

**U.S. AGRICULTURAL NEGOTIATING OBJECTIVES
FOR THE SEATTLE WTO MINISTERIAL CON-
FERENCE**

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

—————
OCTOBER 7, 1999
—————



Printed for the use of the Committee on Finance

—————
U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1999

62-573—CC

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

ISBN 0-16-060360-9

5361-14.

COMMITTEE ON FINANCE

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

JOHN H. CHAFEE, Rhode Island
CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah
FRANK H. MURKOWSKI, Alaska
DON NICKLES, Oklahoma
PHIL GRAMM, Texas
TRENT LOTT, Mississippi
JAMES M. JEFFORDS, Vermont
CONNIE MACK, Florida
FRED THOMPSON, Tennessee

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
JOHN D. ROCKEFELLER IV, West Virginia
JOHN BREAUX, Louisiana
KENT CONRAD, North Dakota
BOB GRAHAM, Florida
RICHARD H. BRYAN, Nevada
J. ROBERT KERREY, Nebraska
CHARLES S. ROBB, Virginia

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

SUBCOMMITTEE ON INTERNATIONAL TRADE

CHARLES E. GRASSLEY, Iowa, *Chairman*

FRED THOMPSON, Tennessee
FRANK H. MURKOWSKI, Alaska
WILLIAM V. ROTH, JR., Delaware
TRENT LOTT, Mississippi
PHIL GRAMM, Texas
ORRIN G. HATCH, Utah
JOHN H. CHAFEE, Rhode Island
JAMES M. JEFFORDS, Vermont

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
JOHN D. ROCKEFELLER IV, West Virginia
JOHN BREAUX, Louisiana
KENT CONRAD, North Dakota
BOB GRAHAM, Florida
J. ROBERT KERREY, Nebraska
CHARLES S. ROBB, Virginia

CONTENTS

OPENING STATEMENTS

	Page
Grassley, Hon. Charles E., a U.S. Senator from Iowa	1
Baucus, Hon. Max, a U.S. Senator from Montana	4
Kerrey, Hon. J. Robert, a U.S. Senator from Nebraska	5

ADMINISTRATION WITNESSES

Aaron, Hon. David L., Under Secretary for International Trade, Department of Commerce, Washington, DC	6
Schumacher, Hon. August, Jr., Under Secretary for Farm and Foreign Agricultural Services, Department of Agriculture, Washington, DC	8

PUBLIC WITNESSES

Murphy, James, Assistant U.S. Trade Representative for Agricultural Affairs, Washington, DC	11
Caspers, Jon, member, National Pork Producers Council, Board of Directors, Swaledale, IA	25
Johnson, Allen, president, National Oilseed Processors Association, Washington, DC	27
Nuzum, Janet A., vice president and general counsel, International Dairy Foods Association, Washington, DC	30
Withey, Lyn, vice president for public affairs, International Paper Company, Washington, DC	32

ALPHABETICAL LISTING AND APPENDIX MATERIAL

Aaron, Hon. David L.:	
Testimony	6
Prepared statement	41
Baucus, Hon. Max:	
Opening statement	4
Caspers, Jon:	
Testimony	25
Prepared statement	44
Grassley, Hon. Charles E.:	
Opening statement	1
Hatch, Hon. Orrin G.:	
Prepared statement	52
Johnson, Allen:	
Testimony	27
Prepared statement	53
Kerrey, Hon. J. Robert:	
Opening statement	5
Murphy, James:	
Testimony	11
Prepared statement	58
Nuzum, Janet A.:	
Testimony	30
Prepared statement	63
Schumacher, August, Jr.:	
Testimony	8
Prepared statement	67

IV

	Page
Withey, Lyn:	
Testimony	32
Prepared statement	69

COMMUNICATIONS

American Peanut Coalition, submitted by Richard Pasco	83
International Trade Policy and Florida's Agricultural Community, paper, submitted by Senator Mack	96

U.S. AGRICULTURAL NEGOTIATING OBJECTIVES FOR THE SEATTLE WTO MINISTERIAL CONFERENCE

THURSDAY, OCTOBER 7, 1999

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

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the subcommittee) presiding.

Also present: Senators Murkowski, Baucus, Breaux, and Kerrey.

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

Senator GRASSLEY. I am Senator Chuck Grassley. I chair the Subcommittee on International Trade on the Senate Committee on Finance, and welcome everybody to this hearing, particularly our witnesses, who obviously, whether they are private sector or public sector, have a very important agenda of their own, but to share their expertise with us on the Hill at this critical time in agriculture is very important.

I will put that critical point of time in the fact that we are only 45 days away from launching the ninth series or round of multilateral trade negotiations—since 1947. But I would also put it in the context of the lowest farm prices in a quarter century in real dollars, and a half century in adjustment for inflation.

I would put it in the context as well of farm programs during the 1990's being connected with trade policy in the sense that, when there was meant to be less expenditures—and it may not work out this way—in public money in farm programs at the same time that farmers were getting more from the private sector and from the ability to export and get income from exports, and the exports have been down because of financial crises around the world, what goes on in Seattle, and beyond Seattle, in this ninth round is very much connected with overall farm policy that we have in this country of encouraging farmers to produce more for a growing world population and to be able to export their increased production, for their profitability as well as meeting humanitarian needs of 100 million more people to feed every year because of the expanding world population.

The Trade Subcommittee is holding this hearing, more specifically, because many subcommittee members, including myself, have not seen as many specifics from the administration about how we will deal with important agricultural trade issues in Seattle and beyond.

I would name just a few: tariffs. They are still too high. The conversion of quantitative restrictions to tariff rate quotas after the last round, the Uruguay Round, left many agricultural products highly protected.

Tariffs on agricultural products are three to four times higher than the 10 to 15 percent rates for most industrial products, and some of these tariffs would reach 200 percent or more.

The administration proposes to lower agricultural trade rates and to bind them, perhaps once again, using the zero quota initiative that we attempted with limited success in the Uruguay Round.

But apart from this general goal, the administration still hasn't said how this will work. Will zero quotas and zero subsidies still be our strategy? Why will it work this time when it failed to meet our expectations the last time we tried?

Export subsidies still distort agricultural markets. Both the United States and the European Union subsidize agricultural exports, but the European Union export subsidies are about eight times the amount that we spend.

What leverage we will use to eliminate these trade subsidies is unknown. Domestic support spending is another issue, especially European Union's production-limiting payments, or blue box spending, is much too high.

These are the subsidies that displace U.S. exports in the European Union and third country markets, yet the United States has been hesitant to call for outright elimination of production-limiting payments, even though we do not have a single program that currently falls within this category.

The European Union has huge support programs that are not disciplined by even modest reductions, or commitments to make most reductions. The European Union Agenda 2000 initiative even proposes raising blue box spending in the next 2 years.

So we need a more aggressive and ambitious agenda. We should challenge the European Union and other nations that spend enormous amounts on domestic support to eliminate these programs once and for all.

Then we have the biotechnology area. There is a great deal of controversy about whether, and how much, to engage the European Union, Japan, and other nations in this vital area.

The United States' position on biotechnology at the WTO basically only says that biotechnology is a priority. But how will this priority be addressed?

The structure and scope of the new round itself is controversial—and in my view needlessly so—about when and how we can liberalize trade in other economic sectors as well as agriculture. Perhaps most importantly, we still face the problem of sending our negotiating team to Seattle with one hand tied behind their backs because the President still has not sent legislation to Congress to renew the President's trade negotiating authority. I hope we will

hear our witnesses address these and other specific issues in specific detail.

But before we do, I would say a word or two about two issues. I will recommend to Chairman Roth that the Finance Committee seriously consider marking up legislation to renew the President's trade negotiating authority before the start of the Seattle negotiations.

I think we need to send a strong message that will be heard loud and clear, whether it is Brussels, Tokyo, or anywhere around the world, that we are serious about trade liberalization and that we want results.

The United States will go into the new global trade talks expecting the all-powerful Council of Agricultural Ministers in the European Union to hand over some of its authority to negotiators for the European Commission so that these negotiators can offer concessions to the United States, concessions on export subsidies, hopefully concessions on blue box spending, and other key items.

But how can we expect good-faith negotiations with the EU if the Europeans do not have the same confidence that the administration can deliver concessions to them, because without trade negotiating authority, all of our trading power partners will have less confidence in our ability to reach a final binding agreement. This lack of confidence undermines the negotiations and threatens to derail them even before they get started.

Now, it may well be that we will only be able to mark up a bill in the Finance Committee and not take it to the Senate floor, but I believe that we should at least give our negotiators some confidence about how we should proceed in Seattle.

Second, I want to say a word about biotechnology. This is, of course, a very terribly important issue, and particularly in agriculture. How we deal with it will affect most of the agricultural economy of the United States for decades.

But the proposal on biotechnology presented to the WTO in July by the United States only addresses this issue in most general terms. I believe that the United States should have a more ambitious biotechnology agenda, but rather than taking the lead it seems like we are following. Whereas, Canada has a specific proposal to create a working party that other countries are adopting. These countries are following Canada's lead because the United States gives no alternative.

The United States, it seems to me, should seize the initiative in biotechnology with a comprehensive approach that includes both broad engagement with the Europeans and finding new ways to promote our technology innovations in the marketplace.

On engagement, recent events in Europe show that public concern over biotechnology products is deeply rooted in the European culture. Our difference in view with Europe about the safety of biotechnology products is not going to be resolved overnight, nor will it be resolved solely, or even primarily, through legal means.

By engaging the Europeans on civic and cultural levels, we can address the bias against biotechnology where it is most deeply rooted. At the same time, we should find a better way to tell the world about the tremendous promise of biotechnology and about its safety. American food products, we all believe, are the safest in the

world, and American food products, to a great extent, involve bio-engineered foods as well.

Our Food and Drug Administration has earned a worldwide reputation for ensuring the safety of food for Americans and put what is on the family table first. The FDA regulates food and food ingredients developed by genetic engineering by the same provisions that it regulates natural food products. Bioengineered food products must meet the same rigorous standards as any other product.

For almost the first time in human history, we can have almost complete confidence in the quality and safety of our food. But for some reason, we have not done a very good job of telling this success story in the international marketplace when it comes to bio-engineered foods. We can, and must, do better.

I want to conclude, then, with one final observation. Every 2 years, I lead a group of ambassadors and diplomats on a week-long trade tour of Iowa. I have been doing this since 1986.

Just 6 weeks ago, we had 48 ambassadors or other diplomats from the embassies in Washington, representing almost every part of the world, accompanying me on my 1999 ambassador's tour. To me, it is a wonderful way of introducing Iowa to the world and the world to Iowa.

As we were passing through Conrad, Iowa, and this was a town of just 1,000 people, I saw this inscription above the door of the Conrad High School that I think fits this issue that we are discussing today: "Where there is vision, the people will prosper."

I can think of no more fitting theme for the new world trade talks for the United States as we launch this in November. We need vision to lead, we need vision to set an agenda, we need to keep that agenda and that vision. If we do, the United States and the entire world will prosper. As the President said just last week, one third of all the 12 million jobs created during his administration are a result of trade.

Senator Baucus?

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Mr. Chairman, I thank you for holding the hearing. I look forward to the statements of our witnesses.

I must say that it is going to take a lot of work and a lot of creative imagination to figure out how we wind our way through this political trade thicket to be significantly successful.

We all know what our goals are, but some of the problems that I see are these. One, since the end of the cold war, countries are basically going their own way, much more than before. There is no sort of unifying, coordinating theme that causes countries to work together as much as there was during the cold war. It is going to be difficult.

In addition, the European Union is becoming more powerful economically, other countries are as well, and each country is going to pursue its own economic interests the best it can.

On top of that, when it comes to agriculture, I do think that the political will in other countries, particularly in Europe, is stronger than it is in the United States.

That is, there is a greater consensus in support of agriculture in Europe, whether it is the subsidies or whether it is the genetically modified organism debate, or whatever it is, than in the United States.

I mean, certainly in agriculture States, it is very strong. The political pressures in Nebraska, Montana, Iowa, and other States is very strong, but we are not the majority in this country.

So for our negotiators to be successful in agriculture is going to take a lot of work, and it is going to be very difficult. I believe that, even though we are not Simon Pure as Americans, that, still, we are more open, more accessible, considerably, than other countries. That, to some degree, puts us at a bargaining disadvantage because we have less to give up; other countries have more to give up.

But I also believe very much, because no country altruistically, out of the goodness of its heart, lowers a trade barrier, that we need leverage. If we have less to give up, we are going to have to find other leverage. Some leverage that I think makes sense is something along the lines of legislation I've introduced. Basically, it's export subsidy, GATT-triggered.

It basically says, all right, if you Europeans do not reduce your export subsidies in the next couple of years, then we, by law, will target sizable EEP payments against the products you sell in the countries you sell in.

If you do not limit export subsidies in the next year totally, then we are going to double our EEP to, say, \$2 billion or something more like that and targeted against Europe.

Something like that might get Europe's attention, but I do think words will not do it. There is going to have to be something real to get their attention, and I do not envy you the work you—we—have as we try to solve this.

Just one final point, though. I just urge all of us to listen very, very carefully to the American people. I am referring now to the listening sessions.

I have been told by some of the people in my State that there is a little bit of a sense of maybe minds made up, if not arrogance, among some of the officials that have been at some of the listening sessions in my State.

So I just urge all of you, when you are out listening, that you really listen, because you might learn something. That certainly helps engender more public support for what you are doing. But the main thing is, let us find some leverage somewhere so we can get some results.

Senator GRASSLEY. Thank you, Senator Baucus.

Senator Kerrey, would you like to take a few minutes for opening comment before we go to the panel?

**OPENING STATEMENT OF HON. J. ROBERT KERREY, A U.S.
SENATOR FROM NEBRASKA**

Senator KERREY. Just one, Mr. Chairman. First, thanks for holding the hearing. I am just very much interested in hearing the witnesses.

I would say that I think the question that needs to be answered is one that, Senator Grassley, I have heard you ask a number of

times. That is, the thing that stands between us and being able to persuade citizens, whether it is a farmer or somebody working in some other line of endeavor, that trade is good for them, is they have got to feel a connection in some way. There are only 80,000 jobs in Nebraska that are directly related to trade out of a million.

So the question is, if I am a school teacher, why is trade good for me? For a farmer, they want to know, not what is the total billions of dollars of exports. It may be good when you have that number. It may be good for the businesses of doing the exporting.

The farmer wants to know, and Gus, you have heard this and I would appreciate very much if all of you could address both the question of how is it good for me if I am a school teacher or if I am working in a service industry, or I am working for businesses not directly affected by selling abroad, but also farmers are saying to me, if it does not increase my price, what good is it? If I export, export, export, instead of getting \$2.50 a bushel I get \$1.50 a bushel, what good is trade? So, I think that is the gap we have to close, because if we cannot close that gap, I think it is going to be a long time before we get trade negotiating authority for any President through a Congress. I fear the worst when you all go out to Seattle in December. I think you may get a scene that is comparable to the one that Secretary Albright, Sandy Berger, and Bill Cohen found when they went out to Ohio and tried to sell the Bosnia operation. I mean, it could be a very hostile environment, expressive, in my view, of people's frustration.

And big questions asking, if I am a farmer, how does trade benefit me? If I am working in a job that is not directly in an industry that is benefitting from sales abroad, what good is trade?

Those are the kinds of answers that we have got to provide people, otherwise all the other numbers simply will not add up to support in a Congress for trade negotiating authority, or any other kind of support that is necessary to sustain what I think is necessary for higher standards of living, and that is the continuation of efforts to liberalize our, and our trading partners' and competitors' trade policies.

Senator GRASSLEY. Thank you, Senator Kerrey.

Now we are going to hear from David L. Aaron, Under Secretary for International Trade, Department of Commerce. Then we will hear from August Schumacher, Under Secretary for Farm and Foreign Agricultural Services, Department of Agriculture.

We had on our schedule Hon. Peter Scher, Special Trade Negotiator, but because of his being a new father, we have filling in for him a person who will do well, Jim Murphy, Assistant USTR for Agricultural Affairs.

So, we would like to go in that order, if that does not violate any sort of protocol, and I do not worry much about protocol.

STATEMENT OF HON. DAVID L. AARON, UNDER SECRETARY FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE, WASHINGTON, DC

Mr. AARON. That will be fine, Mr. Chairman.

Mr. Chairman, members of the committee, I appreciate the opportunity to appear before you today. My written testimony addresses several topics to be considered at the upcoming WTO min-

isterial, including several of the questions that were posed in your opening statements, including, I might add, the importance of safeguarding our antidumping and countervailing duty laws for the sake of our agricultural community which uses those laws extensively.

However, in my limited time I want to focus on one aspect of our agricultural exports: biotechnology. It is a growing preoccupation at the Department of Commerce.

U.S. farm exports peaked in 1996 at \$60 billion. Since then, however, they have fallen by \$11 billion. This decline has pushed farm prices down to Depression Era levels and threatens many U.S. farmers and farm communities.

As the economies of Asia and other regions of the world recover, agricultural exports may be expected to pick up. But there is another long-term threat to the U.S. agricultural community.

I am speaking of the growing opposition to U.S. biotech agricultural products now centered in the European Union, but spreading to markets in Asia, Latin America, Australia, and Canada. It is rooted in public ignorance, European regulatory failures, and political weakness.

Let me briefly review the issue. Biotechnology involves the insertion of an unrelated gene into a plant to produce a specific alteration in the plant's characteristics. It is simply a more precise and effective way of bringing about genetic improvements than traditional methods of cross-breeding, which also transfer unrelated genes from generations of trial and error.

The precision of biotech makes it much less time consuming and is more predictable than cross-breeding, which mixes thousands of unknown genes virtually at random. Today, more than 40 foods have been approved by the United States after rigorous testing and consultation with the USDA, the EPA, and the FDA.

Thirteen years of U.S. experience with biotech products have produced no evidence of food safety risks beyond those of their natural counterparts. Let me stress: not one rash, not one cough, not one sore throat, not one headache attributable to biotech products.

Biotech products have been capturing an increasing share of the market because of their benefits. Biotech crops reduce the need for harmful chemicals, pesticides, herbicides, fungicides, and fertilizers, therefore greatly helping the environment. They resist drought. They make farmers' lives healthier and easier in a number of ways, and hold the promise of similar health and convenience benefits for consumers.

Increased crop yields may be the most significant value for biotech in a world where the population will double to 10 billion in less than 30 years. As former President Jimmy Carter said, "Responsible biotechnology is not the enemy, starvation is." Without adequate food supplies at affordable prices, we cannot expect world health or peace. Bio foods will be essential to feed the world.

The main problem in Europe is the European Union's failure to develop a transparent, science-based regulatory process for biotech products. Only a few U.S. biotech crops have been approved in the EU, and 13 are currently stalled by a variety of ploys since the EU cannot find any science-based grounds to reject them outright.

Moreover, the EU has not issued regulations implementing its novel food law. The result has been impenetrable uncertainties for farmers and food processors and a disruption of trade.

EU actions and inactions have virtually eliminated U.S. exports of corn to Europe, particularly the \$200 million in annual sales to Spain and Portugal, which are owed to us as compensation for their entry into the EU. If this were not bad enough, the EU is actively working to internationalize these policies in the WTO and other international bodies.

We will strongly oppose the attempt at the upcoming WTO ministerial. The international standard must remain science, not groundless anxiety, and certainly not politics or protectionism.

On my last trip to Brussels, I challenged the new European leadership to promote, and forthrightly develop, a comprehensive policy on biotechnology. The European Commission president, Romano Prodi's announcement yesterday proposing tougher EU legislation on food safety and the setting up of an independent European food agency is a positive step. We are supportive and are willing to help with any EU proposal to build public confidence based on food science.

However, our patience is not inexhaustible. The issue is ripe for exploitation by protectionists in Europe and elsewhere. We are committed to continue dialogue with Europe, but we will insist on our trading rights. A rational, sensible solution is necessary for the health of the United States' agriculture today, and for the world decades to come.

Thank you very much, Mr. Chairman.

Senator GRASSLEY. Thank you, Mr. Aaron.

Now, Mr. Schumacher.

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

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

Mr. SCHUMACHER. Thank you, Mr. Chairman. I am delighted to be buttressed by two stellar figures on Europe. David was an outstanding ambassador and I worked with him a great deal at OECD, and he knows Europe inside out. Jim, I do not know how many times you have been to Europe, but every time I am over there, Jim is there. So, I think this hearing gets a little more into the European side, I believe.

Briefly, as you indicated, Mr. Chairman, things are not good in heartland agriculture. I have traveled quite a bit. I try and get out somewhere every week somewhere in the country, and there is anguish and doubt. I think, as you said earlier, agriculture is now an island of despair in a very much sea of prosperity, with the stock market up again yesterday.

But I think, to address your issue, we talked about the school teacher and the farmer. We have to look overseas for the future of our agriculture. We just have to do that. Twenty-five, 30 percent of our agricultural gross domestic product goes overseas. We did hit a good peak of \$60 billion.

We are now going up a little bit, and we hopefully bottomed out at \$49 billion, now we are at maybe \$50 billion. Our volumes are looking good. But, as you indicated, the prices are not.

But if you contrast agriculture to manufacturing, about 11 percent of GDP is export-dependent, I think, as Senator Kerrey said, in Nebraska, but in a number of States it is higher. If you look in agriculture, we are very dependent now, and in the future, for exports overseas.

But the test is coming as we come out of this bottom. We have had problems in Asia with the difficulties, we have had problems, of course, in Russia. We testified yesterday on that.

We are seeing some positive signs of some improvement. I think, in pork, we are doing much better in Asia than we have recently. Taiwan, I think, is honoring its early access on pork, and I think pork, on volume, is looking quite good. Of course, the price is not there.

Let us look at the goals we have set out in the theme of this hearing. That is, our objectives not only, as I have indicated earlier, to Seattle, but as importantly, immediately after Seattle and into the first year of the round.

It is going to be very important that, as we go through Seattle, we have a firm jump-start, that the battery cables are on that battery, and we move that truck very quickly right after Seattle. I will just summarize them very briefly.

Clearly, export subsidies. I think Senator Baucus has been very articulate on export subsidies with his draft bill. But I think the EU, of course, is the major player. We are working very hard with our competitors in the Cairns Group, in South America, Canada, and others on the export subsidy issue.

Senator GRASSLEY. By the way, you have not used up 5 minutes, so continue to go.

Mr. SCHUMACHER. I thought that was a pretty quick bell.

Senator GRASSLEY. In fact, you can have longer than 5 minutes. But I just wanted to say that you have not used up 5 minutes. I do not know what is wrong with the clock.

Mr. SCHUMACHER. Things maybe move faster in the Senate than the House.

Senator BAUCUS. Sometimes.

Mr. SCHUMACHER. But I think, also, as Senator Baucus indicated, the tariff rate quota issue. Maybe we can get into that a little bit in the discussion on tariff rate quotas, how we manage them. Do we want complete elimination, do we want to expand them? There is a lot of intricacy within that tariff rate quota issue.

State trading. We met with the Australian minister a couple of days ago. He indicates that they are becoming more pure. The whole issue of State trading on single-desk monopolies is a very important issue.

David, I think, is very articulate on the biotechnology, especially in the EU. Just to add to David's transparency and science-based, timely and predictable.

Our problem is, we just cannot get anything approved. As I indicated earlier, it is sort of like the whole process is frozen. We need to thaw that process on just getting things moving there.

Then the SBS. We, of course, oppose the opening and the reopening of the SBS agreement, and we can look at how we will handle the biotechnology without reopening the SBS. There are a number of approaches, as you have articulated.

I think that some of these objectives of Senator Baucus are broadly consistent with your draft legislation. You have some other issues in there that we can maybe discuss during the hearing, and perhaps afterwards. Some of them are very good, indeed.

Two points, in summary. One, we did go out to 12 States and listen to many groups around the countryside in preparing for this next round over the next three years. We had about 400 farmers and commodity groups testify, about 2,000 participants. I went to the forum. I was not able to get to Montana, but we listened very hard and we got some very good ideas from farmers who testified.

One of them, for example, in Indiana, as I mentioned earlier, said, you know, when we have a hearing, when we win one like the hormone, why do we have to wait a year, 2 years, 3 years for the EU to drag it out?

Why not have an escrow account of some kind, like when someone wins a civil trial and they have to deposit the winnings, so to speak, and then if there is an appeal, at least it is there in an escrow account? That is quite interesting and I am going to explore that with USTR if that can be possible.

We also have been working with our agricultural policy advisory councils, APEC and ATEC, and have been in a series of meetings and getting guidance from there. So we have gone to the countryside. We also have gotten good guidance from the APEC and ATEC issue.

As indicated, we are also talking to our competitors. The Secretary and Deputy have been in APEC. He has been down with the Latin Americans in Argentina, and just recently met with the Canadians, and again with the Australians. So we are trying to get a little tighter consensus on the Cairns Group.

One area that I think we should just briefly touch on as we look at our objectives, and that is the Chinese agreement. When you look at what USTR, our staff, and USDA, and others have negotiated on that Chinese agricultural agreement in the two parts, first, the phyto-sanitary that was signed, and the second part has not yet been signed.

It sends a road map, a template, I think, to where we would like to certainly give a signal to some of our other trading partners in Japan, Korea, and EU, that if we can get that signed, the kind of frame that that Chinese agreement indicates across all the issues that we have been discussing is actually quite a good, at least, start in terms of achieving that. I am very pleased that we have gotten as far as we have on that issue.

Senator GRASSLEY. Can that not be a format even if we do not have an agreement with China?

Mr. SCHUMACHER. We can discuss that. I think that the template, as we have set, was negotiated, it just was not signed. That template, I think, sends not only domestic subsidies on State trading, on SPS, and on the reduction of 50 percent or more, or even higher, down at the end of the agreement around, Jim, I think it is around 15 to 17 percent depending on the commodity, and it is

a steady state down. So I think it is a pretty fine agreement and I am quite pleased with the work that was done on that agreement.

I think it sends a strong signal to the EU that, if the United States and China can negotiate such an agreement, then we ought to be able to, with our trading partners in the EU, negotiate a similar type of template agreement. So, we can discuss that as we go into the hearings.

I think I will just leave it that, as President Clinton said in Chicago earlier, we ought to continue to expand trade. We ought to enforce our agreements more vigorously, but I do not believe that a country, with 4.5 percent of the world's population, can maintain its standard of living if we do not have more customers. That is certainly true of agriculture.

The young farmers that I met as I traveled around the country have come, and they see trade as their future and the future of their family farms, and they are adjusting in different types of products, from high lysine corn to certain markets, certain markets in Asia, certain markets in Mexico, and certain markets in the Caribbean to differentiate their products, and are looking forward to their future in a more value-added, more aggressive approach to their family farms with their cooperatives as they move forward in that area.

So I think we have a wonderful opportunity in the next round. We have some more education to do in the countryside and in Congress to get the objectives we need to get a good round started in the next round.

Thank you, sir.

Senator GRASSLEY. Thank you, Mr. Schumacher.

Now, Mr. Murphy.

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

STATEMENT OF JAMES MURPHY, ASSISTANT U.S. TRADE REPRESENTATIVE FOR AGRICULTURAL AFFAIRS, WASHINGTON, DC

Mr. MURPHY. Chairman Grassley and members of the subcommittee, I very much appreciate this opportunity to testify on our agricultural trade agenda and the WTO.

This new round of trade negotiations we are about to embark on is a critical opportunity to aggressively pursue reforms, to open new markets, and to strengthen guarantees of fairness for America's farm and ranch families.

WTO members are now developing draft decisions for ministerial approval at Seattle on the scope and subject matter for the new round, on time lines that will establish milestones for progress by which we can measure the progress of the negotiations, and the organization and conduct of the negotiations, such as the establishment of specific negotiating groups on the various subjects.

This Seattle launch will establish the principles and objectives that will govern the negotiations, and in January 2000, the negotiators will return to Geneva for the substantive negotiations to begin.

Agriculture's place in these negotiations is guaranteed by its inclusion in the built-in agenda from the Uruguay Round, and as

Ambassador Barshefsky has said, agriculture is at the heart of our agenda.

We have set ambitious goals in areas ranging from tariffs, to export subsidies, domestic supports, and biotechnology products. I just want to briefly review these goals, the process by which we have set them, our strategy, and particularly our work internationally to build consensus on achieving them, and the time table to bring the work to a successful conclusion.

The completion of the Uruguay Round in 1994 marked the first major step of bringing rules and disciplines to agriculture. While we have found it to be a good foundation, obviously much work remains to be done. We can, and should, go well beyond the achievements of the 1990's and aggressive reform of agricultural trade.

To establish an ambitious agricultural agenda for this next round, we have pursued over the past 18 months a methodological strategy to move us toward this goal, beginning with our successful effort at the May 1998 ministerial to renew formal commitment to launch agricultural negotiations this year. We then opened a long series of consultations with the Congress, agricultural producer and commodity groups, and many others who are vitally interested in this round.

We have also solicited comments through Federal Register notices, and received a lot of them. We have held formal hearings in 5 cities, and the agricultural listening sessions in 12 additional cities.

Following these consultations, we have developed a set of specific proposals which form an ambitious agenda for the round. We have tabled these proposals in August at the WTO in Geneva, proposing that the round do the following: that it completely eliminate and prohibit for the future all remaining export subsidies as defined in the Uruguay Round Agricultural Agreement; that it substantially reduce trade-distorting supports and strengthen rules that ensure all production-related support is subject to discipline, while preserving criteria-based green box policies that support agriculture, while minimizing distortion to trade; that we lower tariff rates and bind them.

This would include, but not be limited to, zero-for-zero initiatives; that we improve administration of tariff rate quotas, TRQs; that we strengthen disciplines on the operation of State trading enterprises, STEs; and that we address disciplines to ensure trade and agricultural biotechnology products is based on transparency, predictable, and timely processes.

We have also requested a number of studies from the U.S. International Trade Commission on barriers that confront U.S. agriculture around the world. In addition, agriculture is included in the request to the ITC for advice on our market access negotiations.

At the same time, we have been working to build an international consensus on our goals and a rapid time table for achieving them. First, we are maximizing the potential for success by developing a consensus on an overall agenda for the round. There is an emerging consensus to broaden the agenda to include industrial market access questions and other matters related to market access.

Our goal is to move the market access negotiations for agriculture, non-agricultural items, and services forward as one package, and conclude those negotiations at the same time.

This will allow us to maximize our leverage to ensure that the WTO's negotiating agenda enables us to meet our objectives for aggressive reform of agricultural trade.

Second, we have worked to build the largest possible degree of consensus on the 3-year time table and our goals in agriculture. We call for building on the basic structure of the Uruguay Round disciplines on agriculture, that is, market access, domestic supports, and export subsidies that constitute the architecture of that agreement, and our trading partners seem to be accepting this approach. We have also built a significant consensus for a 3-year negotiation.

We are seeking a negotiating plan with benchmarks to ensure that we will come away from Seattle with time lines that establish milestones for progress and the organization conduct of these negotiations.

We want to work closely with you and our agricultural community to determine the best way to mold the various measures affecting agricultural trade into the very detailed negotiating plans that will be needed next year as we get into these negotiations.

In summary, Mr. Chairman, over the past year we had developed a set of negotiating objectives which reflect the advice and priorities we have received from Congress and American agricultural producers.

We have set precedents on our objectives and our accession negotiations, as we referred to in the case of China, and we have begun to build the international coalitions that will realize our goals in this round.

Much work, of course, remains ahead. We hope to consult closely with the subcommittee as we prepare for the launch of the round in Seattle, and then, in particular, as we get into the details of those negotiations early next year.

Thank you.

Senator GRASSLEY. Thank you, Mr. Murphy, and the entire panel, for their presentations. We will go to questioning now in the order of the Chairman, Senator Kerrey, Senator Breaux, and Senator Murkowski, on the time of arrival. We will have 5-minute turns.

Mr. Murphy, you mention in your statement that we should move forward with an accelerated trade liberalization program and that the completion of an agreement in these sectors should be undertaken on a provisional basis with full and final binding as part of the conclusion of the single market access package.

I am thankful that this is a somewhat clearer and stronger statement than we have had in the past from the administration on the subject of accelerated tariff liberalizations.

Now, this is my concern about its implementation. I would have more confidence in the administration's concept of provisional implementation if you would explain in more detail how it might work.

For example, if we implement tariff reductions in the ATL sectors on a provisional basis, but then learn, let us say, 2 or 3 years down the road that we do not have a deal on agriculture, how

would you unwind these tariff reductions, because do many countries not have to pass laws that change their tax rates, as an example?

Mr. MURPHY. Mr. Chairman, as you know, this has been a very sensitive issue with our agricultural community, and we have spent a number of meetings with them trying to work this out to assure, and because we agreed with their objective. We did not want to squander any leverage here. We wanted to maximize our leverage from these negotiations, and in particular for any early implementation which, as you noted, would be provisional.

There is an example of this from the Uruguay Round in the case of tropical products, where we implemented tariff cuts provisionally on an interim basis with the understanding that they would only become bound if, at the end of the day, we had successfully concluded a negotiation including agriculture and the other aspects on the table.

The notion is essentially that if, in fact, you do not reach that goal, that these things that have been implemented provisionally would snap back to the rates that they had before, you had provisionally implemented.

This would be contained in the authorities, presumably, these countries get in order to change their laws, so that it would be quite clear from the outset, and also quite clear from the steps they take in the WTO, that they are only provisional. There is no binding until the end of the day, so the countries can unwind them.

There is certainly no obligation within the WTO to keep them until you reach that point at the end. If you reach it, you have successful conclusion of those negotiations. It has been done before, and we do not see any problem with doing it again.

Senator GRASSLEY. So from a mechanical standpoint, not a policy standpoint, then your answer is, yes, this can be done.

Mr. MURPHY. Yes. Done before, can be done.

Senator GRASSLEY. All right. Again, to you. One of the things that strikes me as I read papers on agriculture that the United States tabled with the WTO in Geneva recently is the very general nature of the proposals that the United States put forward, and particularly in the area of biotechnology.

It seems to me either that the administration's inter-agency process is not ready with specific proposals, or that we are waiting for other countries to table their proposals first so that we can then react to them.

Now, the first question, but I will quickly follow it up with a second one, do either of these happen to be the case? If we are waiting for other countries to go first, does that not send the wrong signal; should other countries not react to our proposal instead?

Mr. MURPHY. Well, Mr. Chairman, you are quite correct in your characterization of our paper that we tabled in Geneva, it is very general. It was because we are still very much in consultation with our own agricultural community as to the best way to go about addressing the biotech issues in the WTO.

In fact, we are also consulting with our trading partners extensively. We met with the Canadians in Ottawa about two weeks ago to discuss their proposal for a working party.

We have worked closely with them. In fact, we have given them our suggestions for what accepted terms of reference might look like, and they have taken many of our suggestions on board in their proposal.

We have also discussed quite candidly with them the pros and cons of a working party approach as opposed to some other options on the table which have been discussed inter-agency, and which are also on the table in our discussions with our own agricultural community.

Frankly, at this point we have not come to a conclusion, nor has our agricultural community come to a conclusion. We have further meetings scheduled with some of them tomorrow and next week, and we will pursue that discussion.

We have a meeting going on, in fact, I believe this very moment in Geneva between our people and the Cairns Group people on this question of how best to address this issue. I can go into, if you would like, some of the details of why it is difficult, but it is very difficult.

I do not think there is any question but that we will be looked to for leadership on this question because we are seen as, clearly, the country in the lead on this technology.

It is also the fact that others are watching to see which way we move in the sense of whether we open up opportunities for them to accomplish some of their objectives which we are opposed to. We can go into some of the details on that, if you would like.

Senator GRASSLEY. Yes. Mr. Aaron, you signaled that you had something to add to that, right?

Mr. AARON. Yes, Mr. Chairman. I think it is extremely important, for example, that we do not open up the STS agreement. It sets out very clearly that science should be the standard for judging the acceptability of any food products.

We have to be concerned that the European Union will be pressing for additional and different criteria than that if that were opened up. So we have to be, it seems to me, extremely careful that we do not have their infamous precautionary principle, which is designed to be an open-ended out to use any anxiety, any political pressure, any unfounded reason to keep agricultural products out of a country.

If we, indeed, adopted something along those lines in the telecommunications area, we would never have any cell phones because some people argue that they are dangerous to use. So, we think it is extremely important.

On the issue of a working group, I think it is important to recognize that the real issue here is the application of the SPS, its fulfillment, the use of it properly. We have to ask ourselves whether a working party, a working group, or some structural mechanism like this is simply going to open us up to the same kinds of pressures that I was mentioning a moment ago.

Senator GRASSLEY. Before I go to Senator Kerrey, just a thought came to my mind as I think of how you, speaking for the Department of Commerce—and that does not mean that you would have views different from these folks—but this is on agriculture.

You spoke very well about sanitary and phyto-sanitary, and I agree with you. But from the standpoint of not marginalizing agri-

culture in this process, as I had an exchange with Mr. Murphy, you and the Commerce Department do not have any problem with that as a policy. You, too, would want to make sure that agriculture is not marginalized.

Mr. AARON. I think it is extremely important. Indeed, I would say it is at the heart of any new agreement.

Senator GRASSLEY. All right.

Mr. AARON. It is the largest economically distorting set of tariff and trade barriers that exist in the world today. So if the next round is not about agriculture, then it is not about enough.

Senator GRASSLEY. All right.

Senator Kerrey?

Senator KERREY. Secretary Schumacher, perhaps in my opening statement you heard the question I would like you to talk about. I have got about 60,000 small businesses in Nebraska that manufacture foods, farm and ranch units.

Mr. SCHUMACHER. Right.

Senator KERREY. As you know, they plant, they cultivate, they harvest, or they are cow/calf operations, feedlot operators, and they are manufacturing a commodity. I tell them that trade is going to be good for them, but they are increasingly saying to me it has not been, necessarily, very good for us.

It may be good for agri-business, who needs to sell overseas and make profit when they do, but they are increasingly suspect that the benefits of trade are not going to trickle down to them.

Now, how do I make the case to 60,000 farms out there? Take a corn farm that is getting \$1.50 a bushel. How do I make the case to a corn farmer that the benefits of trade are going to trickle down to him?

Mr. SCHUMACHER. I visited, of course, with you and talked to many of these farmers. First of all, without the \$50 billion that we have so far that we have been generating, things could be a lot worse. Things are very, very bad. It could be worse. I hate to think about anything worse than we have right now on price. Volumes have picked up.

Senator KERREY. But a lot of that volume is the food assistance program as well. I mean, a lot of that is not necessarily buyers out there purchasing from us, a lot of it is product that we have been moving.

Mr. SCHUMACHER. Yes. I think on that we have, in fact, increase our volume on food aide from about 3 million to 10 million tons and added new products to that, for example, in the meats and the feed grains, going above the wheat.

We pushed our GSMs as hard as we can as well, and that is giving, of course, heartburn to some of our competitors in Australia and other countries on the food aide and the export credits. We talked about leverage with Senator Baucus. I think there is substantial leverage in the way we have implemented the President's initiatives on food aide and GSM.

But coming back to the wider issue of, how do we give hope, Senator, to our younger farmers in the next two or 3 years? It is not going to be very good now. This year, prices do not seem to be coming back again. Certainly next year, with the stocks build-up, it does not look all that great for the coming year. Perhaps in 2001

we will see a better price, unless, of course, there is a major drought. We cannot have farm policy depending on the weather as well.

So, I think one of the things we have to look at very hard, is do we need a temporary safety net or a safety net beyond what is provided in the Freedom to Farm bill to get our farmers through in some kind of a counter-cyclical policy to get better prices?

Senator KERREY. There is a parallel issue. You are going to be going into the ministerial trying to sell the rest of the world on the glory and benefits of a decoupled farm program at a time when a decoupled farm program is becoming more and more unpopular, both to the producer and to the taxpayer.

There is going to be an effort to filibuster the Agricultural Disaster bill, led by Pat Leahy of Vermont and other Northeastern Senators who either think that they did not get enough or think that we are spending too much on the farm program.

If I pick 100 farmers out in Nebraska at random and ask them about, how is Freedom to Farm working for you, how is the decoupled program working, I am not going to get a majority who believe it is working for them.

So I have both the producer and the taxpayer revolting against the decoupled program, and you all are going to be going in the ministerial trying to get the Europeans to adopt a decoupled system. How do you do that?

Mr. SCHUMACHER. Well, certainly, I think the way we have look at this counter-cyclical approach that is very consistent with the WTO, is we have some disagreements with the Majority party on the way the current program has been passed.

But I think, again, the counter-cyclicity of getting some safety net in place, if it was working, why are we putting out anywhere from \$6 to \$8 billion extra a year to heartland agriculture? So, we have some work to do.

I think Chairman Convers is going to be holding some hearings and exploring, if this does not get better this fall and next winter, we are going to need maybe some different approach.

Senator KERREY. Well, I think we are. I will tell you, I think we have got sort of a widening gulf between our negotiators and what at least Nebraskans are telling me, both about the benefits of trade, as well as about the farm program itself.

Secretary Aaron, let me point out to you, or Ambassador Aaron. I do not know what your official title is. I do not want to offend you. But I would ask if you saw this article in this morning's Wall Street Journal by Scott Kilman, headlined "Food Fright: Biotech Scare Sweeps Europe and Companies Wonder if U.S. is Next."

Mr. AARON. Yes, I did.

Senator KERREY. The ultimate voter in this deal is the consumer. I do not want to open up the SPS either. This may not be under your area of responsibilities, but I will tell you, again, talk about a widening disconnect. I am very much concerned that the people that are producing the genetically modified seeds are like a guy on a dance floor that has stepped on his partner's toes half a dozen times.

In this case, the dance partner, in my view, is the farmer. At some point, the dance partner is going to say, I have had enough

of this, find somebody else to dance with. There is a tremendous amount of risk here.

I mean, if you look at this, this is not just about the European Union any longer. In the executive corridors of America's premiere food and drink companies, no issue is more urgent than whether Mr. Jacobson, who is talking about this GMO issue, is right.

Most consumers are not aware of ingredients made from genetically modified crops are present in various products made by Coca-Cola, Kellogg, General Mills, H.J. Heinz, Hershey Foods, Quaker Oats, McDonald's, and on, and on, and on, not to mention pork and beef.

So if the consumers decide that they do not want to buy this product—and it is not just in Europe. They are saying that there are changes being made in Australia, regulators in Australia, New Zealand, Japan, Canada, devising strategies for labeling such foods.

I think we have a tremendous problem here. This may not come under your heading, but I think the administration is going to have to rally NIH, NSF, FDA, the Surgeon General of the United States.

You cannot just let these statements fall. It is sort of like a political campaign. If a statement is made and it is unchallenged by anybody that is credible with the consumer, that statement becomes true. So, the administration is going to have to take this issue on in a credible fashion differently than what has been going on today. What I am hearing is, the consumer has got to make a science-based decision. As you know, or maybe you do not know, maybe you make science-based decisions when you consume. I do not.

I very often make decisions that are not science-based at all. If you tell me I have got to make science-based decisions, I may tell you to go to hell. Consumers are apt to do that. If they decide they do not want to buy the stuff, we have got real serious problems.

One of the things I would like to communicate to you gentlemen, is that you will communicate back up the food chain a bit and say, there needs to be a coordinated effort on the part of the administration, that includes at least the agencies that I have represented, to come out and say either, here are the facts, or we are going to set up a process that involves consumer groups so that we do not find ourselves stepping all over our dance partners' feet, which is what is going on right now, and farmers having to pay a price for having adopted this technology.

Senator GRASSLEY. Senator Kerrey, also, it has hit the farmer. It was brought home to me two Saturdays ago that, for the first time in 40 years, I hauled grain to the local elevator and I saw a sign at the door for the first time that, "We will not accept genetically modified corn that is not certified for approval in Europe." So it is affecting the family farmer right now as well.

Senator KERREY. Yes, sir, Mr. Chairman. In this article it says some companies are not waiting. "We are very concerned about consumer sentiments," says a spokesman of Heinz, which says it will seek to avoid genetically modified crops in all of its U.S. products."

I mean, if you are a food business and you are selling to consumers, if consumers decide they are not going to buy the product that you have got out there, you can be out of business.

So these companies that are worried about shareholders, are worried about keeping their businesses alive, have to be very much sensitive to what the consumer will do. They may take sort of preventative action decisions that will be very adverse.

Senator GRASSLEY. And there are some companies that have urged the farmers to buy their seed corn, seed, and now are not accepting the product that has come from that seed. So they want the farmers to buy it, but they do not want to take the product or use the product in their manufactured products at the end of the food chain.

Senator Breaux?

Senator BREAUX. Thank you very much, Mr. Chairman. I thank the three witnesses, and thank you for the good job that all three of your department's are doing, and you individually. I enjoy working with you, and do so quite often.

Just to follow up on the points on the genetic engineering. Did we not win a WTO on beef?

Mr. SCHUMACHER. Yes, we did.

Senator BREAUX. And what is the significance of that? Did that send a message that the World Trade Organization is not going to allow these barriers for exported products from the United States? I mean, is this good, is it indifferent, does it make a difference? Is it something we can use on other crops?

Mr. SCHUMACHER. I think the significance of that win on the beef hormone was the science-based issue. The question, Jim, as we look at science-based, as David has indicated in his testimony, and we are working very hard on, is what are the next steps as we look at the biotech issues in the WTO.

I think, Jim, you may have some thoughts on that, as to how does WTO deal with that and how do we negotiate, as you outlined in your testimony, on biotech in the next round, and how does that fit into the WTO?

Mr. MURPHY. If, Senator, the EU were to ever turn down or reject approval of a bioengineered product for non-science based reasons, it would be a violation of the SPS and we would pursue our rights.

They have never actually turned down a product for any reason. It has been more a matter of simply taking too much time, and now as we have discussed, the approval system has essentially collapsed. We have had no new approvals since April of 1998.

We are told by the commission it could be two or three more years before they get their system up and running. This is based on many of the issues that Senator Kerrey was referring to, with lack of public acceptance of technology.

It is interesting that, when we talk privately with these governments, they are all quite candid that they, as governments, and particularly as scientists, have no problem with this technology. Indeed, many of them are investing in the technology. The French Government, for example, the commission itself, are developing and spending taxpayer money to do research in this area.

The problem is the issue of public acceptance, which was what Senator Kerrey was referring to, but it is striking that they understand the importance of the technology, its potential for the future.

Senator BREAUX. So far, the problem has been not one of the governments using this as a means of excluding our products, but rather the public acceptance and the receiving country just not wanting to purchase?

Mr. MURPHY. Well, it has been the problem of, you have got an approval system which is, in its first sense, scientific, but there is a political overlay on top of that. What happens more often than not, is that scientific review is overturned by a political level body, or a minister fears to put his signature on the document voting in favor of this product and sending it to Brussels, so he sits on it.

He is fearful because of everything that is going on in the tabloid press, with non-governmental organizations, et cetera, but his scientists have told him that there is nothing wrong with this product.

Senator GRASSLEY. The delay in making that decision that you were talking about was described by the environment minister in Germany, Urigid Triton, as a de facto embargo. So everything that we have gained through the 1993 GATT agreement under SPS, and gains for agriculture from that, is effectively going down the drain slowly because of this inaction that you describe.

Senator BreauX, I am sorry.

Senator BREAUX. No, that is fine.

Let me ask in another area. I mean, after the Uruguay Round we had set some goals on the reductions of agricultural tariffs. I am always concerned about unilateral disarmament. If you look at the figures now, agricultural tariffs around the world averages 56 percent, the United States is 3 percent. The goal, I guess, after the Uruguay Round was to reduce those tariffs down to 36 percent over 6 years.

Can anybody give me sort of a status of where we are with that figure now? I mean, we have already got the goal. We are at the bottom. For us to start continuing to focus on reducing our tariffs, I mean, we are at the bottom already. Other countries are still, I take it, quite high. Is progress being made?

Mr. MURPHY. Yes, it is, Senator. The Committee on Agriculture in the WTO has the responsibility for monitoring implementation of the Uruguay Round. Surprisingly, countries have been very much in compliance with their obligations. We have seen very few cases where they have not. So, the compliance with the agreements has been quite good.

Now, we do still have the problem you referred to of a U.S. tariff somewhere on the order of 8 percent, and other countries averaging closer to 50. That is part of the challenge and work that we have for this upcoming round, as to how we fix that problem.

Senator BREAUX. I think that all of you who are going to be there, it is a question of unilateral disarmament. We are already just about there, and when these countries come in and talk about it, we have done what we are supposed to do. I think it is really important for us to emphasize that.

Let me get, for a short time, to a subject near and dear to my heart. Gus knows this, and you all know, it is rice and my favorite country of Japan.

The average tariff on agricultural products in Japan is 11 percent, my briefing paper tells me. I have rice, according to the WTO, as an ad valorem equivalent rate of several hundred percent.

I know the problem over there. I also know that, at the last meeting in New Zealand, I take it that some of the Asian Pacific Economic Corporation countries, APEC countries, insisted that they support the position in the WTO negotiations that the agreements for all sectors be concluded in one package rather than having them go into effect as each one of them would be concluded. Our position, I take it, was not that position.

I think Japan was probably the real push behind this. Can anyone comment on what the outcome was of that?

Mr. AARON. I think you are referring to the ATL, the Advanced Tariff Liberalization initiative. The European Union, and I think Japan, have both opposed the ATL in different ways, or certainly not accepted it.

I think the reason is, they are concerned that if we do get agreement on these sectors, particularly the Europeans who will see that the ATL actually covers more of their exports than it does the United States', it will be extremely beneficial to them, that they are going to build in a standing constituency for concluding an effective round dealing with agriculture.

So they want to keep this off. They do not want to build a constituency for agricultural liberalization. That has been their position up until now.

The Japanese have, of course, an additional reason. That is, they want to protect the two other areas that are part of the ATL, which is forestry and fish. So we believe that this is very much in our interest to go forward with it.

We think it is important that it be counted in the final accounting and related to a conclusion of an agreement on agriculture, but we think going forward with it as soon as we possibly can will help build a constituency for a strong agricultural agreement.

Senator BREAUX. Do we have support among other countries for our position?

Mr. AARON. We have strong support throughout Asia, with the exception of the Japanese, and perhaps a little bit the Koreans. But, generally speaking, this is where the big tariffs lie for U.S. exports. So we have urged the Europeans to take another look at this.

Secretary Daley has just written a letter to Mr. LaMee, who is the new trade negotiator for the European Union, and giving him our analysis of why this ATL is very much in the interest of the European Union as well. If we can get them on board, then I think we have a real possibility of getting this done.

Senator BREAUX. Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you, Senator Breaux.

Now, Senator Murkowski?

Senator MURKOWSKI. Thank you, Mr. Chairman. Let me welcome our negotiators here. It is reassuring to have had your bosses here before this committee earlier and recognize your obligation, and that is to deliver for your bosses on a very, very difficult priority.

One of the things that bothers me, Mr. Chairman, is the state of our economy on the one hand of all-time prosperity, yet commod-

ities are in trouble. It is just not agriculture in the sense of what we have been talking about, it is forestry, forest products, it is oil and gas.

There are more people out of jobs in the oil industry than in the steel industry, and the steel industry is bad enough, the mining industry. I find it troubling, and I do not know the answer, because obviously we are in a partial free market in those sectors as well.

As an Alaskan, I am, of course, interested in wood and paper products, wood fiber, and fish production. Our agriculture is renewable in the sense of the type of agriculture we have in Iowa. But it is fish and timber.

We have 13 feet of rain in certain areas of southeastern Alaska, and it grows fish and it grows timber, and it does it well. We have got an annual regrowth in our forests of about 16 times what we are harvesting.

We have harvested less than one-tenth of 1 percent of the commercial forests. We have about eight times greater deterioration from our timber dying, which timber does, than is harvested.

But that is a matter that is not necessarily related to your ability to provide any changes, but I did want to alert you on the importance of wood and fish as we look at the recent statement by the APEC minister supporting the Accelerated Tariff Liberalization initiative for these sectors.

I do not have to tell you this, but the Japanese see our negotiators come and go. Their negotiators are pretty uniform in their stance and they are used to negotiating with Americans. They have a tendency to outsit them, and oftentimes prevail because our attention and energies are somewhat limited, particularly with our business sector, trying to break into markets.

Oftentimes, they just simply outsit us, and our patience is such that we have only got so much time to spend trying to penetrate a market. I have encouraged the U.S. construction market to try and get a foot in the Japanese construction market for a long, long time. It has been a very frustrating process.

Let me say, as you look at your obligation, you have a collective strategy that we are all on the same side of the table, have a united front. I think that is vital.

One of the things that troubles me, Mr. Chairman, is what kind of leverage do we really have in a conventional agricultural scope or arena?

You are facing European countries that are relatively small agriculturally in the sense of ours, which is large, relatively inefficient, totally dependent on a subsidy, and we are going in and saying, you have got to open your markets.

They are looking at it from the standpoint of survival. If they do not continue the subsidy they have, then the government is going to have to give them some other type of support.

I am somewhat perplexed at just how you go in and negotiate when you have got that kind of reality, where you are talking people that have had this assistance for a long, long period of time and they do not know anything else. Can you give me any comfort on how you propose to break through this?

Mr. SCHUMACHER. Why do I not just start off, and Jim and David, also. First of all, they are really spending an awful lot of

money right now on their agriculture. They are really bumping up against their ceilings in their budgetary area.

They have to let in Eastern Europeans, at some point. They have been trying to postpone that on the agricultural side as far as they can do. But there are actually more farmers in Poland, 2.2 million, than there are in the EU, so they are very nervous, again, for other reasons, foreign policy.

Senator MURKOWSKI. They are larger, but they are not too efficient, either.

Mr. SCHUMACHER. They are not very efficient, but there are a lot of them. It is very concerning, the whole issue of Poland, the EU, Hungary. That whole eastern bloc is very dependent. The budget issue, and I noticed some statements by Monsieur LaMee, their new trade negotiator, that maybe Agenda 2000 is not quite as engraved on the Paris monuments as perhaps Monsieur Jaspier thinks it is.

The budget issue, Eastern European, and other countries, developing countries in Africa, are beginning to say, listen, this thing is broken and it may not be fixable, and there is some real tension now building up in Europe, how long can they sustain that budget overhang when they have other reasons, in foreign policy and the new euro. Now, Jim may want to expand on that, but I am sensing there is some concern at some point along this that cannot be sustained.

Mr. MURPHY. Well, I think Secretary Schumacher has hit one of the major points of leverage, which is that the EU is trying to have these countries accede from Eastern Europe, and as in the case of every accession, they have had to reduce the benefits of the cap. They cannot afford to extend that program to those countries and maintain its economic viability. So, we have that pressure very much in the direction that we are trying to head.

It is also fair, I think, to say that, at least privately, many of the people responsible for EU agricultural policy understand the benefits of a policy that we are promoting, and indeed, they have been on that path.

The Agenda 2000 reforms are on that path. Our complaint was, it was not far enough, fast enough. But they understand the benefits of this. They realize they are losing a lot of the benefit of the growth in agricultural markets in Asia and Latin America by the policies they are maintaining.

They understand the importance of trying to get their production costs down to world prices so they can benefit from that. So, the lesson has not been lost on them, that the U.S. has garnered most of the benefit of those markets. They have bought the most in subsidies, but that does not give them the benefit that we are getting when you sell at a market price.

So, they understand this and they are headed in the same direction. The issue is getting them to move further and faster, and that really gets to the question of where you put the cost of the program.

The CAPs programs have been primarily paid by the consumer and not on the budgets. What was happening in March when the leaders met to decide on Agenda 2000, was struggling with how much of this cost to move from consumers to taxpayers in the form

of budget expenditures. The reason they backed off was a political problem with moving more to the budget at that moment.

Now, this is a problem we all understand, but I think it is significant that the issue here isn't, I think, that they are wed to an agricultural policy because they think it gives them a lot of benefits in agriculture. It is a political problem moving the cost of that program to the budget from the consumer that is slowing them down.

Senator MURKOWSKI. I appreciate the explanation, although you have got a political problem on either side that you put it on, the price of the commodity or the subsidy. Thank you.

Senator GRASSLEY. Before I bring the next panel up, I would like to just have one question for Mr. Aaron. This is about the growing tendency of the European Union to use the precautionary principle to keep products from their markets that they think might be harmful, and particularly when they have no hard objective, scientific evidence. It seems to me that that threatens to undermine basic international trade principles.

So, a two-part question. Should we engage the European Union in the new round on their use of precautionary principle, and if so, specifically what would you do?

Second, are there elements in our own government, in our own bureaucracy, that might favor using precautionary principle in our own country and, thus, undercut our ability to forcefully challenge the European Union on that?

Mr. AARON. Well, let me take the second question first, if I might. In the United States, we use the principle of precaution when we go through the testing and evaluation of some things such as new biotech foods.

But we do not create a precautionary principle as some abstract, overall, over-arching standard that has to be fulfilled. The reason is that it is one thing to be careful, it is another to be unwilling to do anything that someone someplace has said could be dangerous.

In our system, we have to have some facts. We have to have some evidence. All of this, I think it is important to recognize, grows out of the scandals in Europe over Mad Cow Disease, over dioxin chicken, even to some extent the HIV blood scandals in France. What has happened here, is that certain political leaders, as well as officials, are trying to restore their credibility by attacking U.S. biotech foods. That is sort of what is going on.

I explain it as, they keep saying, well, you have to understand our political situation. You have to understand our public opinion. Well, it is very much like the old Three Stooges movie, where Mo keeps hitting his thumb with the hammer, and then turns around and slaps Curly. We are Curly.

This precautionary principle is being used as a way of trying to convince the European public that they can now trust their governments and their institutions because they are not going to do anything whatsoever that ever carries any risk in any way.

Well, that is not a sensible process. As I indicated earlier, you would not have cell phones, you would not have a lot of things in modern life if that were the case.

Senator GRASSLEY. Then we do engage them in this and challenge them on it.

Mr. AARON. We do engage them. We are doing it. The U.S. Government has a multi-faceted program to try to help educate the public in Europe and elsewhere in the world on biotech foods, in particular. The State Department, USIA, has an outreach program.

The Department of Commerce is arranging for seminars and conferences in Europe that will engage them on these issues. We think very much that public education is essential. We would like more help from European officials to engage in that dialogue instead of just simply standing back or grand-standing.

Senator GRASSLEY. Well, I thank each of you on this panel for helping us get a better feel of where the administration is coming from as we prepare for Seattle and the next round. We will continue our dialogue with you. For members who are not here, you might expect some questions in writing, maybe even from some of us who are here, to complete our dialogue. We thank you very much.

Now I call John Caspers, a member of the National Pork Producers Council Board of Directors near Swaledale. Then we have Allen Johnson, who is president of the National Oilseed Processors Association, Washington, DC; Janet Nuzum, vice president and general counsel, International Dairy Foods Association; and Lyn Withey, vice president for Public Affairs, International Paper Company.

We would proceed as I have introduced you, if you can find your way to the table. So that would be Mr. Caspers, Mr. Johnson, Ms. Nuzum, Ms. Withey. If I have pronounced anybody's name wrong, feel free to correct me.

Would you proceed, please? We were supposed to get interrupted at 11:15 with a vote. That has not happened yet. Normally, what I would do is continue the meeting while different members would go vote, so if we do have a vote, I may have to interrupt your testimony and then come back. It would be my intention, though, for me to hear all of you out, unless there be a series of votes, and I do not think there is.

Mr. Caspers?

STATEMENT OF JON CASPERS, MEMBER, NATIONAL PORK PRODUCERS COUNCIL BOARD OF DIRECTORS, SWALEDALE, IA

Mr. CASPERS. Thank you, Mr. Chairman and members of the subcommittee. I am Jon Caspers, a pork producer from Swaledale, IA. I am a member of the board of the National Pork Producers Council and am a member of the National Pork Producer Council Trade Committee.

I very much appreciate the opportunity to appear here on behalf of U.S. pork producers to express our views on the upcoming multi-lateral trade negotiations. The National Pork Producers Council is co-chairing the Agricultural Trade Coalition, which is comprised of 80 agricultural organizations representing all 50 States.

We continue to urge the Congress and the administration to work together in a bipartisan manner to get traditional trade negotiating authority renewed.

Notwithstanding the progress made in the Uruguay Round, tariffs on agricultural products remain very high. The best way to

achieve comprehensive liberalization is through the use of a tariff-cutting formula that is applied to every product without exception.

There are an infinite number of formulas that could be devised to cut tariffs, the best formula, obviously, depending on the results desired.

The National Pork Producers Council, in many sectors of U.S. agriculture, prefer an approach like the Swiss formula used in the Tokyo Round negotiations, which resulted in substantially larger cuts and higher tariffs, and had the effect of dramatically reducing the disparities in levels of protection.

In addition, countries could engage and request an offer of negotiations to achieve deeper than formula reductions for specific products.

Certain groups in the U.S. have suggested that market access negotiations be conducted on a request and offer basis. They suggest that such an approach would be more flexible and politically manageable because it would allow the U.S. to exempt sensitive sectors from the negotiation. We, frankly, disagree.

A request/offer negotiation, or any other tariff-cutting approach that allows for product or sectoral exceptions, would run contrary to U.S. trade interests. The U.S. is the world's largest exporter of agricultural products and is among the most efficient farming country in the world.

Many of the products we export, pork included, are considered sensitive by certain major importing countries. If the U.S. takes products off the negotiating table, other countries will do the same and the result would inevitably be a small agricultural market access package.

Moreover, the request/offer would result in a politically unsustainable clash of interests. U.S. officials would be besieged by commodity groups and companies seeking an exemption from tariff reductions or some other form of special treatment.

They could achieve their aims only at the expense of other producers, and on the other hand, export-oriented industries could get desired cuts on duties from trading partners only by inducing the U.S. Government to offer deep cuts in duties for products with the highest levels of protection. A formula approach avoids this problem by treating all sectors equally. Cuts are agreed multilaterally and applied comprehensively.

Data compiled by USDA shows that, during the GATT year 1998-1999, the EU subsidized more than 750,000 metric tons of pork products, a subsidized tonnage that exceeds our entire amount of exports. The National Pork Producers Council supports the abolition of export subsidies and of trade-distorting domestic supports.

Also, the pork industry does not support opening the sanitary-phyto-sanitary agreement for further negotiation in the next round. It is working very well.

Also, trade liberalization is not a one-way street. If we expect food importing countries to open their markets to U.S. exports and rely more on world markets to provide the food they need, we should at the same time commit to being reliable suppliers.

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

These provisions should be eliminated in conjunction with the phasing out of import barriers. Such a move would not affect the ability of the United States to impose trade sanctions for reasons of national security. That right would also be preserved under the GATT agreement. Thank you.

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

Senator GRASSLEY. The vote has been called, so if the three of you would just wait and I will temporarily recess. Do not go very far; I think I can run back very quickly.

[Whereupon, at 11:27 a.m., the hearing was recessed to reconvene at 11:40 a.m.]

Senator GRASSLEY. Thank you all for being patient. We will continue then with Mr. Johnson.

STATEMENT OF ALLEN JOHNSON, PRESIDENT, NATIONAL OILSEED PROCESSORS ASSOCIATION, WASHINGTON, DC

Mr. JOHNSON. I feel a little bit like saying ditto to the presentation of Mr. Caspers, because I think we are going to find a lot of similarities. So, I will try not to be too redundant.

Thank you again for having us and for your leadership in agriculture, and for holding this hearing. As you know, NOPA supports the WTO negotiations strongly, and, as always expressed for many years now, support for what we call the level playing field, whose objective is to eliminate all trade-distorting practices in our industry.

With almost 50 percent of soybean equivalent exported, the fact of the matter is, we have to face the reality that we are dependent on the international marketplace.

I heard a presentation last week on CSPAN of the Senate Finance Committee hearing where Senator Conrad went through some of the realities that exist, particularly related to Europe.

I think it might be of some use to sort of look at that and face the fact that standing still is not an option, that the realities he outlined in terms of EU support and export subsidies do exist.

But the second reality is, we have a WTO negotiation that is starting, and what we should be focusing on is, what can we do with these negotiations to address the problems that have been identified?

One of the things that we would stress, is that we need to maximize our leverage, both within agriculture and outside of agriculture, and not jeopardize that leverage in trying to accomplish our objectives.

That is one of the reasons why we have expressed concern over the early harvest proposals that have been discussed, because there is some concern that that may cause some lessening of that leverage.

That is why we are also very concerned about no exemptions being allowed, where countries allowed to exempt sensitive sectors. As Mr. Caspers has pointed out, there are a number of sectors that we are trying to gain access to that would then be exempted by our potential customers.

Another area that we are concerned about, as he had talked about, is the issue of request/offer that we believe would just be a

minimalist approach and again allow countries that really do not want to negotiate on activities that we want to work on in terms of opening markets, and it would allow them to just not negotiate those sectors.

This brings me to another point. During the hearing, there was a lot of discussion about the formula approach. I think one of the things that needs to be clear, is that we all—I think the vast majority of agriculture—agree that we need to deal with tariff peaks. We need to do something in order to address those and bring those down.

Now, the question is, then, how do you address them? The issue of formula, from our point of view, is a very important way of accomplishing that objective, and we need to do something like Formula Plus, or a Swiss Formula, in order to accomplish that. But, again, we do not feel we should be getting into a request/offer situation.

Another issue that has been discussed extensively has been biotechnology. It was brought up again this morning. We just would point out that it is inevitable, that if there are not functioning approval processes in the world in major markets, we are going to have problems in trade.

Again, in our case, the soybean industry, over 50 percent of the soybeans now are GMO soybeans. Regardless of the approach or the tactics that we use in Seattle, there are at least some basic principles that should be used as guidelines.

The first one, as we have discussed, is not reopening the SPS agreement, making the assertion that the SPS agreement does apply to biotechnology, that anything dealing with biotechnology should be science based, and whether it is in or outside of the negotiating process, we need to do something about consumer education.

I suppose the last point, is the U.S. must have a plan going into Seattle as to what we want to see coming out of Seattle, or failure is probably inevitable because others will take the ball and run with it.

The other point I would just like to point out, as I said, we do not believe that standing still is an option, and we are doing what we can in order to move that ball forward.

I will just mention several coalitions that we have been active in in trying to make this happen. The first one, is we have been pushing the level playing field inside the International Association of Seed Crushers for many years, really going back to the Uruguay Round.

We have now been working with a group of exporters of that organization, representatives from Europe, Brazil, Argentina, as well as ourselves, in trying to develop a joint declaration in which all of us would push towards liberalization of trade during these negotiations and have a unified message that our negotiators should be pushing for a level playing field and work aggressively for opening up import markets to gain access to our consumers.

Another organization that we have been active in is the Seattle Round Agricultural Committee. The SRAC was organized to serve as a vehicle for exchanging views both within agriculture, community, and with government. The members of the SRAC are varied

agricultural food organizations and companies, including several of the ones here on the panel today.

One of the things I would like to recognize, even though they are not here today, is the American Farm Bureau's leadership in helping to pull that coalition together and identify policies we can all agree with.

Just a couple of activities of the SRAC. Attached to my statement, you will find the 14 objectives that have been agreed to by the SRAC, and that was forwarded to the President on May 11.

One thing to make clear about that, is that is 14 areas of agreement of common concern. Many organizations and industries will go beyond that and be more aggressive, including our own.

We also, on July 12, sent a letter to the President outlining our concerns regarding the early ongoing results or early harvest in the upcoming negotiation. The administration's response to that letter was constructive, in that it recognized the importance of liberalizing trade and for opening a dialogue with agriculture, even though we did not come to a final agreement on the early harvest issue itself.

At this point, SRAC is about 86 different organizations, and we have met with many congressional and administration leaders, talking about the policy statement, the single undertaking, the objectives for Seattle ministerial, biotechnology, and several other issues, and we intend to continue that dialogue over the coming months.

As Mr. Murphy had pointed out, there are a lot of decisions that are going to be made even beyond Seattle that that dialogue is going to be very important to continue.

The last coalition that I will mention is the American Oilseed Coalition, which consists of the American Soybean Association, the National Cottonseed Products Association, the National Sunflower Association, and the U.S. Canola Association, which also the AOC strongly supports global liberalization in trade for oilseeds and oilseed products, and have submitted testimony or comments on the WTO negotiations to the USITC.

Again, I would just like to stress that we do have as broad negotiation as possible, because that is the only way—and we talked about it again this morning—that other countries are going to recognize some of the benefits in liberalizing trade and agriculture when they see that they have the full consideration of all their overall trade interests.

Again, I would like to thank you for your sponsorship of S.R. Res. 101, which is the 14 points of the Seattle Round Agricultural Committee, and I encourage the members of the committee to sign onto that.

In closing, we believe the United States should set an ambitious agenda for the negotiation and use its global leadership to aggressively pursue a comprehensive trade liberalization package. We look forward to working with you to achieve those objectives. Thank you.

Senator GRASSLEY. Thank you, Mr. Johnson.

Now, Ms. Nuzum.

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

STATEMENT OF JANET A. NUZUM, VICE PRESIDENT AND GENERAL COUNSEL, INTERNATIONAL DAIRY FOODS ASSOCIATION, WASHINGTON, DC

Ms. NUZUM. Thank you, Mr. Chairman. I appreciate the invitation to appear before you today. The views I am expressing will be those of the International Dairy Foods Association, which of course represents the dairy processing and manufacturing end of the dairy industry.

However, many of the objectives are, in fact, shared widely among agricultural and food industry groups, and, in fact, overlap quite considerably with statements that have already been made by the previous two witnesses.

IDFA strongly supports the launch of a broad-based round of trade negotiations to further discipline trade-distorting practices, and open foreign markets for dairy, as well as other agricultural products.

U.S. trade and dairy products is, indeed, modest compared with trade in other agricultural products, yet is growing. Although the domestic market continues to be the largest market for our products, our industry members recognize that long-term opportunities for growth of our industry are largely abroad.

The last round of multilateral trade negotiations made important advances, but much remains to be done. Fortunately, the last round provides a framework on agriculture that will enable this next round to proceed more quickly than the Uruguay Round did.

In particular, we would support the following priority objectives for the agricultural negotiations.

First, elimination and prohibition of all export subsidies within 5 years. This is, indeed, the dairy industry's top, number one priority.

Second, elimination and prohibition of all traded-distorting domestic subsidies. This, of course, does not require elimination of all forms of assistance to farmers or elimination of a safety net, but only those programs that are trade distortionary.

Third, commercially meaningful reduction of tariffs, with tariff elimination as the ultimate objective. I say commercially meaningful reduction of tariffs, in particular, because in the dairy industry we face some extraordinarily high tariffs in certain countries.

For example, in Canada, some of the dairy tariffs are about 300 percent. So if you cut that in half using a simple arithmetic approach, you may get a 50 percent reduction in a tariff, but it is not very commercially meaningful to still have a 150 percent tariff.

So the reductions that we need to have implemented have to result in some market access improvements on a commercially meaningful basis.

For this reason, we do support a formula approach. But we cannot use a simple formula approach, we must use one, as has been mentioned, perhaps along the lines of the Swiss Formula, which brings the higher tariff rates down more quickly so that they achieve more rapid market access than those tariffs which are already very low and providing some form of market access.

Fourth, we advocate that the administration of tariff and tariff rate quota regimes must be in a manner which is much simpler and more commercially meaningful.

Fifth, we seek strengthened rules to prohibit nontariff barriers to trade and ensure market access. This, of course, covers the area of technical standards, labeling requirements, health and inspection certifications, and to some extent, gets into the biotechnology issue.

We do not favor a change to the SPS agreement. We believe that there are sound principles already embodied in that agreement and would like to see it simply and effectively enforced.

We are looking at what kinds of ways the WTO might best address the biotechnology issues in a way that is appropriate to that particular organization, but I would like to also add that there are needs that have to be addressed outside of trade laws and trade agreements.

In the area of public education, we believe that there must be a more proactive role of some of our regulatory agencies in improving the level of public understanding about the safety of biotechnology foods, about the rigorous process that they are already required to go through, and about the soundness of the decisions that our government agencies, that have deemed them to be safe, have already established.

IDFA is not alone in supporting these priorities. The private sector has been working extensively together to try and forge common goals. We have been working along with other dairy organizations, with the Agricultural Trade Coalition already mentioned, as well as the Seattle Round Agriculture Committee.

In addition to those alliances, there is a broader-based alliance called the U.S. Alliance for Trade Expansion which tries to bring together U.S. agriculture, consumer, manufacturing, retailing, and service organizations in the United States, all who have a common interest in promoting the benefits of the WTO and a rules-based trading system. More than 220 organizations are currently active in that alliance.

Finally, Mr. Chairman, I would like to make three closing points. First, we must bear in mind that the Seattle ministerial will launch, not conclude, these negotiations. We are just beginning the negotiating process. In identifying our goals and objectives, we should therefore be focusing not on satisfactory results, but rather on the ideal results.

Second, the United States must be forward-leaning and drive the negotiations. The administration has done a good job of soliciting views throughout the United States through listening sessions, written comment solicitations, hearings. Now we need the administration to articulate clear, bold goals for the United States, to set the terms of the debate to come.

Other countries are clearly looking to the United States to set the tone. We also need the Congress, Republicans and Democrats alike, to show a united front with our negotiators.

We cannot afford to give other countries an excuse for not being aggressive and participatory in these negotiations, trying to point a dissension within the United States. The United States should be engaged in collaboration, not confrontation.

Third, we must be ambitious in our goals, striving for substantial and comprehensive reforms and progress. Of course, we must be realistic in identifying an agenda that is manageable within 3 years, but that does not preclude being ambitious.

Whether or not this is the last round of agricultural trade negotiations, and most likely it will not be the last round, we must keep in mind the ultimate objective, which is open global markets and effective rules that ensure fair trading practices by all countries and all industries.

Three years from now when the negotiations are coming to a close, we may be called upon to consider any compromises that may be necessary to secure final agreement on a package.

Members, of course, of this committee are familiar with the process of negotiating a conference agreement with the other body that will secure Presidential signature. Now, however, is not the time for compromise. Now is the time for vision, confidence, and bold U.S. leadership.

Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you for a strong statement.

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

Senator GRASSLEY. Ms. Withey?

STATEMENT OF LYN WITHEY, VICE PRESIDENT FOR PUBLIC AFFAIRS, INTERNATIONAL PAPER COMPANY, WASHINGTON, DC

Ms. WITHEY. Thank you, Mr. Chairman. I am very pleased to be here today representing the American Forest and Paper Association.

I am also pleased to bring you personal greetings, Mr. Chairman, from Dick LaConna, our plant manager at Evergreen in Cedar Rapids, who really enjoyed participating in your ambassador's tour you mentioned earlier this morning.

The U.S. forest products industry accounts for \$230 billion in annual sales and employs 1.5 million Americans. Our industry brings both an agricultural and a manufacturing perspective to the trade debate at the World Trade Organization ministerial meeting in Seattle.

For too many years, the U.S. market has provided an open door to our foreign competitors, while U.S. producers have had to scale high tariff walls and other barriers to compete in foreign markets.

We believe the WTO meeting represents the last opportunity for us to level the competitive field for our products. Mr. Chairman, we have spent nearly a decade trying to level that field, beginning with the zero-for-zero tariff initiative in the Uruguay Round, which was only partially successful for our industry. Japan blocked an agreement on wood products' tariff elimination, and Europe delayed the phase-out on tariffs for 10 years. These actions provided another decade of protection to some of our strongest competitors in global markets.

Now we are seeing explosive growth in forest products' capacity and emerging economies like Indonesia, Korea, China, and Brazil. These countries may claim to be developing economies, but the capacity they are building is world-class.

As a consequence of these developments, we have actually seen the global trade balance in the forest product sector worsen since the Uruguay Round. In 1994, U.S. imports of foreign products exceeded exports by \$2.9 billion. In 1998, that trade deficit in our sector more than tripled, to \$9.4 billion.

The real significance of these numbers is the effect on U.S. jobs. In 1998, a year of record demand for our products, total paper and allied products industry employment declined by nearly 18,000 jobs, the largest single-year decline since 1983.

Recognizing the importance of open foreign markets to our industry's future growth, our trade unions, like the Paper, Allied, Industrial, Chemical, and Energy Workers, and the United Brotherhood of Carpenters and Joiners, actively support eliminating tariffs on forest products in the Accelerated Tariff Liberalization initiatives in Seattle, and attached to my formal statement are copies of statements from representatives of those unions.

With our natural advantages and abundant fiber supply, a skilled work force, capital investments, and world-class operations, we should enjoy a competitive advantage in world markets for our wood and paper products.

Demand for our products is expected to grow faster in the emerging foreign markets than in the more mature markets of the U.S. and Europe. However, prohibitive market access barriers can, and will, lock us out and secure those markets for our foreign competitors which are growing rapidly.

It is for this reason that we have been so insistent on accelerating and expanding the zero-for-zero reciprocal tariff elimination agreement from the Uruguay Round, which you will recall Congress authorized to go forward, and why we are so determined to see a global agreement reached at the Seattle ministerial. For our industry, Mr. Chairman, this is essentially unfinished business from the Uruguay Round.

It was anticipated in the Uruguay Round Implementation Act that there would be continued priority and progress in accelerating and expanding tariff elimination in the zero-for-zero sectors, and this is simply a continuation of that program.

The Accelerated Tariff Liberalization proposal for forest products would eliminate tariffs on paper products between 2000 and 2002, and on wood products between 2002 and 2004. This is an ambitious accelerated schedule.

APEC trade ministers, just last month, reaffirmed their commitment to conclude a WTO agreement on the ATL initiative this year. The ministers also agreed that implementation of ATL tariff cuts should begin in 2000, with full and final binding as part of a single package at the conclusion of the round. This is the provisional formula that was discussed by the earlier panel.

This formulation should help achieve the critical mass of support necessary to reach a WTO agreement, since it addresses how the ATL will fit into the new round, a point of concern, we recognize, to our colleagues in the U.S. agriculture community as well as to Europeans.

It would also ensure, and I think this was very important, a strong, continuing interest by affected sectors in achieving a successful final agreement which meets key U.S. negotiating objectives.

The WTO must demonstrate that it is capable of continuous progress in eliminating barriers to trade. An agreement on the ATL package in Seattle would boost global trade and benefit producers and consumers around the world. The zero-for-zero tariff initiative

in the Uruguay Round was a significant break with traditional negotiating patterns of the past.

We believe the ATL, like the Information Technology Agreement, presents another significant opportunity to advance the pace of global trade liberalization in keeping with today's accelerating pace of business globalization.

We hope, Mr. Chairman, that you and your colleagues will lend your support to this important initiative. Thank you.

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

Senator GRASSLEY. Well, thank you all very much. I have some questions, and if you have time, we will do it right here. If I direct a question to one person and others want to answer or react to something, that is all right, just signal that.

I am going to start with you, Mr. Johnson. It is not a question I prepared ahead of time, but I heard you say something like this, that as you have been meeting with the administration on this early harvest question, you and your colleagues have not come to agreement.

Now, we have heard last week and this week that that is sort of out the window as far as the administration is concerned, that they have these conditional approaches in which they are not going to finalize anything in other sectors until they get an agreement in agriculture. Is that contradictory to how you have been talking to the same people?

Mr. JOHNSON. Well, I did not hear the question asked to Mr. Murphy this morning, because he is one of the ones we have had a lot of discussions with. I think the best way to describe it, from my point of view, is that that is an area where we are not convinced that an early harvest approach is the best way to go.

Senator GRASSLEY. We are not convinced, and we are trying to get the administration not to be, and they are trying to say that they are leading us to believe that they have ditched that, in the sense that they will not finalize anything in non-agricultural sectors, it will be conditional upon finalizing it in agriculture.

Mr. JOHNSON. Well, the answer that I have given to them when they have asked this question, from my own point of view, has been on the issue of early harvest, if and when early harvest takes place. Our position has not changed in terms of having our doubts about it. If and when something like that takes place, we will have to assess what our options are and do what is appropriate at that time.

But there are a lot of other issues in preparation for Seattle, in preparation for the next round, and in preparation for these later papers, which may become, from agriculture's point of view, as significant as what happens in Seattle, as what happens between Seattle and next June.

We have got a lot of things that we need to be talking with them about and working with them on, and this is just one area where we are not necessarily in agreement on what is the best approach.

My main point, and I actually changed the statement as we were sitting here this morning because I heard so many questions related to the issue of leverage, and I could not agree more that the issue here is leverage. I would say leverage and focus, frankly. When you start talking about different side deals, to so speak, you start losing some focus.

But also, when we start talking about Senator Conrad's comments or some of the other questions I heard this morning, everything that you do, whether it is related to early harvest, or it is related to exemptions, or it is related to request/offer, that lessens your leverage in giving a good deal. And all the problems that we have heard about what has happened with past deals, it just makes it that much more difficult in order to accomplish that.

Senator GRASSLEY. Ms. Nuzum?

Ms. NUZUM. If I could just add to that. I think that there has been some evolution and some changes over the past couple of months on this subject that are important to take into account.

When the Seattle Round Agriculture Committee, months ago in the spring, first started working together, and quite frankly, Allen Johnson personally deserves a lot of the credit for forging a coalition of, as mentioned, over 80 very disparate and independently-minded groups who normally do not come together very easily on policy and substance issues, nevertheless, to come together on 14 negotiating objectives, one of which was, indeed, to support a single undertaking approach and no early harvest.

At that point in time, the debate on the Accelerated Tariff Liberalization sectors was not widespread and was not really on the radar screen of the agricultural community.

When it became known that the administration was considering an early harvest approach for the ATL sectors, there was, quite understandably, a very adverse reaction within the agricultural community, and we engaged with the administration in a very intensive dialogue on why they would consider this, and to point out to them how it might have some adverse implications for the agricultural negotiations.

To the credit of the administration, they did, without necessarily wiping it entirely off the slate, nevertheless, tried to address our concerns about leverage, tried to address our concerns about a single package and single undertaking, and linking the non-agricultural discussions together with the agricultural discussions.

So the more recent identification and support by the administration of provisions that relate to provisional implementational, possible snap-back, and final implementational being tied together with a single package, I believe, goes a long way to address a number of the anxieties and concerns that many of us in the agricultural sector initially had.

Although we might, if we had complete control over the situation, not necessarily be proposing that an early harvest of any sort on ATLs be part of the Seattle process, nevertheless, I think we are greatly comforted by where we are today as opposed to where we were several months ago.

Senator GRASSLEY. All right.

Ms. WITHEY. I am sorry.

Senator GRASSLEY. Oh, yes. Please.

Ms. WITHEY. I just wondered if I might add just a thought on that.

Senator GRASSLEY. Yes, you may. You may.

Ms. WITHEY. I very much appreciate the comments and the recognition that there has been some movement on this. I think it is important that we all recognize that there has been an acknowl-

edgement of the difficulty that came about through the process of moving forward with the ATL, and how that fit into the round. I think the administration has been responsive to those concerns.

We have worked both with our colleagues in the agricultural community, as well as in the administration, and have shown, I think, some flexibility in trying to ensure that we can proceed with the unfinished business in our interests.

I have tried to emphasize in perhaps even more detail in my written statement the sense of urgency for why that action is so important to us now rather than another 3 or 5 years from now.

We have been flexible in our own approach that I think has allowed for this formulation to be presented that we are very comfortable with, and recognize from our standpoint, and have discussed this with Mr. Kleckner and the Farm Bureau, the only ones that are advantaged by any seeming conflict or controversy between agriculture and the industrial sector in the U.S. are the Europeans and the Japanese.

Any difference in our approach to these negotiations or any seeming conflict between sectors of the U.S. economy will redound to the benefit of those who really do not want to see an agreement in any of these areas at all. That is not to either of our advantage.

We recognize that, think the administration has recognized that, and hopefully we will be able to proceed on this provisional formula that would ensure that all of our interests are met through this next negotiation.

Senator GRASSLEY. I will start with you with a question, if I could. Somewhat, this is asking you to be repetitive about some of your testimony, but it is in regard to the administration proposing that we use the zero quota/zero tariff approach as one of our tools to gain broader market access.

Of course, knowing from history we did not have a great deal of success with that approach in the Uruguay Round, is this approach worth trying again, and is there anything we should do differently from your organization's point of view?

Mr. CASPERS. Well, I think we would certainly support that. I think they are starting to build some support in other countries, I think—Canada, mainly—for that type of approach, I guess. Certainly, we would appreciate your support for that position.

Realistically, I do not know if we will have any more luck at this round of negotiations than we did in the Uruguay Round for that, but realistically, I think agricultural tariffs around the world have got to come down if our pork producers are going to compete effectively in the world markets.

If we had average tariffs around the world at levels of, say, 15 percent or under, I think that would impact our producers tremendously, I guess, and improve our competitive position in the world markets.

But where we have got agricultural tariffs, generally, at 40, 50 percent around the world, and in this country in the low single digits, it is quite unfair. So, certainly we support that move. Whether we will get there in this round, I guess, is yet to be seen.

Senator GRASSLEY. Yes.

Ms. Withey, what can, or should, the United States do if we continue to see the lack of support that we see from Japan and the European Union primarily about our ATL initiatives?

Ms. WITHEY. Well, hopefully, Mr. Chairman—and hope springs eternal in my breast on this issue—we will see some positive movement on both the part of the Europeans and the Japanese.

We have been doing a lot of work, particularly in Europe, to identify the business interests, the economic interests that Europeans themselves would enjoy from the ATL initiative, and with some growing success.

Again, attached to my formal statement, would be copies of letters which are being generated, have been generated, by a variety of trade associations in Europe associated with the sectors that are represented in the ATL initiative, letters to the commission and to State government officials urging European participation in the ATL, recognizing the benefits that would accrue to European industries.

Secretary Aaron noted this morning the study that the Commerce Department has done that identifies the significant economic value to European industries and producers of participation in the ATL sectors, and obviously, consumers in all countries would benefit from it. So we are hoping that there will be a self-realization on the part of the Europeans, that this is in their interest.

Japan is a little bit harder nut to crack. I am probably not quite as optimistic there. But, even there, Japan, on numerous occasions, has, in fact, made commitments through the APEC process that they would participate in this ATL formulation that has been discussed between the Japanese leaders, the administration leaders, and the President. Japan has a major leadership role to play in the Asian economy.

Their opening of their market would be a very significant factor in the recovery of the Asian financial situation, and in turn, as the rest of the countries' economies grow, that will stimulate growth in the Japanese economy as well.

They also have a housing initiative in Japan that seeks to make more housing available, more affordable. That initiative is thwarted, in our view, by their restriction on imports of wood products that would make that initiative more realizable.

We hope that, with the kind of recognition that we hope would come about on their part, that we would actually see participation by both the EU and Japan in the ATL in Seattle.

Senator GRASSLEY. Ms. Nuzum, what is a more effective way to liberalize tariffs, look at tariffs across the board and harmonize those or put specific tariffs and tariff-related quotas on the table, or would you suggest both?

Ms. NUZUM. Well, we support the position that all products and policies should be part of these negotiations and should be part of the disciplines and reductions on the tariff side.

We support a formula approach, as I mentioned in my statement, that would basically try to harmonize tariffs by bringing those tariffs that are at the higher end of the spectrum down more quickly than the tariffs that are at the low end of the spectrum. In that sense, we would be closing the gap on the degree of protection in different markets.

We feel that countries that already have relatively open markets and low tariffs should not have to give quite as much quite as fast at the negotiating table and over the course of implementation as those countries that have the truly high-end barriers.

With respect to the request/offer issue, we would not object to having a request/offer approach if it were on top of a formula. In other words, if there are certain individual product items which may be anxious and ready to have more rapid liberalization, whether it is going to a zero-for-zero approach or it is going to a more rapid liberalization above and beyond what the standard across-the-board formula approach might be, but we would not support a request/offer approach in lieu of formula, because that, we believe, offers the risk of having countries try and keep and perpetuate protection to their most sensitive sectors which, for many of us in the United States, may be our most competitive sectors.

Senator GRASSLEY. My last question is to Mr. Johnson about market access. It is clearly one of our major goals in this new round. You have had an opportunity to learn about the administration's market access objectives. How would you evaluate the nature of their market access objectives?

Mr. JOHNSON. Well, I think the administration is making effort, so to speak, to develop a program for gaining greater market access. I think a lot of it is going to be determined, as we start, as Mr. Murphy talked about, establishing a time line by which proposals and modalities will be put on the table over the next six months.

I think it is going to be very important, which is maybe one of the reasons why this ATL issue has kind of been set aside, because there are a lot of other issues that need to be addressed.

One of the things that I am most sensitive to right now, is making sure that nothing comes out of Seattle that leaves anyone with the impression that they will be allowed to exempt sectors, or will be allowed to use modalities, request/offer, in order to avoid sensitive sectors being discussed, and when those proposals are being put on the table, them being aggressively pursued, because I think that is going to have as much of an impact on how the outcome of the negotiations ultimately are than some specific item in market access.

I think the structure of the negotiation is going to be very important in making sure, as Mr. Caspers pointed out, if we want access to a pork market, that some country that is very sensitive to that does not think that there may be some way of gaming the system in order to avoid talking about that. I think that is going to be extremely important coming out of Seattle that that message is loud and clear.

Senator GRASSLEY. I thank all of you very much for your participation. We have another meeting on the same subject scheduled later on, and would welcome your following that and giving your reaction as well, keeping in touch with us in every respect.

If we are not in session, I intend to be at Seattle, hopefully, to observe, to participate, and to make sure that things for agriculture go and get as much attention as they did at Singapore 3 years ago, I guess.

I think that a very important thing was accomplished by the strong presence of agriculture in Singapore, and I hope we get that same strong presence of agriculture at Seattle.

I thank you all very much.

[Whereupon, at 12:27 p.m., the hearing was concluded.]



APPENDIX

ALPHABETICAL LISTING AND MATERIAL SUBMITTED

PREPARED STATEMENT OF AMBASSADOR DAVID L. AARON

Mr. Chairman, Members of the Committee, thank you for the opportunity to appear with Under Secretary Schumacher and Assistant USTR for Agricultural Affairs James M. Murphy before this Committee today to discuss the implications of current trade discussions and negotiations for our nation's economy. American exports—from farm, factory and a multitude of service industries—have fueled one-third of our economy's growth since 1993. Our country is the world's largest exporter, and exports support about 12 million high-paying U.S. jobs—jobs that pay significantly more than the average. These exports are an important reason that we are in our 102nd month of economic expansion. And, if we successfully negotiate our way through the current range of bilateral and multilateral trade discussions, exports will fuel an even more dramatic growth as we move into the new millennium.

As Secretary Daley, Ambassador Barshefsky and Secretary Glickman have often emphasized, agriculture is central to these negotiations. U.S. farm exports from the agricultural sector reached a peak of \$60 billion in 1996. Since then, however, weaker global demand has reduced U.S. agricultural exports by \$11 billion, pushing farm prices down and increasing the financial stress in many U.S. farm communities. Although the decline in our agricultural exports seems to be bottoming out, it is abundantly clear that the continued survival of many U.S. farms depends upon a resumption of growth in our agricultural exports. Accordingly, we need a freer and fair trading system that continues to reduce tariffs, eliminate export subsidies, and facilitate trade in new high technology agricultural products. This is, indeed, the agenda that the Clinton Administration is fighting for in our global trade negotiations. As Secretary Daley told the full Committee just last week: "We must remove the trade barriers that are preventing America's farmers from being able to compete fully in world markets."

These same trade goals of reduced barriers and a freer and fair trading system apply to the other sectors of our economy, too. For while it is true that we have had significant liberalization in global trade in recent years, the fact remains that our manufacturers and our service providers still do not enjoy the benefits of open and level playing fields in many foreign markets. The fact is many countries still have tariffs several times larger than ours. That is why we are supporting non-agricultural market access negotiations as well as agricultural: we need to cut tariffs in the industrial area, too.

To this end, we worked in APEC to gain the support of all its members for an Accelerated Tariff Liberalization initiative. It would eliminate, or substantially reduce, duties in eight sectors accounting for \$197 billion of U.S. exports—29 percent of all our merchandise exports, supporting 2.2 million jobs. This measure is ripe for agreement in the WTO.

However, it is essential that such an agreement contribute to a successful and timely conclusion to the agriculture negotiations. Consequently, we have proposed that any tariff agreements reached at Seattle be implemented only on an interim basis. While an interim agreement enables beneficiaries of tariff cuts to begin enjoying new market access without waiting for negotiations in other areas to catch up, interim implementation also ensures that if the new round negotiations are not successfully concluded, then the tariff commitments will not become permanently effective. Countries would be free to raise tariff rates to previous levels. We believe that this will mean industry will have a strong incentive to work to assure a successful conclusion to the negotiations and all new round issues, especially agriculture. This approach also addresses concern in Europe and elsewhere that an "early harvest" would detract from a broad agreement at the conclusion of the new round.

The initiative is good for all countries, not just us. For example, it would cover even more European exports than U.S. exports. Unfortunately, the previous European Commission showed little interest in the proposal for early liberalization, but we are hopeful that the new Prodi Commission will take a more positive view. And we need that positive view in time to harvest tangible results at the upcoming Seattle Ministerial Meeting. I am committed to help make that happen and have raised this issue in all of my meetings with EU officials.

Another concern of both our farmers and factory workers, and many Members of this Committee, is the enforcement of American trade laws and remedies. You have asked me to comment on this subject as it relates to upcoming trade discussions.

A number of countries are suggesting that the antidumping agreement should be reopened, including in particular a country with a huge and continuing global trade surplus that has ranked among the major dumping countries of the world. Mr. Chairman, I would like to reiterate the point made by Secretary Daley in his recent testimony before the Committee: we should not reopen the antidumping or subsidies' agreements, and we have already told this to our trading partners.

Over the years, our administration of the unfair trade laws has proven to be effective in addressing unfair trade practices against a wide array of goods. We have worked hard to ensure that American workers and producers have strong remedies available to combat unfair foreign competition.

Agriculture is the second largest user of antidumping and countervailing duty remedies. In recent years we have had more than 30 antidumping or countervailing duty orders or suspension agreements in place on a wide variety of agricultural products. Among them are suspension agreements or orders on tomatoes from Mexico, orange juice from Brazil, honey from the People's Republic of China (PRC), garlic and crawfish from the PRC, salmon from Chile and Norway, pasta from Italy and Turkey, and mushrooms from Chile, India, Indonesia, and the PRC. We are currently conducting antidumping and countervailing duty investigations on live cattle from Canada, and an antidumping investigation on apple juice concentrate from the PRC. I should note in particular that we have devoted considerable resources to monitoring and enforcing the suspension agreement on tomatoes from Mexico to ensure that U.S. tomato growers will not have to face unfair import competition.

As we explain to our trading partners why antidumping must remain off of the table during the negotiations in the New Round, we are focusing on the fact that it is too early to negotiate new provisions because WTO Members have not yet had much experience with the Antidumping and Subsidies Agreements, particularly in the areas where the Uruguay Round negotiations made significant changes. Even in the United States, while we are conducting our sunset reviews in a fully WTO-consistent fashion, we are still in the early stages of completing such reviews, which are required to be conducted every five years to determine whether antidumping or countervailing duty orders should remain in force and are a major new feature of the Antidumping and Subsidies Agreements.

In light of the WTO's limited resources and already full agenda, the WTO should place its attention on improving and facilitating the implementation of existing antidumping and subsidies rules, rather than renegotiating or reopening the Uruguay Round agreements. We believe that implementation, not renegotiation, is important not only because the United States is a user of trade remedy laws, but also because proper and transparent implementation by our trading partners will safeguard the interests of U.S. exporters.

Similarly, we do not want negotiations on trade and competition, which some of our trading partners view as a vehicle for amending or replacing the antidumping laws, included in the new round. Eight years of tough negotiations on the Antidumping and Subsidies Agreements during the Uruguay Round resulted in strong measures against dumping and unfair subsidies, and we do not want to see those efforts reversed in a new Round.

While a number of old and familiar issues command much of our trade attention, important new issues are coming to the fore. Let me discuss one of these.

New technologies will be the locomotives of trade in the new millennium. I think we can already predict that biotechnology will be at or near the forefront of this trend. Whether we are talking about feeding this planet's soaring population, bringing new medicines to its ill, or protecting our ecosystem, biotechnology is one of the most promising technologies for meeting these challenges in the 21st century. Yet today, we hear a rising clamor on the part of some who would raise often erroneous questions about the technology.

Curiously, most of this clamor seems to be coming from our friends in Europe. It is ironic, because Europe has historically been the hot-house of scientific advancement and rational thought. It is puzzling that European Governments have turned their backs on the very science they nurtured in their treatment of biotech foods.

Often European Union's reaction to America's advanced biotechnology is driven by misinformation, inconsistency, and an absence of political leadership. It is also retarding its own technological development. In truth, a number of European enterprises have been leaders in developing biotech products. Indeed, three of the five multinationals that account for almost all the sales of biotech seeds in the world today are European. As one more forward-looking European official noted, "Europe has no future if the U.S. is where the GMOs are invented, and Europe is where all the reasons not to use them are invented."

Several years of U.S. experience with biotech products have shown us that biotech foods developed and used in the U.S. do not present food safety risks beyond those of their "natural" counterparts. In the United States, more than forty biotechnology-enhanced foods have gone through our regulatory process. Each of these foods has been approved only after field tests and environmental reviews by the relevant agencies, including USDA, EPA, and FDA, to ensure that the new seed varieties are environmentally safe. FDA evaluates each biotech food for its health, nutritional and allergenic characteristics, rather than on distinctions based on whether the food was produced with or without the use of biotechnology. FDA also has labeling requirements if the biotech food contains an allergen, or its nutrition value or cooking requirements is different from its conventional counterpart. The FDA requires food labels to be truthful and not misleading. Thirteen years of U.S. experience with biotech products have borne out the conclusion reached by the National Research Council in 1987 that biotech foods developed and commercialized in the United States present no food safety risks beyond those of their "natural" counterparts.

Surprisingly, this experience has made no difference in Europe. Officials there plead for U.S. understanding, citing Europe's experience with Mad Cow disease and Dioxin Chicken. That brings to mind the Three Stooges routine where every time Moe hits his own thumb with a hammer, he turned and slapped Curley. Safe American products should not be penalized by European regulatory failures. For, in fact, U.S. biotech products and their potential benefits are being held in limbo by the lack of a functioning EU approval process; by labeling regulations that do not work; and by a lack of governmental attention to dispel the reservoir of misinformation on the subject.

Only a few *de facto* U.S. biotech products have been approved by the EU, and none since early 1998. An indefinite moratorium has been created because its approval process for agricultural biotech products has broken down. Additionally, the EU's Novel Foods Law now requires labeling to indicate whether a crop or food was produced with biotechnology, even when the biotech food is otherwise equivalent to its conventional counterparts. Moreover, the EU is actively working to internationalize these labeling requirements in the Codex Alimentarius and Biosafety Protocol, and more and more countries are following the EU's lead by enacting regulations of their own. The EU, however, has not issued implementing regulations for their labeling requirements and this is causing serious uncertainties for farmers and food processors, and a potentially serious disruption of trade.

The challenge for European leaders is to forthrightly develop a comprehensive policy on biotechnology. Such a policy needs above all to take into account the protection of human health and the environment. It must also recognize that both can be advanced through biotechnology. The policy should allow biotech to realize its potential by creating processes and institutions that will reassure the public.

We ask, and we expect, Europe to rely on a science-based approach in setting its policies and procedures. My hope is that the new European Commission will turn a fresh eye to this problem. I believe that, with this Commission, we have a chance for a new beginning—an opportunity to institute a dispassionate, science-based examination of this issue. Indeed, it is a chance for the EU to resolve many disparities, inconsistencies and inadequacies in the areas of food and health and to move toward new standards of protection for its citizens. That is why we wholeheartedly support efforts to organize and consolidate food and health protection, and it is why we are so strongly urging all of the EU Member States and their citizens to encourage the new Commission to undertake this important responsibility.

Finally, I would note that our patience on this issue is not inexhaustible. The U.S. is committed to continued dialogue with Europe on this issue to dispel public concerns about the safety of biotechnology. But we also know that this issue is ripe for exploitation by protectionists, in Europe and in other countries around the world. And we insist on our trading rights. U.S. bulk exports of corn to the EU have practically been eliminated, particularly the \$200 million in annual sales to quotas for Spain and Portugal, which were established to compensate the United States at the time of the accession of those two countries into the EU. We lost those sales in 1998 when France refused to approve a U.S. approved corn variety, and we are likely to lose those sales again in 1999. Moreover, until the EU's approval process is func-

tioning again, which could be another 2-3 years according to the EU Commission, we could continue to lose these sales. We hope that efforts at mutual understanding can avert the growing threat of a serious trade dispute in the future.

Let me be altogether clear about the importance of this issue. We are facing one of the most complex and serious trade policy problems to emerge in recent years. Increasing agitation against biotechnology and biotech foods that started in Europe is beginning to spread to markets in Asia, Latin America, Australia, and Canada. How well we negotiate, how well we ensure that new regulations on agricultural biotech products do not pose trade barriers, how well we deal with consumer concerns, will affect the future of our agricultural and our biotechnology industries.

On my last trip to Brussels, I challenged the new European leadership to "promote and forthrightly develop a comprehensive policy on biotechnology." We have offered to help the EU Commission address the safety concerns the European public has regarding biotech foods by inviting them to work with us in such fora as the OECD, the Transatlantic Economic Partnership and the Transatlantic Business Dialogue. We are also requesting that the EU Commission and Member States develop a public education program, including broadcasts and public conferences, such as the one we are undertaking next January at The Hague. At the Bonn Summit in June, the U.S. floated the idea of a U.S.-EU scientific exchange on biotech issues. The EU has expressed a willingness to at least entertain the idea. The OECD Secretariat is also planning on holding a public conference on biotech issues later this year.

Other initiatives to work with our trading partners include:

- Developing agreed international standards and guidelines on bio engineered foods in the Codex Alimentarius and encouraging their use by WTO members;
- Technical discussions with other countries and assistance aimed at fostering science-based food regulatory processes that approve new products in a transparent and timely manner; and,
- Urging countries such as Japan, Korea, Australia and New Zealand to refrain from mandatory labeling requirements that are misleading and unnecessary obstacles to trade;

Finally, the Administration is working to develop outreach activities—conferences, media events, and government consultations, in key countries—in order to help assure consumers and officials abroad of: the thoroughness of our regulatory processes, the safety of biotech foods consumed in the United States, and the environmental and nutritional benefits of bio engineered foods.

We will work energetically with the EU and all other countries to encourage them to take a fresh look at resolving this immensely important issue. We simply must find a solution, and soon, as the stakes are so high for the United States.

Looking at the issues I have addressed today, Mr. Chairman, it strikes me how directly both American industry and American farming are affected by the issues we have discussed here today. Biotechnology knows no sector borders and should not encounter the kinds of market restrictions it is already beginning to see. The antidumping and countervailing duty provisions that I addressed look out for the farmer as well as the factory worker. On the wider trade front, the kind of open trade regime we are seeking through Advanced Tariff Liberalization benefits not just one sector but, again, all sectors. I believe we will succeed in our upcoming trade discussions, and in the new trade round, if we proceed from the perspective that we are one country, committed to advancing all sectors, with one broad international trade agenda. Therein is the prescription for our success and our continued prosperity.

PREPARED STATEMENT OF JON CASPERS

Mr. Chairman and Members of the Subcommittee: I am Jon Caspers, a pork producer from Swaledale, Iowa. I am a member of the board of the National Pork Producers Council and I am a member of NPPC's Trade Committee. I very much appreciate the opportunity to appear here on behalf of U.S. pork producers to express our views on the upcoming multilateral trade negotiations.

The National Pork Producers Council is a national association representing 44 affiliated states that annually generate approximately \$11 billion in farm gate sales (although farm gate sales were reduced to approximately \$9.0 billion in 1998 as a result of the lowest prices in history in deflated dollars). According to a recent Iowa State study conducted by Otto and Lawrence, the U.S. pork industry supports an estimated 600,000 domestic jobs and generates more than \$64 billion annually in total economic activity. With 10,988,850 liters being fed out annually, U.S. pork producers consume 1.065 billion bushels of corn valued at \$2.558 billion. Feed sup-

plements and additives represent another \$2.522 billion of purchased inputs from U.S. suppliers which help support U.S. soybean prices, the U.S. soybean processing industry, local elevators and transportation services based in rural areas.

U.S. AGRICULTURE IS BENEFITING FROM THE URUGUAY ROUND

International trade is vital to the future of American agriculture. As the world's biggest exporter of agricultural products we have a critical interest in the development and maintenance of strong and effective rules for international trade. This is especially true for pork, the world's meat of choice, which represents 44 percent of daily meat protein intake in the world. Notwithstanding the huge global market for pork and pork products, efficient U.S. producers were precluded from exporting significant volumes of pork in the pre-Uruguay Round Agreement, pre-NAFTA era. A combination of foreign market trade barriers and highly subsidized competitors kept a lid on U.S. pork exports.

The Uruguay Round succeeded in establishing a more effective set of trade rules for the agricultural sector and began the process of reducing trade-distorting subsidies and import barriers. Since 1995, when the Uruguay Round Agreement went into effect, U.S. pork exports to the world have increased by approximately 86 percent in volume terms and 80 percent in value terms from 1994 levels. According to a study by CF Industries exports were so important to the industry in 1997 (when hog prices were at normal levels) that cessation of exports (due for example to an embargo or animal disease outbreak) would have caused cash hog prices to plummet by \$15.73 per head.

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

The United States is uniquely positioned to reap the benefits of liberalized world pork trade. While the U.S. currently is the world's second largest exporter of pork behind Denmark, the strong consensus within the industry and among analysts is that the U.S. will soon be the number one exporter in the world. U.S. pork producers are the lowest cost producers in the world of safe, high-quality pork. The U.S. cost advantage over Denmark is increasing.

TRADITIONAL TRADE NEGOTIATING AUTHORITY MUST BE RENEWED

NPPC is co-chairing the Agriculture Trade Coalition which is comprised of 80 members representing agricultural producers, farm and food groups, trade associations and companies in all 50 states, and which is working to ensure free trade and fair market access for U.S. agricultural products around the world. This coalition came together because of our shared view that U.S. trade negotiators need comprehensive, traditional trade negotiating authority to fully represent our interests in the international marketplace.

We continue to place a very high priority on getting traditional trade authority renewed. We have the world's most efficient farmers and the world's most technologically advanced agricultural sector. American farmers and ranchers already produce an abundance far in excess of domestic needs, and productivity continues to increase. Meanwhile, global food demand is expanding rapidly, and 96 percent of the world's inhabitants live outside the United States. For these reasons, U.S. exports are growing more than three times as fast as domestic demand for foods, and exports must be the engine of agriculture's future growth in sales and income. Indeed, American agriculture is twice as reliant on international trade as the economy as a whole. One-third of U.S. agricultural production must go into export markets just to maintain farm income. In order for U.S. agriculture to grow and prosper, we must be able to serve growing markets overseas. Secretary Glickman has stated it well—for American agriculture, it is "export or die."

Today, our coalition is more committed than ever to the belief that renewal of traditional trade authority should be a high legislative priority for both the Congress and the Administration. We urge the Congress and the Administration to work together in a bipartisan manner to get traditional trade negotiating authority renewed before the upcoming WTO ministerial meeting in Seattle which will initiate a new round of multilateral trade negotiations. In order for those negotiations to succeed, it is essential that the United States maintain its customary leadership position.

Without renewal of traditional trade negotiating authority, it will be difficult to make serious progress in the WTO trade negotiations. For our negotiators to have

credibility at the bargaining table, this Administration—any Administration—must have fast track authority. Other countries will not make concessions for fear that Congress will cause the Administration to make changes in any agreements they bring back. Our trading partners know our system well, and their instinctive fears have been amply confirmed by Congress' effort to rewrite the painstakingly negotiated OECD Shipbuilding agreement.

The Uruguay Round negotiations left much unfinished business in the agricultural sector. However, it did establish a fundamentally sound set of rules and disciplines for the agricultural sector. These should pave the way for substantial market access gains in the next negotiation. It would be ironic if we abandoned the push for the liberalization of agricultural trade just when we are poised to make major gains.

THE SCOPE OF THE WTO NEGOTIATIONS SHOULD BE BROAD

The agenda for the negotiations should be comprehensive. It is well established that agriculture is one of the more sensitive areas in international trade. Some of our most important negotiating partners (*e.g.*, the European Union, Japan and South Korea) will be reluctant participants when it comes to agriculture. Only in the context of a large package of agreements and concessions will they be able to accept an ambitious outcome on farm trade. While a sectoral approach may have worked for the Information Technology Agreement, this type of approach will not work for agriculture.

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

THERE SHOULD BE A SINGLE UNDERTAKING IN THE NEGOTIATIONS

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

While most other countries are calling for a comprehensive negotiation and a single undertaking approach, the U.S. is pushing for an "early harvest" for areas where negotiations can be completed more quickly. As the Committee knows, U.S. agriculture, through the Seattle Round Agriculture Committee (SRAC) is opposed to early harvests.

Further, the Uruguay Round framework should be adopted for the agricultural negotiations to ensure that there are no product or policy exceptions (*i.e.*, no request/offer approach).

THE NEGOTIATIONS SHOULD BE CONCLUDED IN THREE YEARS

One reason some individuals have advocated a sector-by-sector approach is the fear of another protracted negotiation. Indeed, many argue that agriculture delayed the outcome of the Uruguay Round. U.S. agriculture also would like to see a quick outcome so that we can begin to see as soon as possible the benefits of liberalization. A definitive deadline of three years should overcome these concerns. We see no reason why this should not be possible. A 3-year time period would coincide with both the expiration of the peace clause and the expiration of the Farm Bill in 2003. Moreover, countries should be required to continue with reductions according to the established 1994 timeframe without any pause.

TARIFF REDUCTIONS MUST BE ACCELERATED

One of the foundational principles of the Uruguay Round Agreement on Agriculture is the requirement that non-tariff barriers such as quotas, variable levies, and import bans be eliminated and immediately replaced by either a tariff equivalent or a tariff rate quota (TRQ) through the process of "tariffication." The Agreement used a "formula" approach to reduce tariffs. It required tariff reductions of 36 percent on average for developed countries and 24 percent for developing countries over a 6-year period on a simple average basis. (Tariff reductions as small as 15 percent were allowed for "sensitive items.") The Agreement also established minimum access levels at 3 percent of domestic consumption gradually expanding to 5 percent thereafter.

Notwithstanding the progress made in the Uruguay Round, tariffs on agricultural products remain very high. The accelerated reduction of tariffs is the pork industry's No. 1 priority in the upcoming trade round. U.S. agricultural tariffs, which average only about 8 percent, are dwarfed by the agricultural tariffs of other nations, which average about 50 percent. For some products, tariffs of over 200 percent remain in effect. Agricultural tariffs must be lowered from these high levels on an accelerated basis. A substantial reduction in the highest tariffs would help to end practices such as "price bands" in which high bound tariffs create a cushion that allows lower applied tariffs to be adjusted frequently in order to keep domestic prices within a specified range. Further, a date needs to be set by which all tariffs will be reduced to zero.

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

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

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

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

THE ADMINISTRATION OF TARIFF RATE QUOTAS MUST BE IMPROVED

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

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

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

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

EXPORT SUBSIDIES SHOULD BE ELIMINATED

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

While significant progress was made in the Uruguay Round, export subsidies remain a major problem for U.S. agriculture. The elimination of all export subsidies is a top priority for the U.S. pork industry in the upcoming trade negotiations. Export subsidies transfer market share away from U.S. pork producers, the world's lowest-cost producers of pork, and give it to EU and other less efficient pork producers.

EXPORT CREDITS SHOULD BE DISCIPLINED IN THE OECD

Under the Uruguay Round Agreement the United States committed, along with other WTO members, to negotiate disciplines on export credits and credit guarantees in the OECD. Unfortunately, the OECD talks have not yet produced an agreement, despite the impending start of a new round of WTO negotiations. Now some countries are talking of developing disciplines in the WTO rather than the OECD.

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

THE U.S. MUST BE A RELIABLE SUPPLIER OF AGRICULTURAL PRODUCTS

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

TRADE-DISTORTING DOMESTIC SUPPORT SHOULD BE SUBSTANTIALLY REDUCED

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

THE S&P AGREEMENT SHOULD NOT BE REOPENED

The Uruguay Round Agreement on Sanitary and Phytosanitary Measures requires import measures intended to protect public health or to control plant and animal disease to be based on science. Enforcement of the strict science-based trading rules established in the S&P Agreement is critical to ensure the continued expansion of

U.S. pork exports. One measure of the soundness of the SPS Agreement is the fact that other countries, notably the EU, would like to see the disciplines in the agreement relaxed to allow countries to maintain measures that are not based on science. To avoid this outcome, the pork industry does not support opening the SPS Agreement for further negotiation in the next trade round.

THE WTO DISPUTE SETTLEMENT UNDERSTANDING SHOULD BE REFORMED

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

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

PORK COUNTRY PRIORITIES

In 1998, the U.S. pork industry exported pork to 115 countries. Many of these countries provide only the most minimal level of access to imported pork. Moreover, prohibitively high tariffs and other barriers in other nations preclude the export of any U.S. pork. The sheer volume of countries with trade limiting practices precludes me from providing the Subcommittee today with an exhaustive explanation of each. Following are a number of the most important country/practice priorities of the pork industry.

- Greater Access to the Japanese Pork Market Must Be Negotiated

Japan is the largest export market for the U.S. pork industry generating sales of almost \$615 million in 1998. The importance of expanding exports to Japan has never been greater. Record U.S. production of pork in 1998, which will likely be eclipsed by production in 1999, has sent live hog prices to their lowest levels ever in real terms.

Japan's pork import policy was among the most difficult issues dealt with in the Uruguay Round. Prior to the Uruguay Round, Japan's pork import regime was directly linked to its pork price stabilization scheme. The price stabilization system still exists and still has an upper price ban and a lower price ban, based on cost of production data gathered by the Ministry of Agriculture. Before the Uruguay Round, when the domestic price for pork exceeded the upper price ban, the import gate price for pork would be lowered, and vice versa when the domestic price fell below the price ban. Today, as a result of the Uruguay Round, the gate price is no longer linked to the domestic price stabilization system. As part of the Uruguay Round agreement the gate price was first fixed and is now being reduced by roughly 13 percent over a 5-year period, reaching its final level beginning with Japan Fiscal Year 2000. (There are actually three different gate prices for pork, viz., one for cuts, one for carcasses and one for processed pork products, all expressed in Yen per kilogram.)

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

The safeguard essentially allows Japan to raise the gate price by approximately 24 percent if "triggered" by an import surge. It can be triggered when imports through a given quarter exceed by 19 percent the average for imports during that

same quarter(s) for the three previous years. Once the safeguard is triggered, it stays on until the end of the fiscal year. If it is triggered during the last quarter of the fiscal year it stays in place through the first quarter of the next fiscal year. This mechanism was intended to prevent import surges from disrupting the domestic market, but in actual practice it seems to have been a major cause of import surges. When importers have sensed that the safeguard was about to be triggered they have naturally behaved in a way that assured it would be triggered, i.e., they have imported heavily in order to get product cleared through customs before the gate price was increased. This has resulted in "excessive importing" at times, greatly increasing stocks and the cost of doing business.

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

The special safeguard under the Uruguay Round Agreement applies to all agricultural products. This safeguard allows an importing country to raise the import duty on a given product by as much as 33 percent above the normal duty when imports for a given year exceed the average of the previous 3 years by a certain percentage. In the case of pork in Japan this level is 5 percent. Since the import duty on pork entering Japan is under 5 percent, the impact of this safeguard on trade is not nearly so great as the impact of the bilateral safeguard. Both safeguards can be and have been triggered at the same time, given Japan maximum protection under current WTO rules.

U.S. pork exports to Japan have increased under the pork import regime negotiated with Japan in the Uruguay Round. However, U.S. pork exports would explode if Japan's market is liberalized further in the upcoming trade round. Greater market access in Japan is the No. 1 country priority of the U.S. pork industry in the next round.

- **EU Pork Subsidies Must Be Eliminated**

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

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

There are 3 basic methods of support:

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

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

Export Refunds

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

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

	Volume (mt)	Value (m ECU)
1995/96	541.8	288.8
1996/97	522.1	269.3
1997/98	502.5	249.8
1998/99	482.8	230.3
1999/00	463.2	210.8
2000/01	443.5	191.3

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

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

(1,000 MT) (Note: notification for 1997/98 not yet available)

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

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

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

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

Product(s)	1995/96		1996/97		1997/98
	Outlay Reduction Commitment	Actual outlays on subsidiz. exports	Outlay reduction commitment	Actual outlays on Subsidiz. Exports	Outlay reduction commitment
Pigmeat	288.8	100.5	269.3	71.1	249.8

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

Private Storage Aid

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

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

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

Exceptional Support Measures

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

National Measures

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

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

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

JON CASPERS

Jon Caspers of Swaledale, Iowa, is co-owner and general manager of Pleasant Valley Pork Corp., a farrow-to-finish operation that markets 20,000 hogs annually.

He is serving his first term on the NPPC Board of Directors. Caspers serves on the National Swine Center Oversight Committee, the Price Discovery Task Force, and the Trade, Swine Health, and Pork Safety Committees.

Since 1993, Caspers has represented the pork industry on the U.S. Meat Export Federation's Board of Directors. He also serves on the Executive Committee of the Livestock Conservation Institute (LCI) and serves as the second vice chairman. An active member of the Iowa Pork Producers Association, Caspers served as state president in 1990.

Caspers earned an associate degree in Animal Science from Ellsworth Community College in Iowa Falls.

PREPARED STATEMENT OF HON. ORRIN G. HATCH

Mr. Chairman, I appreciate your initiative in convening this important hearing. Utah is an important farm state. Our beef, lamb and pork products enjoy worldwide markets, but we're also under some duress. Live cattle imports from Canada are ruinously depressing domestic beef prices and we've just eliminated a series of major market obstacles against our pork exports. More recently still, we've put in place safeguards against surging lamb meat imports.

In his testimony, Under Secretary August Schumacher cautions us that we can't export our way out of the current setback in many agricultural sectors. I agree, but I would add that this reality demands we double-team our trade problem by stopping unfair imports while aggressively pursuing foreign agriculture markets. We can't escape the ugly statistic showing the decrease of our farm trade by 34 percent in the past five years. And, our exports are only barely above the 1994 level today, and have fallen steadily over the past three years.

Mr. Chairman, one of the real benefits of today's meeting is to help all of us better understand the importance of agricultural exports and, I hasten to add, the sacrifices that American farmers and ranchers routinely make in behalf of the rest of the world. It is this latter aspect of the trade picture that deserves just a little more attention.

I regret to say that this is one picture that needs to be painted with van Gogh-like broad strokes. I say this because too many experts, reporters, students, observers, and even administration officials seem too inclined to think that if we can make any concessions anywhere, it's in the agricultural trade sector. I refer to two examples in this regard.

First, there was the so-called "deal" made between the Clinton Administration and the wool producing sector. Wool producers were strong-armed into conceding expanded wool imports five years ahead of the schedule provided in the Multifiber Textile Agreement. In exchange for the concession, the US wool producers were given five years to fold in changes in their production to make them more competitive. The wool sector dutifully made a billion-dollar investment, only to have the carpet snatched out from under them by attempted legislation, which was not opposed by the White House, that would have opened the wool import pipelines before the wool sector completed its recovery plan.

Second, I routinely find suggestions in the many expert opinions on trade policy that cross my desk that agriculture bear still more of the job loss brunt. For example, no less an organization than the Cato Institute published on September 30, 1999, a paper entitled: Trade, Jobs, and Manufacturing: Why (Almost All) U.S. Workers Should Welcome Imports.

Very few in this room, and I suspect no member of this subcommittee would be surprised to know that Cato expects farmers to become the fall guys in their trade program. In fact, on page five, the report suggests that a 50-percent sugar import increase would cost the sugar-processing, sugar-containing products and sugar-crop sectors 2,290 out of 16,400 full-time jobs.

Mr. Chairman, a 14-percent job loss involving 2,290 families is no frivolous matter to me. We would not only hasten the demise of our sugar sector, in this particular case, but, I can assure you, generate such an outcry from the American people that anti-WTO as well as more general protectionist sentiment would ring throughout the halls of Congress.

Finally, I want the WTO ministerial meeting in Seattle next month to be a success. But, this success could very well turn on the way we manage the agricultural issues at the meeting. This hearing, and the attention it is commanding, evidences

the strong commitment of this body to fair agricultural trade. So, I am telling my friends in the administration, as you prepare the agenda for Seattle, please do not pass over lightly the importance of American agriculture. Nor would I suggest that you omit, as many agendas appear to, the need for much more rigorous enforcement of existing trade agreements.

I thank the chair for the opportunity to make my comments which I submit for the record.

PREPARED STATEMENT OF ALLEN F. JOHNSON

Mr. Chairman and Members of the Committee, I appreciate the opportunity to testify on the upcoming World Trade Organization (WTO) Ministerial Meeting in Seattle, Washington. The National Oilseed Processors Association (NOPA) represents companies operating "solvent extraction" plants—75 plants in 23 states that process one or more of the 5 oilseeds that NOPA represents: soybean, sunflower seed, safflower seed, canola, and flaxseed. NOPA member companies process more than 1.6 billion bushels of oilseed annually and employ more than 4,500 workers. Exports to key markets such as the E.U. and China are critical to our industry. The total value of the industry's seed, meal, and oil production is about \$30 billion, with nearly \$10 billion of this being for exports.

The 1999 WTO Negotiations are the best opportunity for the U.S. agriculture to achieve more open and freer global markets.

1999 WTO NEGOTIATIONS

For the U.S. oilseeds and oilseed products industry, the 1999 WTO Negotiations are the only avenue to achieve our trade policy objectives. We have advanced the concept of the Level Playing Field for Oilseeds and Oilseed Products (LPF) domestically and internationally, which would create greater market access and eliminate export distortions. NOPA's objectives cover the broad range of the Uruguay Round Agreement on Agriculture—including market access, export subsidies, and domestic support, as well as areas outside the Agreement such as state trading enterprises and differential export taxes. Our general objective is the global elimination of all trade-distorting practices in oilseeds and oilseed products. Our specific objectives are:

- The largest possible reductions in individual oilseeds and oilseed product tariffs with eventual elimination of all tariffs on oilseeds and oilseed products;
- Harmonization at the lowest possible level of all tariffs on oilseeds and oilseed products;
- Elimination of export subsidies;
- Elimination of differential export taxes and other trade-distorting measures;
- Disciplines on export credits and export financing.

It is critical that the 1999 WTO Negotiations include, in a comprehensive manner, as many sectors as possible. An inclusive approach is necessary for the agricultural negotiations to achieve significant reductions in trade barriers. Under a sector-by-sector approach, individual sectors would be negotiated separately from all others and there would be no opportunity for WTO Members to negotiate with full consideration of their overall trade interests. The AOC submitted written comments on the 1999 WTO Negotiations (USITC Investigation No. 332-296) last December.

We believe that the reduction of barriers to trade in oilseeds and oilseed products and all agricultural products is the only way to expand the markets for our highly productive agricultural industry. The simple fact is that 96 percent of the world's consumers live outside the U.S., and in many developing countries the demand for food and agricultural products is growing as income and population increase.

BIOTECHNOLOGY REGULATION

More than 50 percent of U.S. soybean acreage was planted with genetically modified varieties in 1999, up from 30 percent in 1998 and 13 percent in 1997. The U.S. oilseeds industry has been quick to adopt biotechnology because of the benefits it brings for producers, consumers, and the environment.

One of the reasons the United States is the world leader in the development and commercialization of agricultural biotechnology products is that we have an effective and efficient regulatory system that enjoys the trust of consumers. Unfortunately, this is not the case in many other countries of the world.

For example, the regulatory approval process in the E.U. is slow and unpredictable. The problem from our perspective is that political considerations have been allowed to overwhelm sound science in the decisionmaking process. The result is that

new genetically modified varieties cannot be marketed in the United States without seriously threatening exports to our top market.

Labeling requirements for foods and food ingredients produced from genetically modified crops also pose a potential threat to U.S. exports. Currently, countries are attempting to establish labeling requirements for soybean products and corn products derived from genetically modified crops. Uncertainty about the final rules is adding to the concerns about their possible adverse effects on trade. Some food companies in various countries are already acting on their fears that products labeled as containing genetically modified organisms will be unacceptable to consumers. These companies are shifting sourcing to countries that have not approved GMO soybeans or avoiding soybeans all together in order to guarantee that ingredients are GMO-free. U.S. soybeans and products derived from soybeans are in danger of being transformed from products valued for their high quality and beneficial nutritional characteristics to products to be avoided in the manufacture of food products.

NOPA has encouraged the Administration to make resolution of these problems one of its highest priorities. If the E.U. approval system does not function in an efficient, timely, and transparent manner, trade problems will be unavoidable. The system should operate in such a manner that if there are serious, scientifically valid concerns about the safety of a new genetically modified crop variety, those concerns can be addressed before the product is approved.

SANITARY AND PHYTOSANITARY AGREEMENT (SPS)

The SPS Agreement should not be re-opened. The U.S. oilseeds and oilseed products industry opposes any efforts to allow for the consideration of non-scientific factors in establishing SPS measures. The commitment to sound science embodied in the SPS Agreement must be maintained. We also must not allow the SPS Agreement to be undermined by other international agreements, such as the U.S. Biosafety Protocol, or negotiations in the WTO on Trade and Environment. This is not only in our industry's interest it is in the consumer's interest as well.

The US oilseeds and oilseed products industry opposes any efforts to allow the consideration of non-scientific factors in establishing SPS measure. WTO rules should not be preempted by the U.N. Biosafety Protocol or any other international agreement.

In the short time since its adoption, the SPS Agreement has already been the subject of several politically charged dispute settlement cases. Many more issues concerning questionable SPS issues have gone unresolved because the parties have not wanted to invest the time and resources necessary to pursue formal dispute settlement. A more informal process is needed for addressing technical issues, measures affecting products in which trade is not substantial, or any other situation in which formal dispute settlement is not warranted. Article 12.2 of the SPS Agreement provides for such a process. It allows the WTO SPS Committee to serve as an informal facilitator of disputes between parties over the interpretation and implementation of the SPS Agreement. During the Triennial Review of the SPS Agreement in 1998, the United States proposed developing procedures to make the provisions of Article 12.2. operative. We fully support this effort.

- WTO rules should not be preempted by the U.N. Biosafety Protocol or any other international agreement.
- The US should take the lead to encourage other WTO Members to comply with the objective of the SPS Agreement to harmonize sanitary and phytosanitary measures. Encourage greater use of the informal Consultation provision in Article 12.2 of the SPS Agreement to resolve disagreements that do not warrant formal dispute settlement.

WTO DISPUTE SETTLEMENT

The implementation requirements of a WTO dispute settlement panel decision should be addressed. Negotiators should seek to better define the gray areas of this critical component of the rules on multilateral trading. Several possible changes may allow for the process to be shorter so decisions can be implemented more promptly. Some examples include:

- Enforce 30-day deadline for panel formation (DSU Article 8.7). Due to various delays, formation of the panel in the Canada dairy case took 5 months. Time saved: up to 4 months.
- Allow countries to skip formal consultations and proceed directly to the formation of a panel. Frequently, countries are certain they will need to proceed to a panel. In such cases, consultations can be an unnecessary delay. Time saved: 15 to 60 days.

WTO SAFEGUARDS AGREEMENT

The rights of affected Members to retaliate should be restored so that safeguard actions are not taken casually. The Uruguay Round changed the Safeguards Agreement with the effect of making it easier for countries to impose import barriers by restricting the right of affected Members to retaliate before 3 years. As the world's largest exporter of agricultural and food products the U.S. is the most vulnerable to the misuse of safeguards agreements.

WTO ANTIDUMPING RULES

The U.S. should address WTO antidumping rules in the 1999 WTO Negotiations. The methodology used to determine whether dumping has occurred does not accurately reflect the dynamic nature of global agricultural markets.

INTERNATIONAL ASSOCIATION OF SEED CRUSHERS (IASC)

Currently I am serving on the Council of the IASC. NOPA has been working with the IASC for many years in pursuing the LPF. Four members of the IASC, NOPA, the European Oilseed Crushers' Association (FEDIOL), Associacao Brasileira Das Industrias de Oleos Vegetais (ABIOVE), and Camara de la Industria Aceitera de la Republica Argentina (CIARA) have been working together on a Joint Declaration to pursue liberalizing trade in oilseeds and oilseed products during the WTO negotiations. The four organizations hope to meet again in October in to continue discussions on a unified set of objectives to pursue with our respective governments in preparation for the upcoming WTO negotiations. Our goal is to form an exporting coalition with a unified message that the major exporting countries will take significant steps to level the playing field and that our respective negotiators should work aggressively together to open up import markets in order to gain access to consumers. It is vital that we reach a WTO agreement, which provides that all countries eliminate import tariffs and other trade barriers for oilseeds and oilseed products.

Seattle Round Agricultural Committee (SRAC)

In preparation for the November 30, 1999 WTO Ministerial Meeting in Seattle, the Seattle Round Agricultural Committee (SRAC) was organized to serve as a vehicle for exchanging points of view on the negotiations, both within the agricultural community and with government, and when appropriate, develop common policy positions. Members of the SRAC include the varied agricultural and food organizations and companies that will be affected by the outcome of the negotiations.

On April 6, 59 agricultural organizations sent a letter to President Clinton expressing support of a comprehensive round of multilateral trade negotiations that should include all goods and service, continue to reform agricultural and food trade policy, promote global food security through open trade, and increase trade liberalization in agriculture and food. The SRAC recommended three process objectives that should be included in the negotiations:

- Conclusion with a single undertaking that encompasses all sectors (i.e., no early harvest).
- Adoption of the Uruguay Round framework for the 1999 agricultural negotiations to ensure that there are no product or policy exceptions (i.e., no request/offer approach).
- Establishment of a 3-year goal for the conclusion of the negotiations (by December 2002).

On May 11, the SRAC sent a policy statement to President Clinton outlining 14 objectives that should be included in the negotiations. The SRAC 1999 WTO Policy Statement was approved by 69 agricultural organizations and companies.

On May 25, the SRAC submitted its policy statement to be included as part of the written record in response to the Federal Register (FR Doc. 99-9288) printed on April 14.

On July 12 the SRAC sent a letter to President Clinton outlining concerns that the Administration supports early and on-going results, or early harvest, in the upcoming WTO negotiations. The SRAC believes such an approach would be extremely harmful to American agriculture if adopted as the format for the WTO trade discussions. The SRAC supports a single undertaking format for the negotiations wherein all negotiations conclude simultaneously.

Since April, the SRAC has grown to over 85 agricultural organizations. The SRAC Policy Committee has met with Congressional Committee Staff, Administration officials from the Department of Agriculture, Office of the U.S. Trade Representative, and State Department. Issues discussed have included, the SRAC Policy Statement, single undertaking, biotechnology, dispute settlement and the Administration's ob-

jectives for the Seattle Ministerial. Mr. Chairman, on behalf of the SRAC thank you and your colleagues Senators Fitzgerald, Roberts and Ashcroft for introducing S.Res. 101, the 14 SRAC policy objectives.

AMERICAN OILSEED COALITION (AOC)

I also currently serve as a co-coordinator of the AOC. The AOC, which includes the American Soybean Association (ASA), the National Cottonseed Products Association, the National Sunflower Association, the U.S. Canola Association, and NOPA strongly supports the global liberalization of trade in oilseeds and oilseed products.

OTHER IMPORTANT ISSUES

CHINA WTO NEGOTIATIONS

With respect to China, it is critical that China accedes to the WTO with no exceptions from the rules and disciplines by which all members abide. The NOPA's overriding objective for the accession negotiations is greater and more equitable access to the Chinese market for oilseeds and oilseed products.

U.S.-E.U. RELATIONSHIP

To further advance freer and more open global trade in agricultural products, beyond the Uruguay Round Agreement on Agriculture, will require the cooperation of our major trading partners, especially the E.U. The E.U. is the primary user of export subsidies in today's global market and, therefore, is likely to oppose the immediate elimination of export subsidies. However, there are other common areas of interest to the U.S. and E.U. including:

- Improving WTO disciplines through changes in Article 12 of the Uruguay Round Agreement on Agriculture to impose penalties on exporting countries if they prohibit or restrict exports—this would provide more protection to food-importing developing countries;
- Establishing WTO rules for developing countries to graduate to full WTO obligations using objective economic indicators such as per capita GDP;
- Establishing effective disciplines on the trade-distorting practices of state trading enterprises and making their operations transparent.

Another key area of common interest to the U.S. and the E.U. is domestic support. The Uruguay Round Agreement on Agriculture required reductions in coupled support—support tied to production; established the "blue box" of policies not subject to reduction including former U.S. deficiency payments and E.U. compensatory payments to producers of grains and oilseeds; and established "green box" (decoupled from production) programs exempt from reduction if they met certain criteria that made them non trade distorting.

We would encourage all countries to move toward green box policies. We believe that it is very important to refine green box criteria for decoupled support in a way that they are practical for public policy. Green box criteria will permit countries to pursue "multi functionality." This is the concept that domestic programs have more objectives than supporting farm income. NOPA supports the concept that domestic farm policies can have a number of objectives as long as they do not distort production and trade. Additional disciplines on blue box policies would help transition countries toward fully decoupled policies. The point is that it is difficult for countries to make an immediate direct change from coupled to decoupled policies and they may need a transition period for this transformation. The E.U.'s movement toward adoption of Agenda 2000 and revised payments for grains and oilseeds, which while not fully decoupled and, therefore, subject to WTO reductions, are a movement in that direction. It is in the interest of the U.S. and our industry to encourage the movement toward decoupled policies and we should support language in the WTO that permits that transition.

The U.S.-E.U. trading relationship is of vital economic importance to both. In agricultural trade, there have been disputes, and the latest disputes are bananas and bovine growth hormones. We believe that these disputes spotlight how disruptive such issues can become when WTO panel decisions have not been respected. Ongoing disputes such as these block progress on other trade issues and make it difficult for the U.S. and E.U. to work cooperatively to advance global trade liberalization. There are real opportunities for the U.S. and the E.U. to work together to make sure that the 1999 WTO Negotiations are successful in expanding global markets for oilseeds, oilseed products, and other agricultural products.

CONCLUSION

As the host of the 1999 World Trade Organization (WTO) Ministerial, the United States has a tremendous opportunity to influence the agenda for the next round of WTO negotiations. As the largest, most dynamic economy in the world the U.S. also has the most to gain from the next round. Further trade liberalization is needed to open new market opportunities for the ever-increasing output of U.S. agriculture. The U.S. must set an ambitious agenda for the negotiations and use its global leadership role to aggressively pursue a comprehensive trade liberalization package.

The ability of U.S. agriculture to gain and maintain a share of global markets depends on many factors, including obtaining strong trade agreements that are properly enforced, enhancing the administration's ability to negotiate increased market access for U.S. agriculture and building in necessary changes to the WTO dispute settlement process to ensure timely resolution of disputes.

Mr. Chairman, thank you for holding this hearing that concludes my remarks. I would be pleased to answer any questions.

SEATTLE ROUND AGRICULTURE COMMITTEE (SRAC) • 600 MARYLAND, AVE., SW, STE. 800, WASHINGTON, DC 20024
PHONE 202.484.3620, FAX 202.484.3604



**SEATTLE ROUND AGRICULTURAL COMMITTEE (SRAC)
1999 WTO POLICY STATEMENT**

The U.S. agricultural and food sector supports the launching of a comprehensive round of multilateral trade negotiations that includes all goods and services, continues to reform agricultural and food trade policy, promotes global food security through open trade, and increases trade liberalization in agriculture and food. Policy and process objectives should include:

- Conclusion with a single undertaking that encompasses all sectors (i.e., no early harvest).
- Adoption of the Uruguay Round framework for the 1999 agricultural negotiations to ensure that there are no product or policy exceptions.
- Establishment of a three-year goal for the conclusion of the negotiations (by December 2002).
- Elimination of export subsidies and tightening of rules for circumvention of export subsidies.
- Elimination of nontariff barriers to trade.
- Transitioning countries to provide an increasing portion of total domestic support for agriculture in a decoupled form, as the United States has already done under the FAIR Act.
- Commercially meaningful reduction or elimination of tariffs (bound and applied) and mutual elimination of restrictive tariff barriers on an accelerated basis. In addition, the administration of tariff-rate quotas (TRQs) must be improved.
- Elimination of State Trading Enterprises (STEs) or the adoption of disciplines that ensure operational transparency, the end of discriminatory pricing practices, and competition for STEs.
- Maintaining sound science and risk assessment as the foundation of sanitary and phytosanitary measures.
- Ensuring market access for products of biotechnology, with the regulation of these products based solely on sound science.
- Accelerating resolution of trade disputes and prompt enforcement of panel decisions.
- Providing food security for importing nations by avoiding sanctions on food exports combined with a WTO commitment not to restrict or prohibit the export of agricultural products.
- Addressing labor and environment issues in a manner that facilitates rather than restricts trade.
- Establishing WTO rules for developing countries to graduate to full WTO obligations using objective economic criteria.

Ag Processing Inc.
 Agricultural Retailers Association
 American Cotton Shippers Association
 American Crop Protection Association
 American Farm Bureau Federation
 American Feed Industry Association
 American Peanut Shellers
 American Potato Trade Alliance
 American Soybean Association
 American Sugar Alliance
 American Vintners Association
 Animal Health Institute
 Archer Daniels Midland Company
 Biotechnology Industry Organization
 Bryant Christie Inc.
 Bunge Corporation
 CF Industries, Inc.
 California Table Grape Commission
 Cargill, Incorporated
 Cenex Harvest States
 Chicago Board of Trade
 Chocolate Manufacturers Association
 Coalition for a Competitive Food and
 Agricultural System
 ConAgra, Inc.
 Continental Grain Company
 Corn Refiners Association
 Distilled Spirits Council of the
 United States
 Far West Spearmint
 Farmland Industries, Inc.
 Florida Phosphate Council
 Food Distributors International
 Association
 Gold Kist, Inc.
 Grocery Manufacturers of America
 Independent Community Bankers
 of America
 International Dairy Foods Association
 Kraft Foods
 Louis Dreyfus Corporation
 Monsanto Company
 National Association of Animal Breeders
 National Association of State
 Departments of Agriculture
 National Association of Wheat Growers
 National Barley Growers Association
 National Cattlemen's Beef Association
 National Chicken Council
 National Confectioners Association
 of the United States
 National Corn Growers Association
 National Council of Farmer Cooperatives
 National Cotton Council of America
 National Food Processors Association
 National Grain and Feed Association
 National Grain Sorghum Producers
 Association
 National Grain Trade Council
 National Grange
 National Milk Producers Federation
 National Oilseed Processors Association
 National Pork Producers Council
 National Renderers Association
 National Sunflower Association
 National Turkey Federation
 North American Export Grain Association
 North American Millers' Association
 Northwest Horticultural Council
 Pacific Northwest Grain and Feed
 Pet Food Institute
 Pioneer Hi-Bred International, Inc.
 Ralston Purina Company
 Snack Food Association
 Sunkist Growers
 Sweetener Users Association
 The Fertilizer Institute
 The IAMS Company
 Transportation, Elevator, &
 Grain Merchants Association
 USA Poultry & Egg Export Council
 USA Rice Federation
 U.S. Apple Association
 U.S. Canola Association
 U.S. Dairy Export Council
 U.S. Grains Council
 U.S. Meat Export Federation
 U.S. Poultry & Egg Association
 U.S. Rice Producers Association
 U.S. Wheat Associates, Inc.
 United Egg Association
 United Egg Producers
 Western U.S. Agricultural Trade
 Association
 Wheat Export Trade Education
 Committee
 World Perspectives Inc.

PREPARED STATEMENT OF JAMES MURPHY

Chairman Grassley, Senator Moynihan, Members of the Subcommittee, thank you very much for inviting USTR to testify on our agricultural trade agenda at the WTO.

THE NEW ROUND

In his State of the Union Address this January, President Clinton called for a new Round of international trade negotiations, geared to the needs of the 21st century

and the rapid technological advances of the global economy. We expect to launch this Round at the Ministerial Conference at Seattle, set to begin 2 months from today. It is a unique opportunity to achieve our own interest in opening new markets and strengthening guarantees of fairness for America's farm and ranch families, and also to ensure for the world a reliable supply of food at market prices.

Before turning to the question of agriculture specifically, let me briefly review the overall agenda. We are pursuing a three-part agenda for a new Round that: (1) focuses on opening foreign markets for U.S. agriculture, goods and services and ensures effective implementation of the rules of the WTO; (2) continues institutional reform of the WTO to make it more open and accountable to citizens and workers, promote sustainable development and integrate the poorer countries into the system; and (3) secures achievements at Seattle to mark the launch of the new Round and give impetus to the new trade agenda. This three-part agenda ensures that all trading partners can benefit from the Round while ensuring its completion in 3 years.

WTO Members are now developing draft decisions for Ministerial approval at Seattle on the scope and subject matter for the new Round, time lines that establish milestones for progress and the organization and conduct of the negotiations (establishment of negotiating groups, oversight responsibility, etc.). The Seattle "launch" will establish the parameters that will govern negotiations for the next 3 years. In January 2000, negotiators return to Geneva for hard bargaining and substantive negotiations. Ministers likely will meet at the midterm to ensure that the three-year schedule is kept.

In contrast to the preparatory phase for the Uruguay Round, we already have agreement on the core subjects for the new round. The Uruguay Round's "built-in agenda," of course, had already scheduled negotiations in agriculture and services to begin this year. The question before governments preparing for Seattle is what additional elements to add to the agenda. At U.S. urging, there is a consensus to launch negotiations that are of a much shorter duration—three years. Given this timetable, and the big agenda already on the table, the key will be to building a consensus on remaining issues where agreements can be achieved in this three-year period. This means that we are looking essentially at a market access oriented negotiation, where there is likely to be a consensus to reduce barriers to trade in industrial goods and to enhance the market access gains by launching negotiations on trade facilitation. This approach offers the possibility of greater advances in agriculture, which as Ambassador Barshefsky has said, is at the heart of our agenda.

We have therefore set ambitious goals, in areas ranging from tariffs to export subsidies and treatment of biotechnology products. My testimony today will review these goals; the process by which we have set our objectives; our strategy, in particular our work internationally, to build consensus on achieving them; and the timetable by which we plan to bring the work to a successful conclusion. Let me begin, however, with some brief remarks about the importance of the WTO system as a whole to American agriculture.

AGRICULTURAL TRADE GOALS

Mr. Chairman, American farmers are the most competitive and technically advanced in the world, producing far more than we can ever eat. Thus we must have the ability to export to the 96 percent of humanity that lives beyond our borders. In fact, with one in three American farm acres now producing for foreign markets, we must export to remain profitable at home.

These realities are the foundation of our agricultural trade policy. Under President Clinton and Vice President Gore, we have sought to:

- reduce tariffs and other barriers to trade;
- ensure that sanitary and phytosanitary standards are based on science;
- promote fair trade by reducing foreign export subsidies and trade-distorting domestic supports;
- ensure greater transparency and fairness in state trading; and
- help guarantee that farmers and ranchers can use safe modern technologies, in particular biotechnology, without fear of trade discrimination.

URUGUAY ROUND ACHIEVEMENTS

We have pursued these goals in negotiations with all of our major bilateral trading partners in a wide range of commodities, and in the regional initiatives we have opened in the Western Hemisphere, Asia, Europe and Africa. At the heart of our work, however, is construction of a world trading system that opens markets for farmers and ranchers; reduces unfair trade practices; ensures that our trading partners do not use unscientific sanitary and phytosanitary measures to block American

goods, while ensuring that consumers in the United States and around the world have the highest possible standards of food safety; and gives us strong and credible means of settling disputes.

The completion of Uruguay Round in 1994 marked the first major step toward such a trading system. Under the Uruguay Round's Agreements on Agriculture and the Application of Sanitary and Phytosanitary Measures (SPS), we lowered tariffs and are on track to eliminate most quantitative restrictions. We reduced trade-distorting subsidies. We ensured that all WTO members—110 at the time, 134 today—would use science-based sanitary and phytosanitary measures to protect human, animal and plant health rather than to bar imports. And we created a strong dispute settlement system, which we have now used thirteen times in the past four years to enforce the Agriculture and SPS Agreements, on issues from fruit sales to Japan, to pork in the Philippines, dairy in Canada, and of course the still unresolved banana and beef cases with the European Union.

The Uruguay Round has done a great deal to create a foundation of commitments to open markets, fair trade, respect for science and an enforceable rule of law. But while this is a very strong beginning, we are very far from done.

DOMESTIC CONSULTATIONS

In the next decade, we can and should go well beyond the achievements of the 1990's in aggressive reform of agricultural trade. An ambitious agricultural agenda in the next Round can make trade more open for our farmers and ranchers; encourage the most advanced and environmentally friendly agricultural technologies; and ultimately to increase the world's food security.

Over the past 18 months, we have pursued a methodical strategy which has moved us, step by step, toward this goal. This began with our successful effort at the most recent WTO Ministerial, in May 1998, to renew the formal commitment by WTO members on agricultural negotiations, to begin in 1999 and ensure that implementation of existing agreements would receive priority attention, and that there would be no question about reopening the commitment to negotiate on agriculture beginning in 1999.

We then opened a long series of consultations with Congress, agricultural producer and commodity groups and others interested in the Round to seek advice on the goals and priorities we should set. This included publishing notices in the Federal Register seeking public comment on agricultural and other policy goals in the Round, and hearings on the overall WTO agenda through the Trade Policy Staff Committee in Atlanta, Dallas, Los Angeles and Chicago, as well as Washington DC.

We also held a series of Listening Sessions with the Department of Agriculture focusing specifically on agriculture this June and July. In these sessions, senior USTR officials and agricultural negotiators visited Indianapolis, Indiana; Des Moines, Iowa; Winter Haven, Florida; St. Paul, Minnesota; Memphis, Tennessee; Austin, Texas; Sacramento, California; Richland, Washington; Kearney, Nebraska; Newark, Delaware; Burlington, Vermont; and Bozeman, Montana to hear directly from farmers, ranchers and others on the specific issues and commodities they felt should be our top negotiating priorities.

U.S. GOALS FOR THE NEW ROUND

Having completed these sessions, we then developed a set of specific proposals which together form an ambitious and achievable agenda for the Round. They will address the major concerns raised in our consultations, including worldwide tariff disparities; reform of Europe's Common Agricultural Policy, which is the world's largest single distortion of agricultural trade; the reduction in market transparency and competition created by state trading monopolies; and ensuring fair treatment for trade in biotechnology.

We tabled these proposals in August at the WTO in Geneva, proposing that the Round:

- Completely eliminate, and prohibit for the future, all remaining export subsidies as defined in the Agreement on Agriculture.
- Substantially reduce trade-distorting supports and strengthen rules that ensure all production-related support is subject to discipline, while preserving criteria-based "green box" policies that support agriculture while minimizing distortion to trade;
- Lower tariff rates and bind them, including but not limited to zero/zero initiatives;
- Improve administration of tariff-rate-quotas;
- Strengthen disciplines on the operation of state trading enterprises;
- Improve market access through a variety of means to the benefit of least-developed Members by all other WTO Members; and

—Address disciplines to ensure trade in agricultural biotechnology products is based on transparent, predictable and timely processes.

As the Subcommittee may be aware, we have requested a number of studies from the U.S. International Trade Commission on the barriers that confront U.S. agriculture around the globe. In addition, agriculture is included in the request made to the ITC for advice on market access negotiations. Normally, this advice (which is required by statute) would be requested once negotiations are launched. We determined that in order to be ready, we should have the advice in hand immediately as negotiations are launched.

BUILDING INTERNATIONAL CONSENSUS

At the same time, we are working to build international consensus on our goals and a rapid timetable for achieving them. This process includes several different elements: developing consensus on an overall agenda for the Round which maximizes the potential for success for the launch of new negotiations and for achievements in agriculture; creating the broadest possible coalitions in support of our specific goals in agriculture, and for the 3-year timetable which will ensure meaningful results in a reasonable period of time; and setting concrete precedents for our goals in the Round through our regional trade initiatives and negotiations on new accessions to the WTO.

1. Maximizing the Potential for Success

As I mentioned earlier, we need to have a consensus on an overall agenda that meets the interests of all our trading partners. We have an excellent basis upon which to build that consensus with the built-in agenda negotiations and the addition of achievable goals in a 3-year round, and the emerging consensus to broaden the agenda further to include industrial market access questions and other matters related to access. Our goal is to move the market access negotiations for agriculture, non-agricultural items, and services forward as one package and conclude those negotiations at the same time. This will allow us to maximize our leverage to ensure that the WTO's negotiating agenda enables us to meet our objectives for aggressive reform of agricultural trade.

As one example, we won agreement from the APEC economies for the completion of an Accelerated Tariff Liberalization program at the WTO in sectors important to both developed and developing countries. This would be undertaken on a provisional basis with full and final binding as part of the conclusion of the single market access package, and is thus structured in such a way as to increase WTO members' stake in conclusion of the Round.

We do not believe, as some have argued, that the agenda needs to revisit and re-open each and every agreement negotiated in the Uruguay Round, or focus on matters that are not yet ripe for negotiation. That would be a recipe for delay, which is unacceptable to the United States and many of our partners.

2. Developing Consensus on Goals and Timetable

At the same time, we have worked to build the largest possible degree of consensus on the 3-year timetable and our goals in agriculture. We started early in the WTO's preparatory process—focusing on the substantive problems with implementation and our goals for further reform. We called for building upon the basic structure of the Uruguay Round disciplines on agriculture—market access, domestic supports and export subsidies—and our trading partners seem to accept this fundamental approach for the new negotiations.

Most importantly, working with our partners, we built the consensus for a three-year negotiation. Second, we have sought a negotiating plan with benchmarks to ensure that we will come away from Seattle with time lines that establish milestones for progress and the organization and conduct of the negotiations. It is noteworthy that last month, Ministers from the Cairns Group indicated it will be pushing "for clear and detailed decisions in Seattle to ensure agriculture negotiations begin on time, conclude before 2003, and have an explicit negotiating time table to deliver required outcomes." Even the European Commission has called for tabling of detailed negotiating proposals in all areas of the new Round by June 2000.

We want to work closely with you and our private sector to determine the best way to mold the various measures affecting agricultural trade into the detailed negotiating plans that will be needed next year. The advice from the International Trade Commission will be useful to help us test possible approaches and build consensus for new initiatives. For example, we have already been approached about sectoral initiatives in some areas and other approaches. We have an ambitious time table in mind and we need to continue to work together expeditiously to refine the elements of our negotiating plans to meet these objectives.

In addition to our work at the WTO—in Geneva, we have used the opportunities created by our regional trade initiatives and major international meetings (e.g. the US-Africa Ministerial in Washington this March; the NAFTA Ministerial in Ottawa in April; Free Trade Area of the Americas conferences; the US-EU Summit this spring; the Quad meeting in Tokyo; the OECD Ministerial; Cairns Group meetings; and most recently the APEC meeting in New Zealand in September) to build support for our goals in market access, subsidies and biotechnology. Some examples include:

- *Asia-Pacific*—At the APEC Ministerial last month, we won a commitment by all 23 APEC Trade Ministers, including those of Japan, Canada, Mexico, the ASEAN states, South Korea and others, to a 3-year timetable for the Round; to an agenda which considers tariff and non-tariff measures and takes a joint stand for the “abolition of agricultural export subsidies,” and to promote “transparent and science-based approaches to the introduction and use of biotechnology products.”
- *Africa*—This March, we hosted an historic US-Africa Ministerial, at which we found common ground with many African trading partners on agricultural market access issues. Likewise, we have support from a number of African countries on elimination of export subsidies—which are especially damaging to developing country farmers.
- *Europe*—Clearly, many of our most difficult negotiating challenges in agriculture will be with the European Union. However, we are working to develop consensus in as many areas as possible. For example, at the US-EU Summit this spring we confirmed our agreement on a 3-year timetable for the Round, and under the Transatlantic Economic Partnership discussions opened a pilot project to enhance transparency and access to regulatory procedures, under which we will strive to agree on common data requirements for the acceptance of biotechnology products.
- *Western Hemisphere*—we are working toward commitment from every Western Hemisphere nation participating in the FTAA talks (all, with the exception of Cuba) to work for elimination of export subsidies globally, and have developed wide support for this goal.

3. WTO Accessions

Finally, thirty-one economies are now applying for accession to the WTO. In each of these we are requiring full compliance with the provisions of the Agreement on Agriculture as well as significant market-opening measures, immediate acceptance of the Sanitary and Phytosanitary Agreement, and improved transparency in any existing state trading arrangements.

Specifically, in the past year we have brought Kyrgyzstan and Latvia into the WTO: completed negotiations with Estonia, with accession pending its Parliament ratification of the accession agreements; completed bilateral negotiations with Taiwan, Georgia and Albania; and made significant progress with Armenia, China, Croatia, Jordan, Lithuania, Moldova and Oman.

In the case of China, which is of course the largest prospective new economy in the WTO, while some services and rules issues remain for discussion, agricultural negotiations are complete and include a very strong set of commitments in market access, renunciation of export subsidies, tariff-rate quotas and other issues. These negotiations resumed at the direction of Presidents Clinton and Jiang at the APEC Leaders Meeting last month.

CONCLUSION

In summary, Mr. Chairman, over the past year, we have developed a set of negotiating objectives which reflect the advice and priorities we have received from Congress and American agricultural producers; set precedents on our objectives in our accession negotiations; and begun to build the international coalitions that will realize our goals in the Round.

Much work remains ahead. We hope to consult closely with the Subcommittee as we prepare for the launch of the Round at the Ministerial, and then as the negotiations begin. We look forward to a continued close working relationship, and to results which lead to a fairer, more open trading world for America's farm and ranch families.

Thank you.

PREPARED STATEMENT OF JANET A. NUZUM

Mr. Chairman, Members of the Committee, I appreciate the invitation to appear before you today to present the views of the International Dairy Foods Association on agricultural negotiating objectives for the upcoming round of trade negotiations in the World Trade Organization (WTO). These negotiations are of great importance to the U.S. dairy industry and we welcome the Subcommittee's attention to the critical role of the United States in these global talks.

The International Dairy Foods Association (IDFA) is an industry trade association representing the interests of dairy processors and manufacturers whose products are sold in U.S. and foreign markets. IDFA members' products account for 85% of the dairy products consumed in the U.S. market, valued at \$75 billion retail. Products include a variety of commodities and value-added products, including beverage milk, cream, yogurt, dairy-based dips, cheese, and ice cream and frozen novelties. As an umbrella organization, IDFA also has three constituent associations that focus on the interests of specific segments of the dairy industry: the Milk Industry Foundation; the National Cheese Institute; and the International Ice Cream Association. IDFA member companies, which total nearly 600, range from single plant operations of family-run businesses to publicly traded corporations with facilities across the United States and abroad.

As Vice President for International and Government Affairs and General Counsel of IDFA, I manage the associations' international affairs, including international trade policy. Prior to joining IDFA, I served as Commissioner and Vice Chairman of the U.S. International Trade Commission. During the launch and early years of the Uruguay Round of GATT negotiations, I worked on the professional staff of the Committee on Ways and Means of the U.S. House of Representatives and served as a congressional advisor to U.S. trade negotiators. I currently serve as a private sector advisor on trade matters as a member of the Agricultural Policy Advisory Committee.

OVERVIEW AND GENERAL COMMENTS

IDFA strongly supports the launch of a broad-based round of trade negotiations that will further discipline trade-distorting practices and open foreign markets for dairy and other agricultural products. U.S. trade in dairy products is modest compared with trade in other agricultural products, but steadily growing. Although the domestic market continues to be the largest market for our products, our industry members recognize that long-term opportunities for growth of dairy product sales are largely abroad. For this reason, there is broad support in the U.S. dairy industry, among both producers and processors, for the upcoming round of multilateral trade negotiations.

The last round of multilateral trade negotiations, the Uruguay Round, made important advances—particularly in agricultural trading rules—but much remains to be done to achieve truly open markets in all countries and sectors. With the foundation of the Uruguay Round Agreements in place, this next round presents an important opportunity for further strengthening the multilateral trading system and making substantial advances towards truly open markets and equitable trading rules for agricultural products.

Meaningful results, however, will require strong leadership from the United States. It is very clear from recent actions—or, more accurately, non-actions—by the European Union (EU) on the Agenda 2000 reforms that there will be great resistance to continued progress in agricultural trade liberalization. The EU is not alone in this negative attitude; Japan also appears to be unwilling to engage in true reform. These forces of protectionism, however, should not be allowed to stymie the opportunities presented by a new trade round. Many other countries are looking to the United States, both as economic superpower and as host of the upcoming Ministerial, to provide the bold, effective leadership that will carry this next round forward successfully. We must not be timid or equivocal in our call for open markets and nondiscriminatory rules of trade.

U.S. agricultural producers and processors have much more to gain than we have to lose from ambitious goals and results. The U.S. dairy industry's opportunities in world dairy markets are distorted and hampered by foreign subsidies, extraordinarily high tariffs, unrealistic licensing restrictions and other technical barriers. In particular, IDFA supports the following priority objectives for the agricultural negotiations:

- Elimination and prohibition of all export subsidies
- Elimination and prohibition of all trade-distorting domestic subsidies
- Commercially meaningful reduction of tariffs with tariff elimination as the ultimate objective

- Administration of tariff and tariff-rate quota regimes in a manner which is simpler and more commercially meaningful
- Strengthened rules to prohibit nontariff barriers to trade and ensure market access

PRIVATE SECTOR PREPARATIONS FOR THE NEW ROUND AND THE SEATTLE MINISTERIAL

Over the past six months, the U.S. private sector has been gearing up for the launch of new trade negotiations in Seattle. In addition to focusing specifically on the dairy industry's objectives for the new round of trade negotiations, IDFA has been actively supporting several coalition efforts to build common positions among affected U.S. interests.

The Seattle Round Agricultural Committee (SRAC) is a coalition of organizations in the U.S. agricultural community working to ensure a successful WTO Ministerial in Seattle. Initially brought together to share information about the logistics of the meeting in Seattle, the coalition members set themselves to the difficult task of developing negotiating objectives on both process and policy issues which could be broadly supported in the U.S. agricultural community. This effort was successful in identifying 14 objectives which are endorsed by approximately 80 agricultural organizations. SRAC is also planning program events that will take place in Seattle to broaden public understanding of the issues affecting U.S. agriculture in this next round.

The U.S. Alliance for Trade Expansion (nick-named "US-Trade") is a broad-based coalition of U.S. agriculture, consumer, manufacturing, retailing and service organizations promoting the benefits of the WTO and a rules-based trading system. US-Trade was formed earlier this year to build public awareness of the benefits of international trade and a rules-based multilateral trading system. Its agenda includes Congressional outreach, public events and communications efforts around the United States, as well as outreach to the international community. More than 220 organizations are currently members of US-Trade.

In addition to the broad coalitions, IDFA has actively worked in concert with other U.S. dairy organizations to develop, as much as possible, common views within the dairy sector on the priorities and objectives for the next round. A common position paper endorsed by five U.S. dairy organizations was submitted to the Administration in July of this year. Most priorities are endorsed equally by dairy producers and processors alike. Our greatest foes are dairy industries in foreign countries which benefit from, and seek perpetuation of, subsidies and trade barriers.

THE NEGOTIATING PROCESS: DURATION, SCOPE, STRUCTURE OF THE NEGOTIATIONS

Duration. Strong international support appears to exist for a 3-year deadline for the upcoming round of negotiations. IDFA supports this timetable, which we believe is both necessary and achievable. A 3-year deadline is necessary to generate and sustain strong support from the private sector. Businesses cannot be expected to set a high priority on a slow negotiating process ending 6 or 8, or possibly more, years from now. A long, drawn out negotiating process will not generate the commitment and enthusiasm from the private sector that is needed for successful U.S. leadership.

Furthermore, a 3-year deadline is achievable because the framework for further negotiations has already been established in the Uruguay Round Agreements. Some skeptics say that agricultural discussions are always politically difficult and likely to drag on and languish to the eleventh hour. However, in this case, we are starting with a strong framework already in place, and preparatory steps are being taken in advance of the launch of negotiations. Furthermore, the expiration of the "peace clause" (scheduled to expire at the beginning of 2004 under current WTO rules) should provide further incentive for concluding the agricultural discussions by 2003.

Scope. IDFA strongly supports the upcoming round to be a broad-based negotiation including the built-in agenda (agriculture and services), industrial or non-agricultural market access, plus any other subject which offers the likelihood of producing agreement within the 3-year negotiating period. Within the scope of agricultural negotiations, we support comprehensive coverage of all commodities and sectors, and all countries. There should be no exceptions from coverage, rules or disciplines. With respect to issues beyond agriculture, services, and industrial market access, sectors outside of agriculture, we welcome discussions on any subject that moves multilateral rules and disciplines towards open markets, provided that the subject offers realistic prospects for consensus within the 3-year period. Subjects that are not yet ripe for serious international negotiations within this timeframe should not be added to the agenda, as they will jeopardize our ability to achieve success. The challenge, of course, is being able to identify the ideal mix of subjects that

will provide a balance of vested interests and provide the necessary critical mass for a strong package of results.

Structure. As do most members of the U.S. food and agricultural community, IDFA supports a negotiating process which concludes with a single undertaking, not ad hoc or sector-by-sector agreements. This is extremely important for meaningful results in the agricultural area, as WTO members with very high agricultural support and protection (such as the European Union) will likely need to obtain concessions in other (non-agricultural) areas to balance the concessions they must make in agricultural reform. Segregating issues or finalizing agreement on certain issues ahead of others would lose the leverage and balance we will need for a successful comprehensive result. Moreover, if we commit to a reasonably short period of negotiation, such as 3 years, then no one sector or subject would need to wait an unreasonable period of time for implementation through a single undertaking.

EXPORT SUBSIDIES MUST BE ELIMINATED AND PROHIBITED

Elimination and prohibition of all agricultural export subsidies is our single highest priority for this next negotiating round. Export subsidies artificially distort world market prices and rob market share away from more efficient producers. This is particularly true in the dairy sector, where the extensive export subsidies of the European Union have enabled its dairy products to capture over 40% of world dairy trade. Without export subsidies, world market dairy prices would be higher and more efficient dairy producers, including the U.S. dairy industry, would enjoy a higher share of international markets.

Although the WTO Agriculture Agreement provides important new limits on agricultural export subsidies, the permissiveness of export subsidies in the agricultural sector—as opposed to the prohibition on export subsidies in the non-agricultural area—is no longer justified. Export subsidies for any product, agricultural or non-agricultural, should be prohibited. We strongly urge the adoption of WTO rules to eliminate all export subsidies within 5 years of the Uruguay Round commitments. After that, there should be no differentiation between rules on agricultural export subsidies and non-agricultural export subsidies.

Moreover, it is important that the next schedule for elimination of export subsidies be rigorous, providing for continuous, progressive reductions. Therefore, we propose elimination of the current rules which authorize carryforward, swing, or rollover of unused export subsidies from one year to the next. These rules allow countries such as the European Union to perpetuate and even increase export subsidies through creative management schemes. We need to ensure that all WTO countries are consistently reducing export subsidies over time.

TRADE-DISTORTING DOMESTIC SUPPORTS SHOULD BE CONTINUALLY REDUCED AND ELIMINATED

With respect to the agricultural rules on domestic support, IDFA supports continued reduction and eventual elimination of all trade-distorting domestic supports, including elimination of the “blue box.” Domestic support policies which artificially stimulate or restrict production, or ensure inefficient production, can have significant effects on international market conditions. Without equally strong WTO rules on domestic support as on export subsidies, some of our foreign competitors would likely just shift their policy instruments and continue to impose distortions on world market conditions. With elimination of the U.S. dairy price support program already part of U.S. law, the U.S. dairy industry only stands to gain from further reductions and disciplines on foreign support programs.

Moreover, with respect to the existing “peace clause,” that insulates certain subsidy programs from countermeasures, we support its scheduled expiration at the end of 2003 and non-renewal.

SUBSTANTIAL MARKET-OPENING COMMITMENTS MUST BE ACHIEVED

Elimination of trade-distorting practices such as subsidies affects competition for sales, but does not open specific markets which are protected by tariff or non-tariff barriers. Consequently, we must also achieve substantial new commitments on market access.

Of particular concern in the dairy sector are the extremely high tariffs in certain countries—which are in some cases a consequence of the tariffication of import quotas at the conclusion of the Uruguay Round. Greater harmonization and reduction of these high tariffs are necessary at an early stage, in order to close the huge gaps among different countries’ levels of protection. However, achieving a fair and commercially meaningful result will require a multi-faceted approach.

IDFA supports a formula approach for the tariff negotiations, rather than a request-and-offer approach which enables high peaks in protection to be traded off the negotiating table. We do not recommend, however, a simple, uniform percentage cut for all products and all countries. For example, reducing a 200% tariff in half to 100% is not the same as reducing a 10% tariff in half to 5%. The first example may cut the tariff in half, but does not provide any meaningful access in economic terms. Complete tariff elimination on all products for all countries, of course, would solve this problem. For this reason, IDFA supports the eventual elimination of all tariffs.

Recognizing that there are different ways to work towards eventual elimination of all tariffs (including elimination of tariff-rate quotas), several approaches are worthy of support in the agricultural tariff negotiations.

First, we urge the immediate elimination of all in-quota or lower-tier tariffs on products subject to tariff-rate quotas. This should be easy to achieve, as after all, the true means of border protection for products subject to tariff-rate quotas is through the over-quota tariff.

Second, we urge substantial, rapid reduction of high tariffs (including over-quota tariffs) towards a more harmonized level, to be followed by progressive reduction aimed at eventual elimination of all tariffs. We suggest that these tariff reductions be implemented by means of a harmonizing formula cut (i.e., higher tariff rates would be required to be cut at faster rates than lower tariff rates), rather than a simple formula that applies the same percentage cut across the board. A more complex (harmonizing) formula approach would be fairer to those countries whose markets are already less protected, and reduce the degree of inequities and gaps in current regimes.

Third, we urge the elimination of special safeguard duties, which are unduly complicated and only provide additional layers of protection.

Fourth, we urge the simplification of tariffs and tariff-rate quotas by converting all specific tariff rates and combination tariff rates to straight ad valorem rates. Dairy tariffs consist of a wide array of both specific (i.e., a certain number of cents or dollars per unit volume) and ad valorem (i.e., a certain percentage of the import value) rates with many products consisting of a combination of both at the same time. This complexity decreases transparency and makes it particularly difficult for businesses to assess the true size and economic value of the tariff barrier. Marketing and commercial decisions become unnecessarily complicated. Both transparency and access would be improved by tariff simplification.

Finally, we urge the promulgation of stricter obligations to administer tariff-rate quotas (while they continue to exist), in a manner that actually provides effective and commercially realistic market access. This means the elimination of burdensome or commercially unmeaningful requirements, such as some of the EU rules on import licensing procedures for in-quota shipments.

MARKET ACCESS MUST NOT BE UNDERMINED BY NON-TARIFF BARRIERS

Market access does not mean only tariff barriers. Nontariff barriers to trade must also be eliminated. Reducing or eliminating tariffs will be of little value if non-tariff barriers impede meaningful opportunities to sell in foreign markets. Of particular concern is the increasing use of labeling requirements and sanitary regulations to impose restrictions which are not related to legitimate health and safety concerns. The basic principles of the WTO Agreement on Sanitary and Phytosanitary Measures which insist on sound science and risk assessment should be effectively upheld and enforced. Burdensome and unjustified labeling requirements or other technical barriers, whether aimed at genetically modified organisms or country-of-origin attributes, must be prohibited. Technical barriers to trade threaten to be increasingly used as tools of protectionism as tariff barriers move towards elimination. We must ensure that WTO rules and enforcement mechanisms do not allow the instruments of protectionism simply to shift from one form to another.

INCREASED TRANSPARENCY AND DISCIPLINES ON STATE TRADING ENTERPRISES SHOULD BE PURSUED

On the subject of state trading enterprises (STE), the dairy industry supports strengthened disciplines in the WTO, including transparency rules, to ensure that import STE's do not inhibit market access and that export STE's do not engage in trade-distorting practices. With deregulation of state sanctioned single-desk monopolies in the dairy industry occurring in some important dairy-producing countries, the STE issue is important but perhaps less pressing than some of the other priorities for the dairy industry.

DOMESTIC DAIRY POLICY REFORMS

Finally, we wish to emphasize the need to tread carefully on any domestic agricultural policy reforms during this time. Some of our trading partners—particularly the European Union—have little interest in further opening agricultural markets as part of this next round of trade talks. Moves on the part of the U.S. Congress to reverse recently-announced reforms in milk marketing orders or to increase domestic milk prices are likely to be cited as hypocritical actions by the United States, inconsistent with the direction we are urging upon other countries. We should not give these foreign countries any more ammunition or excuse for shooting down ambitious reforms in the agricultural negotiations. IDFA urges Senators not to support counterproductive legislative proposals on the eve of launching such important international negotiations.

CONCLUSION

IDFA commends this Committee for its continuing interest in trade policy and in expanding opportunities for U.S. exports. We appreciate your interest in our views, and ensuring that our views are taken into account by the Administration as well. If the United States is to be successful in achieving substantial benefits in this next round of trade negotiations, there must be a strong consensus—bipartisan, bicameral, and across the executive and legislative branches—as to what our principal objectives are. A strong signal of support would, of course, be reflected in renewal of “fast track” trade negotiating authority. Absent such legislative action, a public process of identifying broad support for common objectives would enhance U.S. credibility at the negotiating table. We believe such unity is both possible and necessary.

The success of the next round of WTO negotiations, especially on agriculture, depends on strong U.S. leadership. The world trading community must believe that the United States is seriously and strongly committed to a multilateral trading regime that is comprehensive, effective, and market-oriented.

Thank you for the opportunity to appear before you today.

 PREPARED STATEMENT OF AUGUST SCHUMACHER, JR.

Mr. Chairman, members of the Committee, I am pleased to appear before the Subcommittee with Ambassador Scher and Under Secretary Aaron to discuss the new round of multilateral trade negotiations on agriculture under the World Trade Organization (WTO).

Importance of Trade to U.S. Agriculture:

These are very difficult times for our farmers and ranchers. Nearly four straight years of record production worldwide, which has not happened since World War II; financial problems in Asia, Russia and elsewhere contributed to depressed commodity prices. In some cases, prices have fallen to 30-year lows. The anguish and doubt among farmers in the United States is as great as I have seen during my time as Under Secretary. I know each of you faces similar problems with your own farmers and ranchers.

The key lesson from the last four years is the critical significance of trade to our farm economy. Although boosting exports will not happen overnight and we cannot export our way out of today's crisis, we must look to overseas markets for the long term. Agriculture is already more reliant on exports than other sectors of the economy as a whole. This reliance is projected to grow.

Accordingly, we need an open and fair trading system and reliable markets. Do not take my word for it, look at the facts. The true test came in late 1997 and 1998 when 40 percent of the economies in the rest of the world stumbled badly. We are not out of the woods yet, but we are seeing positive signs in Japan, South Korea, and Southeast Asia. As a result, the Department of Agriculture (USDA) is forecasting a slight increase in U.S. agricultural exports in fiscal year 2000—to \$50 billion. Although prices and export value are lower than the past few years, volume level have increased significantly during that same time—by at least 12 percent—and are forecast to increase by half that amount in fiscal year 2000.

U.S. Goals for Agriculture:

In his last State of the Union address, President Clinton called on all the nations of the world to tear down barriers, open markets, and expand trade; he said “we must ensure that ordinary citizens in all countries actually benefit from trade.”

Nowhere is this more important than in agriculture. That is why the United States has developed a bold agricultural agenda for the next round of WTO negotiations that includes:

- The elimination of export subsidies, which make for unfair trading practices and depress world commodity prices;
- Further reduction of worldwide tariffs, which average about 50 percent on agricultural goods in other parts of the world as compared to about 8 percent in the United States;
- The expansion of market access under tariff-rate quotas (TRQs);
- Developing disciplines on State Trading Enterprises (STEs) so that their operations do not distort trade;
- The facilitation of trade in products of biotechnology; and
- Opposing the opening of the Sanitary and Phytosanitary (SPS) Agreement to ensure the continued effectiveness of the rules governing SPS measures, so that regulations are based on scientific data and analysis and nations cannot mask protectionism behind un-validated, secretive studies.

Since we first outlined these goals, we at USDA have sought advice and ideas from all segments of our agricultural industry through 12 listening sessions as we develop our U.S. agricultural trade policy goals for the next round. During those sessions more than 400 farmers and ranchers submitted testimony, and about 2,000 citizens attended. We came away from those meetings with a strong sense of commitment from the U.S. agricultural community to move forward toward a more open and fair trading environment.

USTR and USDA continue to work through the Agricultural Policy Advisory Committee and the five Agricultural Technical Advisory Committees for Trade to gather advice on the U.S. negotiating strategy. We will continue to meet in Washington, DC with all six committees leading into the Seattle ministerial in November. I am pleased to report that we are engaged in a full interagency effort—Commerce, State, Labor, Treasury, and other cabinet agencies are well steeped in the efforts to pursue America's agricultural agenda.

As we plan our negotiating strategy, we also are consulting with other countries. In August, the Secretary traveled to Argentina to attend the Cairns Group meetings in Buenos Aires. Earlier this week, the Secretary and others from USDA met with the agricultural ministers of Canada, the European Union (EU), Australia, and Japan as part of the Quint Group in Montreal, Canada, to exchange ideas and their perspectives on the next round. While we have many allies in our quest for freer and fairer world agricultural trade, there is, of course, considerable opposition. There are powerful voices who see agricultural trade not as a win-win situation, but as a zero-sum game where the exporter wins and the importer loses.

Both the U.S. and Chinese economies will benefit if the most populous country in the world participates in the new round. China's accession to the WTO would hasten its integration into the world economy and complement our efforts to maintain stability in the Pacific by linking China's economy more closely with the rest of the world's.

A sound agreement with China will open Chinese agricultural markets to U.S. exporters, strengthen the world trade system, and give U.S. farmers and other agricultural interests stronger protection against unfair trade practices and import surges. The principles of the WTO—transparency, fair trade practices, peaceful settlement of disputes, the rule of law—are those we hope to advance in China and worldwide.

Our trade relationship with the EU illustrates the need for the agricultural reforms that I mentioned before. Earlier this year, in its Agenda 2000 proposal, the EU retreated from fundamental reform of its domestic agricultural policies. These policies have invariably led to the continued use of export subsidies and domestic support programs that distort world prices and agricultural trade. Other countries have also called on the EU to restructure its farm policies—in particular to eliminate EU export subsidies. The Cairns Group has joined us in calling for the elimination of export subsidies.

The EU has yet to comply with WTO rulings on lifting the ban on imports of U.S. beef from hormone-treated cattle and on its banana import regime. It is important for the integrity of the system that all WTO members, including the EU, honor their international obligations.

In biotechnology, the EU's slow pace, indecision, and failure to develop a consistent, science-based approval process have disrupted trade and threaten to constrain innovation in one of the most promising new technologies for ensuring future global food security. Under the rule-based system of the relevant WTO agreements, countries must base their policies on science. To do otherwise will lead to trade chaos and thwart progress for agricultural issues in the next round.

Conclusion:

Mr. Chairman, everyone in this room knows the importance of trade to U.S. agriculture. In the recent past, we've been sobered by a global financial crisis that has devastated many of the emerging Asian economies, as well as impacted Japan, and softened demand in Russia. While we are seeing some strengthening in the Asian economies, we continue to face global oversupply of many commodities that has sent prices plunging to their lowest levels in years. We have learned that our farmers cannot rely entirely on trade as their only safety net, but we must continue our efforts to reform world agricultural trade so the have new, more open markets and a level playing field.

As President Clinton said earlier this year in Chicago:

"We ought to continue to expand trade. We ought to enforce our agreements more vigorously. But I do not believe that a country with 4.5 percent of the world's people can maintain its standard of living if we don't have more customers."

To realize the potential of the global marketplace, we have a lot of work ahead of us. We must construct a world trading system where every producer gets a fair shake and where all products, goods and services are traded freely across oceans and continents.

In the next round of WTO negotiations agricultural trade will be the focal point, and we will be working hard to help American agriculture maintain and expand our export markets overseas.

Mr. Chairman, that concludes my statement. I would be happy to answer any questions the committee may have.

PREPARED STATEMENT OF LYN WITHEY

Mr. Chairman, Members of the Committee:

I am Lyn Withey, Vice President for Public Affairs of International Paper Company, and I am pleased to be here today representing the American Forest and Paper Association. I also Chair the Industry Sector Advisory Committee (ISAC) on Wood Products.

The U. S. forest products industry accounts for \$230 billion in annual sales and employs 1.5 million American workers. The U.S. forest products industry is one of the top ten manufacturing employers in 46 states. Wood and paper products are essential elements of our way of life and are derived from a renewable resource, which the U.S. forest products industry is committed to managing on a sustainable basis.

Our industry brings both an agricultural and a manufacturing industry perspective to the trade debate at the World Trade Organization (WTO) Ministerial meeting in Seattle. For too many years, the U.S. market has provided an open door to our foreign competitors, while U.S. producers have had to scale high tariff walls and other barriers to compete in foreign markets. We believe the WTO meeting represents the last opportunity to level the competitive field for our products.

We have spent nearly a decade trying to level the global field for our products, beginning with the zero-for-zero tariff initiative in the Uruguay Round, which was only partially successful. Japan blocked an agreement in wood products, and Europe delayed the phase-out on paper tariffs for ten years. These actions provided another decade of protection to some of our strongest competitors in global markets.

As a consequence, we have seen the global trade balance in the forest products sector decline since the conclusion of the Uruguay Round. In 1994, U.S. imports of forest products exceeded exports by \$2.9 billion; in 1998, the trade deficit in the forest products sector more than tripled to \$9.4 billion.

In the solid wood segment, U.S. exports have dropped 20 percent since 1994, while foreign imports have increased 33 percent. In total, between 1994 and 1998, the trade deficit in the wood sector jumped from \$2.9 billion to \$7.5 billion. The first six months of 1999 saw a continuation of this trend with imported wood products up 18% and exports from the U.S. up just 2% from 1998 levels.

On the paper side, global production of paper and paperboard has increased about 12 percent since 1994, while U.S. production has increased just 6 percent. The U.S. share of world production of paper and paperboard has declined from 30.1 percent to 28.5 percent. On a tonnage basis, U.S. exports of pulp, paper and paperboard grew 8.6 percent from 1994-1998, but dropped 9.3 percent in 1997-98, while imports increased 12 percent.

Over the same time period, we have seen explosive growth in forest product capacity in emerging economies like Indonesia, China, Korea, and Brazil. They may claim to be developing economies, but the forest products capacity they are building is world-class. The situation has become more acute in the last two years as a consequence of the Asian financial crisis. As Asian economic growth collapsed, the rapid

buildup in capacity that was anticipated to serve the rapidly growing Asian economies has resulted in increased shipments to the U.S. market. Imports of paper from Indonesia, for example, increased by 1800 percent during 1998. Imports from all Asian countries have increased 73 percent. At the same time, the reduction in demand in Asia, and lack of strong growth in the rest of the world, has resulted in diversions of products from other regions to the U.S. market—European imports are up 12 percent; Canadian imports are up 5.3 percent. In total, U.S. imports of paper and paperboard have increased by more than \$1 billion in 1998, while U.S. exports have declined by \$335 million.

The result has been a significant erosion in prices and profitability for U.S. producers, and consequently a reduction in U.S. production. Since the beginning of 1998, the U.S. forest products industry has indefinitely or permanently shuttered 1.4 million metric tons of market pulp and 2.1 million metric tons of paper and paperboard capacity.

The real significance of these numbers is the effect on U.S. jobs. In 1998, total paper and allied products industry employment declined by 17,800 jobs, or 2.6%—the largest single year decline since 1983. These are higher paying jobs than the manufacturing average and are most often located in rural communities that are heavily dependent on the forest products industry. At an average wage of \$20.41 per hour, paper mill workers earn nearly \$7.00 an hour more than all other private sector production workers, whose average hourly wage is \$13.14.

The tariff reduction initiative for forest products enjoys the active support of our trade unions, including the Paper, Allied-Industrial, Chemical and Energy Workers, also known as PACE; and the United Brotherhood of Carpenters and Joiners of America. Statements from representatives of these unions are attached to my written statement. Let me read you one quote from Robert Watrous, a representative of the Carpenters Union on wood product tariffs: "Imbalanced trade barriers restrict U.S. companies from fair competition in Asian markets and trade reform is crucial. While some Asian nations place tariffs as high as 40% on paper products and 45% on wood products, U.S. tariffs on those goods are at or near zero. Fair and open access to Asian markets is vital to preserve the livelihoods of the 1.6 million men and women working in the wood and paper products industry throughout the United States."

With our natural advantages in abundant fiber supply, developed infrastructure, skilled workforce, capital investments, and world-class operations, we should enjoy a comparative, competitive advantage in world markets for our wood and paper products. However, while the U.S. market has been open to the rest of the world, foreign barriers to our products have significantly eroded our competitive position and threaten the future growth and economic health of this industry.

Future growth opportunities are highest in emerging foreign markets where demand is expected to grow faster than in the more mature markets in the U.S. and Europe. However, if prohibitive market access barriers prevent us from securing a solid market position in the emerging markets of Asia and Latin America in the near future, those markets will be locked up by emerging competitors who are advantaged by unequal terms of trade set by governments.

It is for this reason that we have been so insistent on accelerating and expanding the zero-for-zero reciprocal tariff elimination agreement from the Uruguay Round and why we are so determined to see a global agreement reached at the Seattle Ministerial.

Reaching agreement on an accelerated tariff liberalization initiative for forest products in Seattle is simply completing unfinished business from the Uruguay Round. Congress authorized the Administration to continue pursuing acceleration and expansion of reciprocal tariff elimination in the zero-for-zero sectors as a priority. The Administration has worked with trading partners to advance an Accelerated Tariff Liberalization (ATL) package for 8 sectors—including forest products—first in the APEC forum and now through the WTO. The ATL proposal for forest products would eliminate tariffs on paper products between 2000 and 2002 and on wood products between 2002 and 2004.

On a positive note, last month in Auckland, New Zealand, Trade Ministers from the 21 APEC member countries reaffirmed their commitment to concluding a WTO agreement on the ATL initiative this year. The Ministers took a step further—agreeing that implementation of ATL tariff cuts should begin in 2000, with full and final binding as part of a single package at the conclusion of the WTO round. This formulation should help achieve the "critical mass" of support necessary to reach a WTO agreement, since it addresses how ATL will fit into the new Round—a point of concern to our colleagues in the U.S. agricultural community and to Europeans. It would also ensure a strong, continuing interest by affected sectors in achieving a successful final agreement which meets key U.S. negotiating objectives.

With the U.S. trade deficit continuing to climb, along with public anxiety about the impact of trade deficits on U.S. jobs, an agreement in Seattle on the ATL sectors could produce a significant boost in U.S. export earnings and could show tangible evidence of the value of lowering foreign trade barriers. A recent Commerce Department study found that the eight ATL sectors currently account for \$197 billion or 29% of U.S. exports and support 2.2 million American jobs.

We remain concerned, however, by reports that Japan continues to hedge its position on ATL, and has, in fact, tabled a proposal at the WTO to remove forest products (and fisheries) from the industrial tariff agenda altogether. Continued Japanese opposition to a sectoral trade liberalization agreement this year could end up scuttling this major U.S. initiative and rob the U.S. of an important success story in Seattle. The Japanese may be counting on hiding behind the Europeans, but we are hopeful that with the mounting support in the European business community for the ATL package, Japan will be isolated in their opposition.

We simply must not allow Japan and Europe to continue to defer results in sectors like forest products, where there is strong global competition. Both Europe and Japan have well developed forest products industries and world-class production is being built in emerging countries.

The WTO must demonstrate that it is capable of continuous progress in eliminating barriers to trade. The most tangible demonstration of that capability would be to conclude an ATL agreement at the Ministerial, which would produce immediate benefits for producers and consumers around the world in these eight sectors. That would serve as a model and provide some important momentum for the launch of a new round of trade liberalization negotiations.

Conversely, failure to conclude the ATL agreement in Seattle could lead to further loss of growth opportunities in important sectors of the U.S. economy and further erosion in public support for efforts to achieve a more open world trading system.

The zero-for-zero tariff initiative was a significant break with traditional negotiating patterns of the past. Similarly, we believe the ATL, like the Information Technology Agreement (ITA), represents a significant opportunity to advance the pace of global trade liberalization, in keeping with today's accelerating pace of business globalization. We hope, Mr. Chairman, that you and your colleagues will lend your support to this important initiative.

**Statement Submitted By
Tom Isle
Great Lakes Director
Pulp and Paperworkers Resource Council
Before the International Trade Commission
May 26, 1999**

This evening officers were called to the scene of an apparent suicide. A 31 year old mill worker, facing the prospects of unemployment, sat down on the couch in the family room of his mobile trailer, put a nine millimeter gun to his chest and pulled the trigger. He leaves behind a wife and three children. Officials say the mill where he works is shutting down next week.

Ladies and gentleman this might sound like a harsh way to start out a presentation but it is a part of the reality that ignited the need for the Pulp and Paperworkers Resource Council. (PPRC)

You see, the PPRC was started out of desperation. Our industry was losing thousands of jobs in the Pacific Northwest because of an endangered species act. And scenes like the one I just described were happening far too often.

Knowing that there is power in numbers, a group of labor folks got together and formed a grassroots/lobbying group called the Pulp and Paperworkers Resource Council. This group consists mostly of people from the plant floor, union and nonunion wood and paperworkers. We are 370,000 strong.

The PPRC'S Purpose Statement reads:

TO ESTABLISH A GRASSROOTS COALITION CONCERNED WITH FIBER SUPPLY, FOREST PRACTICES, THE ENDANGERED SPECIES ACT, AND OUR ENVIRONMENT, IN A WAY THAT PROMOTES KNOWLEDGE AND POLITICAL ACTIVISM, SO WE MAY INFLUENCE LEGISLATION THAT AFFECTS OUR JOBS.

Our motto is "Seeking a Balance." And that's what we have tried to do.

It's been said that disasters or challenges come in threes.

The PPRC's first challenge, in seeking a balance, came during the out set of the forest wars on the West Coast. As you can see from this map thousands' of people have lost their jobs and in some cases whole towns have been shut down. Many of our people have been hurt in this process.

As a means of protecting our livelihoods, our people geared up and became involved in these forest issues. In many cases they found a balance could be reached. But almost always it meant a higher cost for us to make our products.

The PPRC's next challenge came in the form of the Cluster Rule. The Cluster Rule is a collection of air and water regulations that are required of our industry.

The original projections were that the Cluster Rule would cost somewhere around 11.5 billion dollars and would have shut down approximately 33 mills costing us 21,500 jobs.

For the PPRC the Cluster Rule as written was not acceptable. During this time we merged with other paper industry groups in seeking to find that balance. Although we were successful in achieving a balance it still carried with it a hefty price tag (an estimated 3 billion dollars) once again driving the price of our product higher.

This leads us to the third challenge, the dilemma we are in today, the imbalance of trade. Our concern for the environment and the need to seek a balance on environment issues has made our products no longer competitive. We are losing jobs and factories all over the U.S. because we are trying to do what is right with the environment. For example in my home state of Minnesota, fourth quarter figures show a 3.6 % decline in the export paper & allied products and a whopping 25% decline in lumber and wood. It's like we're playing against a stacked deck.

We believe there are three issues that need to be dealt with in order to level the playing field for the American worker.

1. Other countries reduce their tariffs on our goods to zero. While working Americans support free trade and the global economy, international

agreements must be drafted in a fair and equitable manner and include provisions that will protect our jobs.

2. Subsidization. We can not compete when public money is used to finance new operations. (Interest free loans, timber concessions, etc.)
3. Artificial devaluation of currency. How can we compete when there is a 30% rate of exchange just across the border? We can't-- it's impossible. This is not fair or free trade.

In conclusion, the PPRC believes that something must be done to relieve these trade imbalance issues or we are guaranteed to lose thousands of more good paying family jobs. We must prevent the rest of our nation from being added to that map I showed you of the Pacific Northwest.

Abraham Lincoln once said:

*Labor is prior to, and independent of, capital.
Capital is only the fruit of labor and could never
have existed if labor had not first existed.*

As you make your decision, please help us keep our good paying labor jobs.

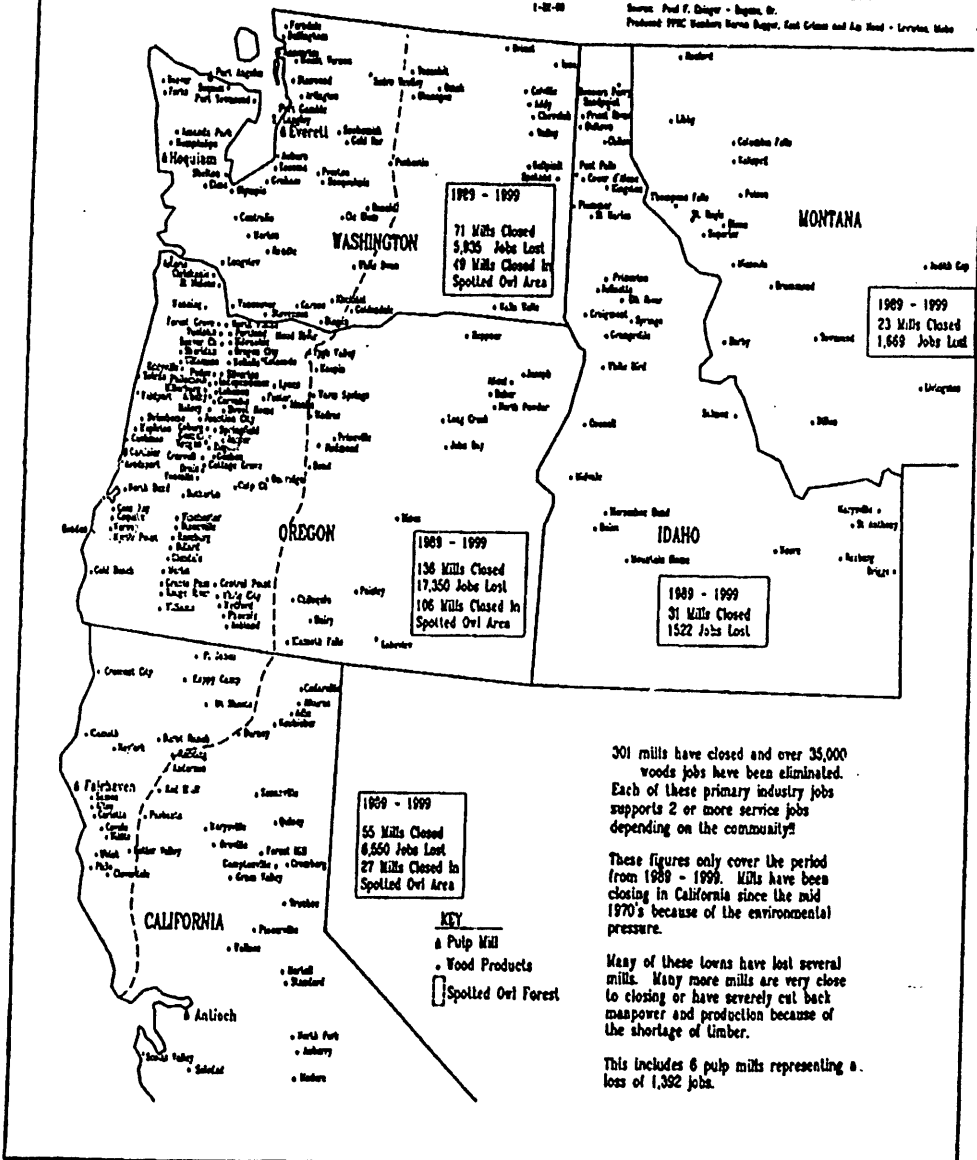
Thank You.

Tom Isle
Great Lakes Director
Pulp and Paperworkers Resource Council
1801 Mill Ave
Brainerd, MN 56401
218-828-5134
trisle@potlatchcorp.com

MILL CLOSURES 1989 - 1999

1-31-00

Source: Paul F. Gieger - Eugene, Or.
 Prepared: PWC, Washburn Burns, Sawyer, Kent, Colman and Ag. Head - Lewiston, Maine



301 mills have closed and over 35,000 woods jobs have been eliminated. Each of these primary industry jobs supports 2 or more service jobs depending on the community!

These figures only cover the period from 1989 - 1999. Mills have been closing in California since the mid 1970's because of the environmental pressure.

Many of these towns have lost several mills. Many more mills are very close to closing or have severely cut back manpower and production because of the shortage of timber.

This includes 6 pulp mills representing a loss of 1,392 jobs.

**STATEMENT SUBMITTED BY
ROBERT WATROUS
UNITED BROTHERHOOD OF CARPENTERS AND
JOINERS OF AMERICA
BEFORE THE INTERNATIONAL TRADE COMMISSION
MAY 26, 1999**

Good afternoon, my name is Bob Watrous and I am a member of the United Brotherhood of Carpenters and Joiners of America in Camas, WA. On behalf of the Carpenters Union, I would like to thank the International Trade Commission, Commissioners and Staff for the opportunity to be here today and share with you the impacts that international trade policy has on American workers in the forest products industry.

The United Brotherhood of Carpenters and Joiners of America represents carpenters, lumber and sawmill workers, and pulp and paperworkers throughout the country. From skyscrapers to office buildings, schools to the homes where our families reside, our carpenters literally build America, while our forest products workers produce the raw materials and paper products businesses and households around the globe use daily.

I am a member of the Association of Western Pulp and Paperworkers, the forest products division of the Carpenters Union. For the last 27 years, I have been employed by the Fort James Corporation in Camas, WA, and am currently a shift electrician. Fort James is the largest tissue manufacturer in North America, supplying consumers with facial and bath tissue, paper towels, napkins, and plates and cups for the kitchen. We produce household brands such as Brawny, Quilted Northern and Dixie.

As a forest products worker, I make a living wage and am able to support my family. The forest products industry not only provides living wage jobs for families like mine, but also provides a strong economic base for local communities. In my home state of Washington, our industry is the largest manufacturing sector in the state, employing 49,650 workers, which is 14.7% of the total manufacturing workforce. The industry also produces an annual payroll income of \$1.6 billion.

Washington's lumber and wood products sector is one of the most productive in the world. But, as you have heard before you here today, our industry is struggling to adjust to the grim reality of foreign competitiveness and

my fellow workers and myself are increasingly concerned with our ability to compete in international markets. We face a competitive disadvantage in international markets due to restraints on timber supply, environmental regulations and restrictions on market access around the globe.

For the last decade, forest products workers throughout the country have been living through a crisis in the woods. In the early 1990s, my home--the Pacific Northwest--became the battleground for federal land management policies. The Clinton Administration placed severe restrictions on timber harvesting and set 75% of our national forests off-limits to logging. This brought over 300 of our mills to a screeching halt. When those mills closed, over 35,000 of my union brothers and sisters were thrown out of their jobs.

Our industry continues to face restraints on supply, and while government officials restrict public lands, regulators are now turning their attention toward restricting production on private lands. Our employers operate under the strictest environmental mandates in the world and compliance costs are tremendous. The forest products industry is dedicated to environmental protections and as workers, we are proud to be able to share this strong commitment with our employers in order to secure a safe and healthy environment for future generations. But it is virtually impossible for our mills to compete against foreign nations that do not comply with *any* environmental standards. This is another factor that gives our competitors an unfair edge.

American workers are the first to feel the adverse effects from unfair trade policies. In recent years, United States' trade agreements have been accompanied by rising trade deficits, the loss of good jobs in the manufacturing sector, stagnating or falling wages for the majority of the workforce and decreasing job security. Currently, we are watching mass lay-offs in mills in Bellingham, Washington, and in Gardiner, Oregon.

Forest products workers from the Pacific Northwest are also witnessing an oversupply of raw logs because of the Asian crisis. Our industry is facing a barrage of foreign imports from competitors who are "dumping" resources into American markets in order to ease their economic woes. A flood of foreign wood, much of which has been illegally dumped into the American market, is threatening the jobs of hundreds of thousands of forest products workers.

Over the last year, the Carpenters Union has been concerned with the trade imbalances and the ongoing cooperative agreements between the United States and Asia, including the Asia-Pacific Economic Cooperation negotiations. Asian companies rank among our largest competitors in the forest products industry and are growing vigorously. Much of that growth is occurring right here in the U.S. market, while our own exports to Asia are shrinking dramatically.

**STATEMENT SUBMITTED BY
KEITH ROMIG
COMMUNICATIONS DIRECTOR
PACE INTERNATIONAL UNION (PAPER, ALLIED-
INDUSTRIAL, CHEMICAL, AND ENERGY WORKERS)
BEFORE THE INTERNATIONAL TRADE COMMISSION
MAY 26, 1999**

Good morning, my name is Keith Romig and I am the Communications Director for PACE International Union, also known as the Paper, Allied-Industrial, Chemical and Energy Workers. I would like to thank the International Trade Commission, Commissioners and staff for inviting me here today. On behalf of our members and tens of thousands of other workers in related industries, I wish to express our thoughts and concerns regarding the United States' international trade policy in the global economy.

PACE International Union represents over 320,000 workers nationwide including 160,000 pulp and paperworkers in the forest products industry. In addition to pulp and paper, our members refine oil, and make chemical products, nuclear materials, pharmaceuticals, cement, gypsum, cardboard, tissues, boxes, auto and truck parts, small engines, household appliances, toys, corn sugar, and many other products. Even so, most of my comments today, and all of my concrete examples, will be taken from the pulp and paper industry.

PACE members manufacture the paper and paper products sold to citizens throughout the world and used on a daily basis. PACE cannot support free trade unless it is fair trade—based on fair and equitable agreements between the U.S. and competing nations. The economic well-being of our families and communities, and our country, relies on fair trade. Unfair trade barriers prevent America's industries from reaching their full potential and hamper our ability to sell our products across the world, directly impacting American workers.

Imbalanced trade barriers restrict U.S. companies from fair competition in Asian markets and trade reform is crucial. While some Asian nations place tariffs as high as 40% on paper products and 45% on wood products, U.S. tariffs on those goods are at or near zero. Fair and open access to Asian markets is vital to preserve the livelihoods of the 1.6 million men and women working in the wood and paper products industry throughout the United States.

The Carpenters Union applauds the Clinton Administration and USTR Charlene Barshefsky's efforts last year to eliminate forest products tariffs, but the U.S. must stand firm and continue to demand tariff reductions. Future negotiations must work toward a greater overall balance. We urge the governments to support liberalization of global tariffs on wood and paper products this fall at the WTO ministerial in Seattle.

American workers support free trade agreements that construct and enforce international rules, encouraging the best kind of competition. But we cannot afford to trade our interests away—the livelihoods of American workers are non-negotiable. Americans cannot compete if the rules of international trade are unfair or if our trade laws are being violated without sanctions. We need to outline our priorities during trade negotiations and elevate the importance of U.S. industry and our workers.

Working Americans built this country into what it is today. We are proud people. We are highly competitive and want to compete in the global market, but the same rules must apply to all players. Our economy is strong and the demand for our products, high. Let's create an even playing field for Americans, so we can sell our products around the globe and bring home the benefits to our nation, our hometown communities and our workers.

On behalf of the working men and women of the Carpenters Union, I thank you for listening to our concerns regarding international trade.

Before getting into specifics on tariff barriers and related issues in the pulp and paper industry, I want to say a word about labor and environmental standards as they relate to global trade. Even in a regime of fair tariffs, the playing field cannot be truly level if sweatshop conditions, barbarously low pay, and lax environmental standards and enforcement exist. It can be substantially more expensive to produce goods here, rather than abroad. We must not promote de-industrialization here at the expense of human misery and environmental degradation elsewhere.

PACE members in the forest products industry are concerned with the impacts of international trade agreements on that industry. Many nations use high tariff walls to expand their paper and wood production for export, while the U.S. has virtually no tariffs on wood and paper products.

Over the last two years, we have felt the reverberations from the financial turmoil overseas. The Asian crisis has taken a heavy toll on the U.S. paper industry. Because in large part of products from Asia being sold here at prices marked in depreciated currency, our trade deficit in paper and paperboard rose by two million tons in 1998. The contraction of markets in Asia, combined with the unfair tariffs, stunted our exports and left producers there nowhere else to sell. U.S. pulp and paper exports declined 7.2% last year and imports jumped by 7.6%, causing several permanent mill shutdowns.

For us, this has meant thousands of members, many of whom live in small towns and rural locations where there is no prospect of comparable employment, being thrown out of work. In percentage terms, mill jobs declined 5.4% between mid-1997 and early 1999.

Imbalanced trade tariffs are one more nail in the coffin. They dampen this industry's future prospects for growth and success. Trade inequalities are causing a recession in the pulp and paper industry in spite of the overall success of the U.S. economy. In fact, last year was the first year since 1985 that U.S. paper and paperboard production failed to expand, remaining flat at 94.7 million tons.

My colleagues and I are here today to put a human face on all of the import and export statistics. If U.S. industries are unable to compete in the global paper market, the impact will resonate directly to American workers, families and communities.

The forest product industry is facing a crisis, and unfair trade policies only intensify the problem. Over the last decade, public policy decisions to restrict access to fiber supply and implement severe regulations have wreaked havoc on workers in the industry. Since 1989, over 300 manufacturing mills closed, sending over 35,000 forest product workers to the unemployment line.

There is no doubt that our industry is proud of the role it has played in achieving environmental standards and PACE has been working for years to ensure a safe and

healthy environment for all Americans. But with public policy restrictions and strong environmental regulations coupled with lopsided trade agreements, there is no way we can compete with foreign countries that operate in markets with few or no enforced environmental protections, zero effective regulations and non-reciprocal trade tariffs. The imbalanced trade barriers make an already bad situation worse.

Opening international markets to our goods is vital to the U.S. forest products industry, to American workers and to home-town communities that depend on it for jobs and economic vitality. In the free-trade regime that exists today it is essential. American workers are the most productive employees in the world and we can propel our industries to great heights if we are provided with the simple opportunity to compete on a level playing field.

Trade deficits destroy American jobs, depress wages and hinder our competitiveness in the global market. They endanger the long-term health of the U.S. economy. Trade deficits are a part of a larger problem. U.S. workers are watching our government negotiate away our manufacturing industrial base and the high-paying jobs and wages along with it. The U.S. manufacturing sector has lost 272,000 jobs since March 1998, reflecting a large surge in imports

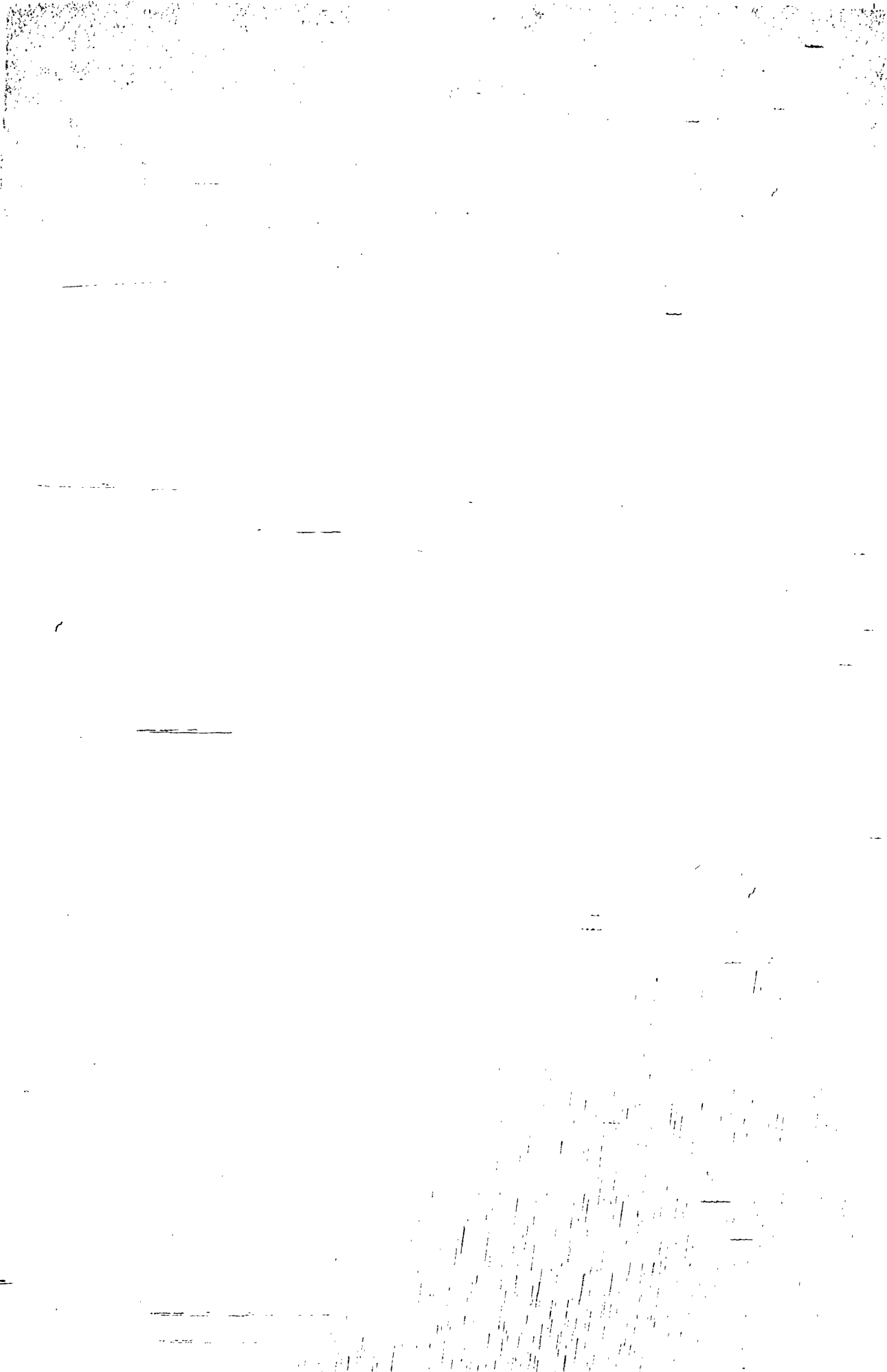
Currently, we are watching our brothers and sisters in the steel industry struggle to survive because of illegal dumping and record-level imports. We are witnessing U.S. trade deficits go through the roof, and are watching American jobs shipped to foreign countries. The time is now to take steps to alleviate this problem in the forest products industry, or we too will be headed toward disaster.

Equitable trade is a basic question of fairness for American workers. Fair and open access to international markets is crucial for our industry's success and for preserving the livelihoods of American workers.

Thank you.

Partial List of Pulp and Paper Mill Shutdowns since January 1997

Kimberly-Clark Corp.	Winslow, Maine	
Kimberly-Clark Corp.	Marinette, Wis.	
Kimberly-Clark Corp.	Mobile, Ala.	September 1999
Smurfit-Stone Container Corp.	Port St. Joe, Fla.	Part-owned by 4M Corp.
Smurfit-Stone Container Corp.	Port Wentworth, Ga.	
Smurfit-Stone Container Corp.	Jacksonville, Fla.	
Smurfit-Stone Container Corp.	Alton, Ill.	
Smurfit-Stone Container Corp.	Circleville, Ohio	
Fort James Corp.	Ashland, Wis.	
Fort James Corp.	Carthage, N.Y.	
Georgia-Pacific Corp.	Port Hudson, La.	Pulp mill only
Georgia-Pacific Corp.	Ashdown, Ark.	Pulp mill only
Donohue, Inc.	Sheldon, Tex.	Pulp mill only, Expected mid-2000
Donohue, Inc.	Lufkin, Tex.	Pulp mill only, Expected mid-2000
International Paper Co.	Gardiner, Ore.	
Belgravia Investment	Pasadena, Tex.	Pulp mill only
Sappi	Westbrook, Me.	Pulp mill and one paper machine



COMMUNICATIONS

STATEMENT OF THE AMERICAN PEANUT COALITION

[SUBMITTED BY RICHARD PASCO]

This statement is submitted on behalf of the American Peanut Coalition (APC) to convey the coalition's views on barriers to agriculture trade, the U.S. government's position on multilateral trade negotiations on agricultural policies under the World Trade Organization (WTO), and the effect of import restraints on the U.S. peanut industry. We believe that the United States can only take advantage of tremendous opportunities to expand its agriculture exports if it pursues a progressive trade policy.

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 Product Manufacturers, Inc.; American Wholesale Marketers Association; Americans for Tax Reform; Bakery, Confectionery, Tobacco Workers, and Grain Millers International Union; Biscuit and Cracker Manufacturers' Association; Chocolate Manufacturers Association; Citizens For a Sound Economy; Competitive Enterprise Institute; Cookie and Snack Bakers Association; Consumer Federation of America; 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; Peanut and Tree Nut Processors Association; Retail Confectioners International; and Snack Food Association.

We appreciate this opportunity to examine barriers to expansion of U.S. agricultural trade. We applaud the International Trade Subcommittee for seeking a complete informational and analytical base for establishing a coherent trade policy position in the upcoming WTO talks that will benefit the entire U.S. food and agriculture sector well into the next century.

APC's 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 well above 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. The market access restrictions and internal support for peanuts cannot be exempted or given special treatment in multilateral trade negotiations. If the United States attempts to maintain special treatment for peanuts, the other countries in the WTO negotiations will extract a heavy price to be borne by other U.S. agricultural sectors, just as Japanese and Korean farmers paid heavily in terms of meat and grains in order to get special treatment for rice in the Uruguay Round.

U.S. PEANUT PRODUCERS CAN COMPETE WITH ANY GROWERS IN THE WORLD

Peanut farming, like other U.S. agricultural operations, has undergone a technological revolution since the Depression era, when the federal government first intervened in the agricultural market. The U.S. peanut industry is well-positioned to compete with any peanut growers in the world, but to be successful, the federal peanut program of domestic production quotas, and tariff-rate quotas need to be reformed to make the peanut program more market-oriented.

RECENT PEANUT CONSUMPTION TRENDS

Food use of peanuts in the United States fell 16% in the five years preceding passage of the 1996 Farm Bill. In contrast, domestic peanut consumption has increased 7.3% in the three peanut marketing years since passage of the farm bill. Unfortunately, significant expansion of consumption has been stymied by USDA-mandated supply shortages. Each year, USDA has set the national peanut production quota too low to meet the increase in demand in an effort to maintain a shortage of peanuts that keeps domestic prices high, but also restricts domestic peanut supplies. The net result is that U.S. peanut products continue to be less price competitive as compared to alternative food products or with peanut products that are imported within the import quota.

THE FEDERAL PEANUT PROGRAM

The federal peanut program consists of a system of production quotas, guaranteed price support loans, and import restrictions. Together, these features fix the domestic price that peanut quota growers receive at well above the world market price. The program mandates by law the limited amount of peanuts that can be grown for domestic consumption, fixes the excessive price that quota holders receive for peanuts, and fixes the quantity of imported peanuts that are eligible for access to the U.S. market.

Expressed in pounds, the quota is assigned to a particular farm. Quota poundage can be rented or sold, but there are restrictions on moving the peanut quota outside the county and state where it is originally assigned. Even though Americans have more freedoms than any other country in the world, the federal peanut program continues to be operated in a feudalistic fashion where some growers are granted privileges denied to others.

The peanut program consists of a two-tier price support system tied to a maximum poundage quota on peanuts grown in the United States. A high guaranteed support price acts as a floor price for domestic edible peanuts. This allows quota growers to place peanuts under nonrecourse loan with the Commodity Credit Corporation (CCC) at this designated support price, and provides these special growers the opportunity to privately contract for the sale of their crop at an even higher market price caused by a government-created shortage of peanuts. Unfortunately, government intervention to set the market price above market clearing levels involves transfers from consumers to producers, and in the case of peanut production, has proven to be a very large income transfer.

NO "FREEDOM TO FARM" PEANUTS IN THE 1996 FARM BILL

Congress moved to "decouple" farm income support from production decisions in the 1996 Farm Bill by replacing farm-subsidy programs with a seven-year series of steadily declining payments to smooth the transition to an open market, and to provide farmers with the flexibility to choose the crops they wish to plant. 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 of the General Agreement on Tariffs and Trade (GATT).

As a result of the 1996 Farm Bill, U.S. farmers have new freedoms to farm almost everything, except peanuts. In contrast, only farmers who own or lease a quota can legally grow peanuts to be sold for domestic edible use.

The Federal Agriculture Improvement and Reform ("FAIR") Act of 1996 continued the peanut program without significant reform. The only modest reform of the peanut program was a 10% reduction in the price support level to \$610 per ton, as compared to the world market price that ranges between \$350 to \$415 per ton. In fact, the peanut program avoided meaningful reform in both the Uruguay Round of the GATT and the 1996 Farm Bill.

Clearly, the peanut program is not market-oriented because U.S. prices are kept higher than world prices, which have resulted in production and consumption inefficiencies. Government intervention to set the market price above market clearing levels results in an income transfer from consumers to producers, and in the case of peanut production, this has proven to be a very large transfer of income. In fact, the continued maintenance of the current peanut program adds over \$300 million annually to consumers' cost of buying peanut products (according to a 1993 General Accounting Office report).

CONSTRAINTS ON U.S. PEANUT PRODUCTION HURT PEANUT EXPORTS

Two of the adverse consequences of the peanut quota system that restrict the production of peanuts each year are 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. Constraints on U.S. peanut production clearly work contrary to American peanut farmers' ability and capacity to grow peanuts for both the domestic and international markets.

In spite of the peanut program, the United States 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 (i.e. "additional" peanuts) are required to be exported or put to non-edible uses. This proves that American grown peanuts can be competitive in export markets, if given the opportunity.

TWO-TIER PEANUT PRICE SUPPORT SYSTEM PRESENTS A TRADE OBSTACLE

The federal peanut program's two-tier pricing mechanism that discriminates between quota producers and non-quota (i.e. "additional growers") presents a stumbling block for U.S. trade negotiators seeking to expand trade for other domestic agriculture commodities.

Quota peanuts are supported by a guaranteed loan rate of \$610 per ton, which acts as a floor price for domestic edible peanuts and has translated to a domestic market price averaging \$640 to \$650 per ton over the last few years since enactment of the FAIR Act. Additional peanuts are supported at a much lower rate (i.e. \$175 per ton) and it is illegal to sell these non-quota peanuts into the domestic edible market, so they must be crushed into oil or meal or sold in the export market.

The two-tier pricing system may be a method of transferring high subsidy benefits to peanut quota holders, but it also has become a target for other countries to use in defense of their own quota systems when the United States seeks enhanced access to foreign markets. The North American Free Trade Agreement (NAFTA) case filed against Canada in 1995, involving dairy, poultry and eggs, raises the issue of whether two-pricing is in fact an export subsidy. The maintenance of a higher domestic price and a lower export price for a particular commodity is properly viewed as an export subsidy by our foreign competitors. This case is a clear example of how the U.S. peanut program undermines U.S. efforts at expanding trade for other agriculture commodities.

In that case (NAFTA Panel, In the Matter of Tariffs Applied by Canada to Certain U.S.-Origin Agricultural Products, Secretariat File No. CDA-95-2008-01), the Government of Canada pointed out how the United States unfairly protected its own domestic peanut market. Specifically, the Canadians took issue with the introduction of a tariff-rate quota on peanut butter and paste. While Mexico gained increased access on peanut butter and peanut paste as a result of NAFTA, the United States froze Canada's access on these products at their 1993 level, thereby establishing a prohibitive tariff-rate quota on additional imports.

The Canadians even threatened retaliation in the form of a trade case against the U.S. peanut program, had there been an adverse panel decision against Canada in the dairy/poultry/egg case. The final report of the NAFTA panel noted that the United States' adoption of tariffs on over-quota imports of agricultural products from Canada, such as peanut butter, was "a position seemingly at variance with that being advanced by the United States under NAFTA against Canadian over-quota tariff applying to the United States" on dairy, poultry and eggs.

More recently (i.e. on March 17, 1999), the United States and New Zealand successfully challenged the Canadian dairy policy of dual pricing as an export subsidy in a WTO case. As the United States challenges the dual-pricing systems of other countries, we should recognize that the U.S. peanut program is a prime example of a dual-pricing system that could be challenged as an export subsidy. This dual-pricing scheme of the peanut program compromises the ability of the United States to break down dual-pricing systems that inhibit exports of other U.S. products.

In this case against Canada, both the United States and New Zealand claimed that the volume of Canadian exports of certain dairy products, under a scheme known as Special Milk Classes, exceeds Canada's export subsidy commitments. Pursuant to this scheme, Canadian milk is classified according to its end use and market destination. Similarly, U.S.-grown Additional peanuts *must be exported, unless they are crushed for a much lower price for use in the U.S. market. Classes 5(d) and (e) Canadian milk, are milk exclusively for use in export markets and are priced significantly lower than dairy products available domestically in Canada. As in the United States, milk pricing in Canada involves a system of classification according to intended use, as well as the pooling of sales proceeds.*

The determination that Canada's dairy pricing system of different prices for its domestic market versus its export market is an export subsidy, raises serious concerns about the U.S. two-tier pricing system for U.S. grown peanuts. The fact that the United States provides a much higher price for quota peanuts in its domestic edible market compared to much lower priced additional peanuts for the export market, means that the U.S. peanut program could be challenged for providing an export subsidy, and as such, the peanut program is an obstacle to U.S. efforts to expand its trade in other agricultural commodities.

THE GATT/WTO MULTILATERAL TREATMENT OF PEANUTS

Prior to the Uruguay Round, there were 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.

AGGREGATE MEASURE OF SUPPORT REDUCTION REQUIREMENTS FAIL TO YIELD 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 United States did not need to reduce internal support to meet the AMS 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 failed to yield significant reform of the peanut program in terms of trade liberalization and reduction of domestic price support levels.

MINIMUM ACCESS ON PEANUTS AND A NEW QUOTA ON PEANUT BUTTER & PASTE

Peanut butter imports are significant in the respect that they account for about one-third of the total quantity of peanuts imported into the United States. The United States made a minor concession for peanuts in the Uruguay Round negotiations by granting "minimum access opportunities" of at least 3% of domestic consumption, or 33,871 metric tons, growing to 5% of consumption (56,938 metric tons) by the year 2000 (see chart 2 in Appendix A attached). This level of imports clearly pales in comparison to the U.S. peanut quota, which was established at 1,180,000 tons in 1999.

But this access was offset by establishing a new tariff-rate quota for imports of peanut butter and paste that previously had not been subject to section 22 import restrictions. Peanut butter and peanut paste imports were limited to the base level of calendar year 1993. As shown in chart 4 of Appendix A attached, the peanut butter tariff-rate quota is imposed on imports above 20,000 metric tons in year 2000 and thereafter.

In fact, Argentina only reluctantly agreed to the imposition of a quota for peanut butter where none existed before, as part of a broader understanding that included a specific peanut import quota for Argentina into the U.S. market. The addition of a new tariff-rate quota on peanut butter and paste was effectively a slap in the face of the U.S. peanut industry, when it already had the burden of an over-quota rate on shelled peanuts that greatly exceeded such tariffs on other commodities.

TARIFF-RATE QUOTA PLACED ON PEANUT IMPORTS

The absolute quota on imports of peanuts was converted to a tariff-rate quota ("TRQ") in the Uruguay Round negotiations, in a process known as tariffication. Although 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, the 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 151.1% ad valorem in 1995, with reductions of only 15% over six years (see chart 1 in attached Appendix A). This leaves a tariff rate of 131.8% ad valorem for year 2000 and thereafter, 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 are similarly prohibitive, starting at 187.9% ad valorem and ending being reduced to 163.8% by year 2000. In addition, the United States 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 3.8%, steel tariffs ranging from 1.5 to 8.8%, and automobile tariffs at 2.5%. In fact, most food and agricultural products, including items ranging from soybeans to fresh unprocessed hams to apples, enter the United States duty-free (see comparison of tariff rates on U.S. imports in Appendix B). The United States receives constant complaints from its foreign competitors that the tariffs on these products are excessive even though such tariffs are no where near as high as the tariffs imposed on peanut imports.

TARIFF & NON-TARIFF REFORMS ARE CRITICAL

The United States must push for cuts in bound agricultural tariffs, which average about 56% worldwide, compared with average U.S. import duties of less than 5%. In the upcoming WTO talks, the United States needs to take the lead in pressing for cuts in tariffs, tariff-rate quotas, and non-tariff trade barriers. However, before we cast stones at foreign competitors on various agricultural commodities, we had better take a close look at the U.S. protectionist treatment of domestic peanut quota holders.

Tariff-rate quotas on peanut products are some of the most restrictive in the world, now ranging from 104% to 168%. These stand out when you consider that so-called import sensitive commodities, such as wheat, steel, and automobiles have drastically lower tariffs. In addition, the United States has created a non-tariff barrier on peanut imports from Argentina by implementing a first-come, first-served system of imports.

If the United States is to have any success in reducing barriers to expanding its trade in agricultural commodities, it needs to get its own house in order. With a \$600 billion world agricultural marketplace and a severe over-supply causing a farm crisis, the United States can no longer afford to risk billions of dollars of agriculture trade to protect a few thousand peanut quota holders, most of whom rent their quota to someone else rather than growing peanuts themselves (according to the General Accounting Office, 68% of the peanut quota holders rent it out to others to actually grow the peanuts). —

EXPANDED U.S. AGRICULTURAL TRADE SHOULD NOT BE SACRIFICED FOR PEANUT QUOTA HOLDERS

Restrictive tariff-rate quotas on peanut products to protect the domestic peanut program are in direct conflict with the goal of obtaining greater market access for other U.S.-grown agricultural products. The U.S. peanut program is a glaring example of inconsistency with well-established agricultural policy supporting fair and free trade. With exports of U.S. agricultural commodities totaling over \$50 billion annually, and many more billions of dollars of export potential, it is difficult to understand why both policy-makers and producers of other commodities would jeopardize this export trade in the interests of a relatively small group of peanut quota holders who refuse to compete in world markets. In fact, 80% of the peanut program benefits go to only 22% of the peanut quota holders.

The value of other U.S. agricultural commodities is unquestionably greater than any need to maintain the existing protections afforded to peanut quota holders. The 15 categories of U.S. agricultural commodities identified below have a value of over \$205 billion compared to peanut production, which was valued at \$927 million in 1997:

<u>U.S. Agriculture Commodity</u>	<u>Value of Production</u>
Cattle & Calves	\$53.2 Billion
Corn	\$24.4 Billion
Milk	\$23.1 Billion
Soybeans	\$17.7 Billion
Chickens	\$13.9 Billion
Hay	\$13.4 Billion
Hogs	\$12.7 Billion
Fruits/Tree Nuts	\$11.7 Billion
Vegetables	\$9.3 Billion
Wheat	\$8.6 Billion
Cotton	\$6.1 Billion
Eggs	\$4.8 Billion
Turkeys	\$3.1 Billion
Rice	\$1.7 Billion
Sorghum	\$1.5 Billion
Total Value of Production	\$205.2 Billion
Peanuts	\$927 Million

When you weigh the value of expanding trade opportunities for all of U.S. agriculture against the need to protect peanut quota holders, who in many cases aren't even farmers, it makes a lot of sense to consider the reform of excessive trade barriers to trade in peanuts. New international markets for over two million U.S. farmers should not be sacrificed for approximately 6,000 peanut quota holders who hold 80% of the peanut quota.

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 severe peanut trade barriers is contrary to the interests of beef, corn, soybeans, pork, wheat, and other commodity producers who need to take advantage of expanded export markets.

U.S. peanut producers can compete with any peanut producers in the world, if given the opportunity. There is no quota program nor import barriers on tree nuts, including almonds (with a U.S. production value of \$1.1 billion), walnuts, and pecans, yet these nuts have developed a strong export market. Domestic peanut production should be allowed to be more market-competitive to take advantage of its comparative advantage before foreign competitors expand their production base and develop new infrastructure for processing and manufacturing.

When you weigh the value of expanding trade opportunities for all of U.S. agriculture against the need to protect peanut quota holders, who in many cases aren't even farmers, it makes a lot of sense to consider the reform of excessive trade barriers to trade in peanuts. New international markets for over two million U.S. farmers should not be sacrificed for approximately 6,000 peanut quota holders who hold 80% of the peanut quota.

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 severe peanut trade barriers is contrary to the interests of beef, corn, soybeans, pork, wheat, and other commodity producers who need to take advantage of expanded export markets.

U.S. peanut producers can compete with any peanut producers in the world, if given the opportunity. There is no quota program nor import barriers on tree nuts, including almonds (with a U.S. production value of \$1.1 billion), walnuts, and pecans, yet these nuts have developed a strong export market. Domestic peanut production should be allowed to be more market-competitive to take advantage of its

comparative advantage before foreign competitors expand their production base and develop new infrastructure for processing and manufacturing.

NAFTA PROVISIONS ON PEANUT BUTTER & PASTE MAY HELP REFORM U.S. PEANUT PROGRAM

In the context of North American Free Trade (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 can be expected to increase its production of peanuts and ultimately have the opportunity to compete head-to-head with U.S. peanut producers. Peanut butter and paste imports from Mexico are under no quantity restrictions. USDA's Economic Research Service has noted that the "recent appearance of peanut butter/paste imports from Mexico . . . are potentially the most serious challenge for the U.S. peanut industry in the immediate future."

THE URUGUAY ROUND AGREEMENT FAILURE ON PEANUTS

The Uruguay Round was intended to produce substantial reforms of agricultural policies by reducing domestic and export subsidies and expanding market access. Unfortunately, the Uruguay Round Agreement failed to provide significant reform of the peanut program, and in fact, established new restrictions in the form of a tariff-rate quota on peanut butter and paste.

The peanut program continues to force consumers to spend at least \$300 million more each year because of artificially higher prices. This special burden on U.S. consumers stands in stark contrast to the substantial reductions in the tariffs for almost all other agricultural commodities and products, with many tariffs being reduced by nearly 50%. Even after the full implementation of the Uruguay Round tariff reductions, the peanut tariff-rate quotas will continue to be well above 100% ad valorem.

WTO RECOMMENDATIONS & PRIORITIES

The highly restrictive tariff-rate quotas on peanuts and products to protect the domestic peanut program cannot be preserved at the expense of obtaining greater market access for other U.S.-grown agricultural products. For most American farmers to prosper in the future, it is absolutely essential that the United States seek major improvements in market access in the upcoming negotiations on agricultural reform under the WTO. Peanut farmers need to begin adapting to the world market like other American farmers who raise wheat, corn, soybeans, rice, cotton, livestock, poultry and other agricultural commodities. These producers earn substantial shares of their income by producing products for export.

U.S. agriculture's declining trade balance can only be reversed by obtaining aggressive reforms in the upcoming WTO negotiations. Due to a combination of factors, U.S. agricultural exports are expected to decline from a high of \$60 billion in 1996 to below \$50 billion in 1999. The long-standing favorable U.S. agricultural trade balance is projected to decline from \$27 billion in 1996 to an alarming \$11.5 billion this year. In order to counter this trend, we urge you to support significant trade facilitating measures that will help strengthen the U.S. agriculture and food sector.

To help establish a more progressive agricultural framework, we offer the following recommendations for the position of U.S. agriculture as objectives to be pursued in the upcoming WTO negotiations:

1. *Market Access.*

The United States should propose linear (across-the-board) reductions of 90% or more for all tariffs on imports of agricultural products to be phased in over a 6-year implementation period. If such reductions are agreed to, the quota for imports at lower duty rates under tariff-rate quotas (TRQs) can be eliminated at the end of the transition period. No exceptions or flexibility on the tariff reductions should be allowed.

Another option is the removal of excessive tariff peaks, so no agricultural commodity would have an import tariff over some maximum level, such as 10% ad valorem. Why have peanut product tariffs ranging from 104% to 168%, when most commodity tariffs, including those on wheat, corn, pork, apples, and other commodities have tariffs that are well below 10% ad valorem, if not zero?

If it is not possible to obtain substantial tariff reduction for TRQ over-quota rates, then the import quotas should be substantially increased to ultimately reach 20% of domestic consumption. Quota increases should be on a global, unallocated basis, to allow import trends to reflect developments in production efficiencies. Tariff-rate

quotas should be administered by issuing import licenses to the ultimate users of imported goods to make retail products based on respective domestic market share.

In the event that agreement cannot be reached to eliminate TRQs, the opening dates for allocations should be related to the harvest dates of exporting countries, shortfalls should be re-allocated, and new countries should be able to have access when the quotas are increased or re-allocated.

2. Internal Support.

All domestic support in favor of agricultural producers, other than measures meeting the green box criteria in Annex 2 of the Agreement on Agriculture and *de minimis* support, should be progressively eliminated. This should include all policy measures under the Aggregate Measure of Support (AMS) as well as direct payments under production-limiting programs. However, income support that is decoupled from production, such as the Freedom to Farm Act (i.e. FAIR Act of 1996) transition payments, should continue to be permitted. Special and differential treatment can be allowed to developing countries in terms of the *de minimis* exception.

3. Export Subsidies.

The United States should propose progressive reductions that would eventually eliminate all export subsidies in line with the Agreement on Subsidies and Countervailing Measures. The definitions of export subsidies subject to reduction should be expanded to include all forms of price pooling and price discrimination programs that apply to exports of agricultural products.

4. Sanitary and Phytosanitary Measures.

The Sanitary and Phytosanitary Agreement should be maintained.

OBSERVATIONS

The tariff-rate quotas for imports of peanuts and peanut products have the effect of keeping domestic peanut prices far above world prices. Restricting peanut imports is detrimental to the peanut industry and to consumers of peanuts and peanut products. Unnecessary restraints on trade distort the allocation of resources and lower the standard of living in the United States by forcing families to pay more for peanuts and peanut products that provide a good source of protein and other nutrients.

The highly restrictive tariff-rate quotas on peanuts and peanut products to protect the current federal peanut program and its peanut quota holder proponents cannot be preserved at the expense of obtaining greater market access for other U.S. agricultural products. For most American farmers to prosper in the future, it is absolutely essential that the United States seek major improvements in market access in the upcoming negotiations on agricultural reforms under the WTO. U.S. farmers earn substantial shares of their income by producing products for export, with exports supporting one out of every three acres planted in the United States. Clearly, peanut quota farmers need to begin phasing into the world market like farmers of other agricultural commodities.

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 agricultural market. If we are to continue to be a strong player in world markets, and to maintain and expand U.S. agricultural prosperity, we must push for further reductions in trade impediments. Needless to say, it would be extremely ill-advised for us to allow flawed policy on peanuts to undercut our bargaining position for the rest of American agriculture. Insisting that peanuts receive special treatment in future trade negotiations will certainly cause other countries to insist on receiving similar special treatment for their politically sensitive crops. Why jeopardize U.S. efforts to get market access and other trade concessions for all other American agricultural commodities for the sake of protecting a few thousand peanut quota holders, the majority of whom rent their quota to someone else to grow peanuts?

We thank the Subcommittee for providing us with the opportunity to present this on agricultural trade policy and import restraints effecting the U.S. peanut sector and the rest of American agriculture that is dependent on fair and open markets throughout the world.

APPENDIX A

1 OVER-QUOTA TARIFF RATES¹ FOR PEANUTS

Year	In shell peanuts-MFN ²	Shelled peanuts-MFN	In shell peanuts, valued 28.4 c/kg or less-Mexico	In shell peanuts, valued more than 28.4 c/kg-Mexico	Shelled peanuts, valued 28.4 c/kg or less-Mexico	Shelled peanuts, valued more than 28.4 c/kg-Mexico
1994			51.7c/kg	181.4%	78.3c/kg	120%
1995	187.9%	151.1%	50.4c/kg	176.8%	76.3c/kg	116.9%
1996	183.1%	147.3%	49c/kg	172.1%	74.3c/kg	113.9%
1997	178.3%	143.4%	47.7c/kg	167.5%	72.3c/kg	110.8%
1998	173.4%	139.5%	46.4c/kg	162.8%	70.3c/kg	107.7%
1999	168.6%	135.7%	45.1c/kg	158.2%	68.3c/kg	104.6%
2000	163.8%	131.8%	40c/kg	140.6%	60.7c/kg	93%
2001	163.8%	131.8%	35c/kg	123%	53.1c/kg	81.4%
2002	163.8%	131.8%	30c/kg	105.5%	45.5c/kg	69.8%
2003	163.8%	131.8%	25c/kg	87.9%	37.9c/kg	58.1%
2004	163.8%	131.8%	20c/kg	70.3%	30.3c/kg	46.5%
2005	163.8%	131.8%	15c/kg	52.7%	22.8c/kg	34.9%
2006	163.8%	131.8%	10c/kg	35.2%	15.2c/kg	23.3%
2007	163.8%	131.8%	5c/kg	17.6%	7.6c/kg	11.6%
2008	163.8%	131.8%	Free	Free	Free	Free

¹ The within quota rates are 9.35c/kg for peanuts in the shell and 6.6c/kg for shelled peanuts.

² The U.S.-Canada Free-Trade Agreement provided for the total elimination of import duties on trade between the two countries. However, WTO tariff-rate quotas on agricultural goods are being applied pursuant to the decision of a NAFTA panel.

**2 WTO AND NAFTA TARIFF-RATE QUOTA QUANTITIES FOR PEANUTS
(METRIC TONS)**

Year ¹	Mexico ²	Argentina	Other	Total
1994	3,377			
1995	3,478	26,341	4,052	33,871
1996	3,583	29,853	5,043	38,479
1997	3,690	33,365	6,033	43,088
1998	3,801	36,877	7,024	47,702
1999	3,915	40,388	8,015	52,318
2000	4,032	43,901	9,005	56,938
2001	4,153	43,901	9,005	57,059
2002	4,278	43,901	9,005	57,184
2003	4,406	43,901	9,005	57,312
2004	4,538	43,901	9,005	57,444
2005	4,675	43,901	9,005	57,581
2006	4,815	43,901	9,005	57,721
2007	4,959	43,901	9,005	57,865
2008	Unrestricted	43,901	9,005	52,906

¹ For Mexico, the quota year is a calendar year; for other countries, it is a April 1 to March 31 year.

² The NAFTA provides for expanding tariff-rate quotas on "peanuts (ground nuts), shelled or not shelled, blanched or otherwise prepared or preserved (except peanut butter), that are qualifying goods entered under subheadings 9906.12.01, 9906.12.04 and 9906.20.03 in any calendar year." Peanuts in the shell are charged against the quota on the basis of 75 kilograms for each 100 kilograms of peanuts in the shell. Beginning in calendar year 2008, quantitative limitations will cease to apply.

3 OVER-QUOTA TARIFF RATES¹ FOR PEANUT BUTTER AND PASTE, BLANCHED PEANUTS, AND OTHER PEANUTS PREPARED OR PRESERVED

Year	Peanut butter and paste-Mexico	Peanut butter and paste-MFN	Blanched peanuts-Valued 65.2¢/kg or less-Mexico	Blanched peanuts-Valued more than 65.2¢/kg-Mexico	Blanched peanuts-MFN	Other peanuts, prepared or preserved-Valued 65.2¢/kg or less-Mexico	Other peanuts, prepared or preserved-Valued more than 65.2¢/kg-Mexico	Other-MFN
1994	5.9¢/kg		78.3¢/kg	120%		78.3¢/kg	120%	
1995	5.3¢/kg	151.1%	76.3¢/kg	116.9%	151.1%	76.3¢/kg	116.9%	151.1%
1996	4.6¢/kg	147.3%	74.3¢/kg	113.9%	147.3%	74.3¢/kg	113.9%	147.3%
1997	3.9¢/kg	143.4%	72.3¢/kg	110.8%	143.4%	72.3¢/kg	110.8%	143.4%
1998	3.3¢/kg	139.5%	70.3¢/kg	107.7%	139.5%	70.3¢/kg	107.7%	139.5%
1999	2.6¢/kg	135.7%	68.3¢/kg	104.6%	135.7%	68.3¢/kg	104.6%	135.7%
2000	2.0¢/kg	131.8%	60.7¢/kg	93%	131.8%	60.7¢/kg	93%	131.8%
2001	1.3¢/kg	131.8%	53.1¢/kg	81.4%	131.8%	53.1¢/kg	81.4%	131.8%
2002	0.7¢/kg	131.8%	45.5¢/kg	69.8%	131.8%	45.5¢/kg	69.8%	131.8%
2003	Free	131.8%	37.9¢/kg	58.1%	131.8%	37.9¢/kg	58.1%	131.8%
2004	Free	131.8%	30.3¢/kg	46.5%	131.8%	30.3¢/kg	46.5%	131.8%
2005	Free	131.8%	22.8¢/kg	34.9%	131.8%	22.8¢/kg	34.9%	131.8%
2006	Free	131.8%	15.2¢/kg	23.3%	131.8%	15.2¢/kg	23.3%	131.8%
2007	Free	131.8%	7.6¢/kg	11.6%	131.8%	7.6¢/kg	11.6%	131.8%
2008	Free	131.8%	Free	Free	131.8%	Free	Free	131.8%

¹ The within quota rates are 9.35¢/kg for peanuts in the shell and 6.6¢/kg for shelled peanuts.

**4 THE PEANUT BUTTER AND PASTE TARIFF-RATE QUOTA QUANTITIES
(METRIC TONS)¹**

Year ²	Canada	Argentina	GSP ³	Other	Total
1995	14,500	3,650	750	250	19,150
1996	14,500	3,650	920	250	19,320
1997	14,500	3,650	1,090	250	19,490
1998	14,500	3,650	1,260	250	19,660
1999	14,500	3,650	1,430	250	19,830
2000 and thereafter	14,500	3,650	1,600	250	20,000

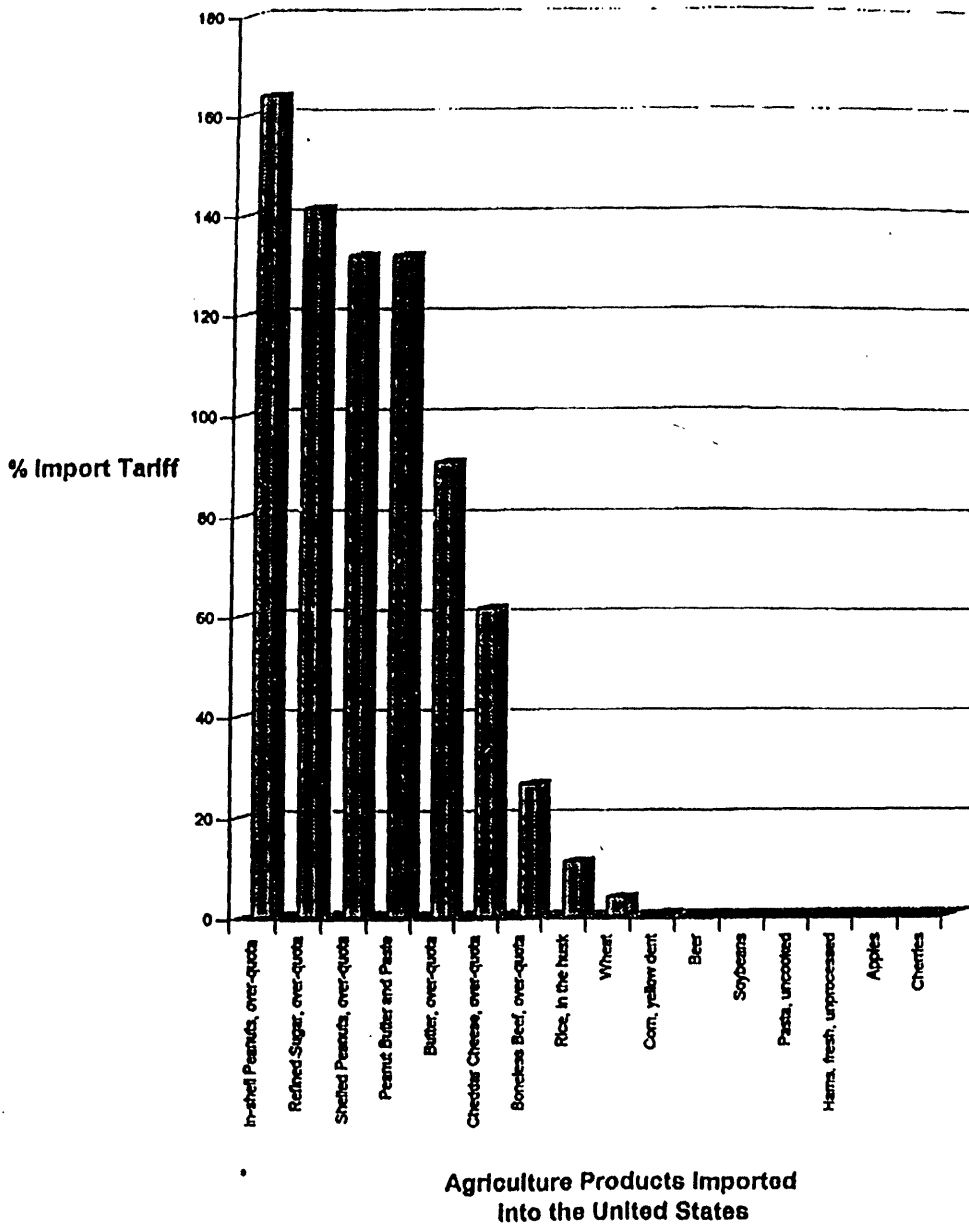
¹ This TRQ does not apply to imports from Mexico.

² Calendar year.

³ Countries that were designated beneficiary countries under the Generalized System of Preferences (GSP) on January 1, 1995.

APPENDIX B

Tariff Rates on U.S. Imports of Agriculture Products



COMPARISON OF TARIFF RATES ON U.S. IMPORTS
OF VARIOUS AGRICULTURAL PRODUCTS

<u>Product</u>	<u>Bound Tariff Rate</u>	<u>Uruguay Round Reduction</u>
Peanuts, in shell, over-quota	163.8% ad val.	15%
Sugar, refined, over-quota	\$0.3574/kg (141.3% ad val.)	15%
Peanuts, shelled, over-quota	131.8% ad val.	15%
Peanut butter and paste	131.8% ad val.	15%
Butter, over-quota	\$1.541/kg (90.6% ad val.)	15%
Cheddar cheese, over-quota	\$1.227/kg (61.35% ad val.)	15%
Boneless beef, over-quota	26.4 % ad val.	15%
Rice, in the husk	\$0.018/kg (10.9% ad val.)	36%
Wheat	\$0.0035/kg (3.78% ad val.)	55%
Corn, yellow dent	\$0.0005/kg (0.6% ad val.)	75%
Beer	Duty Free	100%
Soybeans	Duty Free	N/A
Pasta, uncooked, not prepared	Duty Free	N/A
Hams, fresh, unprocessed	Duty Free	N/A
Apples	Duty Free	N/A
Cherries	Duty Free	N/A

INTERNATIONAL TRADE POLICY AND FLORIDA'S AGRICULTURAL COMMUNITY

[SUBMITTED BY SENATOR MACK]

This paper summarizes the international trade policies of Florida's agricultural community in regard to ongoing Free Trade Area of the Americas (FTAA) negotiations and the upcoming World Trade Organization (WTO) Ministerial in Seattle. The first section describes a variety of international trade issues of concern to Florida agriculture. The second section discusses the Florida citrus industry's concerns regarding subsidies provided by other countries in the Western Hemisphere.

This paper was written under the auspices of the Florida Department of Agriculture and Consumer Services (FDACS) and includes comments of the Florida Fruit & Vegetable Association,¹ Florida Citrus Mutual,² and the NFACT coalition,³ of which the FDACS is a member.

Section One: Florida Agriculture and International Trade.

I. INTRODUCTION.

International trade in perishable and seasonal agricultural products as well as animal agriculture, timber, nursery, foliage and aquaculture products are all important to the State of Florida. Florida ranks second among the states in cash receipts for vegetable crops with total agricultural crop cash receipts of over \$6 billion, \$2 billion in forest receipts, and a \$54 billion dollar impact to our state's economy. Approximately 19% of our agricultural production is exported. The Florida agricultural community is committed to gaining market access abroad and is working with federal officials and our trading partners for fairness and equivalency in trade matters.

To a certain extent, Florida's international trade concerns, when compared to those of other states, are unique. Florida's geographical location and climate affords its growers an opportunity to provide American consumers and export markets with fruits, vegetables, and seasonal crops during the months of the year when other domestic producers cannot grow and harvest these crops. Historically, competition for Florida's fruit and vegetable industry in the U.S. marketplace has come from Mexico, other areas with farmland suitable for winter production in the northern hemi-

sphere, and from Latin America. In export markets, Florida's crops compete against low-cost, often subsidized producers from Latin America, Europe, and elsewhere.

In recent years, international trade agreements have significantly impacted Florida agriculture. The North American Free Trade Agreement (NAFTA) and the Uruguay Round Agreements have led to greatly increased competitive pressures on Florida's agricultural products, most notably fruit and vegetable crops. Florida's growers are concerned that new trade negotiations might result in further reductions in U.S. tariffs and even greater competition for the state's growers.

As discussed below, before the United States becomes a party to new trade agreements, the inadequacies of NAFTA and other prior trade agreements in the areas of U.S. tariffs, safeguards, and sanitary and phytosanitary (SPS) measures need to be corrected by Congress and the Administration through legislative and executive branch action, as well as through the relevant regional and multilateral working groups already established under the existing trade agreements. Once this has been accomplished, U.S. negotiators should seek to improve on the market access provisions and safeguard measures of NAFTA and the Uruguay Round, and press for new measures during upcoming FTAA and WTO talks that will fully protect import-sensitive U.S. agriculture sectors.

II. PERISHABLE AND SEASONAL AGRICULTURAL COMMODITIES.

Issues that are important to seasonal and perishable commodities or specialty crops were not fully addressed during the last round of multilateral trade negotiations. While the WTO Agreement on Agriculture recognizes the need for separate treatment or timelines, no specific rules exist to deal with general trade or dispute resolution involving perishable and seasonal commodities.

Florida seeks recognition that trade remedies should be available for perishable and seasonal agricultural products that reflect the commercial realities of these products. Florida's view is shared by others: when asked at the Ag Forum immediately preceding the Free Trade Area of the Americas (FTAA) Business Forum in Belo Horizonte if specific rules for perishable commodities were needed, the former head of the Uruguay Round agriculture negotiating team agreed that specific rules could be helpful and may be advisable.

In particular, we request that consideration be given to a more rapid dispute settlement process when a perishable commodity is involved. The current WTO dispute settlement process is fundamentally problematic for certain agricultural commodities due to their perishable nature and the very lengthy process of resolution.

III. SANITARY AND PHYTOSANITARY (SPS) ISSUES.

A. SPS MEASURES AND MARKET ACCESS.

With all SPS matters, the critical factor is strict adherence to sound science. Recognition of sound science will allow free market access in many instances, and we welcome the ability of the SPS Agreement of the WTO to remove scientifically unfounded SPS barriers. For example, the decision of Japan to permit importation of certain tomatoes grown in the United States should benefit Florida growers. If we clearly demonstrate scientifically the absence of a hazard and if, in addition, we accept products from pest-free zones or certified product from our trading partners, we must demand their reciprocity regarding our products. At the same time, however, we appreciate the SPS concerns of our trading partners when their concerns are based upon sound science.

B. RECENT PEST INFESTATIONS IN FLORIDA.

In recent years, perhaps as a result of increased international trade, Florida has experienced several major plant pest infestations. When we have attempted to address market access issues, often, before we can even confirm the absence of such a problem in our state, we detect another pest or disease entry that must be immediately addressed with intensity of personnel and capital investment.

The prevention, control and eradication of introduced plant and animal pests and diseases has placed a dramatic budget burden on the state. From 1995 through 1998, Florida spent over \$140 million in state funds to eradicate new plant and animal pests and disease introductions including many detected for the first time in the continental United States, such as additional species of foreign ticks and the African hive beetle that is decimating the honey bee industry.

These crises have been compounded by the fact that the budgets and staffs of the Customs Service, the U.S. Department of Agriculture and the Food and Drug Administration for border inspections and surveillance have not kept pace with the increased volume of trade across U.S. borders. Consequently, these entities have been

unable to provide adequate border inspections and surveillance. Tighter measures for pest and disease prevention in the nations with which we trade, and increased resources for federal agencies for prevention, early detection, and eradication of pest and disease introductions in the United States will not only reduce our resource demand but also aid market access. If federal agency personnel cannot be made available for surveillance, Florida stands ready to consider cooperative and innovative ways in which it may assist in enhanced border inspections, such as through detection programs funded by federal grants.

C. SPS CONCERNS REGARDING THE REPACKING OF PRODUCTS.

Florida is concerned about transshipments and the repacking of products from countries which pose particular SPS threats. Too often, products from countries with certain SPS problems are shipped to the United States through another country. Origin rules should not be manipulated to circumvent SPS requirements.

Recent examples include the smuggling of prohibited Asian products through Canada to Florida and Australian cattle shipped via Mexico. Violations of the SPS Agreement should be strictly enforced.

D. ANIMAL DISEASES.

The movement of animals through international border crossings and inherent problems with animal diseases have been particularly difficult issues. We support and encourage discussions on adherence to the SPS Agreement in this area as well as discussions leading to an international I certification program for import/export tests and procedures for animals that will ensure credibility, confidence, and acceptance by all international trading partners.

IV. EQUIVALENCY OF REQUIREMENTS.

Lack of harmonization and equivalency regarding chemical usage, pesticide registrations, food safety standards, and labor standards place an unnecessary burden upon U.S. industry and are sometimes used as non-tariff trade barrier reasons to deny market access. These regulatory disparities should be addressed in any future trade negotiations.

Lack of equivalency places Florida growers at a competitive disadvantage. For instance, while some amelioration of the U.S. phase-out of methyl bromide has occurred, our producers still face competitive disadvantage with many of our trading partners who will be permitted extended usage. Within the United States, adequate research and regulatory attention must focus on identifying and approving effective alternatives before the required phase-out takes place. Those alternatives that partially replace methyl bromide present environmental contamination concerns that offset their benefits.

V. SAFEGUARD MEASURES FOR PERISHABLE COMMODITIES.

A. THE SPECIAL SAFEGUARD PROVISIONS INCLUDED IN BOTH THE NAFTA AND URUGUAY ROUND HAVE NOT WORKED FOR FLORIDA'S GROWERS.

We believe that no workable safeguard mechanisms exist for perishable commodities. Although previous agreements attempted to utilize Tariff Rate Quotas and snap back provisions, these have not proven effective in use, and we hope that this issue can be discussed at the upcoming Ministerial.

To offset the effects of tariff reductions that were expected to result in increased U. S. imports, both the NAFTA and the Uruguay Round Agreements promised to provide safeguard provisions that would deliver temporary relief to injured, import-sensitive U.S. industries. These measures have failed to function as intended for Florida's producers.

The fruit and vegetable industries in Florida and elsewhere in the United States argued strongly during the negotiation phase of both the NAFTA and the Uruguay Round that an effective price-based safeguard be provided for sensitive perishable crops. The safeguard contained in the NAFTA is a volume-based tariff rate quota mechanism that restores the original tariff on a limited number of products if certain volume targets are reached. The mechanism has been entirely ineffective as a safeguard. Tariffs are restored only when the volume targets are reached—usually very late in the tariff rate period. By that time, the increased volume in the market has already depressed prices and injured domestic growers. The WTO Agreement on Agriculture contained a price-based mechanism, but only for those products that had non-tariff border measures (quotas, etc.) in place prior to the implementation date of the agreement. No U.S. fruit or vegetable had such measures in place, so safeguard relief does not apply in those sectors.

B. IMPROVED, MORE EFFECTIVE SAFEGUARD MEASURES SHOULD BE CRAFTED.

Because of the inadequate safeguard protections included in the NAFTA and Uruguay Round Agreements, strong and price-based safeguard mechanisms should be essential elements of any future trade agreements.

1. SPECIAL SAFEGUARD MECHANISM FOR AGRICULTURE.

Florida believes that a special safeguard mechanism for agriculture, over a single safeguard mechanism to cover both industrial and agricultural products, is needed because of the unique characteristics of perishable, import-sensitive agricultural products. A safeguard mechanism is needed that reacts to import surges throughout the season, not just at the end of the season when volume limits are reached, and which reacts before the damage to U.S. agricultural industries has occurred.

2. A PRICE-BASED MECHANISM FOR FRUIT & VEGETABLE PRODUCTS IS NEEDED.

The ineffectiveness of the safeguard mechanisms of NAFTA and the Uruguay Round to protect Florida's import sensitive fruit and vegetable industries is evidence that an effective price-based mechanism is essential for fruit and vegetable products. A price-based trigger is more effective than a volume-based mechanism since it can be imposed at any time during the year when the price threshold is hit. A major problem with the volume-based mechanism of NAFTA is that the volume limits are not reached until the end of the season when harm to U.S. growers has already occurred.

Since the safeguard mechanism needs to be triggered immediately once the threshold limits are reached to prevent injury to highly sensitive perishable and seasonable crops, a detailed showing of injury should not be required to trigger the safeguard protections.

VI. TARIFFS

Florida agriculture is generally opposed to the reduction of tariffs on agricultural imports in upcoming trade talks. To the extent that agricultural tariffs are reduced, Florida seeks, as discussed below, exemptions from tariff phase-outs for import-sensitive commodities.

Exemptions from tariff phase-outs should be negotiated for the most highly sensitive U.S. agricultural producers. Although exemptions from tariff phase-outs were not granted under NAFTA, this should not be the standard for future agreements, and in particular, for the FTAA. The FTAA is a regional trade agreement covering many more countries than NAFTA, including several countries with highly competitive agricultural sectors. The potential for import penetration and subsequent harm to Florida's vulnerable fruit and vegetable sectors is therefore greater, thus requiring a more flexible tariff approach.

VII. TARIFF RATE QUOTAS

Tariff rate quotas (TRQs) provide a modicum of protection for producers of import-sensitive agricultural products who must compete in world markets characterized by price distortions. As such, Florida strongly supports the continued ability of the United States to use the TRQ mechanism.

A. BEEF TRQ.

The TRQ of the United States on beef assists Florida ranchers who must compete in a highly distorted international beef market.

For example, cattle producers in the European Union are heavily subsidized. At the same time, however, most beef products of the United States and of some other major beef-producing countries, such as Canada, are prohibited entry into the European Union due to the European Union's as yet continuing ban on the importation of hormone-treated beef. The policies of the European Union and other governments result in distortions in the marketplace, including increased beef exports to the open U.S. market. The TRQ on beef provides the United States with a limited ability to protect Florida's ranchers from distortions in the international beef market, and a major goal of the United States during upcoming WTO negotiations should be to maintain the right to impose TRQs on this product.

B. SUGAR TRQ.

Florida's sugar industry is efficient and cost-competitive in the international market. But the support of domestic sugar producers by other governments results in a world dump market price for sugar. Some foreign sugar producers receive not only

massive governmental support, but also have highly protected domestic markets. For example, the average EU tariff on imported sugar in 1997 was 61.8 percent. The distorted and volatile international sugar market results in a very import-sensitive sugar industry in Florida and other states. To alleviate the effects on Florida farmers caused by distortions in the international price of sugar, Florida encourages the USTR not to negotiate away the ability of the United States to maintain this TRQ at current levels prior to the elimination of all export and domestic subsidies on sugar.

C. NAFTA TRQS ON FRESH MARKET PRODUCE.

While Florida supports the continued right of the United States to impose TRQs, it has reservations about the effectiveness of NAFTA's TRQs applied to fresh market produce. Under NAFTA, safeguard seasonal tariff rate quotas were negotiated for several of Florida's vegetable products, including tomatoes, onions, and chili peppers. For these seasonal and perishable products, the TRQ mechanism alone has not provided adequate import protection.

Moreover, the mechanism used in the NAFTA Agreement to liberalize TRQs—i.e., duty-free access for an in-quota amount with the over-quota tariff eliminated over a negotiated phase-out period—should be structured to give more protection to the most import sensitive products. For such products, complete exemptions may be necessary. For the relatively less sensitive products, there should be flexibility with regard to in-quota volumes, such that tariff reductions could be implemented over time, rather than effectuated all at once upon implementation of the agreement. Phase-out periods for the out-of-quota tariffs should be equally flexible, with extended phase-out periods (e.g., more than fifteen years) and variances allowed in the staging of reductions.

VIII. MARKET ACCESS.

Market access is denied for Florida agricultural products for a host of reasons. The most frequent reason we experience for denying market access for our products is scientifically unfounded sanitary and phytosanitary reasons. The lack of rapid dispute settlement mechanisms exacerbates the problem of denials of market access for phytosanitary reasons.

The lack of reciprocal free market access to nations who trade their agricultural products freely in the United States is a pervasive and highly significant issue. Five years have elapsed since the signing of the NAFTA, yet not one Florida orange has been shipped to Mexico. Chile is one of the major agricultural trading partners of the United States with \$628 million worth of Chilean products in the consumer agriculture category imported into the United States last year. Yet, the United States was denied the right to export certain similar products to Chile, and we exported only \$38.9 million there in the same category. Other nations denying access to our commodities include Australia, New Zealand, Argentina and China. The USDA statistics for Mexico, Chile, Australia, New Zealand, and Argentina show that we imported \$6.35 billion from those countries compared to exports of \$2.12 billion in the consumer agricultural product category (which includes meat, dairy, and fresh fruits and vegetables).

We applaud the recent efforts of the USTR and USDA to gain an agreement on citrus, meat, and wheat with China. We look forward to the finalization of this process by visits of inspecting officials from China so that the door can finally be legally opened to citrus shipments. Although concentrated efforts by both USTR and USDA in the past two years opened Japan to trade in U.S. tomatoes, many other commodities remain restricted. Even trade in tomatoes remains difficult as Japan continues to request specific varietal testing, an issue which was resolved through the WTO for apples.

The United States has permitted free market access for many nations around the world. It is unacceptable that a large number of these nations do not allow any reciprocal marketing of U.S. agricultural products. Any further multilateral negotiations need to provide that market access for U.S. products are mandatory provisions of the agreements.

IX. ELIMINATION OF NON-TARIFF BARRIERS.

For the most part, non-tariff barriers, such as price bands, reference prices and non-automatic import licenses, are not used by the United States. Many countries, however, still employ non-tariff barriers, and some in a non-transparent, trade-restrictive manner.

Florida's position is that non-tariff barriers, especially those such as reference prices and non-automatic licensing that are administered in a non-transparent man-

ner and are used to restrict or slow trade, should be eliminated under the FTAA. This should not be accomplished, however, at the expense of the negotiating methodologies discussed above that are needed to protect Florida's sensitive fruit and vegetable sectors.

X. EXPORT SUBSIDIES.

The United States should negotiate for an end to all export subsidies in upcoming WTO talks. 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.

XI. STATE TRADING ENTERPRISES.

State trading enterprises (STEs) provide support to domestic producers through a variety of arrangements. Their presence in agricultural trade has greatly facilitated the ability of foreign countries to restrict trade from the United States. Efforts to date under the General Agreement on Tariffs and Trade (GATT) and now the WTO to ensure compliance with Article XVII principles have been fruitless. Florida suggests that the United States advocate the elimination of STEs during upcoming WTO negotiations.

XII. MECHANISM IS NEEDED TO CUSHION THE EFFECTS OF CURRENCY DEVALUATION.

An issue of great consequences for Florida agriculture is the effect that currency devaluation has on a country's ability to increase exports and take greater advantage of negotiated market access openings. As we experienced with the devaluation of Mexico's peso in 1994 shortly after the NAFTA went into effect, the devaluated peso meant that Mexico's exports to the United States were significantly cheaper and increased dramatically, while U.S. exports to Mexico became more expensive and declined.

Given recent economic crises in Asia and Latin America, the issue of currency devaluation and its effects on trade should not be ignored. This is an issue that should be taken into account when structuring future trade protections.

One possible approach might be to use a safeguard-type mechanism that would be triggered only when currencies are devalued by a negotiated percentage amount over a specified period of time.

XIII. Price Collapses

The United States should include in upcoming negotiations consideration of what, if any, special rules may be needed to cope with commodity price collapses such as have been recently experienced in the livestock and grain sectors.

XIV. THE FTAA SHOULD ESTABLISH ADEQUATE DISCIPLINES FOR SETTLING COMMERCIAL DISPUTES.

Neither the NAFTA nor the Uruguay Round Agreements established a system for the prompt and effective resolution of private commercial disputes in agricultural trade. The NAFTA negotiations opted instead to create a joint government/private sector advisory committee to develop recommendations on this matter. The continuing absence of a formal system has become another problem for Florida producers, who need a viable commercial dispute settlement mechanism to handle the unique marketing characteristics of perishable crops. The Perishable Agricultural Commodities Act (PACA) provides such a system for the domestic industry and for international traders who market their products in the United States, but no such system is in place for U.S. exports marketed in other parts of the world.

Given the more limited number of countries involved, it would most likely be more feasible to establish such a system through FTAA talks rather than in upcoming WTO negotiations. Before a hemisphere trade agreement is implemented, Florida recommends that the voluntary dispute settlement process recommended by the NAFTA Advisory Group be closely monitored to determine if it functions as envisioned. Based on its success, a similar or improved system should be considered for adoption by FTAA countries.

XV. INTERNATIONAL PRODUCER COOPERATION.

Due to the growing level of international trade of agricultural products, cooperation between producers is increasingly important. Florida requests a review and consideration of change to U.S. trade law and marketing order law to give permission to form international cooperatives or marketing orders between trading partners. At the moment, several commodity cooperatives on the borders with Mexico and Can-

ada exist but are not clearly permitted by any specific protection or provision of the Capper-Volstead Act or other law.

XVI. ANTIDUMPING AND COUNTERVAILING DUTY LAWS.

Florida agriculture supports the ability of the United States to maintain strong antidumping and countervailing duty laws. Without these laws, Florida's farmers and ranchers would be even more vulnerable to the unfair trade practices of producers in other countries. As such, Florida opposes the possible curtailment of the use of these laws under the FTAA or the reopening of these laws for negotiation during the next round of the WTO.

If negotiations on the Antidumping Agreement of the WTO are reopened, Florida requests that the U.S. Trade Representative examine possible changes to the WTO Antidumping Agreement that could benefit the state's vegetable growers. In particular, Florida would like to see the definition of "industry" modified to provide for separate industries for perishable products grown in particular seasons. Such a definition would aptly describe Florida's fresh winter vegetable industry, which, during the winter months, produces the vast majority of vegetables grown in the United States. We would also like to see the definition clearly permit livestock producers and other agricultural producers bring cases on products sold at retail.

XVII. COMPLIANCE WITH WTO DISPUTE SETTLEMENT FINDINGS.

A goal of U.S. negotiators during the Uruguay Round was to increase access for U.S. agricultural products into markets that were already relatively closed. For this reason, U.S. agricultural producers were, overall, supportive of the implementation of these agreements by the United States. However, four years after the conclusion of the Uruguay Round, some of Florida's agricultural producers question the success of the trade agreements that resulted from it. Namely, Florida's farmers and ranchers are disappointed that other countries have failed to abide by the decisions that have resulted from the WTO's dispute settlement process.

The failure of the European Union to come into compliance with the report of the WTO's Appellate Body regarding the importation of hormone-treated meat directly impacts Florida's ranchers. Despite the lack of any scientific evidence that hormone-treated beef poses risks to human health, the European Union continues to block access to its market for U.S. beef derived from hormone-treated cattle. Similarly, while Florida does not produce bananas, it is concerned about the European Union's continued non-compliance with the WTO Appellate Body's decision regarding the European Union's import regime for this agricultural product. It is also not clear at this time whether Japan will come into compliance with the Appellate Body's recent decision concerning varietal testing and whether it will apply the lessons of the Appellate Body decision to other products, including fresh vegetables.

Florida's farmers and ranchers are wary of negotiations that will result in a further decline in the modest protection afforded to them while our trading partners do not abide by their current obligations. The failure of the European Union, a major agricultural producer and competitor in the international market, to come into compliance with decisions of the Appellate Body of the WTO is especially troubling.

XVIII. FTAA VERSUS WTO MINISTERIAL CONSIDERATION OF AGRICULTURE ITEMS.

The FTAA negotiations are ongoing. However, Florida feels that many of the agricultural issues are broad global concerns that would be more appropriately addressed in the upcoming round of WTO multilateral negotiations. However, we do realize that the Agriculture Negotiating Group established under FTAA is required to incorporate any developments resulting from the upcoming WTO negotiations.

XIX. REQUEST-OFFER APPROACH TO NEGOTIATIONS

Florida producers support the request-offer approach in upcoming WTO negotiations regarding agriculture. We do not support the formula approach. As differences exist within product categories as to what makes sense for market access abroad, the formula approach for negotiations can sometimes be harmful to U. S. commercial interests. The Florida agricultural community would have preferred the adoption of the request-offer approach, coupled with negotiations for subsidy and non-tariff barrier reforms, in upcoming WTO negotiations.

In regard to FTAA negotiations, we urge the United States to use the request-offer approach as this approach would better ensure that special protections will be accorded to import-sensitive U.S. products.

Section Two: The Florida Citrus Industry's Concerns Regarding Foreign Subsidies.

Florida citrus growers account for the vast majority of citrus made into processed citrus products which are exported from the United States, and for a significant proportion of the fresh citrus which is exported from the United States.

Clearly, the Florida citrus industry has a vital interest in the identification and elimination of foreign impediments to trade, especially those restrictions which are inconsistent with international trade agreements and legitimate national interests in protecting the integrity of the food supply, and those foreign benefits which accord U.S. competitors unfair advantages in competing for sales in the U.S. or third country markets. With those interests in mind, these comments discuss FTAA member countries' known export subsidy programs which may affect the citrus and other agricultural sectors. We do not have a proposed, legal definition of export subsidies at this time given the important and complex considerations that come into play in the area of subsidy countermeasures and consistency with the WTO Agreement. We will continue to review this area and may offer proposed language in the future.

However, we also note prefatorily that Florida maintains its longstanding opposition to any tariff reductions for citrus products, as well as other agricultural products, imported into the United States under an FTAA arrangements. The U.S. citrus industry remains highly import sensitive, and the many years of artificial benefits—including some unfair trade practices—enjoyed by the Brazilian industry in particular, can only be offset by the current U.S. tariff, which has not restricted access to citrus products from Central and South America (most citrus products imported from Central America enjoy the duty-free benefits of the Caribbean Basin Economic Recovery Act). Therefore, the elimination or modification of any of the following programs by U.S. trading partners should not be treated by U.S. negotiators as *quid pro quo* for further U.S. tariff cuts for citrus products.

In addition, while many of the programs described herein do not benefit foreign citrus production and exports directly, the fact that citrus is a potential beneficiary is of concern to Florida. Since the principal processed citrus product—frozen concentrated orange juice for manufacturing—is sold as a commodity at, essentially, a dollar-denominated world price, it is an attractive source of hard currency for foreign exchange earnings, especially for countries with heavier foreign debt loads. Thus, foreign citrus industries often receive disproportionate government support and export promotion. Consequently, they should be reviewed closely in any FTAA negotiations.

Following are some of the known export and production subsidy programs maintained by FTAA member countries which may have an adverse effect on U.S. citrus and other agricultural industries:

A. ARGENTINA.

While the Argentine citrus industry has not been affected by any widely available subsidy programs, the Argentine government retains certain supports, such as the reimbursement of indirect tax payments to exporters. The government also maintains an industrial specialization program which allows certain industries that boost their exports to report a comparable amount of imports at a reduced tariff. The program is scheduled to end in the year 2000.

B. BOLIVIA.

The government is not known to directly subsidize exports. Pursuant to the 1993 Export Law, the government grants rebates of all domestic taxes paid on the production of items which are later exported.

C. BRAZIL.

The Brazilian government offers a variety of incentives—some quite complex—to encourage exports. In the 1980s, export rebate and production incentives were found in connection with an investigation of Frozen Concentrated Orange Juice From Brazil, resulting in a suspension agreement and imposition of an offsetting export tax. Other industrial and agricultural industries have likewise benefited over the years, as most recently demonstrated in a U.S. countervailing duty investigation of hot-rolled, flat-rolled carbon quality steel products from Brazil.

Export production incentives include tax and tariff exemptions for equipment and materials imported for the production of goods for export; excise and sales tax exemptions on exported products; and rebates on materials used in the manufacture of exported products. Exporters are exempted from withholding for tax remittances overseas for loan payments and marketing, as well as from the financial operations tax for deposit receipts on export products. Excise and sales tax exemptions cover

agricultural and semi-manufactured export products as well as manufactured products. Exporters are also eligible for a rebate on social contribution taxes paid on locally-acquired production inputs.

An export credit program known as PROEX was established in 1991. PROEX is intended to equalize domestic and international rates for export financing for industrial products. Under the program, the government provides interest rate guarantees to commercial banks which finance export sales, thus ensuring Brazilian exporters access to financing at rates equivalent to those available internationally. Capital goods, automobiles, auto parts, and consumer goods are eligible for PROEX financing.

Revisions to PROEX were announced in 1995 and 1997. The revisions expanded the size of the program and authorized coverage of additional export sectors. In 1997, \$1 billion. was initially budgeted for PROEX. By November 1997, that figure had risen to \$1.4 billion. In the past, PROEX has never used more than 30 percent of its allocated budget.

D. CHILE.

The government does not provide exporters with direct or indirect support such as preferential financing or export funds. However, it does employ a number of export promotion measures.

First, the government provides exporters with quicker returns of VAT paid on inputs than other producers receive. All Chilean exporters may defer tariff payments for a period of seven years on imported capital, or receive an equivalent subsidy for domestically produced capital goods. If the capital goods are used to produce exported products, deferred duties can be reduced by the ratio of export sales to total sales. If all production is exported, the exporter pays no tariff on capital imports.

In an effort to increase its exportable forestry products, the government provides subsidies for reforestation, forest management, and plantings of native forest species. The government subsidizes about 75 percent of planting costs and certain management costs for the first generation of trees in a plantation. The value of the subsidy is adjusted for inflation and treated as taxable income when the trees are harvested several years later. Forestry industry representatives say the subsidy, when allocated over the life of plantations, amounts to an interest-free loan of about 5 percent of total costs. Both foreign investors and Chileans are eligible for the subsidy. The law, which established the subsidy in 1974, expired in 1996, but may be renewed.

Second, the most widely used indirect subsidy for exports is the simplified duty drawback system for non-traditional exports. This system refunds to exporters of certain products a percentage of the value of their exports, rather than refunding the actual duty paid on inputs to production. Chile has announced that, in accordance with its WTO commitments, the drawback program will be phased out over time.

Exporters of non-traditional products benefit in other ways as well. For example, they are subject to special non-market incentives such as simplified paperwork requirements. Chile also has an active export promotion agency, which has planned expenditures of up to \$ 10 million a year, half from government funds and half from industry contributions, for agricultural export promotion.

E. COLOMBIA.

Colombia's tax rebate certificate program, the C-ERT, contains a subsidy component. It refunds a percentage of the FOB value of an export. Under a 1990 bilateral agreement, the subsidy does not apply to goods exported to the United States. The government has committed to eliminate the subsidy and create an equitable drawback system, but has not yet done so.

F. COSTA RICA.

The Export Promotion Law of 1972, which provides incentives such as tax credit certificates for up to 15 percent of the value of exports, is being phased out. The benefits are only granted to existing companies and are due to end within two years. Export contracts granting twelve year tax holidays and consolidating the rebate system for in-bond trade will be phased-out by 1999.

There has been recent investment in Costa Rican citrus production by a British government financed corporation. Since most Costa Rican citrus is destined for export markets, and a significant percentage is exported to the United States under the CBI program. This benefit from a third-country government source should be evaluated by the U.S. negotiators as both an export and production subsidy in connection with any FTAA negotiations.

G. ECUADOR.

Ecuador does not have any explicit export subsidy programs. However, the government is reportedly considering the creation of an export credit agency. In the meantime, the National Finance Corporation has begun to offer export financing.

The government uses a drawback system to reimburse the cost of duties and taxes paid on raw materials and other inputs incorporated in products that are subsequently exported.

H. EL SALVADOR.

El Salvador does not pay direct export subsidies. However, the government offers a 6 percent rebate to exporters of non-traditional goods based on the FOB value of the export. Free-zone operations are not eligible for the rebate, but enjoy a ten year exemption from income tax as well as duty-free import privileges. Certain products—coffee, sugar, cotton, and metal/mineral products—are not eligible for the rebate. However, processed coffee can apply for the rebate, if it incorporates 30 percent of national value added tax. Sugar can apply if it is exported as refined sugar. Maquilas are eligible if they meet the criteria of adding 30 percent Salvadoran input in the production process. Though they enjoy a ten year exemption from income tax and duty-free privileges, firms operating in the free zone are not eligible to receive rebates.

According to the El Salvadoran Exporters Association, 500 of their registered 600 members received rebates in 1997. The Ministry of Finance is reported to have reimbursed \$9.2 million to Salvadoran exporters in rebates during 1997. In 1997, the government withheld 25 percent of export rebates to satisfy income tax obligations. From 1998 on, however, this withholding will no longer take place and exporters will be able to keep 100 percent of the rebate.

I. HONDURAS.

The Temporary Import Law of 1984 allows exporters to bring raw materials and capital equipment into Honduran territory exempt from customs duties if the product is to be exported outside Central America. This law also provides a ten year tax holiday on profits from these exports under certain conditions. (Also, see comments below concerning Nicaragua and Guatemala.)

J. JAMAICA.

The National Industrial Policy is a long-term measure which was adopted by the Jamaican government in 1996 to achieve sustained economic growth and development. The policy aims at stable growth with stability by stimulating investment and export diversification. The government is also formulating a major recovery plan for the island's failing sugar industry, a key export.

The Export Industry Encouragement Act allows approved export manufacturers access to duty-free imported raw materials and capital goods for a maximum of ten years. In December 1996, the government launched phase-one of a Special Assistance Program for the export apparel industry. The objective is to improve competitiveness by encouraging companies to make structural changes and implement operational efficiencies. The SAP is targeted at reducing operational costs, specifically in the areas of rent, security, and financing. During the first phase of the program, a grant of \$1.1 million was made available to cover 5 percent of the companies' costs. The second phase, which came into effect in August 1997, provides an additional \$4.4 million to address the broader development of the industry, particularly in those areas which will enhance long-term competitiveness.

Finally, benefits are available from the Jamaican government's Export-Import Bank, including access to preferential financing through the Export Development Fund, lines of credit, and export credit insurance.

K. NICARAGUA AND GUATEMALA.

It is likely that Nicaragua and Guatemala will be engaged in government-financed rebuilding programs in the wake of the severe hurricane damage suffered in 1998. Negotiators should seek assurance that all such measures fall within appropriate WTO/GATT exemptions for emergency action, including the duration and format of government assistance, and any associated import restraints. Since both countries are citrus producers, the U.S. citrus industry will continue to have an interest in the short and long-term impact of any production or export subsidies conferred by those governments.

In Nicaragua, exporters of non-traditional goods, such as those other than coffee, cotton, sugar, wood, lobster, and shrimp, receive exemptions of 65 percent of product

value on income tax liabilities. Although this benefit expires after 1997, the government's Export Promotion Committee is empowered to extend exemptions beyond that date to exports of key interest to the country.

L. PANAMA.

Panama reported to USTR recently that it is revising its export subsidies policies in order to align itself with its WTO obligations.

The Tax Credit Certificate Program, which subsidizes the production of non-traditional exports, is being phased out. Exporters may receive Tax Credit Certificates equal to 15 percent of the exports' national value added until the year 2000. The certificates are transferable and may be used to pay tax obligations to the government, or can be sold in secondary markets at a discount. The government has become stricter in defining national value added, attempting to reduce the amount claimed by exporters.

The Universalization Law, enacted in June 1995, allows any company to import raw materials or semi-processed goods at a duty of three percent for domestic consumption or production, or duty-free for export production.

Law 25 of 1996 provides for the development of "export processing zones" (EPZ) as part of an effort to broaden the Panamanian manufacturing sector while promoting investment in former U.S. military bases reverting to Panamanian control. Companies operating in these zones may import inputs duty-free if products assembled in the zones are to be exported. The government also provides other tax incentives to EPZ companies. Thus far, five EPZs are operating.

Companies not receiving benefits under the "Special Incentives Law" of 1986 will be allowed a tax deduction of up to 10 percent on their profits from export operations through 2002.

A number of industries which produce exclusively for export are exempted from paying certain types of taxes and import duties. The government uses this policy to attract foreign investment. Companies which profit from these exemptions are not eligible to receive Tax Credit Certificates for their exports.

M. PERU.

The Peruvian government provides no direct export subsidies. The Andean Development Corporation, of which Peru is a member, provides limited financing to exporters at rates lower than those available from Peruvian banks, but higher than those available to U.S. companies.

Exporters can receive rebates of the import duties and a portion of the value-added tax on their inputs. In June 1995, the government approved a simplified drawback scheme for small exporters, allowing them to claim a flat 5 percent rebate, subject to certain restrictions. Exporters can also import, on a temporary basis and without paying duty, goods and machinery that will be used to generate exports and that will themselves be re-exported within 24 months.

N. TRINIDAD AND TOBAGO.

The government does not directly subsidize exports. It offers incentives to manufacturers operating in export processing zones to encourage foreign and domestic investors. Free-zone manufacturers are exempt from customs duties on capital goods, spare parts and raw materials, and all corporate taxes on profits from manufacturing and international sales. The state-run Trinidad and Tobago Export Credit Insurance Company insures up to 85 percent of export financing at competitive rates.

O. VENEZUELA.

Venezuela has reduced the number of export subsidies it provides, but it retains a generous duty drawback system on imported inputs. Exporters can also get a rebate of the 16.5 percent wholesale tax that is levied on imported inputs. Foreign as well as domestic companies are eligible for these rebates, which are given in the form of tax refund certificates.

A 1997 decree allows industrial projects, including tourism, that are designed to either generate foreign exchange or to produce goods for the export market to receive a five-year exemption from the 16.5 percent wholesale tax during their "pre-operative" stage of development. In addition, exporters of selected agricultural products—coffee, cocoa, some fruits, and certain seafood products—receive a tax credit equal to 10 percent of the export's FOB value.

Section Three: Conclusion

International trade in perishable and seasonal specialty crops as well as animal agriculture is very important to the State of Florida. In negotiations regarding the

FTAA and the WTO, Florida requests that its above-mentioned concerns be taken into consideration.

○