawaii.

Sugar producers in Florida, and every sugar-producing state in America, comply with the world's highest standards for environmental protection—at a price. For example, the Everglades Forever Act (EFA) mandates that Florida farmers pay at

least \$232 million in taxes for Everglades preservation activities—on top of the many costs borne by farmers to monitor and clean water leaving farm areas. In Hawaii, extremely high environmental compliance costs have been a factor in driving two-thirds of the state's sugar growers out of business in the past 10 years. In many developing countries, by contrast, sugar mills face no restrictions, or no enforcement of restrictions, on the quality of water or air emissions.

American sugar farmers are proud to raise sugar with the highest possible regard for workers and the environment. But we should not be penalized in multilateral trade negotiations for providing these costly protections. And foreign countries that do not provide such protections should not be rewarded.

If we are attempting to globalize our economy, we should also globalize our food safety and worker and environmental protection responsibilities.

Formula Driven Trade Strategy. For the many reasons I have outlined, the rigid, formula-driven, or "one-size-fits-all," approach for trade-concessions does not work for agriculture in general, or for sugar in particular. Pursuing this approach would:

- Fail to reduce the gap in supports between countries—lowering the playing field, but not leveling it;
- Again give developing countries a free ride;
- Further diminish our negotiating leverage, which was severely reduced through our unilateral concessions in the 1996 Farm Bill.

To date, we have led the world in trade barrier reductions and we can only hope the rest of the world will follow our example.

We can turn our unilateral concessions to our advantage only if we follow a request/offer strategy. Essentially, we provide foreign countries the incentive to reduce their government programs by promising to reduce ours further when, and only when, they have reduced their export subsidies, internal support, import tariffs, and STE or similar practices to our levels.

RECOMMENDATIONS FOR THE 1999 TRADE ROUND

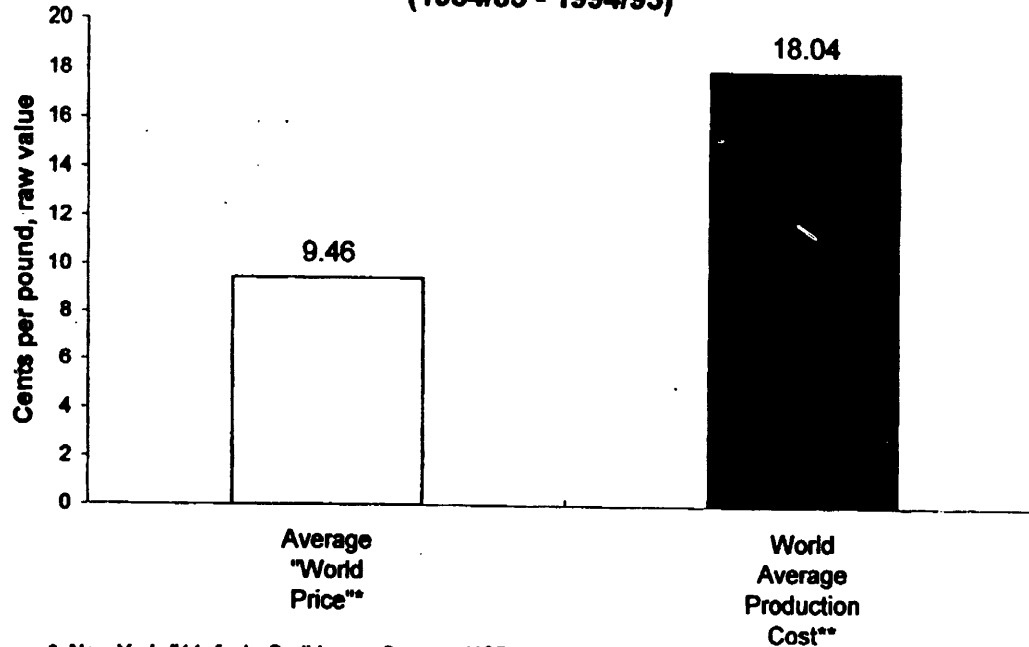
To address these concerns, I would like to make four recommendations for U.S. negotiators in the next trade round.

1. Elimination of export subsidies, the most trade distorting of all practices, and of state trading enterprises, which were ignored previously, must be given top priority in the next trade round.
2. The United States should not reduce its government programs any further until other countries have complied with their Uruguay Round commitments and have reduced their programs to our level.
3. The wide gap in labor and environmental standards between developed and developing countries must be taken into account in the next trade round, and addressed in a manner that ensures global standards rise to developed-country levels, rather than fall to developing-country levels.
4. We can address the huge disparities in supports among nations and turn the United States' unilateral concessions to our advantage only if we follow a flexible, request/offer type of strategy in the next trade round.

CONCLUSION—

In conclusion, Mr. Chairman, thank you for convening this timely and important hearing. U.S. agriculture is extremely vulnerable as we approach the next trade round. If we negotiate carefully and rationally, however, there is enormous potential for responsible American producers such as myself, and many others, to compete and prosper in a genuine free trade environment, free from the need for government intervention. Thank you for the opportunity to participate.

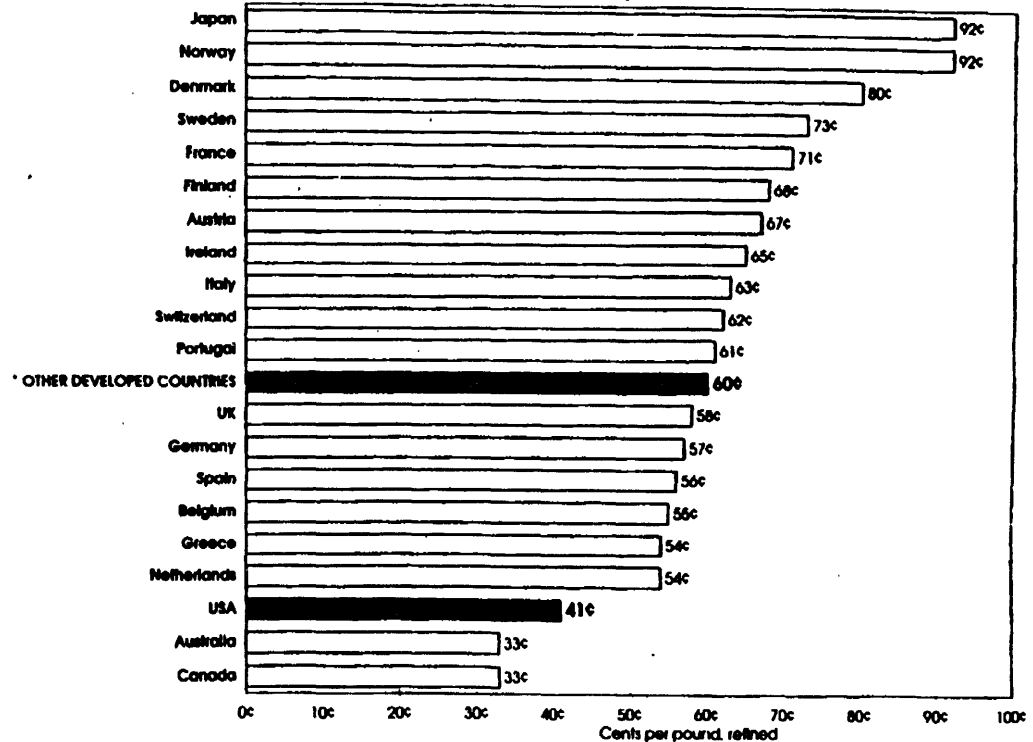
**"World Price" for Sugar:
Only Half World Average Cost of Producing Sugar
(1984/85 - 1994/95)**



* New York #11, f.o.b. Caribbean. Source: USDA

** "A World Survey of Sugar and HFCS Field, Factory and Freight Production Costs: 1997 Report"
LMC International Ltd., Oxford, England

Developed Countries' Retail Sugar Prices: USA 32% Below Average



Source: LMC International Ltd., Chemist England, June 1997

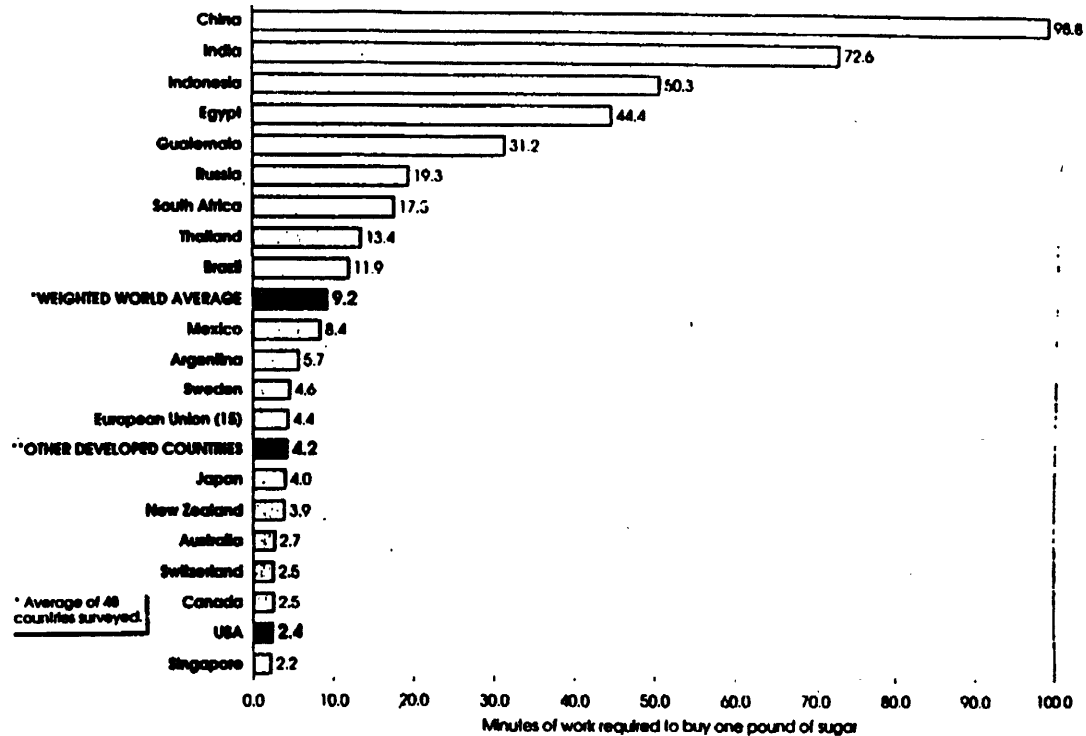
Study of 48 countries, accounting for 76% of global sugar consumption, 1996 prices.

* 'Other Developed Countries' is the average of the Organization for Economic Co-operation and Development (OECD) including the United States

ASCA #2651

**Minutes of Work to Buy One Pound of Sugar:
USA Second Lowest in World**

ATTACHMENT C

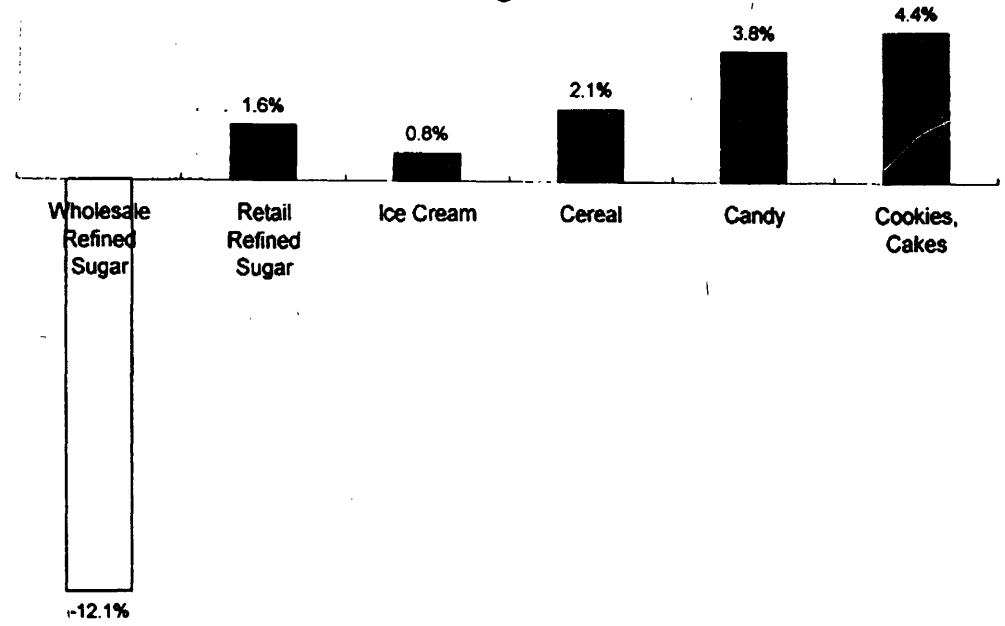


Source: IBC International Ltd. Oxford, England, June 1997. Study of 48 countries, accounting for 76% of global sugar consumption. 1996 rates as of 1996. Calculations assume that the average person works for 2,500 hours per year and earns the average GDP per head. These calculations are based on 1996 World Bank (GDP in US\$) and per capita GDP (US\$).
 ** "Other Developed Countries" is the average of the Organisation for Economic Co-operation and Development (OECD) excluding the United States.

ASGA 4/97 056f

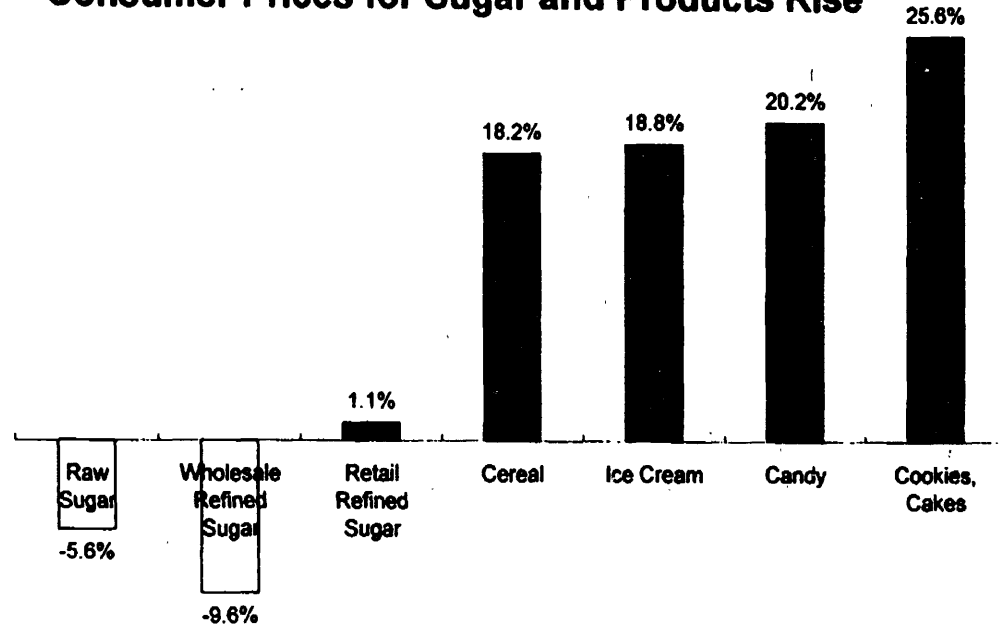
**Since Start of 1996 Farm Bill:
Producer Price for Sugar Drops;
Consumer Prices for Sugar and Products Rise***

ATTACHMENT D



* Monthly average price changes from September 1996 to March 1998. Raw cane sugar: #14 contract, New York. Wholesale refined beet sugar: Midwest markets. Retail prices: Bureau of Labor Statistics consumer price indices. Data source: USDA.

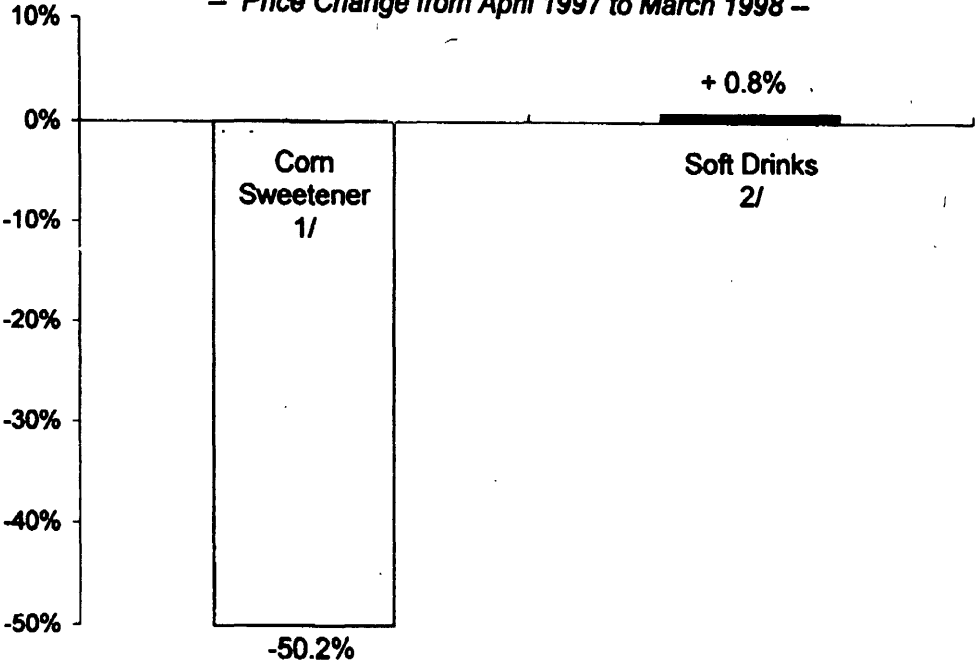
Since 1990: Producer Prices for Sugar Drop, Consumer Prices for Sugar and Products Rise*



* Change in annual average prices from 1990 to 1997. Raw cane sugar: #14 contract, New York. Wholesale refined beet sugar: Midwest markets. Retail prices: Bureau of Labor Statistics consumer price indices. Data source: USDA.

Corn Sweetener Prices Plunge, But Soft Drink Prices Continue to Rise

– Price Change from April 1997 to March 1998 –



1/ HFCS-55, dry basis, Midwest. Source: *Milling and Baking News*.

2/ "Carbonated drinks." Source: Bureau of Labor Statistics, Consumer Price Indices.

U.S.-EU SUGAR POLICY COMPARISON
The World's Two Largest Sweetener Markets

	<u>United States</u>	<u>European Union</u>
Trade Status	Net importer	World's largest exporter
Producer Support Price (Refined sugar)	22.90¢/lb	30-31¢/lb ^{1/}
Future Support Price	Effective 6% reduction, 1996-2002	Frozen through 2001
Retail Price ^{2/} (Refined sugar)	41¢/lb	61¢/lb
Producer Tax on All Sugar Marketed	\$41 million/yr ^{3/}	No
Export Subsidies	No	\$1.5 billion/yr
Production or Marketing Controls on Sugar	No	Yes
Production or Import Controls on Corn Sweeteners	No	Yes
Storage Payments to Producers	No	Yes
National Aids to Producers ^{4/}	No	Yes
Refiner Subsidies	No	Yes
Subsidy for Non-food Uses of Sugar	No	Yes

^{1/} Weighted average of "A", "B", and "C" quotas; dollar value rises with exchange rates.

^{2/} LMC International world retail sugar price survey, June 1997.

^{3/} Projected revenues of \$288 million during 1996/97-2002/03 for federal deficit reduction.

^{4/} Italy and Spain pay their producers additional subsidies.

Vickie R. Myers
Executive Director
(tel) 202/457-1437
(fax) 202/408-0763

1225 Eye Street, N.W.
Suite 500
Washington, DC 20005



ATTACHMENT H

Jack Raney
Director of Economics
and Policy Analysis
(tel) 202/457-1438

Joseph L.S. Terrell
Director of Public Affairs
(tel) 202/457-1438

BACKING AMERICA'S BEET, CANE AND CORN FARMERS

May 21, 1997

The Honorable Charlene Barshefsky
U.S. Trade Representative
Office of United States Trade Representative
Winder Building, 600 17th Street N.W.
Washington, D.C. 20506

The Honorable Dan Glickman
Secretary of Agriculture
U.S. Department of Agriculture
Whitten Building, Room 200-A
Washington, D.C. 20250

Dear Ambassador, Dear Mr. Secretary:

With the start of the new round of multilateral agricultural negotiations growing closer, and with the beginning of the Geneva process of analysis and exchange of information, we thought this would be an appropriate time to share with you our views on U.S. objectives for this next round of negotiations.

The American Sugar Alliance is a coalition of U.S. growers and processors of sugarbeets, sugarcane, and corn for sweeteners. We are efficient, with costs of production below the world average. We have long supported the goal of genuine, multilateral elimination of all barriers to agricultural trade.

The world sugar market is one of the most highly distorted and most volatile markets in agricultural trade. All of the more than 100 countries that produce sugar exhibit some form of government intervention, including internal supports; import barriers; massive export subsidies, such as those by the European Union; state trading enterprises; and two-price systems.

These practices literally make the world sugar market a dumping ground, to the extent that the so-called "world price" has averaged only about half the world average cost of producing sugar over the past 15 years. It is only the continuation of tariff protection in the United States that prevents these enormous distortions from undermining the efforts of our efficient and non-subsidized producers.

We are fully committed to working toward an open trading system, but not at any price. As the Administration has said on many occasions regarding China's bid to accede to the World Trade Organization, trade must take place on a commercially viable basis. That is clearly not the case now in world sugar trade.

With this background in mind, we offer the following suggestions on objectives for the next round of negotiations:

- The United States should continue to insist on the elimination of all export subsidies. This objective should encompass appropriate disciplines on policies which essentially circumvent export subsidy commitments, such as pooling arrangements and dual pricing systems.
- State trading enterprises, which allow countries to control all facets of trade and extend monopolistic pricing practices to world markets, need strongly enhanced disciplines to provide price transparency and prevent predatory and discriminatory pricing.
- The passage of the FAIR Act has reduced U.S. agricultural support by far more than the Uruguay Round required. Other countries should match this reduction in terms of an aggregate measure of support before any additional reduction would be required in the United States.
- Countries which have not fulfilled their Uruguay Round commitments, or which have used various means to avoid or diminish these commitments, must be brought into full compliance with their obligations. This effort should also include arbitrary and capricious sanitary and phytosanitary restrictions which are not based on sound scientific principles. We urge that you aggressively pursue countries that have not complied and that no further concessions be negotiated with these countries until full and complete compliance is achieved.

We point out in this regard that sugar imports into the United States have far exceeded – in fact, nearly doubled – our Uruguay Round commitment. Very few, if any, other commodities in the world can make this statement, a fact that needs to be taken into account in the negotiations.

- On market access, the United States should pursue a request/offer strategy to maximize our negotiating leverage to achieve these objectives. Developing countries do not have to make any further concessions until after the year 2004. Therefore, a formula-driven approach, such as was followed in the Uruguay Round, would give developing countries a free ride and would minimize our negotiating strength.

We hope you will seriously consider these suggestions, as you begin your preparations for the next round of trade negotiations. We would be happy to meet with you, at your convenience, to discuss these objectives in more detail.

Sincerely,


Carolyn Cheney, Chairman

STATEMENT OF THE PET FOOD INSTITUTE

[SUBMITTED BY DUANE EKEDAHL]

The Pet Food Institute (PFI), the trade association which represents the manufacturers of 95% of the commercially produced dog and cat food in the U. S., commends the Chairman and Committee for conducting this hearing on the 1999 Agricultural Round of multilateral trade negotiations (MTN) in the World Trade Organization (WTO). This hearing hopefully will help the Administration, industry and the public at large to focus on the opportunities in, and the importance of, the Round. The Pet

Food Institute respectfully requests the support of the Committee on the issues listed in this position paper.

The 1999 Agricultural Round is important to U.S. pet food exports and we urge that a priority be placed on liberalizing trade of pet food. Several steps need to be taken in this regard, including tariff cuts, elimination of non-tariff barriers and harmonization of export health certificates. U.S. pet food exports are significant to the U.S. economy and are growing rapidly. As indicated in the chart below, dog and cat food exports grew from 1992 to 1997 at an annual rate ranging from over 6.4% to nearly 25%. In terms of job creation, the almost 750 million dollars in pet food export during 1997 generally translates to 13,000 jobs to the U.S. economy. Further, pet food production is important to U.S. agriculture. The industry utilizes a wide variety of agriculturally-derived ingredients including meat proteins and grains. Pet food production enables agriculture to achieve a higher level of efficiency, which directly impacts the cost of human food.

Year	Total World Exports FAS value (US \$1,000)	Percent growth from previous year
1992	\$399,630	
1993	\$497,621	24.5%
1994	\$577,943	16.1%
1995	\$630,237	9.1%
1996	\$700,264	11.1%
1997	\$744,941	6.4%

Source: U.S. Bureau of the Census Trade Data.

The rapid growth of pet food exports should continue due in part to the rapid growth of disposable income in many parts of the world. As pet owners gain disposable income, they shift from feeding their pets human food and table scraps to feeding them commercially prepared pet food. This trend has occurred in many countries and is well documented. Also, as pet owners shift to commercially prepared pet food, they tend to choose better quality animals for pets, such as purebred dogs or cats. This in turn creates an incentive to provide better care, such as commercially prepared pet food and veterinary care. Commercially prepared pet food is specially formulated to be more nutritionally complete and balanced for pets than human food.

However, if the following issues are not successfully resolved, companies may need to consider building even more facilities outside of the U. S. to effectively meet local trade restrictions and compete in the global market. Obviously, such actions would result in the loss of U. S. jobs and in the reduced consumption of U. S. produced agricultural products.

Support for Fast Track Negotiating Authority

The cornerstone of successful U.S. trade negotiations around the world is the strong support of Congress. This resolve can be most visibly demonstrated by granting the Administration the authority to negotiate under fast track. Absent this authority, the U. S. Government will be in a much weaker negotiating position. We therefore strongly support the passage of fast track authority for the Administration by Congress.

Action requested:

U.S. Congress should grant fast track authority to the Administration.

NEED FOR PET FOOD TARIFF REDUCTION

High tariffs exist in many countries around the world, including countries in Asia, Central and Eastern Europe and Latin America. These tariffs hinder or may effectively preclude U.S. pet food exports. Fortunately, trade forums exist where tariff reductions can be negotiated. Because of its strength in agriculture, the U.S. is well positioned to expand its position as the leading pet food exporter in the world if tariffs can be reduced or eliminated.

The pet food industry urges the U.S. Government to strongly support the food sector proposal in the Asia Pacific Economic Cooperation (APEC) forum. Originally proposed by Australia, the food sector proposal includes the proposed elimination of pet food tariffs among the eighteen APEC members. Australia recognized the benefit of

pet food tariff elimination, not just for pet food exports but for increased consumption of pet food ingredients such as lamb-based ingredients.

The food sector proposal was adopted at the 1997 APEC leaders meeting as a secondary priority. APEC members are expected to express their support for the proposal at the ministerial meeting in June. Trade ministers hopefully will then recommend to the APEC leaders that they adopt the food sector proposal as a priority for negotiation. The U.S. food industry and pet food industry are in the process of expressing support to USTR and USDA for the proposal.

The APEC food sector proposal, if adopted, lays the groundwork for pursuing tariff elimination in the 1999 WTO Agricultural Round and in the Free Trade Agreement of the Americas.

In addition, reduction of high pet food tariffs in Russia and China is contingent upon those countries acceding to the WTO. We encourage the Congress and the Clinton Administration to require/ensure that these countries offer reasonable tariff bindings for pet food. Excessively high bindings, (i.e. above current applied rates) would be unacceptable.

Action requested:

Support for pet food tariff elimination in these trade initiatives

EUROPE'S BSE-RELATED ACTIONS

SRM Ban

Actions by the European Union to eradicate bovine spongiform encephalopathy (BSE), or "mad cow" disease, have caused enormous disruption and increased costs for the U.S. pet food industry. Normally when a country experiences an outbreak of disease, other countries impose restrictions on exports from that country. The EU has taken the seemingly unprecedented step of reversing the burden by imposing restrictions on exports of other countries such as the U.S. who have never had a case of BSE.

The most recent problem has been the proposed ban on specified risk materials (SRMs), which are those parts of ruminant animals thought most likely to transmit BSE. The SRM ban, if imposed, would make the production of some pet foods impractical and greatly increase the cost of producing others.

The EU has delayed the SRM ban until January 1, 1999. The European Commission has been challenged to create a policy on SRMs that will be acceptable to all member states; and may in due course adopt a policy not to apply the ban to countries designated as having a minimal risk of BSE, as had been proposed in March of 1998.

It is our understanding that the Office of International Epizootics (O.I.E.) has developed an international guideline for recognition of BSE-free status for various countries. We support those guidelines. We agree that appropriate measures have been taken by the U. S. government to avoid the occurrence of BSE within the U. S.

Member State Actions

An unfortunate secondary effect of the EU's efforts against BSE has been that numerous other countries have adopted some portions of the EU's restrictions. The imitations of the EU by non-EU countries have been disruptive to U.S. pet food exports. USDA's Foreign Agricultural Service (FAS) and Animal and Plant Health Inspection Service (APHIS) have done excellent work in persuading non-EU countries to drop these requirements. These experiences emphasize the need for the U.S. Government to defend the proper and intended use of sanitary and phytosanitary requirements in trade as agreed to in the Uruguay Round.

Unfortunately, the United Kingdom went forward with its own SRM ban on January 1, 1998 and France has had a ban in place since September 10, 1996. These bans make no sense when applied against the United States. The U.S. Government needs to redouble its efforts to get the U.K. and France to lift their SRM bans against the U.S., as has already been done for New Zealand and Australia.

Actions requested:

- (1) The U.S. is BSE-free and the U. S. Government should actively pursue recognition of this status by the European Union and other countries.
- (2) We urge the U. S. Government to support adoption of the guidelines as proposed for presentation at the O.I.E. meeting in May 1998 to define BSE- free status.
- (3) U.S. Government should actively pursue removal of the SRM bans against our products by the U.K. and France.

(4) U.S. Government should continue to work against the imitation of the EU's BSE-related actions by other countries.

HARMONIZATION OF EXPORT HEALTH CERTIFICATES

The growth of U.S. pet food exports has revealed a propensity of other countries to impose unnecessary, unrealistic, or disruptive requirements in export health certificates. These requirements have often been adopted in a non-transparent way with limited or no transition times, such that ongoing commerce has been disrupted. Increased costs have resulted from shipping demurrage, unnecessary testing and increased compliance burdens.

Two examples of unnecessary or inappropriate certification requirements are shown as follows, while there are many others that could be mentioned:

(1) Switzerland currently requires that the end product (dry dog food) be tested for enterobacteriaceae. This is an example of seemingly unnecessary testing. This testing is quite expensive and poses a burden on exports to Switzerland. Other countries have been convinced by USDA APHIS staff to accept salmonella testing as an adequate marker to confirm the quality of the finished dry pet food. This, however, has not yet been accomplished with Switzerland.

In unilaterally requiring additional testing, many companies must test their entire production for this additional test since because it is often not practical to identify which lots of products will ultimately be shipped to Switzerland.

(2) Argentina requires six (6) different certificates in order to gain approval for each product exported to Argentina. This creates a significant burden simply by virtue of the large volume of paperwork created. An Argentine certification requirement also appears to carry BSE-related concerns to an extreme by demanding the animal origin of all ingredients and the country in which the animals were born and raised until slaughter. Argentina also wants certification in parts per million of antioxidants, colors, preservatives, aromatizing agents, flavorings, anti-clumping agents and any other substance added to the product for non-pharmacological purposes.

There are numerous other countries which have excessive requirements for certification. APHIS and FAS have been very helpful in getting many countries to drop unnecessary or unrealistic export certificate requirements, but often after increased costs have been incurred.

There is a great need to negotiate in the 1999 WTO Agricultural Round, or other appropriate forum, the harmonization of export health certificates. Clearly, unnecessary and unrealistic requirements need to be avoided, but also, changes need to be adopted in a transparent way with ample lead-time to prevent the disruption of ongoing commerce.

Further, USDA APHIS must exercise a leadership role in the bilateral resolution of issues involving certificates for individual countries in a timely manner.

Action requested:

(1) U. S. Government should support the harmonization of export health certificates in the 1999 WTO Round.

(2) U. S. Government should strive to maintain the proper and intended use of sanitary phytosanitary requirements in all certification programs.

(3) USDA APHIS must be given adequate resources and exercise a leadership role in resolving bilateral certificate issues.

Again, we appreciate the initiative of the Committee to hold these hearings and to help develop the agenda for the 1999 WTO Round. We request that this statement be incorporated at an appropriate place in the hearing record and we look forward to working with the Committee to make the Round a success for U.S. pet food and for U.S. agriculture.

LAW OFFICES
STEWART AND STEWART
2100 M STREET, N.W.
WASHINGTON, D.C. 20037

May 1, 1998

Ms. Lindy Paull
Majority Staff Director
Committee on Finance
United States Senate
Washington, D.C. 20510

Re: Upcoming Negotiations on Agriculture in the World Trade Organization

Dear Ms. Paull:

In response to the April 15, 1998, announcement of the Committee on Finance regarding the April 21 hearing on upcoming negotiations on agriculture in the World Trade Organization (WTO), I submit the following comments. While Stewart and Stewart has over the years represented agricultural interests on international trade matters, the views expressed herein are my own and do not necessarily reflect the views of the clients of Stewart and Stewart.

As agriculture around the world has been highly regulated and heavily subsidized for decades, liberalization poses major challenges not seen in most other areas of trade. During negotiations concerning agriculture at the WTO, U.S. negotiators should seek to achieve more open and fair conditions of trade in agricultural products. Suggestions for such negotiations are discussed below.

1. Subsidies

While the United States is highly competitive in a wide range of agricultural commodities, recent agricultural reform efforts, which are reducing U.S. subsidy levels, leave U.S. farmers exposed to disparate subsidy treatment abroad. These subsidies are specifically permitted under the WTO. Our country's farmers should not be asked to compete against foreign treasuries. As further liberalization is pursued in agriculture, care should be taken to ensure that net production levels (tariffs, subsidies (both domestic and export) and other non-tariff barriers) are harmonized with U.S. levels on products where foreign subsidies are significantly larger on a per unit basis than those provided by the United States.

The United States should consider going one step further and negotiate for an end to all export subsidies. In doing so, the United States should address practices that in effect permit countries to avoid export subsidy commitments, such as pooling arrangements and dual pricing systems, which, by creating artificially low export prices for many foreign producers, undercut U.S. products in the world market.

2. Tariff Equivalency

The fact that some developed countries have tariffs higher than 100 percent on certain agricultural products, while U.S. tariffs are much lower, demonstrates the inequitable situation faced by U.S. farmers in the international marketplace. U.S. negotiators should work to lower the tariffs of our trading partners. During such negotiations, however, American officials should recognize that U.S. tariffs cannot go much lower. We should be careful not to negotiate away our remaining tariffs if little is achieved in return. In addition, there are import sensitive sectors in which global solutions need to be sought before U.S. tariffs are reduced.

3. Perishable and Seasonal Products

The Uruguay Round Agreement on Agriculture recognizes that perishable and seasonal products within agriculture may require special rules. See Article 5.6 of the Agreement on Agriculture. U.S. negotiators should seek agreed rules to reflect the unique characteristics and needs of such products in any agreement which deals with agricultural products. Any such trade rules should make sense and apply to all products. Our antidumping law and international agreements have long recognized the concept of "regional" industries. In agriculture, perishable and seasonal products have characteristics that should be accounted for in the rights being invoked and for the relief that follows.

During the upcoming negotiations, it would be important for the United States to establish rules with regard to perishable and seasonal products so that countries are allowed to take action promptly when there are problems in one of these sectors and to devise rules that will minimize problems that may arise. In addition, Congress should be encouraged to modify U.S. laws to clarify that in fact existing laws can deal with perishable and seasonable products now without a change in the World Trade Organization.

4. Safeguards

There are currently special safeguards recognizing perishable and seasonal products in Article 5.6 of the Agreement on Agriculture. The basic safeguard agreement is acceptable if available in a timely manner. During

negotiations on agriculture, governments may want to consider if the timing of relief is adequate considering the special problems that agriculture may face.

In addition, Congress should be concerned with the lack of relief that has been available under U.S. safeguard provisions generally over the past twenty years. Congress may wish to review the International Trade Commission's construction of the law and also examine whether the U.S. law is more onerous than need be under the Agreement as well as the virtual impossibility of getting action from the executive branch regardless of the administration.

5. Agricultural Chemical Use

International rules should be negotiated to deal with injurious trade flows that reflect international agreements or national laws that discriminate against developed country producers of agriculture in areas such as agricultural chemical use. The problems for farmers in the United States and other developed countries from the future ban of methyl bromide, some ten years in advance of developing countries, is one example. While the United States may decide for other reasons to accept an earlier phase-out of the use of certain chemicals for environmental purposes, American farmers should not lose out, at least in the U.S. market, for such a decision.

6. Genetically Modified Organisms

U.S. negotiators should work to find international consensus on the use of genetically modified organisms (GMOs). GMOs have the potential to provide the world's growing population with abundant and inexpensive agricultural products. Despite scientific evidence demonstrating that agricultural products derived through biotechnology are safe, many of our trading partners are considering placing limits upon, or prohibiting, the importation of U.S. produced GMOs. Restrictive practices that would require the segregation of GMO products from non-GMO products, or the labeling of biotechnology products, would be expensive, would result in discrimination against U.S. products, and thus would act as non-tariff barriers against U.S. exports.

7. Sanitary and Phytosanitary Measures

The Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) of the WTO has, as demonstrated in the beef hormone decisions of the WTO, provided benefits to American agriculture. However, this agreement has been the subject of only one completed panel, so its impact on the international trade of agricultural products has yet to be fully realized. Accordingly, U.S. negotiators to the WTO should act with restraint if presented with proposals to make major changes to the SPS Agreement.

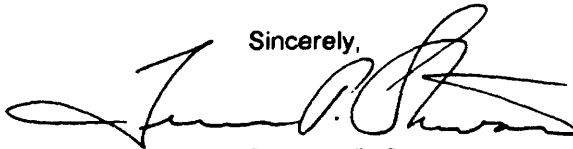
While U.S. negotiators should work to maintain a strong SPS Agreement that will provide the leverage needed to obtain access for U.S. agricultural products in foreign markets when valid scientific evidence is present, they should also take steps to ensure that any possible changes to this agreement do not result in lower standards for imported products that might be detrimental to human, animal, and plant life or health in the United States.

8. Trade Remedies and Downstream Processed Agricultural Products

In some instances, the trade remedy laws of a country do not provide adequate relief, or possibly no relief, to producers of unprocessed agricultural products who prevail in antidumping cases. The pressures put upon the domestic producers by downstream processors to maintain low prices, pressures which can be brought on by the dumping of the *processed* product, can negate any possible benefits from an antidumping order on the *unprocessed* product.

Accordingly, U.S. negotiators should seek special measures for agriculture in the Agreement on Agriculture that will provide temporary relief to the producers of unprocessed agricultural products who are successful in trade remedy cases yet remain harmed due to downstream processing.

Sincerely,

A handwritten signature in black ink, appearing to read "Terence P. Stewart", written in a cursive style.

Terence P. Stewart

PREPARED STATEMENT OF THE U.S. CHAMBER OF COMMERCE

(SUBMITTED BY R. BRUCE JOSTEN)

The U.S. Chamber of Commerce applauds Chairman Grassley and the International Trade Subcommittee for its leadership and initiative in holding these hearings. With one in every three acres of farm production exported and annual export sales approaching \$60 billion, the U.S. food system increasingly depends on access to global food and fiber markets. To ensure American access to these export markets, our negotiators must attempt to strengthen the basic rules and disciplines to assure fair play in global commerce.

The U.S. Chamber has a great interest in food and agricultural trade because it is the only national organization with significant membership representing all sectors of the American food system, from farm suppliers and growers to processors and handlers, to distributors, marketers and retailers. Altogether, approximately 16 percent of our total membership is involved in food and agriculture.

The Chamber's immediate concern is that members of the World Trade Organization (WTO) are expected to convene in 1999 for a new round of multilateral trade negotiations on food and farm products, building upon the Uruguay Round's (1988-94) Agreement on Agriculture. Meanwhile, farm trade will be featured on the agenda of the WTO ministerial meeting next month in Geneva. A review of sanitary/phytosanitary rules is also set for this year, and an information and analysis exchange among member states has already begun. Adequate preparation for the new round is essential to assure that negotiations start on time and produce meaningful, market-opening results. These hearings will contribute significantly to positive U.S. influence in the negotiations, and the Chamber applauds Chairman Grassley and Subcommittee Members for their leadership and initiative.

Despite setbacks and disappointments, the Uruguay Round produced greater results for global food and agricultural commerce than any prior set of negotiations. It did so because U.S. leadership succeeded in setting a highly ambitious agenda at the very outset of negotiations, calling for the elimination of all trade-distorting domestic and export subsidies and all tariff and non-tariff trade barriers. The new round should begin where the Uruguay Round left off, focussing on unfinished business such as the elimination of trade distorting subsidies, the progressive lowering of tariffs and the harmonization of sanitary/phytosanitary regulations. Further, the new round should aggressively address issues which have emerged since the conclusion of the Uruguay Round, including state trading and the treatment of genetically improved organisms, among others.

Unfinished business left over from the Uruguay Round:

- **Eliminate or drastically reduce export subsidization for grains and other products.** The Agreement on Agriculture required a reduction in export subsidies of 36 percent over a six-year period for developed countries and 24 percent over 10 years for developing countries. The volume of subsidized exports must be reduced by 21 percent. The agreement got off to a good start, but there has been some backsliding recently. High commodity prices during the first three years of the agreement enabled many countries to cut their export subsidies even farther than required. Now that commodity prices have declined, some countries are claiming a credit for earlier cuts (the concept is called "subsidy banking"), which they intend to use in the future to maintain market share. The new round should specify the total elimination of export subsidies. This will be a top priority of the 14-member Cairns Group, which accounts for about 20 percent of world agricultural exports. The Cairns Group will also call for disciplines on the use of export credits, such as our GSM program.
- **Eliminate trade-distorting domestic farm programs.** Domestic support, as measured by the total "Aggregate Measure of Support" (AMS) from a 1986-88 base, is to be reduced by 20 percent in equal installments over 6 years, according to the current agreement. The sensitive problem of defining a "trade distorting" subsidy was finessed by broadly grouping subsidies into different categories—the so-called green, red, amber and blue boxes. Some minimally distorting supports were exempted while others were subject to reduction. The issue should be re-visited to make certain that trade-distorting programs and policies are actually subject to meaningful discipline. The bottom line is that a farm income "safety net" can be implemented without distorting trade, and that market-driven domestic food policies and freer access to global markets enable consumers to get better food at lower prices.
- **Further expand market access by reducing tariff and non-tariff barriers.** The Agreement on Agriculture made progress on lowering barriers to trade. The agreement called for the conversion of all existing barriers into tar-

iffs and tariff reductions of 36 percent over six years for developed countries and 24 percent over ten years for developing countries, with a 15 percent minimum per tariff line. It also established minimum access levels for imported products at 3 percent of domestic consumption in the first year, gradually expanding to 5 percent thereafter. However, the agreement gave countries broad discretion in calculating and binding tariff levels. In many countries, bound agricultural tariffs were based on highly inflated tariff equivalents and range from 100 percent to 500 percent. They will take years to reduce, especially under the current formula, which is an unweighted average of tariff line items, regardless of their importance in trade. U.S. negotiators should seek agreement on a formula and timetable to lower these inflated tariffs.

- **Delete the "Special Safeguards" provision.** This provision was designed to protect goods subject to tariffication from import surges or steep price declines by additional duties. But, in effect, the mechanism is a back door variable levy that distorts transmission of world prices below trigger levels. Our negotiators should seek the phase-out of the special safeguards provision.
- **Harmonize Sanitary/Phytosanitary (SPS) regulations on the basis of science, transparency and equivalence.** The Agreement on Agriculture allows importing countries to adopt measures, based on science and risk assessment (and not as a form of disguised protection), to safeguard plants, animals and humans from pests, diseases and contaminants. Three international scientific bodies—the Codex Alimentarius Commission, the International Institute of Epizootics, and the International Plant Pest Convention—are tasked with setting internationally agreed standards and serving as a point of reference. However, this process has moved at a glacial pace, and phony SPS regulations, masquerading as health rules, have continued to proliferate since the Uruguay Round, putting billions of dollars of potential U.S. exports at risk annually.

The WTO will review the SPS agreement this year, in preparation for the new round. This is an opportunity to jump-start the harmonization process, and strengthen the principles of transparency and equivalence. Transparency requires that governments take steps to ensure that changes to SPS rules are made known promptly, that importers have an opportunity to comment and raise questions, and that producers in exporting countries have time to adapt to the new rules. Equivalence requires that countries accept other countries' health and safety measures as equivalent to their own if the exporting country can demonstrate that they achieve a commensurate level of SPS protection.

New Objectives That Have Emerged Since the Uruguay Round's Agreement on Agriculture (1994):

- **Establish science-based rules of trade for products derived from genetically modified organisms (GMOs).** The U.S. is a leader in the development and commercialization of GMOs, and an ever-increasing percentage of U.S. farm and food exports will contain, or be derived from, genetically improved products. Since GMOs are being approved here more rapidly than abroad, the potential now exists for trade disruption on a vast scale. The prospect of European Union (EU) discrimination—through GMO labeling and product segregation schemes—is especially troubling, since the EU sets an example for much of the developing world. The acceptance in world commerce of farm and food products that contain GMOs should be determined, like any other agricultural product, on the basis of sound science.

A compelling case should be made by our negotiators for unfettered commerce in genetically improved food products. World population is expected to reach 7 billion in the first decade of the new century. This population growth, combined with higher family incomes, may double global food demand over the next 30 years. The yield increases achieved through recombinant DNA enable people to be fed without plowing-up critical habitat and destroying bio-diversity. Genetic improvements are key to global food security and environmental sustainability.

- **Eliminate or discipline state trading enterprises (STEs).** More attention has been focused on the trade distorting practices of STEs since the Uruguay Round, especially in light of the possible accession to the WTO of China, Russia and other nations that engage extensively in state trading. State marketing boards, such as the Australian and Canadian Wheat Boards, and the New Zealand Dairy Board, tend to operate behind closed doors, and practices—such as selective price cutting, export financing, and price pooling—may circumvent WTO commitments on export subsidization. Marketing boards are only part of the STE problem. State import agencies, such as Japan's Food Agency and Indonesia's BULOG, may be able to regulate total demand and restrict imports.

The Uruguay Round made some progress on state trading by establishing a definition of STEs, and a working group on state trading. But much more progress is needed. STEs should operate in the sunshine with greater transparency, and their export and import practices should be governed by rules consistent with WTO commitments.

- **Enlarge the WTO to include China, Russia and other applicants provided that they commit themselves to WTO rules and disciplines and spell out binding transition plans.** Twenty-nine nations, including China, Russia, and Saudi Arabia, have applied for membership in the 130-member WTO, and their inclusion is in the best interest of the United States. Constructive commercial engagement provides the best means of fashioning an open global trading system where all players are eventually operating under the same rules. However, applicants must agree to compete fairly, open access to domestic markets and eliminate unjustified technical barriers to trade.
- **IMPROVE THE ADMINISTRATION OF TARIFF-RATE QUOTAS (TQRs).** The "tariffication" process has been thwarted in some instances by restrictive rules on access to tariff-rate quotas. Some countries have allowed TQRs to go unfilled due to restrictive measures, and others have failed to introduce tariffication as promised. The problem was highlighted last year in the disappointing ruling by a NAFTA panel in favor of Canada's protectionist application of tariff-rate quotas on imports of U.S. dairy, poultry, eggs, margarine and barley. Another example is the Philippine's licensing scheme to curb U.S. access to pork and poultry import quotas—an issue that has now gone to WTO dispute resolution. Clear and binding rules of TQR allocation and administration appear to be a top priority.

Conclusion

These nine broad objectives comprise an ambitious, but necessary U.S. agenda for the new round of negotiations. Working together, we can build upon the achievements of the Uruguay Round and make significantly greater progress on behalf of the U.S. food and agricultural system toward an open global trading system.

