LEVELING THE PLAYING FIELD AND OPENING MARKETS: NEGOTIATING A WTO AGRICULTURAL AGREEMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE

OF THE

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

ON

MARCH 23, 1999

Serial No. 106–50

Printed for the use of the Committee on International Relations

U.S. GOVERNMENT PRINTING OFFICE
60–296 CC WASHINGTON : 2000

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TUESDAY, MARCH 23, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 2 p.m., in room 2255, Rayburn House Office Building, Donald A. Manzullo (Chairman of the Subcommittee) presiding.

Mr. MANZULLO. We will call this Subcommittee meeting to order. The Chairman should be here shortly. The Subcommittee today is going to deal with WTO and Agricultural products.

I am going to ask everybody if they would be willing to waive any opening statements so we can move directly into testimony. Would that be OK?

[Chorus of ayes.]

Mr. MANZULLO. Thank you. Any opening statement that you may have had, please feel free to make a part of the record.

Our witnesses, Chuck Lambert is the Chief Economist for the National Cattlemen's Beef Association. He works closely with Legislative and Regulatory Staff to explain and influence the outcome of beef industry economics on trade and marketing issues.

He staffs the Live Cattle Marketing Committee and is involved in other organizations in order to get those puppies overseas, including my little herd that I produce each year. I appreciate all of your efforts on that, Chuck.

Tom Suber is Chief Executive Officer of the U.S. Dairy Export Council. As Chief Executive Officer of the Council, he is responsible for the creation and implementation of all Council programs, develop export markets for U.S. dairy products. Welcome here today, Tom.

Nelson Denlinger is Vice President of Government Programs for the U.S. Wheat Associates. He serves as the organization's liaison with Government agencies, including the USDA, State Department, and USTR on issues related to trade, credit, and legislation.

He would be involved formulating the organization's position in the next Trade Round. Good to have you here, Nelson.

Val Giddings is Vice President for Food and Agriculture of the Biotech Industry Organization, which has 800 members. It is the largest trade organization representing companies using biotechnology to produce new products in various industrial sectors.

Prior to joining USD, Dr. Giddings worked as a biotechnology consultant to the World Bank. It is good to have you here, Val.

Nicholas Giordano is the National Pork Producers Council's inhouse International Trade Counsel. Mr. Giordano is responsible for the development and implementation of the Pork Producers Council's international trade policy and for areas of foreign market development.

We appreciate you coming this afternoon. I am sorry that we are starting a little bit late. This is a 5-minute clock. When it gets to red, it is time to wind up.

Let us start here with Dr. Lambert.

STATEMENT OF DR. CHUCK LAMBERT, CHIEF ECONOMIST, NATIONAL CATTLEMEN'S BEEF ASSOCIATION

Dr. LAMBERT. Thank you, Mr. Chairman and Members of this Subcommittee. My name is Chuck Lambert. I am Chief Economist for the National Cattlemen's Beef Association.

I appreciate the opportunity to visit with you today about issues that are vitally critically to the U.S. beef industry. The beef industry has emerged as an exporting sector of agriculture.

As recently as 1985, we exported less than 1/2 of 1 percent of our production. Last year, we exported about 8 percent of our production and about 12 percent of the value of sales came from the export market. So, we have seen an increasing reliance on the export market.

We would anticipate in the future that as the aging of the U.S. population takes place, and given the demographics in place, that we will increasingly rely on younger, faster growing economies with increasing disposable income.

The U.S. beef industry, as most U.S. agriculture has been very supportive of it advancing and expanding trade, removing barriers to trade.

We have some real concerns about recent events or ongoing events involving the European Union in kind of an issue that has been ongoing since 1989 when we were shut out of the European Union because of use of technologies, which have been approved here, and have been routinely used in the U.S. production system since the 1960's.

In the case of the European ban on U.S. beef, we filed a case with the WTO in January 1996. Following that process, the U.S. has won that case and the decision. It has been upheld upon an appeal. The end of the reasonable period that the arbitrator granted the European Union to bring their regulations into compliance ends on May 13, 1999.

We, as an industry, have worked closely with the Administration. We have urged all parties to not let this deadline slip further. Concern that the Europeans have historically utilized stall and delay tactics, which have postponed and basically kept them from complying with rulings of the WTO.

The U.S. beef industry feels that we have been patient and that there is a growing sense of—even though we have been very protrade in the past—there is a growing sense of frustrating and of protectionism in the Country and that we need to stand tough to win a couple of these cases so that we can prove that the system works to address concerns that we are not playing on a level playing field, and to regenerate some enthusiasm and some support for continuing and expanding the trade agenda.

With respect to the 1999 Round, the beef industry, again, most of agriculture feels that we should expand the trade agenda, not just negotiate on agricultural issues. That, at least with the beef industry, our market is probably the most open market in the world.

Our tariff rate quotas are at levels that are rarely threatened of being filled. So, generally the world does have access to our market. By expanding the trade agenda that we do have more leverage and we will be able to address some of the issues of concern in the beef industry.

I thank you for your time and will be willing to address any questions.

[The prepared statement of Dr. Lambert appears in the appendix.]

Mr. MANZULLO. Thank you. We just got a list today of the $900 million in the retaliatory tariffs that the USTR is going to impose on the Europeans. They just came out today.

I do not know if you are aware of that. It is quite a list. I am going to be in Rome and Florence next week. What a time to go, huh? They will be complaining about that.

Mr. Suber, I will do my best to time you with the mechanical watch. Evidently, these things are not working too well.

STATEMENT OF THOMAS SUBER, CHIEF EXECUTIVE OFFICER, U.S. EXPORT DAIRY COUNCIL

Mr. SUBER. Mr. Chairman and Members of this Subcommittee, I am the Executive Director of the USTR Export Council. I am pleased to appear today to testify on the upcoming WTO negotiations in agriculture.

U.S. Dairy Export Council is a non-profit membership organization focused solely on increasing the volume and value of U.S. Dairy Exports. We received most of our funding from Dairy Management Incorporated, which is the organization responsible for managing the farmer-funded dairy check-off.

The market promotion programs of USTA's Foreign Agricultural Service, however, also an important share of our funding. Our members cover the full range of the dairy industry, dairy farmers, processors, cooperatives, and export trading companies.

The U.S. dairy industry is the second largest agricultural commodity sector in the United States measured by farm receipts. Its importance to the Nation is magnified when one also considers the extensive investment and employment tied to the processing side of the industry that turns a farmer's milk into exportable products.

The industry is a relative new comer to international trade. While its trade is modest in comparison to the $20 billion domestic market, U.S. dairy exports have grown over the past 5 years. In 1998, despite the financial melt down affecting U.S. agricultural exports generally, U.S. exports on a milk-equivalent basis actually rose about 1 to 2 percent. The most remarkable growth took place in markets where the industries invested most of its time and money.

For example, cheese imports increasing 20 percent to Japan; Korea taking 20 percent more away proteins, and American ice cream, the highest of our high value products, increasing last year to such countries as diverse and economically challenged as Japan, Mexico, and China.

American dairy products can and do perform successfully where there is a level playing field. Our industry's slow emergence internationally, however, stems from the fact that the dairy industry is one of the world's most protected and subsidized industries.

Trade practices are exacerbated by widespread financial problems and they result in an artificially low world price in dairy, anywhere from 25 to 50 percent below U.S. prices. This is despite the fact that the U.S. dairy industry is one of the world's most efficient and low cost producers at the production, processing, and the distribution levels.

This situation has motivated our members to seek substantial reductions and elimination of remaining trade barriers to dairy exports in the next WTO Round. Let me briefly describe two of our five industry objectives. The others are contained in my written testimony. The first one, the elimination by an established date of all remaining dairy export subsidies. When the current WTO agriculture agreement is fully phased in next year, it will still permit almost 60 percent of projected world dairy trade to remain subsidized.

The distribution of these subsidy allowances is highly skewed. On a milk-equivalent basis, the European Union accounts for fully 72 percent of these subsidies while the United States will account for just 3 percent.

The use of export subsidies is a primary factor that keeps world dairy prices depressed below U.S. domestic prices and hobbles our export expansion. The second major goal is the substantial reduction of remaining trade barriers to U.S. dairy exports. Let me give you some examples.

The European Union, the world's largest dairy market, under its WTO commitments, can impose a tariff rate of 240 percent. It gets all but a few limited quantities of cheese. Canada, our largest trading partner, imposes tariffs on U.S. cheeses at about 245 percent.

We also maintain significant tariff barriers against dairy products, but not at levels nearly as high as these. This is important to emphasize that our dairy industry recognizes that we must give access to get access.

Yet, unless all countries reduce their tariffs, especially the highly protected markets with very high domestic prices, the U.S. will remain the primary target for lower cost suppliers.

To achieve these and other objectives, the Council strongly supports renewal as fast as possible of the fast track negotiating authority as essential to achieve a timely outcome.

The Export Council does have first-hand experience in how effective the WTO can be in reducing practices that distort international trade. For example, Canada had committed to reduce its dairy producer finance export subsidy program in the last Round.

Shortly after implementation, the Canadian Government modified its programs, keeping key functions in tact, and then claimed the program was no longer subject to the WTO subsidy constraints.

Despite high domestic costs, Canadian dairy exports ballooned into low priced world markets and often displaced U.S. commercial exports. More ominously, the European dairy industry, significantly larger, was considering adopting a similar system.

The U.S. dairy industry successfully petitioned our Government to challenge both Canada's program and its restrictive implementation of a commitment to allow fluid milk imports. Just last week, the U.S. Trade Representative publicized the WTO Round ruled that both Canadian programs violated its WTO commitments. While Canada can and probably will appeal this decision within the WTO, we are confident that the finding will stand and that Canada will make the necessary changes to comply.

A decision supporting Canada would have thrown the foundation of the current agreement into disarray and the upcoming negotiations could have deteriorated into a costly effort to fix a crippling defect.

We appreciate very much the intensive work by USTR and USDA in this cooperative and successful effort between Industry and Government. We also applaud USTR's resolute pursuit of compliance in recent weeks with other WTO rulings similar to that, that Dr. Lambert described.

Finally, the Dairy Export Incentive Program, known as DEIP, provides the necessary means to allow the U.S. dairy industry to develop sustainable export markets in the face of continuing use of subsidies by our competitors.

The Export Council and other dairy organizations recently asked the Secretary of Agriculture to release the so-called unused export subsidies, approximately 74,000 tons of skim milk power, that were not used in the first WTO Agreement.

Such reprogramming is allowed in the WTO. Our request is especially appropriate in light of U.S. Congress' mandate in the last far bill that the Secretary of Agriculture make maximum permissible use of the DEIP Program. We welcome your interest in this matter and that the Congressional wishes are carried out in connection with this request. I appreciate the opportunity to testify. I will be happy to answer any questions.

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

Mr. MANZULLO. Thank you. Mr. Denlinger.

STATEMENT OF NELSON DENLINGER, VICE PRESIDENT OF GOVERNMENT PROGRAMS, U.S. WHEAT ASSOCIATES

Mr. DENLINGER. Mr. Chairman and Members of this Subcommittee, thank you for the opportunity to appear today before this Subcommittee on International Economic Policy. My name is Nelson Denlinger. I am Vice President of Government Programs for U.S. Wheat Associate, an organization that works to promote exports of wheat on behalf of U.S. producers.

We are delighted that this Subcommittee is having a hearing today on this timely topic. Export markets are extremely important for agricultural producers, in particular, wheat producers.

In any given year, we export approximately half of the wheat that is grown in this Country. Unfortunately, dealing in the international marketplace can sometimes be an exercise in frustration due to the many trade obstacles that we face.

One of the critical ones outside of the WTO's concerns is the fact that we have significant economic trade sanctions on wheat exports and other agricultural products. We are concerned particularly with regard to a number of key countries where we are excluded, which constitute roughly 10 percent of the world's wheat trade on an average year.

Last August, the U.S. Wheat Associates adopted a policy statement that suggested that, other than in the case of war or national security, the United States should refrain from the use of unilateral sanctions for food, food products, medicine, medical supplies, including financing.

Other trade restrictions and obstacles can only be dealt with through multi-lateral trade negotiations, such as the WTO, which will hold its ministerial meeting in Seattle to kick-off the Trade Negotiating Round.

There are a number of important issues that U.S. wheat producers are concerned about, which they would like to see addressed in terms of the Seattle kick-off, including export subsidies, domestic supports, State Trading Enterprise, and genetically modified products.

In the area of export subsidies, the European Union's use of direct export subsidies continues to be a problem. Not only does the E.U. persist in the use of export subsidies to gain market share at the expense of the United States and other, it also switches subsidies between wheat and flour in such a manner so that it disrupts trade in both commodities.

Unfortunately, these trade distorting subsidies are consistent with the E.U.'s commitments under the Uruguay Round, which did require a reduction in subsidies, but not an elimination.

We would urge that in the next round of the multi-lateral trade negotiations within WTO that we have an elimination of export subsidies. This would bring agriculture trade rules up on a par with industrial goods where subsidies have been banned since the 1950's.

The reform of the E.U.'s common agricultural policy, also known as Agenda 2000, also is of serious concern to wheat producers who fear that unlimited domestic support payments to E.U. farmers with de-coupled payments will continue to encourage unwarranted expansion of wheat production in Europe.

They will be reducing their export subsidies in all likelihood, but the problem will still continue. We would urge close attention to this matter, which we feel will be a continuing problem.

We would urge that all of the—supports under the Uruguay Round be reviewed. As for domestic support programs here in the United States, we should be prepared to see these programs reviewed, particularly the loan deficiency payments, Section 416 Purchase and Donate Program, since these programs were implemented since the conclusion of the Uruguay Round.

We expect that they will still be well under the levels of the Uruguay Round. It is important that these programs be measured in relation to those operated by other WTO countries, particularly the European Union.

The practices of the monopoly State Trading Enterprises, or STE's, such as those in Canada and Australia, have long been a thorn in the side of U.S. wheat producers due to the discriminatory pricing practices practiced by the STE's. We strongly support the introduction of disciplines on the non-transparent pricing practices of the STE's.

While it is difficult to document, our organization has evidence indicating sales routinely being made by a variety of wheat importing countries by STE's outside normal business practices, including standing offers to undercut prices.

This lack of price transparency underscores the long-term need to reform these entities. Government sponsored monopolies, such as the Canadian and Australian Wheat Board, are anachronisms of an old socialist era that do not belong in the modern world moving toward free and fair trade.

In an era of genetically modified products, had the negotiators in Cartegena, Columbia been able to agree on a biosafety protocol last month, that protocol could have had substantial impact on the international trade of genetically modified products.

This protocol would have required exporting countries to obtain permission from importing countries before shipping genetically modified seeds, plants, or products.

The United States and other countries objected to the proposal, as it would have resulted in labeling and other requirements that were unnecessary, or unduly restrictive, or that would have been difficult to meet. The United States' wheat growers would like to see the WTO establish a time-defined science-based review and approval process for genetically enhanced products.

That WTO signatories, particularly Canada, the United States, the E.U., and Japan promote effective communication and coordination among their regulatory authorities with respect to approval processes for genetically enhanced products.

We also strongly urge the WTO establish clear rules based on sound science with respect to trade in genetically enhanced products and ensure that biotechnology——

Mr. MANZULLO. You are running out of time.

Mr. DENLINGER. Sorry?

Mr. MANZULLO. You are running out of time.

Mr. DENLINGER. OK.

Mr. MANZULLO. You can conclude.

Mr. DENLINGER. I will conclude.

It is still on blue. I am sorry.

Mr. MANZULLO. Well, I guess it is.

Now it is not. I do not think this is working. So, forgive me.

Mr. DENLINGER. Last week, the Board of Directors of U.S. Wheat Associates began the process to develop a formal U.S. wheat industry position for the next round of the WTO negotiations.

Following this meeting, the process of pulling these ideas together will take place and we will have approval this summer. We would be happy to share the results of that effort with this body and other Committees on the Hill.

Thank you very much.

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

Mr. MANZULLO. Thank you. Dr. Giddings.

STATEMENT OF DR. VAL GIDDINGS, VICE PRESIDENT, BIOTECH INDUSTRY ORGANIZATION

Dr. GIDDINGS. I would like to thank you, Mr. Chairman, and Members of this Subcommittee for the opportunity to be here and testify today. With your permission, I would like to submit my written remarks to the record and summarize them.

Mr. MANZULLO. Without objection, all written remarks, reports, or statements of members will be included in the record.

Dr. GIDDINGS. I would like to endorse the comments of my colleagues so far, and preemptively those of Mr. Giordano. I cannot imagine him saying anything that would be objectionable with Members that I represent here on behalf of the Biotechnology Industry Organization.

I am particularly pleased that Mr. Denlinger's comments on the biotechnology protocol, an issue I have worked on for nearly a decade, and which is very near to, if not my heart perhaps my gallbladder.

I was in Cartegena. We would be particularly delighted to talk about that in a question and answer session if any of you folks have questions about it.

I would like to address particularly the issue of biotechnology, and biotechnology products, and agriculture in my brief remarks today.

I will summary. I have already given you a little bit of a context. I want to summarize briefly what biotechnology is doing to American agriculture and ultimately to global agriculture.

Basically, it is changing the face of agriculture. It's transforming it to a much more sustainable basis than anything we have ever seen before, enabling us to increase dramatically production while dramatically decreasing input costs and environmental impacts.

In the 1998 growing season, there were nearly 60 million acres of transgenic crops being grown in the United States out of a total of about 70 million worldwide. Those two numbers right there gives you an indication of some of the sorts of problems that we have with biotechnology products, agriculture, and international trade.

We are far enough ahead. A number of other folks are looking for ways to slow us down while they catch up. The importance, therefore, of predictable and regular science-based regime for reaching regulatory decisions with regard to the introduction of these products is extremely important.

It is essential to recognize that all of these products entering into commerce through production, research, and development in the United States are exhaustively reviewed for safety, environmental impacts, human health, and so forth.

These new products have been reviewed, orders of magnitudes more rigorously than any previous products in human history. There is no question about their safety. There is no question about the enormous over-balance of benefits as opposed to risks that they provide.

The benefits that biotechnology is bringing and will bring to producers around the world, the problems with international trade are making it difficult for biotech companies to develop and commercialize these new products with the necessary speed and economic confidence.

We are working hard, along with others in the agricultural Committee, the Congress, and Administration to address these problems. It is extremely important that we take advantage of the opportunity posed by the upcoming round of the WTO negotiations to extend the protection of fair and scientifically based trade.

It is very imperative that the U.S. exercise its traditional leadership role in these international negotiations. We are encouraged to see so many people in Government working to make sure that happens.

We feel that the strategic approach to these negotiations should be that they should cover a broad spectrum of issues and not take things on in a piecemeal basis. We think that only if agriculture is part of a much larger context of discussions, will the necessary leverage and potential for tradeoffs be made possible—disciplines already apply biotechnology products in agricultural trade. There is some misunderstanding on this point and some mistaken notions have achieved a degree of currency in the European Union.

We, at Bio, have recently done an exhaustive survey of the language and intent of the SPS agreements under WTO. We find some very reassuring conclusions. The WTO agreements, according to our analysis, already impose substantial disciplines on countries that regulate agricultural biotechnology products.

The agreement on the application of sanitary and phytosanitary measures, the SPS agreement, requires that any measure applied to protect human, animal, or plant life or health, shall be based on scientific principles and a science-based assessment of risk.

Most regulatory activity with respect to transgenic products would be subject to these disciplines. The agreement on technical barriers to trade covers any technical regulations that do not fall under the SPS agreement.

The TVT agreement requires that such measures not be more trade restrictive than necessary in order to fulfill a legitimate objective. Certain disciplines under the GATT and the agreement on agriculture, for example, tariff bindings, national treatment of prohibition of quantitative restrictions are also relevant to non-SPS technical measures. In some respects, the current disciplines are not adequate to address the trade problems we are currently facing.

Our principle problem with respect to the European Union, right now, is less with the regulatory decisions themselves, but with the length of time and the unpredictability of the approval process in the European Union.

Annex C of the agreement addresses this issue. For example, it requires members to ensure that approval procedures are undertaken and completed without undue delay. The rules clearly need to be strengthened.

There are other disciplines in the agreement that are potentially helpful, but are in need of elaboration before they can effectively address the problems we are facing.

We believe that the new round of trade negotiations provides the United States with an excellent opportunity to strengthen and expand the disciplines in the SPS agreement to meet the needs of American exporters of transgenic products.

It also provides an opportunity for the U.S. to raise the profile of biotech-related trade issues and promote a trade-friendly WTO consistent international consensus on those issues.

We hope the U.S. negotiators will take advantage of this opportunity. A favorable outcome to the WTO negotiations could be critical to the long-term health of the biotechnology industry. It will certainly have an important affect on our ability to continue to apply this promising new technology for the benefit of U.S. farmers, U.S. consumers, and the U.S. environment.

Thank you.

[The prepared statement of Dr. Giddings appears in the appendix.]

Mr. MANZULLO. Thank you, Dr. Giddings.

I observed that tie with all the floor on there. I wonder if that was biotechnology-enhanced.

Dr. GIDDINGS. Well, there is a lot—in traditional technology. I am sure that the improvements in the silk production are in the works.

Mr. MANZULLO. What an answer. Mr. Giordano.

STATEMENT OF NICHOLAS GIORDANO, INTERNATIONAL TRADE COUNSEL, NATIONAL PORK PRODUCERS COUNCIL

Mr. GIORDANO. Thank you, Mr. Chairman and Members of this Subcommittee. I very much appreciate the opportunity to be here today on behalf of America's pork producers.

The National Pork Producers Council is Chairing the Agriculture Trade Coalition, which is comprised of 80 agricultural organizations representing interests in all 50 States, including each of the five organizations represented here before you today.

As Mr. Suber said, we urge you, the Congress, and the Administration to work together in a bipartisan manner to get traditional trade negotiating authority renewed and hopefully before the upcoming WTO Ministerial in Seattle.

We believe that the agenda for the new trade round should be comprehensive. It is well-established that agriculture is one of the most sensitive areas in international trade. Some of our closest trading partners, such as 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 these countries be able to accept an ambitious outcome on farm trade. While a sectorial approach may have worked for the Information Technology Agreement, this type of approach will not work for agriculture. Traditionally, these multi-lateral negotiations have not been concluded until agreement that the end of trade round, through a single undertaking covered in all areas.

This approach was devised to force negotiators to finish their work in the most sensitive areas or risk an overall failure. This approach was essential for agriculture in the Uruguay Round.

While most other countries are calling for a comprehensive negotiation in a single undertaking, some U.S. officials have talked about sector-by-sector negotiations and an early harvest for areas where negotiations can be completed more quickly.

We believe that such an approach would be disastrous for U.S. agriculture. Notwithstanding the progress made in the Uruguay Round, tariffs on agricultural products remain very high.

U.S. Agricultural Tariffs, which average only about 5 percent, are dwarfed by agricultural tariffs of other nations, which average about 50 percent. Agricultural tariffs must be lowered from these high levels on an accelerated basis.

A date certain should be established by which all tariffs will be reduced to zero. The elimination of all subsidies is a top priority for the U.S. pork industry as well in the upcoming trade negotiations.

The U.S. pork industry does not support reopening the sanitary and phytosanitary agreement for further negotiation in the next trade round. We believe it is working well. The fact that the E.U. is dragging its feet on implementing the hormone ban does not go to the WTO which made the proper finding.

It goes to the recalcitrants of the European Union on agricultural issues. Two priority areas in the upcoming negotiations for the U.S. pork industry will be greater market access in Japan, our largest export market, but we have only really touched the tip of the iceberg there, and elimination of E.U. pork subsidies.

The largest exporter of pork in the world is Denmark. That country is the world's leading exporter for one simply reason; subsidies. Well, the next round is the appropriate form to eliminate E.U. pork subsidies.

Much can be done right now to assist the U.S. pork industry offset the unfair advantages of the European Union. Pork is an extremely compelling candidate to be included on the final retaliation list, if the hormone matter is not settled to the satisfaction of the U.S. beef industry.

Pork is on the proposed retaliation list which was proposed yesterday. Many of the U.S. beef packing plants being injured by the E.U. hormone ban also are in the pork business and must compete here in the U.S. with subsidized E.U. pork. Although the E.U. exports virtually no beef or poultry to the United States, during the last 5 years every E.U. country, with the exception of Greece and Luxembourg, has exported pork to the United States.

Despite two Section 301 cases filed by the U.S. meat industry, the E.U. pork market has been closed to the U.S. for over 10 years a result of the E.U.'s third country meat directive.

The regulation which affects not only U.S. pork, but also beef and poultry bound for the U.E. It has completely usurped the role of USDA's Food Safety and Inspection Service, and does not enhance the safety of U.S. meat and poultry as the E.U. claims.

Under this system, E.U. inspectors determine, on the basis of very arbitrary factors, such as the color of plant walls, whether a plant is qualified to export to the E.U. The random enforcement of this regulation has resulted in a complete cutoff of U.S. poultry exports, and has reduced to a trickle U.S. pork and non-hormone beef exports from a few token plants.

Ironically, it is widely known that the majority of E.U. meat plants do not even meet the third country meat directive requirements. The E.U, lead by Denmark, recently approved without scientific basis, a ban on the use of many antibiotics and livestock feed.

The Danes, the E.U.'s largest pork producer, know that this antibiotic ban will ensure that U.S. pork, or beef, or poultry for that matter, never, ever will be sold in the E.U. The ban becomes effective as to all member states on July 1st. A strong response to the E.U. treatment of U.S. pork exports is long over due and need not wait until the next trade round.

Thank you, Mr. Chairman.

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

Mr. MANZULLO. Thank you. Mr. Delahunt.

Mr. DELAHUNT. Thank you, Mr. Chairman.

I think it was Mr. Denlinger who said that unilateral sanctions imposed by this Government have impacted the export of wheat. Can you amplify that? Enumerate the countries for me.

Mr. DENLINGER. The countries that I have on my list here, there are lots of other countries that have had sanctions applied to them, but major wheat markets that are closed to the United States include Cuba, Iran, Libya, the Sudan, and North Korea. The 10 percent is an average figure. Some years it might be more than that.

Mr. DELAHUNT. Ten percent of?

Mr. DENLINGER. Of the world trade roughly.

Mr. DELAHUNT. Of the world trade.

Mr. DENLINGER. Yes.

Mr. DELAHUNT. How many countries did you enumerate?

Mr. DENLINGER. Five or six.

Mr. DELAHUNT. So, five or six of those would represent 10 percent of the world's trade.

Mr. DENLINGER. Iran being a very big one.

Mr. DELAHUNT. And Iran being the largest of them.

Mr. DENLINGER. Yes.

Mr. DELAHUNT. Now, are those total sanctions; no wheat whatsoever can be exported? Even for humanitarian efforts?

Mr. DENLINGER. Well, in the case of North Korea, we have been providing some wheat and other agricultural products for humanitarian purposes. Cuba has been getting, very recently, some small contributions, but other than that it is basically a closed door.

Mr. DELAHUNT. Could you provide me and the Committee, I do not know how—do you weigh wheat; by the ton?

Mr. DENLINGER. Yes. That is how you export it, sure.

Mr. DELAHUNT. If you could provide me some figures. Give me the figures on those countries.

Mr. DENLINGER. I will be glad to.

Mr. DELAHUNT. I would address this to all of the Members of the panel. In terms of the process itself as far as the WTO is concerned, what is your evaluation? Several of you expressed frustration.

Is the frustration based upon delay? In other words, from the time that the complaint is filed to a final disposition of the case? Why do we not start with you, Dr. Lambert.

Dr. LAMBERT. In the beef case, the original case was brought before the WTO in January 1996. As I have said, the end of the reasonable period is May 13, 1999. By normal court standards, that period of time probably is not out of line.

Mr. DELAHUNT. Well, that depends on what court.

Dr. LAMBERT. Correct. But the frustration is, if we were close to compliance by the European Union and this close to being settled, I think the frustration more has been with the European response and an indication, at least, that they will not be able to comply by the end of the reasonable period. That this case could drag on further, which we have said is absolutely——

Mr. DELAHUNT. In other words, there has been no resolution on the merits itself, to be really clear.

Dr. LAMBERT. Correct.

Mr. DELAHUNT. So, we have had 3 years. There has been no resolution on the merits. I would draw the analogy to a trial court. Then there is an appeal process subsequent to that. Am I accurate when I make that statement?

Dr. LAMBERT. The appeals process has been finalized. Basically, we are at the settlement process. Different from a court case, there is no back settlement or no back injury. Any settlement now is only from here forward. So, there is an incentive to postpone the inevitable for as long as they can.

Mr. DELAHUNT. So, we are right at the final stages.

Dr. LAMBERT. Yes.

Mr. DELAHUNT. Mr. Suber.

Mr. SUBER. I would not have anything to add since we are now facing implementation with the Canadian decision after the appeal is likely decided in the middle of the summer. Therefore, we are keenly interested.

Mr. DELAHUNT. When was the complaint initiated?

Mr. SUBER. It was in late 1997. So, it is a process is predictable and better than the one that preceded it. I have to emphasize, better than the one that preceded it. It does have issues with respect to stalling in settlement that are important to settle.

Mr. DELAHUNT. Dr. Giddings, do you have a comment?

Dr. GIDDINGS. Yes, sir.

A little bit different situation with biotechnology products in trade. It is not that Europeans have refused to abide by WTO rulings. It is that their regulatory process which has been busted since its inception continues not to function.

In particular, they have under Directive 199220 specified a series of time lines by which regulatory decisions on approval for imports of transgenic crops should be taken. They are now in 400 percent over-run over those time runs at a minimum, with no end in sight.

Last year, 20 million acres out of 80 million acres of corn were transgenic in the United States. About 2 million acres of that transgenic corn are 1/10 of the total consisted of varieties that have not been approved by the European regulatory process.

Mr. DELAHUNT. Your problem is different then.

Mr. SUBER. It is different.

Mr. DELAHUNT. Mr. Giordano.

Mr. GIORDANO. Just a couple of comments, Congressman.

First, under the old system, under the GATT, countries could block decisions. So, I believe that there were adverse decisions against the E.U., both on beef and bananas, under the old GATT.

The problem was you could not get any enforcement. That has changed under the WTO. I would agree with my colleagues that the problem is not so much the WTO, which I think has functioned very well, it is the recalcitrants of the E.U.

Mr. DELAHUNT. So, that goes to the issue of enforcement.

Mr. GIORDANO. Well, it does, but unlike some have characterized the WTO as a big bad villain that is going to force us to change all of our laws to come into compliance. It really is not that.

Either you do what the E.U. directs you do and change your offending regime, or you pay compensation, or you get retaliated against.

I would argue, although it seems that the Congress and the Administration is being vilified in the press for putting the pressure on the E.U., you are doing exactly what you should be doing and the process is working.

We are within our legal rights to retaliate. If in fact they are not going to implement these decisions, then we need to retaliate. Frankly, I think they believe that we are going to blink. That is not to say that the WTO does not need some reform.

Mr. DELAHUNT. Your position would be then, without retaliation what we really do is erode the essence of the WTO.

Mr. GIORDANO. There has got to be retaliation as a threat out there to make the system work.

Mr. DELAHUNT. So, it is not just about bananas. It is about something a lot more.

Mr. GIORDANO. Oh, it is absolutely not just about bananas. With all due respect to Chuck and to the cattlemen, it is not just about beef.

Whether they are intending to do so or not, they are strangling the WTO in its infancy and we cannot allow it. That is why it is so important to retaliate in these cases, if they will not change their practices.

Mr. DELAHUNT. Mr. Chairman, I hear the gavel.

Mr. MANZULLO. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

I had not expected to be up this quickly. Just a clarification on something you said, Mr. Denlinger. I think I am right in this. The embargo against North Korea still holds. The wheat we have provided has been strictly through the World Food Program, although the current proposal that we are going to get is that some processed foods, 100 million metric tons would go through NGO's for the first time, American NGO's, for a Title III, Food For Work Program, related to their potato industry.

Actually, the wheat embargo is still total with respect to North Korea. Is that correct?

Mr. DENLINGER. That is right.

Mr. BEREUTER. I just heard the comments made about the need to retaliate. I do agree with you. I think it is essential. I am wondering what your recommendations will be for a new round to strengthen the expeditious enforcement of decisions made by the dispute settlement mechanism that is now in place.

How do we avoid the Europeans changing their proposal again, and again, and delaying it a maximum amount of time while great damage is done to us? Would anybody like to make a suggestion in that respect?

Mr. GIORDANO. I will take a shot at that Congressman. I think that to a certain extent, if the E.U. is going to be recalcitrant on these issues, there may be not much we can do, but just retaliate. I do think that some reforms can be made, for example, there has been some confusion about how Articles 21 and 22 relate to one another.

I think perhaps a clarification would be useful. I think, as I pointed out in my written comments, the amount of time to establish a panel could be truncated in a time certain, a deadline given, and perhaps the entire process could be somewhat streamlined.

We have come up with this arbitrary 15-month period. I understand that it does take time for legislatures, for the Congress, if a law needs to be changed or a regulation that, that takes time.

Yet, would it not more serve our purposes if perhaps that period of time was truncated. I think most, if not all of us, in agriculture I think would be pro-WTO. We would also say yes, there is some positive reform that we could undertake in this upcoming round.

Mr. BEREUTER. Of course, I focused on the problems the meat industry has had with the European Union since more red meat is typically processed in my Congressional District in a month than anyone in the Country.

We have had problems, of course, with the beef hormone matter for some time, even though as I understand it, we have assured that the meat that we would provide would have no hormone residue.

The European Parliament, it seems to me, has passed a number of resolutions which are emotionally driven, which are contrary to good science. Now, with the problems in the European Commission, and the growing power of the European Parliament, to what extent do you think we could actually move the institutions of the European Union, including the European Parliament, to agreeing to science-based regulations; whether it is the meat industry or any other industry?

I think American exporters would be happy to live with the results of good science, but that seems to be a problem for us to overcome with respect to the European Union. Do you any of you have comments or suggestions about that subject?

In fact, is this a reasonable indication of what the situation is with respect to the European Parliament and the European Union?

Dr. LAMBERT. I think we would agree with your observations. That is the reason that we, in the beef industry, have called for a large injury figure, have called for the retaliation list to be published, and to look for creative ways that retaliation might be implemented to bring the strongest pressure to bear to change those who may be on the fence with respect to whether they would vote to repeal the current regulations that are in violation of the WTO.

We agree that the shift of the balance of power in Europe will make it probably more difficult for them to change the regulations.

Mr. BEREUTER. One more area of questions, if I can. That is related to subsidies for exported products from the European Union where there are our third country competitors.

We have, of course, established some time ago the Export Enhancement Program which is one means of attempting to counteract those very heavy export subsidies that the European Union does have, but we are not using them unfortunately.

The talks that are going on between the E.U. and Mexico now suggest that they will be able to cut dramatically into our export market in grains and into meat as well as other products.

To what extent is the Uruguay Round and to what extent do you think the next round, has it been determined to be Seattle; a round should address the question of export subsidies.

Is this something that will strictly come under the scrutiny of the OECD, or do you think it is appropriate for additional focus of the next round to be on export subsidies?

Mr. SUBER. As it affects the dairy industry, I think there is no single more important issue than the elimination of export subsidies at a certain date. One could negotiate what is the implementation period; 5 years, 8 years, 10 years. There should be a date when it is known that export subsidies will be fully eliminated. Without that, there is the political will within each country. It changes from crop season to crop season.

It changes with demographics. You must have that out there as a target so that all of the trading countries know what is ahead of them and can make adjustments accordingly to react to the marketplace. That should remain within the WTO.

Dr. GIDDINGS. Sir, if I could respond to the previous question very briefly about the virtues of relying on science as a basis for regulatory decisionmaking. That is absolutely essential. It is the only way for achieving universal consensus.

Although necessary, it is plainly not sufficient—reason is clearly insufficient to triumph in these discussions with the Europeans. An appeal to scientific validity of the regulatory decisionmaking processes will not help either, if that is all we do. There has got to be some additional diplomacy and perhaps of muscle of one sort or another applied.

Mr. BEREUTER. I cannot resist the question to ask if any of you gentlemen want to offer if a recommendation——

Dr. GIDDINGS. If I could.

Mr. BEREUTER. Sure.

Mr. MANZULLO. Mr. Menendez.

Mr. BEREUTER. I am sorry.

Mr. MENENDEZ. Thank you, Mr. Chairman.

Let me first assure my colleagues, as the Ranking Democrat on the Committee that I have not switched sides. In the spirit of bipartisanship, I sat here—I did not want to—that will be for the Chair Lady to discuss. We always welcome her to our side.

I want to ask unanimous consent to include my statement in the record.

Mr. MANZULLO. Without objection.

Mr. MENENDEZ. The reason both she and I are late is because we were managing a resolution on the floor. I brought us here a little late, but I got to hear most of the testimony. I came here with the intention of asking a series of questions as to how we can best help you.

For someone who comes from an urban district that is basically black-top, I find interesting we vary on other issues. Of course, the Garden State of New Jersey has more than just black-top in the process. So, there is some interest in agricultural issues.

I am compelled, based upon Mr. Denlinger's remarks to ask the questions that I did not come here to ask. I see in your statement then, in your comments—would you yield?

Mr. MANZULLO. It is "Denlinger;" right?

Mr. DENLINGER. Right.

Mr. MANZULLO. We went to "Dilenger."

Mr. DENLINGER. They gave that up awhile back. Uncle John left a long time ago. I do not know what it says there.

Mr. MANZULLO. It is wrong. It is "Denlinger."

Mr. MENENDEZ. I see that you have comments here with reference to—sanctions. The resolution that the Chair Lady and I were handling on the floor was about Cuba. So, I find it interesting. Let me ask you with reference to the Wheat Association, do you have any position on how we deal with weapons of mass destruction?

Mr. DENLINGER. No.

Mr. MENENDEZ. Do you have any position on how we deal with terrorism?

Mr. DENLINGER. No.

Mr. MENENDEZ. Do you have any position on how we deal with promoting the opportunity to ensure that food is not used in a rationing to control people in other countries.

Mr. DENLINGER. No. We believe that food is fungible.

Mr. MENENDEZ. If the only way for me to get that food is to stand in a line with the ration card that the state gives me, is something that we want to be a part of?

Mr. DENLINGER. I do not think we have any control over that. The group of countries that you list is a group that, in my mind, Iran, Libya, North Korea, Sudan, all are engaged in either issues of terrorism, state-sponsored terrorism, development of weapons of mass destruction, violation of people's human rights.

It seems to me that the business community, while we certainly want to be helpful to you, and I have serious questions about how the WTO is operating in the context of a series of decisions that we keep winning but cannot seem to get enforcement.

Hence the whole conversation of retaliation and what not, and looking for better mechanisms. I am also concerned about State Trading Enterprises and that whole issue. It seems to me that one of the questions we have to ask is if there is only a handful of peaceful diplomacy pools that any country has, and that includes the United States, it is the use of your aid in trade to induce countries to act a certain way.

It is the international opinion that you can create for those countries who are willing to dissuade themselves to international opinion. Last, it is the use of your aid in trade and the denial of that aid in trade is what we would call sanctions.

Your Association's view that but for war or national security reasons that the United States should disarm itself from any use of unilateral sanctions under any set of circumstances I think is irresponsible as it relates to U.S. foreign policy.

In essence, of the five possible tools of peaceful diplomacy, the reality is that you would disarm yourself to the use of your aid and trade for the purposes of promoting U.S. interests abroad, not U.S. interests as you narrowly define it in terms of war and national security reasons.

So, I think that, you know, I know none of us want to send our sons and daughters into war. I think that we have to consider what other ways does this Country have to try to get countries to act a certain way, short of armed intervention. I think it is incredibly dangerous for this Country to unilaterally disarm itself of what is, in some cases, not in all cases, and it is a rather blunt instrument sometimes, but ultimately to unilaterally disarm itself of the potential of unilateral sanctions in some cases, I think, is a disservice to the national interests of the United States.

Having said that, let me just ask one question. The Administration has already signaled that it wants to see activities in State Trading Enterprises that some countries employ to market agricultural products become subject to multi-lateral trading disciplines, like the Australian Wheat Board, the Canadian Wheat Board, the New Zealand Dairy Board.

Can you give the Committee of Members, particularly those of us who may not come from farming communities, how the activities of the STE's affect the ability of your Members to compete in world markets?

Mr. DENLINGER. Should I begin?

Mr. MENENDEZ. Yes.

Mr. DENLINGER. Basically, the problem with the STE's is they are monopolies. They essentially market their commodities, in the case of wheat, on behalf of their producers.

The producers have no say in what their marketing decisions are. The country decides when they will sell. they are free to undercut open market prices as they will.

If they want to be very aggressive, if they have a lot of wheat to sell in a particular year, they will undercut prices very freely. They look at the U.S. open market prices as a starting point, as a point of reference.

From there on, they will offer \$6, \$8, \$10 per ton less, if they wish. That is where the unfairness of it is. There is no transparency. This is all very much under the table, unknown to most people. But you, of course, get anecdotal information.

They may also offer a different class of wheat, a higher class of wheat. In other words, it may be a \$20 per ton discount, if they are aggressive that year.

Mr. Suber. I would reinforce what he said about export STE's. I should also highlight the fact that there are import State Trading Enterprises which are just as problematic for U.S. trade.

China happens to run quite a few of them, not in dairy, but there are ones in Japan and in Canada. The issue there is they can practice discrimination on their sourcing in a way that can be used for political purposes, much as you discussed on national security basis.

They can decide to buy from this country for policy reasons and not that country; totally unrelated to the commercial viability of the supplier. So, in that sense, import STE's are just as important an issue as export STE's and subject to the same, should be subject to more disciplines and transparency.

Mr. MENENDEZ. Do you all want to see these fall on the multilateral regime? Do you want to see the suggestion that, as I understand, the Administration set forth? Is that something you support or do you have variation with it?

Mr. SUBER. I am sorry. The question was, should that be connected to the WTO disciplines?

Mr. MENENDEZ. Yes.

Mr. SUBER. Yes, they should.

Mr. DENLINGER. We would agree.

Mr. MENENDEZ. Thank you.

Ms. ROS-LEHTINEN—[presiding] Mr. Burr.

Mr. BURR. Thank you. I wish I had an excuse for my tardiness. I do not have the excuse of a bill on the floor. Let me just try to cover a few things. If I in fact go over, then I apologize.

Let me restate I think what Mr. Menendez asked. What is broken? Is it our ability to negotiate a trade deal that is fair or enforcement of a fair trade deal? I will just throw it out to each one of you for any comment.

Dr. LAMBERT. I think there is room for improvement of the existing trade deal; the tariff reduction, the elimination of State Trading Entities, the elimination of export subsidies so that there is room for improvement.

From the beef industry's viewpoint and the current process that we are involved in, the existing process is much better than the old GATT system in that at least cases can be brought through to conclusion.

It is getting the resolution. It is imposing the will, I guess, if you can in our case with the European Union to have them change their regulations to come into compliance with the WTO ruling.

Mr. SUBER. I think to talk about what is broken must put into perspective that the Uruguay Round is the first time agriculture had ever been included in a trade agreement. So, that was the first step for agriculture and its distorting trade practices to be brought under some discipline.

So, as a first step, it was a fine first step. There are more steps that must be taken to treat agriculture like industrial goods, which is to say zero tariffs and maximum market access to be built over time.

These are issues that take time for industries as traditionally protected as agriculture to accommodate themselves. That it has started and now it needs to go significantly farther.

The U.S. agriculture sector is one of the most competitive and simply cannot wield its influence when it is fighting against the treasuries of other countries.

Mr. BURR. How much does the lack of transparency in their systems affect our ability?

Mr. SUBER. It depends upon the subject matter, the country, and the product. Any time there is lack of transparency on the rules to implement import access, or the manner which export subsidies are calculated, or in STE's, it is impossible to put your finger on what the problem is if you cannot see the workings of the system.

Dr. GIDDINGS. I would say that if there is anything broken, it would be the European Union's willingness to abide in good faith by the commitments they have voluntarily entered into.

The WTO agreements, as has been mentioned here, are a very good start. The problem seems to be in the political willingness in Brussels to abide by the consequences of those agreements.

It seems to me that, that is an artifact of the fact that the treaty of Rome or the—treaty does not have an interstate commerce clause which gives their Brussels the capacity to enforce decisions throughout Europe.

What you have got is subsidiaries which leave most of the power for decisionmaking in these issues, you know, lodged in the national capitals which gives parochial interests the right to trump European, the broader European interest with the result that we have these same sorts of technical barriers to trade or non-tariff trade obstacles erupting in a variety of vastly different specific trade contexts.

Mr. GIORDANO. In the pork industry, our exports are up 86 percent by volume and 80 percent by values since the Uruguay Round went into effect. We have greatly benefited from that agreement.

I dare say most of American agriculture, at least, I do not think you would have 80 organizations in a coalition trying to get traditional trade authority renewed if they had not benefited.

I think that we hear so much about beef and bananas, they are high profile cases. For beef and bananas, there are so many other cases where the U.S. has prevailed or other countries have prevailed and the system has not broken down.

My understanding is that there have been more cases litigated already under the WTO than from the late 1940's when the GATT system was created to the formation of the WTO. That tells you that countries have a lot more confidence in that system.

I think as my colleague said in agriculture, the Uruguay Round was the first time we were included in a major trade round. You had disciplines on industrial subsidies years before.

The Uruguay round was the first time for agriculture. I think, yes, there are many high profile problems. We certainly have them in the meat industry. We have talked about some of those today. There are a lot of great success stories. We all know our future is based on trade and why we want the opportunity to trade more.

Mr. BURR. I will clearly admit that I have no banana producers. I have quite a few pork producers that are on the verge of going bankrupt, even with an 86 percent increase, which forces me to ask you the follow-up question.

Does that mean the rest of the world is open to our pork products? Are there still markets that are closed and markets that subsidize their pork exports?

Mr. GIORDANO. I dare say that if we did not have so many foreign market barriers, we would have been able to move a lot more pork out of the country this year. For all of the success we have had, and that is why we are so intent on getting further liberalization in this new round, there are many markets that remain closed, many markets where we have access now, but we need to increase that access.

Again, I think that is really a function of the Uruguay Round really being the first time that we started that process. So, we have had a lot of success, but you are absolutely right. Much needs to be done.

Our producers, I think across the board in American agriculture, but certainly in the pork industry, we are the world's lowest cost large scale producer. We produce the highest, most highest quality, safest pork. When Denmark and the other E.U. producers lose their subsidization, when these markets are opened up, we are going to benefit.

We are going to provide pork and other agricultural products to the world. When you look at 3 billion people being added, probably by the year 2050, our future is exporting. It is just imperative that we knock down these barriers.

Mr. BURR. When do you think that openness will come?

Mr. GIORDANO. I think, again, we made great headway.

Mr. BURR. Let me rephrase it. Do you believe that will really happen?

Mr. GIORDANO. Yes, I do. I think it is imperative because I think that if it does not happen and we follow the model that the E.U. would like us to follow in agriculture, we are going to have a whole lot of people in this world priced out of affordable food and safe food.

That is why as Dr. Giddings and my colleagues have said, the focus has got to be based on science. I think we need more of an open world trading system. We need rules that are based on science. If that is the case, the United States truly will continue to be the leading supplier of food to the world, but affordable and safe food.

Mr. BURR. Last question. Can I ask just one more?

Ms. ROS-LEHTINEN. Sure.

Mr. BURR. If anybody wants to comment. Are there specific countries that are continual problems? That if we looked at a list that was broken down by category, you would consistently find that country on there. If there are, would you share them with us?

Dr. GIDDINGS. From the biotechnology standpoint, almost every country in Europe is a problem. At the top of the list, I would probably put France, if you want me to name names. They are not alone in sinning against—in this arena.

Mr. BURR. Anybody else?

Mr. SUBER. There are some other countries in Asia that have generally been slower, but the scale of their problem, meaning the scale of the product they are keeping out is not quite on the level of what Europe has done.

So, Japan, though it frequently reaches headlines, has steps it can take to increase its access. It is making progress over time, especially in dairy. Korea continually needs more transparency, going to your earlier question.

Then of course, China, should it enter the WTO, will go a long ways toward making it one of the most important markets, U.S. agriculture and to dairy specifically.

Mr. BURR. I thank the Chairman.

Ms. ROS-LEHTINEN. Thank you. Thank you Mr. Burr.

Following up on that, I think that we all agree that, as a Country, we want greater market liberalization of our agricultural products. However, when our U.S. tariffs on farm good average 3 percent and the world's average is 56 percent, what recommendations would you make on what you think the U.S. should offer in multilateral negotiations with our dealings to countries to induce them into open up their markets. What are the one or two things that you would recommend that would be the most helpful?

Mr. GIORDANO. The negotiations need to be comprehensive so that agriculture is not the only thing on the table. It is very difficult for countries like South Korea and Japan.

We are not going to be able to conclude with those countries, if agriculture is the only thing on the table. That is why we reacted so strongly a couple of years ago. When the Fast Track vote was pulled, there was discussion about an agriculture-only or WTO-only Fast Track and we opposed that simply because we believe you need comprehensive round in order for there to be tradeoffs in all sectors.

I guess probably all of us would agree that the ideal that we are all trying to reach, no matter what sector you are in, is openness and transparency. I mean, the U.S. are we going to prevail in every single sector? No.

As you say, we have the lowest tariffs. We have the most open and transparent market. So, if we can get our trading partners to open their markets somewhat, we are going to benefit. We are going to come out ahead.

Dr. GIDDINGS. I would concur with we Nick has said. It is absolutely the smartest way to approach the WTO Round that is coming up.

All of this takes place in a larger foreign policy context. I mentioned in my testimony that it is very important for the U.S. to assert its traditional leadership here.

A part of that is tied in with other issues that have nothing to do with trade or trade negotiations. As the Secretaries of State mentioned in this morning's letter in the Washington Post, great nations pay their bills.

We should pay our arrears to the United Nations. I know extremely well about all of the non-sense that happens under the context of the United Nations that is no one's interest. Nonetheless, the fact remains that it is a vehicle for the U.S. to exert leadership.

If were are not in good standing there, it makes it much more difficult for us to achieve a whole host of foreign policy objectives across the wide spectrum of issues. The importance of that cannot be over-estimated.

The degree to which our status on this issue has poisoned numerous other negotiations that are vitally important to U.S. national interests cannot be over-estimated.

Ms. ROS-LEHTINEN. Thank you gentlemen for being with us. I ask for my statement to be included in the record.

[The prepared statement of Ms. Ros-Lehtinen appears in the appendix.]

Ms. ROS-LEHTINEN. Mr. Delahunt, do you have an additional question?

Mr. Delahunt? Yes. Thank you Madam Chair.

I want to follow-up on my friend from North Carolina, Mr. Burr, when he asked when can we expect it. My sense is that, and I am guessing because he is concerned about the small farmer.

We can survive, but we can only survive by achieving certain economies, large scale economies, by merges, acquisitions, consolidations. So, I just wonder if, you know, when we achieve this utopia, whether the face of the American—whether American agriculture looks a lot different than it does today.

Am I making myself clear? I do not know whether, you know, Mr. Burr, if that was the import of this question. I mean, I see it happening. I come from a Coastal District. We have serious problems in terms of the depletion of certain fisheries.

What is occurring is that the larger, better capitalized, the factory—fleet, if you will, will survive. In the course of that process, the casualty will be a way of life. Many small fishermen and their families will end up in the dust ben of oblivion, if you will.

Mr. BURR. If the gentleman would yield?

Mr. DELAHUNT. I yield.

Mr. BURR. I think his point is where I was at. I would like to make sure that one of our jobs up here is not to explain to the American people that Safeway is not a farm. Unfortunately, if we do not find a way to expand our trade relationships because of our agricultural capabilities, we are not going to be able to have the most efficient pork production or the most efficient anything.

I think that puts us at risk long-term to where we will look back. Whether it is the small family farm, small family fishermen, we will regret, if in fact we get to the point that, that is not the case.

Mr. DELAHUNT. Reclaiming my time for a moment.

It is that time that we can share as long as we want now, since nobody is here. Well, you are here.

Mr. BURR—[presiding] I think the gentleman has got the Chair.

Mr. DELAHUNT. Well, thank you.

But that is exactly my point. When we are talking these macroeconomic issues, you know, we are omitting the reality on the ground and on the sea, if you will, for many people.

So that while we can continue to negotiate and work in a certain direction, all of you or most of you represent, I dare say, you know, many small farmers that are not going to survive a lengthy process. I dare say that we have to do everything that we can to accelerate that process so that many people will have a choice, whether it is to farm or to fish.

Mr. SUBER. If I can make a comment with respect to dairy on that. The dairy industry loses about 5,000 dairy farmers every year. That has not changed regardless of 10 or 15 years of changing dairy policy.

So, the issue when I have spoken in front of dairy farmer meetings, the issue of large versus small does not usually come down to international verses domestic.

If our dairy system is locked into concern with just the 260 million consumers in the United States, then the small dairy farmer is almost certainly going to be facing the same assimilation and going out of business that it has historically anyway.

They have as much to fear from a large California farm as they do from the subsidies internationally. They can only take the pressure off of the large Western farms and their efficiency, if the international market is open to a more efficient farm.

Mr. DELAHUNT. That is exactly my point. I think that all of us, you know, we obviously want to encourage the prosperity that is engendered by trade. Yet we just, at least I am speaking for myself at this point, do not simply want to see it benefit the large multinational corporation, but the small farmers, and the small fishermen, the small pork producers, the small wheat growers. That is what we are talking about.

Mr. BURR. The gentleman's time has expired.

The Chair will not hold it against him the fact that his fishermen are taking North Carolina fish.

I would like to thank all of our witnesses today. This has been a very fruitful and important hearing. I hope those Members on the Subcommittee who were not here have an opportunity to read your testimony.

This hearing is adjourned.

[Whereupon, at 3:35 p.m., the Committee was adjourned.]

APPENDIX

MARCH 23, 1999

NATIONAL CATTLEMEN'S BEEF ASSOCIATION

1301 Pennsylvania Ave., NW, Suite #300 • Washington, DC 20004 • 202-347-0228 • Fax 202-638-0607

Testimony

on behalf of the

NATIONAL CATTLEMEN'S BEEF ASSOCIATION

in regard to

Leveling the Playing Field, Opening Markets:
Negotiating a WTO Agricultural Agreement

submitted to

Subcommittee on International Economic Policy & Trade
House Committee on International Relations

The Honorable Lleana Ros-Lehtinen, Chairman

submitted by

Charles D. "Chuck" Lambert, Ph.D.
Chief Economist,
National Cattlemen's Beef Association

March 16, 1999

Initiated in 1898, the National Cattlemen's Beef Association is the marketing organization and trade association for America's one million cattle farmers and ranchers. With offices in Denver, Chicago and Washington D.C., NCBA is a consumer-focused, producer-directed organization representing the largest segment of the nation's food and fiber industry.

STATEMENT BY CHUCK LAMBERT, PH.D.
CHIEF ECONOMIST, NATIONAL CATTLEMEN'S BEEF ASSOCIATION
Subcommittee on International Economic Policy & Trade, House Committee on International Relations Hearing on Negotiating a WTO Agricultural Agreement
March16, 1999

Thank you Chairman Ros-Lehtinen and the Subcommittee for holding hearings regarding issues to be addressed in the 1999 round of multinational negotiations on agricultural trade scheduled in the World Trade Organization (WTO). NCBA commends your continuing efforts to improve the export outlook for U.S. agricultural products. I am Chuck Lambert, Chief Economist for the National Cattlemen's Beef Association,

Importance of Trade: Expanding access to international markets is critical to the economic growth of U.S. agriculture. For the beef industry alone, 1997 beef exports accounted for approximately 8 percent of total U.S. production and 12 percent of beef's total wholesale value. Through November 1998, exports of U.S. beef and beef variety meats had increased 4.7 percent in tonnage, but declined 6.1 percent in value.

The aggressive pursuit of export marketing opportunities was one of the critical underlying strategies to ensure that replacing traditional farm programs with the more market oriented "Freedom to Farm" policy would be successful. As Secretary Glickman has been quoted as saying, "for American agriculture, it is export or die." America's ranchers and packers are so productive that closing our borders is no longer an option—we must have access to world markets.

Only 4 percent of the world's population live in the United States. Population demographics suggest that America in general, and agriculture specifically, need to aggressively seize opportunities to market products in countries with young, fast-growing populations that have increasing disposable incomes. A recent independent analysis of potential export markets found that $10 trillion will be added to world Gross Domestic Product during the next decade. Even with the current financial crisis, 48 percent of that growth is projected to occur in Asia; 23 percent in Europe and 19 percent in the U.S.

Again, access to these emerging markets is vital. We must be working ahead of the curve to penetrate these regions of economic growth if there is to be any hope of maintaining, let alone expanding, demand for U.S. agricultural products.

The EU Beef Case: The EU has banned U.S. beef since 1989. This thinly disguised trade barrier was implemented in the name of consumer protection in spite of ample scientific evidence that production technologies in question were safe. When the ban was initiated, U.S. beef producers lost $100 million annually in beef trade to the EU. The value of that trade would now be hundreds of millions of dollars as can be seen from the percent of increase in U.S. beef exports to the rest of the world.

During the past decade, the EU has not been able to cite scientifically valid reasons for the ban. Scientific evidence clearly shows that growth promotants used by the U.S. beef industry are safe. Indeed, three of the hormones in question are essential for life and occur naturally in widely ranging amounts in all plants and animals. The other three compounds are synthetic alternatives that closely resemble the three natural hormones. These synthetic compounds do not leave residues and it is impossible to differentiate between beef produced with and without their use.

The U.S. filed its formal complaint with the WTO in January 1996, claiming the beef ban was a non-tariff trade barrier. Argentina, Australia, and New Zealand joined the United States in the action. Canada filed a separate case, and the final report addressed issues raised in both (U.S. and Canadian) cases. The EU filed an appeal in September 1997 of the May 1997 WTO ruling that the EU ban was not based on sound science and therefore, not consistent with WTO obligations. On January 15, 1998 the WTO Appellate panel released its final ruling that the European Union (EU) ban on beef produced with growth promotants is a non-tariff trade barrier and does not comply with global trading rules. An arbitrator from the Word Trade Organization (WTO) upheld the previous rulings and gave the EU until May 13, 1999 to bring regulations into compliance with WTO guidelines. Under WTO procedures the EU must now modify its regulations by May 13, 1999 to comply with the ruling or the United States can retaliate.

The objective of U.S. the beef industry is to re-gain access to the European beef market, not retaliation. Retaliation or compensation will not benefit the beef industry, and should be viewed only as a means to an end – market access – not the primary objective. Unfortunately, the EU's track record indicates that it will only seriously consider resolving trade disputes if it is confronted with the reality that retaliation is inevitable. With this objective in mind, NCBA has urged the Administration to determine the amount that the U.S. could sell without the ban, to provide a clear and concise timeline for implementing retaliation, and to develop strategies for targeting retaliation to maximize the potential that the EU will comply.

The established timeline for possible non-compliance by the EU calls for a public notice of the initial list of products for possible retaliation on March 15, 1999, with the public notice of the final list published April 30. Retaliation could begin as early as June 12 when authorized by the WTO Dispute Settlement Body, or on July 12, 1999 if the EU appeals the amount of retaliation.

The WTO dispute settlement process has generally worked when both parties choose to negotiate a settlement consistent with WTO rulings. The United States has successfully negotiated settlements in at least five cases when rulings in WTO cases were against the U.S. position, so the system can work.

It would be only fair to point out that until May 13, 1999 the European Union will not technically have failed to follow rules or abide by any dispute settlement ruling in the U.S. beef case. Our concerns are therefore based on the prior EU record of blocking cases under the GATT, their stall and delay tactics used in the banana case and statements during the beef case that they will not be able to have risk assessments completed or regulations changed by May 13. There seems to be a definite pattern of unwillingness, or perhaps political inability, to abide by WTO rulings that are not favorable to the EU.

It especially frustrating that the WTO arbitrator granted the EU 15 months as a "reasonable period" to modify their regulations and they did virtually nothing towards either negotiating a settlement or changing their regulations for the first 12 months. Now, with approximately 60 days of the "reasonable period" remaining, the EU is claiming that there just won't be enough time to complete the task. The EU response and explanation is more consistent with a college student facing a term paper deadline than a responsible member of the World Trading Organization and vital trading partner.

For more than a decade, the U.S. beef industry has been unfairly shut out of the European market. Since 1988, the United States has shown extreme patience relative to efforts to remove this scientifically, economically, and legally indefensible barrier to U.S. beef. We have been shut out of the European Market even though U.S. beef has not caused a single case of "mad cow disease." Our patience is gone. U.S. cattle producers have won all rounds in the effort to require the European Union to comply with international trading rules and drop its ban on U.S. beef. We are anxious to work with the Subcommittee, your counterparts in the Senate, as well as the Administration and Congressional leadership to exercise our right to sell beef in Europe.

Maintain Integrity of the WTO Dispute Settlement Mechanism: Among the strengths of the current WTO system is that there is a well-defined process for initiating a case and for determining the final ruling. The current system is much improved from its GATT predecessor in this respect. The strict science-based rules established for resolving these issues is another major strength of the current dispute settlement process.

The primary weakness of the current system is the absence of an enforcement system to assure compliance once a favorable ruling is determined. The United States has been unfairly locked out of the European beef market for more than 10 years by this thinly veiled trade barrier. The WTO case attempting to resolve the issue will have taken nearly three and one-half of those 10 years by May 13, 1999. The process has allowed for an initial ruling in the case, an appeals process and the arbitrator's 15-month reasonable period for the EU to change its regulations.

Although long, the total time expended would probably be consistent with the length of most U.S. court cases if there were a strong probability that the EU would comply at the end of the reasonable period. The frustration is that the EU is just now starting to discuss resolutions that will take another two or three years to implement. The problem is now much more one of compliance once the final ruling is made.

The EU's commitment to the WTO is being tested by its reactions to recent WTO rulings that went against their position on the EU banana policy and the EU beef ban. In the EU beef case, the EU's response has been to announce intentions to initiate yet another risk assessment, despite the fact they have been conducting risk assessments for over five years without being able to show credible evidence of risk. This blatant stonewalling is unacceptable and requires for aggressive and decisive action to address their blatant disregard of the WTO trade rulings and policy, especially since the EU is quick to insist on compliance with WTO rulings when they fall in their favor.

Many U.S. cattlemen have a perception that the EU is undermining the current system and has perfected the stall and delay tactic with immunity. Our concern is the perception that the U.S. does not have the will to retaliate to ensure our right to sell in Europe—and Europe's right to buy our beef.

Cattlemen, as do most Americans, expect to experience the rewards of winning when they are declared the winners, just as the U.S. has complied when it has lost WTO cases. Many are asking why the U.S. continues to participate in a system that does not provide a clear and prompt resolution to trade disputes. This growing loss of confidence and increasing distrust has resulted in declining grassroots support for trade and trade negotiations in general.

The integrity and validity of the WTO as a dispute settlement body requires that WTO members promptly comply with recommendations and rulings of the dispute settlement process. The EU must bring its policies regarding beef hormones into compliance with science-based WTO guidelines by eliminating the ban.

If they do not, the full force of WTO's enforcement measures must be applied. NCBA urges continued, coordinated efforts and pressure from Congress and the Administration to assure that the EU lives up to its responsibilities. It is essential that the EU comply with this ruling in a timely fashion to ensure the integrity and credibility of the SPS Agreement and the WTO dispute settlement mechanism.

It may be time to discuss either shortening the WTO dispute settlement process or providing for a mechanism that allows the winning party to be compensated while the losing party delays implementation. Perhaps some type of escrow account or bonding requirement could be established where the defending party would begin paying when the case is filed or when the initial ruling is made. Under the current system, compensation or retaliation only starts once the entire process is completed and the injured party is not reimbursed for losses incurred during or prior to the case. There is no incentive for early settlement by the losing party. In fact, the current system rewards stall and delay tactics.

The problem tends to be more with the current dispute settlement process because the losing party only has to pay for future losses and the payments won't begin as long as the process can be strung out. Maybe even more accurately the problem is with the EU response to unfavorable rulings from the dispute settlement process rather than the process itself. NCBA supports strict enforcement of the science-based trading rules established in the Uruguay Round Agreement on Sanitary and Phytosanitary Measures (the SPS Agreement). The red meat industry is generally satisfied with the SPS Agreement and opposes its opening for further negotiation.

The current system can and has worked very well when both parties are determined to bring the case to a swift and sure resolution. The current system can also be a dismal failure if one of the parties has a vested interest in delaying compliance indefinitely. It is critical for all parties to remember that they will win some WTO cases and lose some. The key is to treat the winning party when you lose the same way you expect to be treated when you win. To expect immediate compliance when you win and to delay when you lose is a sure blueprint for ultimately destroying the best and only global system available for resolving these contentious trade issues.

Political Climate:
Despite the overwhelming evidence that the international market must be the focal point for market growth and economic vitality, there is a growing protectionist sentiment at the grassroots level. This sentiment is the result of increased questioning at state and local levels about the impacts of trade on individual agricultural producers and increased skepticism about the willingness of federal officials to aggressively negotiate agreements favoring U.S. interests.

In addition, there is a growing lack of confidence even among "free" traders that our trading partners will live up to their obligations under negotiated agreements. As evidence, I would offer the example of the EU's non-compliance with the hormone ban rulings. Simply put, U.S. producers are tired of facing their international competition on a persistently tilted playing field.

There also is a somewhat accurate perception that U.S. negotiators and regulatory agencies are more focused on developing protocols and modifying regulations to address concerns of countries seeking access to U.S. markets rather than on identifying and addressing regulations in importing countries that limit access of U.S. products.

NCBA supports the WTO and free trade. Not in a starry-eyed, ideal-driven manner, but because cattlemen understand that our growth market is beyond U.S. borders. But we need enforceable global trading rules in place and in use that grant market access, settle disputes on the basis of science and reduce tariffs. Regulations of concern run the gamut of grading, labeling, animal health, pharmaceutical and other technology applications, inspection and a broad range of sanitary and phytosanitary measures (SPS issues). Developing interagency agreement and focus is important for maintaining public support for trade agreements, successfully negotiating increased access to international markets, and ensuring interests of U.S. producers are not compromised.

USDA asserts there are not enough resources available to form a team dedicated to negotiating veterinary agreements to facilitate U.S. participation in emerging markets. This needs to be addressed. The Canadian government established just such a team nearly two years ago. As a result, Canada has had a considerable head start in developing a presence and customer loyalty in emerging international markets including China and Chile. The clock is ticking and the U.S. still is unable to pursue these same markets.

It is clear that Congress and the Administration do not have a unified strategy to systematically attack the problems of U.S. agriculture as part of the upcoming multi-lateral trade negotiations. The inability to secure approval of fast-track negotiating authority in the 105th Congress is evidence of the lack of unified strategy. Agricultural producers are justifiably concerned about sending a team to the negotiating table that has a more consistent track record of in-fighting among Congressional and Administration ranks than engaging the opposition. NCBA urges Congress to coordinate with USDA to assure that adequate resources are allocated so U.S. negotiators can credibly participate in both the multilateral and bilateral negotiations necessary to address America's trade concerns. In addition, critical homework must be completed to provide strong, consistent and solid bargaining positions and messages throughout the negotiations.

Objectives for 1999 WTO Negotiations:
NCBA and the U.S. beef industry believe that the overall policy objective for U.S. trade is to maintain and increase access to existing markets for U.S. beef, beef by-products, cattle, semen and embryos, and to gain access in emerging markets for these products. NCBA and other meat industry groups support the following specific points to be addressed during the 1999 round of WTO negotiations:

- Prevent the EU from rolling back progress made during the previous GATT agreement. Enforcement of the strict science-based trading rules established in the Uruguay Round Agreement on Sanitary and Phytosanitary Measures (the SPS Agreement) is critical to continued expansion of U.S. beef exports.
- Ensure that science remains the only basis for resolving SPS issues. To ensure this outcome, the red meat industry does not support opening the SPS Agreement for further negotiation in the next trade round.
- Protect scientifically approved technologies, such as Genetically Modified Organisms (GMOs) and beef growth promotants that enhance production efficiency or food safety by establishing transparent, science-based rules.
- Negotiate elimination of State Trading Entities (STEs) and increased access to wholesale and retail trade in importing countries (especially relevant in China, Australia and Canada).
- Negotiate reduction and eventual elimination of production-distorting price supports and export subsidy programs. In addition, stricter disciplines and tougher enforcement mechanisms should be established to prevent the emergence of new schemes to circumvent WTO rules.
- Negotiate continued reduction of tariffs and expansion of Tariff Rate Quotas (TRQs). Existing duties in key export markets such as Japan and Korea must be reduced significantly. Establish a target date for reducing all tariffs to zero. Until this elimination of duties can be accomplished, expand existing tariff rate quotas to permit continued growth in exports. Country-specific targets must be established for these broad objectives and NCBA is currently coordinating beef industry efforts to establish specific targets and guidelines.

The U.S. must hold its trading partners to commitments agreed to in previous trade agreements or risk losing public support for additional trade negotiation authority. NCBA appreciates the initiatives that have been undertaken to gain access to international markets and to resolve lingering issues that restrict the ability of the U.S. beef industry to offer its products to international consumers. Without fast track authority, the U.S. will lose the initiative in gaining access to emerging markets and enforcing existing trade agreements.

The National Cattlemen's Beef Association is prepared to participate in the process of evaluating critical trade issues within the beef industry. NCBA looks forward to providing additional input as the U.S. addresses other trade issues, including accession of China to the WTO, resolving a host of other access issues with the European Union and passing regulatory authority legislation to provide continuing authority for negotiating additional trade agreements. Thank you for the opportunity to present this information.

Thomas M. Suber
Executive Director
U.S. Dairy Export Council

Written Testimony

House Committee on International Relations
Subcommittee on International Economic Policy and Trade

March 23, 1999

Madam Chair and members of the Subcommittee, I am Tom Suber, Executive Director of the U.S. Dairy Export Council (USDEC). I am very pleased to appear before you today to testify on the topic of opening markets in the upcoming WTO negotiations on agriculture.

The U.S. Dairy Export Council is a non-profit, independent membership organization that represents the export trade interests of U.S. milk producers, dairy cooperatives, proprietary processors, export traders and allied industry suppliers. Its sole mission is to increase the volume and value of U.S. dairy product exports. USDEC maintains offices in Mexico City, Tokyo, Seoul, Hong Kong, Shanghai, Brussels, Bangkok, and Sao Paulo to assist in the export of U.S. dairy products worldwide. USDEC receives the majority of its funds from Dairy Management, Inc., the organization responsible for managing the national farmer-funded dairy assessment known as the check-off. The market promotion programs of USDA's Foreign Agricultural Service are also a very important source - and an increasing share - of our funding.

The U.S. dairy industry is the second largest agricultural commodity sector in the United States, measured by farm cash receipts. The industry is not only large, in an economic sense, but also geographically extensive. Dairy is one of the top three agricultural sectors in fully half the states, and almost two-thirds of the members of the House hail from one of these "dairy" states. Internationally, the U.S. is the world's largest single country producer of cow's milk.

Impressive as those numbers are, they represent only the milk producer side of the industry; dairy processors, the companies that turns milk into yogurt, cheese, ice cream and milk powder, add overall strength and employment to the impact of the industry as a whole on the country's economy. In addition, we know that our ability to increase production, impacting both processing and employment, is almost unconstrained. This makes our efforts to market U.S. dairy products for export all the more important to the industry and to the economy.

World Dairy Trade Still Highly Distorted

The industry is a relative newcomer to international trade, and such trade is still modest in comparison to the size of the domestic market. In 1998, we imported about 3.5 percent of our total supply, on a milk equivalent basis, and we exported about the same percentage of our domestic milk production. Our export share has been growing in recent years, but this status reflects dairy's slow and difficult emergence internationally from being one of the world's most protected and subsidized industries.

For example, the European Union, the world's largest dairy market, is able under its WTO commitments to impose tariffs at a rate of about 240 percent for the foreseeable future against all but very limited quantities of cheese, an important U.S. dairy export product. Canada, our largest trading partner just to the north, and with whom the U.S. has concluded three major trade agreements in the recent past, will be similarly able to impose tariffs on U.S. cheese at a 245 percent rate. For butter the equivalent tariff rates are 310 percent for the EU and 300 percent for Canada. Japan, which, as a major net importer of dairy products, has relatively open markets for certain products, may hold the record tariff for a dairy product. It has a WTO final bound tariff for butter that represents a rate equivalent to about 1,075 percent of current world prices.

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

The outcome of these distortions, exacerbated by the financial crisis in Asia, Russia, Brazil and elsewhere, is a situation where world dairy prices are anywhere from 25 to 50 percent below U.S. domestic prices. And this is despite the fact that the U.S. dairy industry is one of the world's most efficient and low cost producers, at the production, processing, distribution and retailing levels.

Despite this situation, or more precisely because of it, the U.S. dairy industry is committed to achieving substantial reductions and elimination of remaining trade barriers to dairy exports in the next round of WTO negotiations in agriculture.

Furthermore, some progress and successes can be reported.

Recent Industry Progress and Accomplishments in Export Markets

We recently finalized 1998 year-end numbers for the U.S. dairy export industry and found that despite the financial meltdown in parts of Asia and the continuing after-shocks of the Brazilian currency crisis in Latin America, we did better than we might have expected. In fact, overall dairy exports, on a milk-equivalent basis, were up between one and two percent. For some products, the increases were significantly greater.

In Japan, for instance, ice cream exports -- the highest of our high value products -- were up 26 percent over the previous year and cheese exports were almost 20 percent higher than 1997. In Korea, a country badly shaken by the Asian financial crisis, whey protein exports were up almost 20 percent over 1997.

Mexico imported 11 percent more cheese in 1998 and China and Mexico joined Japan in increasing their imports of American ice cream. While the bottom line increases in these exports are important, even more important is the fact that these are all value-added, non-commodity products.

U.S. Industry Objectives in the Next Round of WTO Agriculture Negotiations

USDEC works closely with all of the major industry associations in fashioning an effective consensus on the industry's objectives in the next round of WTO agriculture negotiations. I feel comfortable in characterizing the industry's objectives as follows:

1. Elimination, by a date certain, of all remaining use of dairy export subsidies.

2. Substantial reduction of remaining trade barriers to U.S. dairy exports.

3. Continued reduction of all production-related domestic supports, without exception.

4. Improved transparency and disciplines on the trade-distorting effects of both import and export state trading enterprises (STE's).

5. Maintain and strengthen the current WTO agreement on sanitary and phytosanitary measures, which requires that standards be based on sound science.

Export subsidies. The importance of achieving elimination of export subsidies is clear from the brief situation description given above. The continued heavy use of export subsidies is the primary factor that keeps world dairy prices depressed below domestic prices and hobbles the expansion of sustainable, commercial U.S. dairy exports. Failure to achieve subsidy elimination, or a long, drawn-out phase-out, will perpetuate for many years the extreme imbalances in WTO-permitted subsidies we currently suffer under. This would, for at least another decade, continue to reward industries whose governments were most generous in protecting those industries and most egregious in distorting dairy trade back in the mid-1980's, the base period for the current agreement.

Market access barriers. Achieving meaningful and balanced reduction in remaining barriers to dairy market access is also critical. The U.S. also maintains significant tariff barriers against dairy imports, but not at the same high levels as the examples given earlier, as evidenced by the substantial butter imports last year over our tariff rate quota. The U.S. industry recognizes that it must give access to get access. Yet, unless all countries participate in reducing market access barriers, especially the highly protected markets that facilitate very high domestic prices through both small quotas and very high over-quota rates, the U.S. will remain the preferred market for lower cost suppliers. Therefore an outcome that resulted in significant new U.S. dairy import access while reducing only the unnecessarily-excessive portion of extreme tariffs elsewhere, thus providing no new U.S. export access, is unacceptable to us.

The countries from which the U.S. dairy industry seeks high priority dairy market access liberalization include Brazil, Canada, China (via WTO accession negotiations), Egypt, the European Union, Japan, Korea and Thailand.

Domestic supports. The issue of domestic supports is gaining importance due to current efforts in the EU to achieve reform of its Common Agricultural Policy (CAP). Although the process is not yet complete, it appears that CAP reform for dairy, one of the EU's three priority sectors for agricultural program reform, will be put on a slow track. The current proposal calls for a 15-percent reduction in EU dairy support prices, not to begin until 2003. These reductions will be offset by direct payments to producers based on their milk production quota levels. Meanwhile, total EU milk production quotas will be increased by 2.4 percent, about half to take place next year and the rest starting in 2003.

Our concern relates to the fact that the EU already produces up to 15 percent more milk than its domestic market requires, and this large surplus drives its continued heavy use of export subsidies. Expanding the EU's milk production quotas is a step backwards, and will make it more, not less difficult, for the EU to agree in the upcoming negotiations to eliminate remaining export subsidies and provide meaningful new access for imports to its dairy markets. In addition, the proposed direct payments will continue to provide production-related supports to EU dairy producers, and thus further encourage continued excess production. As it did in the Uruguay Round of world trade negotiations, the EU will undoubtedly seek to exempt these payments from reduction commitments in the new round via such devices as the "Blue Box." Such an outcome would still further hinder progress toward eventual elimination of government trade-distorting measures.

State trading. Import STE's can act as *de facto* market access barriers, effectively prohibiting exporting countries from establishing direct, commercial trading relationships with in-country end-users and increasing costs of imported products relative to domestic products in high-priced markets. On the other hand, import STE's can facilitate trade in some developing countries by providing a stable, dependable customer from whom importers can be assured of receiving payment. Import STE's are not as widespread a problem in dairy as for certain other farm commodities.

Export STE's can provide *de facto* export subsidies through their ability to price discriminate between high- and low-value markets and their ability to keep their transactions private. These are not pervasive in dairy, especially because they are not used by the EU. In dairy, the New Zealand Dairy Board is the most conspicuous example.

The U.S. dairy industry favors negotiation of new commitments that would require increased transparency in the operations of both import and export STE's as well as disciplines on the activities of STE's that truly distort trade.

Standards. The current WTO agreement on the use of sanitary and phytosanitary (SPS) measures is a key part of the WTO package of agreement. Although is it is not scheduled for negotiation, we are concerned over indications that other countries, and some groups in our own, that would like to reopen the WTO SPS agreement to include social, economic and other factors other than sound science as a basis of applying national standards. Any such action would represent a severe setback for U.S. dairy exports.

Other issues. With regard to the new negotiations themselves, the U.S. dairy industry supports structuring the negotiations as a single undertaking that encompasses all sectors, as opposed to a sector-by-sector approach. And it strongly supports renewal as soon as possible of the fast-track negotiating authority as essential to achieve a timely outcome that further reduces distortions to international dairy and agricultural trade.

Compliance with Current WTO Commitments

In addition to its expectations for the next round of negotiations, the U.S. Dairy Export Council has been a leader in using the current WTO agreement to achieve reductions in international trade-distorting practices. Although compliance with WTO members' commitments on dairy has in general been good, there are conspicuous exceptions, primarily in the area of circumvention of requirements to reduce use of export subsidies. Canada is committed to reduce its use of a dairy producer-financed export subsidy program that it has operated for many years. But shortly after it implemented the current WTO agreement, the Canadian government changed certain features of the program, leaving the key functions of the program largely intact, but leading it to claim the program was transformed and no longer a subsidy subject to the WTO reduction limits. Despite the high costs of its dairy products, Canadian dairy exports have ballooned in low-priced world markets in recent years, often displacing commercial U.S. dairy exports. The much larger EU was waiting in the wings to possibly adopt a similar system.

The U.S. dairy industry, led by USDEC, successfully petitioned the U.S. government to challenge Canada's program, as well as its restrictive implementation of a commitment to permit importation of fluid milk. Just last week a WTO panel ruled that Canada's programs violated its WTO commitments. While Canada can appeal this decision within the WTO, we are confident that the finding will stand, and that Canada will make the necessary changes to comply.

In addition to addressing the Canadian practices specifically, this ruling will have a much broader impact that U.S. Trade Representative Charlene Barshefsky summed up well in a recent press release. She stated that, "the decision will benefit world agricultural trade generally, by preventing other exporters of these and other agricultural products from evading their WTO export subsidy limits through copycat schemes modeled on Canada's. The panel report strengthens the basis for entering a new round of negotiations on agriculture, by ensuring that the existing rules on agricultural trade will not be undercut."

Presuming that the United States prevails in a prospective appeal of the recent WTO decision, the issue then becomes one of Canadian compliance with the ruling. As recent events with the European Union over bananas indicate, compliance cannot be assumed. It is for this reason that, despite the hardship posed to European suppliers of such products as cashmere sweaters and pecorino cheese, the U.S. government should use all reasonable and legal efforts to force compliance. The ultimate goal is compliance with international treaty obligations, not retaliation.

We are proud to have been the initiators of what will likely be a critical watershed event establishing the basic value of the existing WTO agricultural agreement. A decision against the U.S. (and New Zealand, which joined in the subsidy complaint) would, in our opinion, have thrown the entire basis of the current agreement into disarray and derailed the upcoming negotiation into a costly and uncertain effort to fix what would have been a crippling defect.

We welcome this Subcommittee's strong interest in the outcome of this critical challenge.

Maximum Use of the Dairy Export Incentive Program (DEIP)

As noted, the U.S. dairy industry's top priority for the next negotiations is elimination of remaining export subsidies for dairy products. However, that elimination must be multilateral. Until such time as all countries agree to eliminate export subsidies, it is important for certain U.S. commodity exports, particularly nonfat dry milk, to continue to receive assistance from our own export subsidy program, the Dairy Export Incentive Program, or DEIP. Such assistance is necessary to develop sustainable markets for U.S. dairy exports in the face of continued heavy use of subsidies by U.S. export competitors. The EU, for example, recently increased its subsidy rate for nonfat dry milk by over 9 percent, to more vigorously compete in the current depressed world market environment.

The Export Council and other dairy organizations recently requested the Secretary of Agriculture to permit use of so-called "unused export subsidies" under the DEIP. These are subsidy volumes that were permitted, but not used in the first two years of the WTO agreement to reduce subsidies. They amount to approximately 74 thousand metric tons of nonfat dry milk and smaller quantities of dry whole milk and cheese. Reprogramming of unused subsidies is fully consistent with our commitments under the WTO, but must be used by June 30, 2000. Our request of the Secretary is especially appropriate in light of the U.S. Congress's mandate in the 1996 Farm Bill that the Secretary of Agriculture make maximum permissible use of the DEIP.

We welcome this Subcommittee's interest in ensuring that the wishes of the Congress are carried out in connection with this request.

I appreciate the opportunity to testify and will be happy to answer any questions.

U.S. DAIRY EXPORT COUNCIL®

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DAIRY MANAGEMENT INC.™

19 March, 1999

U.S. House of Representatives
Committee on International Relations
Subcommittee on International Economic Policy and Trade
Room 702, O'Neill House Office Building
Washington, DC 20515

To Whom It May Concern:

As a nongovernmental witness before you on March 23, 1999, and in compliance with clause 2(g)(4) of House Rule XI, I am listing the following Federal grants or contracts received since October 1, 1994 through June 15, 1998. Subsequent data are still being compiled.

Source:	USDA/FAS/MAP Program
Amount:	$1,934,781 in FY 1997; $5,059,718 FY '94-98

Source:	USDA/FAS/FMP Program
Amount:	$433,596 in FY 1998; $1,493,596 FY '95-98

Organization: U.S. Dairy Export Council

Signature: [signature]
Executive Director

Date: 3/19/99

2101 Wilson Boulevard, Suite 400
Arlington, VA 22201-3067 U.S.A.
703-528-3049 Fax 703-528-3705 http://www.usdec.org

TESTIMONY OF NELSON DENLINGER
VICE PRESIDENT OF GOVERNMENT PROGRAMS
U.S. WHEAT ASSOCIATES
TO THE SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY
HOUSE COMMITTEE ON INTERNATIONAL RELATIONS
MARCH 23, 1999

Thank you for the opportunity to appear today before the Subcommittee on International Economic Policy. My name is Nelson Denlinger and I am Vice President of Government Programs for U.S. Wheat Associates, an organization that works to develop export markets on behalf of U.S. wheat farmers.

Exports markets are an extremely important market for many agricultural producers, and this is particularly true for U.S. wheat producers. In any given year, approximately half of the wheat grown throughout the U.S. is sold in foreign markets, making the export market imperative for U.S. wheat farmers.

Unfortunately, dealing in the international marketplace can sometimes be an exercise in frustration due to the many trade obstacles that either keep U.S. wheat out of a given market or make it difficult to market our product in a fair and equitable environment. Some of these obstacles, such as economic sanctions, are imposed by our own government and therefore can be directly addressed by Congress.

Economic trade sanctions imposed by the U.S. government are among the largest barriers to trade faced by U.S. wheat farmers today. According to the President's Export Council Report of January 1997, the U.S. maintains sanctions on 75 countries representing 52 percent of the world's population. Several growing markets are closed to U.S. commercial wheat exports, including Cuba, Iran, Libya and North Korea. Although wheat demand and imports by these countries vary from year to year, on average sanctions on these countries shut the U.S. out of ten percent of the global wheat market, a market U.S. wheat farmers certainly would like to have access to, especially in these times of extremely low wheat prices.

Last August, U.S. Wheat Associates board of directors adopted a policy statement that suggested that other than the case of war or for national security reasons, the U.S. should refrain from the use of unilateral sanctions; and that food, food products, medicine and medical supplies, including financing, should be exempted from existing and prospective sanctions.

Other trade restrictions and obstacles can only be dealt with through multi-national trade negotiations, such as the World Trade Organization, which will hold a ministerial meeting in Seattle, Washington, this November to kick off the next negotiating round. There are several extremely important trade issues that U.S. wheat producers, as well as other producers of agricultural products, would like to see addressed, and these include export subsidies, domestic supports, state trading enterprises and genetically modified products.

In the area of export subsides, the European Union's use of direct export subsidies continues to be a major problem. Not only does the EU persist in the use of export subsides to gain market share at the expense of the U.S., but it also switches subsidies between wheat and flour in such a manner so that it completely disrupts trade in both commodities. Unfortunately, these obviously trade-distorting subsidies are consistent with the European Union's commitments on export subsidies under the Uruguay Round Agreement, which did require a reduction in subsidies, but not an elimination. We urge that the next round of multilateral negations within the WTO result in the complete elimination of the use of export subsidies in world agricultural trade. This would bring agricultural trade rules up to par with industrial goods, where export subsidies have been banned since the 1950s.

The reform of the European Union's Common Agricultural Policy also is a serious concern to wheat producers, who fear that unlimited domestic support payments to EU farmers for de-coupled wheat production will continue to encourage an unwarranted expansion of wheat production in Europe. We urge close attention to this matter, as well as public access to the impact these changes may have on U.S. wheat producers. To address this issue, we recommend, at a minimum, the re-examination of the Uruguay Round definitions of the "box" supports.

As for domestic support programs here in the U.S., the U.S. should be prepared to measure the impact of programs such as the loan deficiency payment and the Section 416 "purchase and donate" program, since these programs were implemented following the conclusion of the Uruguay Round. It is important that these programs be measured in relation to those operated by other WTO member countries, particularly the European Union.

The practices of monopoly State Trading Enterprises, or STEs, such as those in Canada and Australia, have long been a thorn in the side of U.S. wheat producers, due to the discriminatory pricing practices practiced by these STEs. We strongly support the introduction of disciplines on the non-transparent pricing practices of STEs. While it is difficult to document, U.S. Wheat Associates has collected evidence that indicates sales are routinely being made to a variety of wheat importing countries by exporting STE's outside of normal accepted business practices, including standing offers to undercut U.S. prices. This lack of price transparency underscores the long-term need to reform these entities. Government sponsored monopolies such and Canadian and Australian wheat boards are anachronisms of the old socialist era that do not belong in a modern world moving toward free and fair trade.

In the area of genetically modified products, had negotiators in Cartegena, Columbia, been able to agree on a Biosafety Protocol last month, that protocol could have had a substantial impact on the international trade of genetically modified products. The protocol would have required exporting countries to obtain permission from importing countries before shipping genetically modified plants, seeds or products. The U.S. and other countries objected to the proposal as it would have resulted in labeling and other requirements that were unnecessary or unduly restrictive or that would have been difficult to meet. The U.S. also objected to the the inclusion of "products thereof" and whether it would also apply to wheat, corn and other commodities being shipped for further processing or consumption, rather than for planting.

U.S. wheat growers would like to see the WTO establish a time-defined, science-based review and approval process for genetically enhanced products, and that WTO signatories, particularly Canada, the U.S., the EU and Japan, promote effective communication and coordination among their regulatory authorities with respect to approval processes for genetically enhanced products. We also strongly urge that the WTO establish clear rules based on sound science with respect to trade in genetically enhanced products and ensure that biotechnology regulations do not act as disguised barriers to trade.

However, before the U.S. can go with any real negotiating power to the WTO negotiating table, or to any other multi-national trade gathering, the U.S. Congress must provide the President with fast track negotiating authority, and we strongly urge Congress to do so. The U.S. cannot afford to send our negotiators to the table with one hand tied behind their back.

As I speak before you today, the board of directors of U.S. Wheat Associates is holding a meeting to develop a formal U.S. wheat industry position for the next round of WTO negotiations. Following the board meeting, a U.S. Wheat Associates WTO Task Force will meet to finalize a wheat industry position paper. Members of the task force include U.S. Wheat Associates board members and representatives from the National Association of Wheat Growers. We will be pleased to forward this paper to the International Relations Subcommittee, as well as to the House and Senate Ag and Finance/Ways and Means Committees when it is completed and approved at our meeting this summer.

In summary, U.S. wheat growers are most interested in seeing that the issues I have described to you take a prominent place in the WTO negotiations, and that the U.S. negotiators participating in the next WTO round aggressively seek resolutions to these issues. Our producers have an important stake in the outcome, and so does the United States.

Thank you for your time and the opportunity to testify today.

Statement of
L. Val Giddings, Ph.D.
Vice President for Food and Agriculture
Biotechnology Industry Organization
Washington, DC

Before the International Economic Policy and Trade Subcommittee
Of the House Committee on International Relations

March 23, 1999

Thank you, Madam Chair, for inviting me to appear today before the subcommittee. I am here on behalf of the Biotechnology Industry Organization (BIO) whose 853 members throughout the United States and 26 foreign countries are using the techniques of modern biotechnology to improve and strengthen American agriculture, the environment, and human health and life.

I would like also to thank the Members of this Committee, the full membership of the U.S. Congress, and the Administration, for all your support and hard work on behalf of the U.S. biotechnology industry, especially in relation to our ongoing trade difficulties with the European Union. At the moment it looks as if we will continue for a while to have some rough spots to negotiate on the road ahead, and we look forward to continuing to work with you and the Administration to smooth our passage together through them.

To place our discussions today in appropriate context, I'd like to begin by highlighting briefly some of the benefits that biotechnology is now providing or will shortly deliver to farmers, consumers, the environment and the economy.

Benefits of Biotechnology

The efforts of BIO's member companies to apply biotechnology to produce new products to benefit consumers, farmers, and the environment are no longer a dream but a reality. This past growing season farmers across America planted approximately 60 million acres with genetically engineered corn, cotton, soybeans, tomatoes, potatoes, and canola.

These efforts are the culmination of 20 years of research and development building on the first genetically transformed plants iin academic laboratories. The ability to modify major crop plants with precision at the molecule level delineated a promise for a new revolution in American agriculture. Tremendous strides had been made in plant breeding during the decades preceding the discovery of recombinant DNA techniques. But the ability to add new traits to crops remained still difficult and time consuming. With the classical techniques, only large blocks of genetic material could be transferred rather than a specific gene or genes. Often extensive backcrossings were required to winnow desirable traits from the larger mass of material. Clearly recombinant DNA could help overcome many of the technical obstacles that classical plant breeders faced.

The new techniques of recombinant DNA represent another step along the continuum of plant breeding improvements that stretches back for thousands of years. For the first time, now, scientists begin to have a clear view of what they are doing when the select and breed plants. Rather than making a wide genetic cross where numerous uncharacterized genes (as many as 50,000 at once!) are carried forward into the plant's progeny, plant breeders using biotechnology can with unprecedented precision and predictability now add one or a few carefully selected and well-characterized traits. The new biotechnology allows the development of new varieties with precision, shortens the crop development cycle, and will lead to the continual introduction of safe new varieties into commerce.

There is also the growing pressure to feed an ever-increasing world population from a limited amount of land. Clearly advances in high yield agriculture offer one important solution and biotechnology is a major contributor to this. As many have noted, conversion of natural areas into farmland is the major impact of humans on natural environment and poses a great threat to biodiversity. We know from our own experience in this country that agriculture has profound environmental effects. Our ancestors cut down virgin stands of timber to clear land for farms and towns. They plowed the vast grasslands of the Midwest to grow wheat, corn, soybeans, and other crops. Rivers were dammed and swamps drained so that lands normally unsuitable for agriculture could be used for growing cotton, citrus, and the vegetables that grace grocery stores in winter and improve our nutrition year round. And we have begun to learn to carry out agricultural activities in a manner that minimizes adverse environmental impacts.

We are beginning to see how biotechnology can be used in a manner dramatically to improve the environmental sustainability of production agriculture. Biotechnology is used to strengthen a crop's own ability to defend itself against disease and destructive insects, reducing and sometimes eliminating the need for external chemical supplements such as chemical pesticides. One approach to insect control involves adding to a plants genetic makeup the ability to produce a protein—toxic to certain insects—derived from a common soil bacterium called *Bacillus thuringiensis*, or Bt.

Organic farmers and home gardeners often use sprays containing Bt proteins to control insects because it is easy and very safe. These sprays target specific insects and nothing else. The Bt containing crops go one step better than topical sprays by producing the protein inside the plant tissues, thus reaching insects like the European corn borer, that are internal parasites out of the reach of topical insecticides. The healthier plants that result give in higher yields and improved fertilizer efficiency.

Crops commercially grown on a large scale today with Bt insect protection include corn, cotton and potatoes, and will soon include sunflower, canola, wheat and tomatoes. In the future, consumers will plant lawns with Bt turfgrass protected against grubs.

Crops that are genetically modified to withstand applications of herbicides give farmers greater flexibility in their weed control strategy, allow them to use weed controls more selectively and to use environmentally gentler herbicides. Rather than making preventive sprays, farmers can wait into the growing season, after the herbicide tolerant crop emerges, to see where weed pressures develop *before* spraying. This allows precise and minimal applications of weed control measures.

The farmer uses more economical, efficient, and safer controls, reducing environmental impacts, and increasing production efficiency. On all counts, farmer satisfaction increases, especially as superior weed control also increases productivity per acre and decreases insect pest control costs. Soybean, cotton, corn and canola have herbicide-tolerant varieties. Wheat, rice and sugar beet are in development.

Reducing nutrients in farm runoff, increasing crops' fertilizer efficiency and conserving topsoil are ways that biotechnology helps protect water quality. Low phytic acid corn and phytase feed enzymes improve the ability of livestock to digest and absorb phosphates in feed grain, and reduce potentially harmful phosphorus in farm animal waste. Reduced insect damage in Bt crops means healthier plants use fertilizer more efficiently, reducing excess soil nutrients and contamination of irrigation runoff. And herbicide tolerant crops promote conservation tillage, preserving topsoil and even reducing greenhouse emissions by keeping carbon "sequestered" in soil and reducing petroleum fuel usage in production.

Plant diseases caused by viruses exact a devastating toll on food production, especially in developing regions of the world that can least afford the losses. Biotechnology arms disease-protected varieties with the plant equivalent of a "vaccine." Crops with disease protection include sweet potato and cassava, critical staple crops in Africa, as well as rice and corn.

Soon new banana varieties resistant to Black Sigatoka will reduce the need for chemical controls, improve production agronomics and increase the quality of bananas—America's favorite fruit, especially among <u>kids</u>!

Development of new crop varieties must and is being carried out in a responsible manner. It has always been BIO's goal to ensure that the products are developed in accordance with a rational science-based safety evaluation framework. Regulatory reviews provided by USDA, EPA and FDA in the US meet the highest standards of scientific rigor and safety assurance and give both consumers and producers a system that is the envy of the world.

<u>The Importance of Agricultural Trade Liberalization</u>

Yet despite the tremendous benefits that modern biotechnology is bringing and will bring to producers and consumers, problems in international trade are making it difficult for biotech companies to develop and commercialize new products with the necessary speed and economic confidence. We are working hard, along with others in the agriculture community, the Congress and the Administration, to address these problems. I will discuss in a moment how the new round of trade negotiations can help us find solutions, but first I would like to make some general comments about agricultural trade liberalization and the value of the WTO.

The biotechnology industry recognizes that international trade is vital to the economic health of American agriculture. We want to work with U.S. producers and exporters to increase productivity and expand exports. U.S. government has dedicated significant resources to promoting trade through various means, but no single activity that government is engaged in has a greater potential to effect positively the long-term prospects for exporting than WTO negotiations.

Of course, many factors affect our export markets. However, the greatest factors limiting market potential around the world are the production and import policies of foreign governments. Trade-distorting subsidies, import barriers, and illegitimate sanitary and phytosanitary measures, where they exist, make it difficult for U.S. exporters to exploit their natural competitive advantage in global markets. The development and implementation of fair and equitable international trade rules under the WTO is the most effective means of limiting and disciplining trade-distorting government practices.

The recent downturn in exports, coming as it did on the heels of the implementation of the WTO and NAFTA agreements, has led some in the agriculture community to question the benefits of such agreements – and even of trade itself. When prices fall, it is easy and perhaps natural to blame trade agreements for failing to prevent the fall. Some are encouraging government to focus less on trade and more on domestic support programs. But trade and domestic support don't have to be viewed as an "either/or" matter. The U.S. is the most efficient producer and the largest exporter of agricultural products in the world. As long as there are trade-distorting practices that inhibit U.S. access to foreign markets, it make sense to use WTO negotiations to reduce those practices.

It is imperative, therefore, that the United States exercise its traditional leadership role in international negotiations. We are encouraged to see so many people in government working to ensure that happens. However, we are concerned by some of the positions the U.S. is exploring in the run-up to the Seattle Ministerial meeting, particularly with regard to the scope and structure of the negotiations. We have heard some U.S. officials argue against the idea of a comprehensive new round in favor of a series of negotiations on individual issues or "bundles" of issues. Many in the U.S. agriculture community, and most officials from other countries with interests in agricultural exports, argue that such a piecemeal approach to the negotiations could never provide for the tradeoffs or generate the pressure that would be necessary to yield a beneficial result for agriculture. We heartily agree. Biotechnology is likely to be among the more sensitive issues dealt with in the negotiation. We need a negotiating structure that facilitates agreement on difficult issues, particularly where those issues are disproportionately important to future global economic and environmental well being.

Addressing Biotechnology Trade Issues in the WTO

The WTO agreements already impose substantial disciplines on countries that regulate agricultural biotech products. The *Agreement on the Application of Sanitary and Phytosanitary Measures* (SPS Agreement) requires that any measure applied to protect human, animal or plant life or health shall be based on scientific principles and a science-based assessment of risk. Most regulatory activity with respect to transgenic products would be subject to these disciplines. The *Agreement on Technical Barriers to Trade* (TBT Agreement) covers any technical regulations that do not fall under the SPS Agreement. The TBT Agreement requires that such measure not be "more trade restrictive than necessary in order to fulfill a legitimate objective." Certain disciplines under the *General Agreement on Tariffs and Trade* (GATT) and the *Agreement on Agriculture* – for example, tariff bindings, national treatment and the prohibition of quantitative restrictions – are also relevant to non-SPS technical measures.

However, in some respects the current disciplines are inadequate to address the trade problems we are currently facing. Our principal problem in the EU right now is not with the regulatory decisions themselves but with the length and unpredictability of the approval process. Annex C of the Agreement addresses this issue – for example, it requires members to ensure that approval procedures are "undertaken and completed without undue delay" – but the rules clearly need to be strengthened. There are other disciplines in the Agreement that are potentially helpful but are in need of elaboration before they can effectively address the problems we are facing.

We believe that the new round of trade negotiations provides us with an excellent opportunity to strengthen and expand the disciplines in the SPS Agreement to meet the needs of American exporters of transgenic products. It also provides an opportunity for the U.S. to raise the profile of biotech-related trade issues and to promote a trade-friendly, WTO-consistent international consensus on those issues.

We hope that U.S. negotiators will take advantage of this opportunity. A favorable outcome to the WTO negotiations could be critical to the long-term health of the biotechnology industry. It will certainly have an important effect on our ability to continue to apply this powerful and promising new technology for the benefit of U.S. farmers, U.S. consumers and the environment.

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Testimony of Nicholas D. Giordano
On Behalf of the National Pork Producers Council

Before

The House International Relations Committee
Subcommittee on International Economic Policy and Trade

On

LEVELING THE PLAYING FIELD AND OPENING MARKETS: NEGOTIATING A WORLD TRADE ORGANIZATION (WTO) AGRICULUTAL AGREEMENT

March 23, 1999

National Headquarters
P.O. Box 10383 • Des Moines, Iowa 50306 USA • (515) 223-2600 • FAX (515) 223-2646

Madame Chair and Members of the Subcommittee:

I am Nicholas D. Giordano, International Trade Counsel for the National Pork Producers Council. 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. 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 litters being fed out annually, U.S. pork producers consume 1.065 billion bushels of corn valued at $2.558 billion. Feed supplements and additives represent another $2.522 billion of purchased inputs from U.S. suppliers which help support U.S. soybean prices, the U.S. soybean processing industry, local elevators and transportation services based in rural areas.

U.S. Agriculture Is Benefiting From the Uruguay Round

International trade is vital to the future of American agriculture. As the world's biggest exporter of agricultural products we have a critical interest in the development and maintenance of strong and effective rules for international trade. This is especially true for pork, the world's meat of choice, which represents 44 percent of daily meat protein intake in the world. Notwithstanding the huge global market for pork and pork products, efficient U.S. producers were precluded from exporting significant volumes of pork in the pre-Uruguay Round Agreement, pre-NAFTA era. A combination of foreign market trade barriers and highly subsidized competitors 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 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, U.S. officials have talked about sector-by-sector negotiations and an "early harvest" for areas where negotiations can be completed more quickly. Such an approach would be disastrous for U.S. agriculture. It would all but ensure a small outcome in the agriculture sector.

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

The Negotiations Should Be Concluded In Three Years

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

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 required tariff reductions of 36 percent for developed countries and 24 percent for developing countries over a six-year period on a simple average basis. (Tariff reductions as small as 15 percent were allowed for "sensitive items.") The Agreement also established minimum access levels at 3 percent of domestic consumption gradually expanding to 5 percent thereafter.

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

The Administration of Tariff Rate Quotas Must Be Improved

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

Unfortunately, in some cases, the administration of TRQ's has been used as an instrument to thwart imports. For example, the Philippines tried to close off its market to pork imports by manipulating in various ways the terms governing its pork TRQ. First, the Philippines simply tried to cut back its obligations on pork from 54,210 MT to 6,003 MT. Next, the Philippines threatened to restrict utilization of the TRQ by modifying the TRQ to limit access to 2,000 - 3,000 MT of pork cuts with the balance designated for "chilled pork heads and feet." Then, there was discussion about allocating 90% of the quota to fresh/chilled pork. This would have restricted imports because the distribution infrastructure in the Philippines at the present time can handle only a very limited amount of fresh/chilled pork imports. Next, the Philippines allocated over 80 percent of the TRQ to Philippine hog producers, who had absolutely no interest in importing pork. Further, onerous requirements, such as the posting of 100 percent of the value of the shipment, compromised the participation of other importers. Not surprising, the result was a minimal level of pork imports until the United States threatened to reduce the level of participation by the Philippines in the U.S. Generalized System of Preferences program.

In the upcoming trade negotiations, rules concerning TRQ's must be clearly delineated. In addition, ceilings must be established for over-quota duty levels.

Export Subsidies Should Be Eliminated

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

While significant progress was made in the Uruguay Round, export subsidies remain a major problem for U.S. agriculture. **The elimination of all export subsidies 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.

Trade Distorting Domestic Support for Pork Should Be Eliminated

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. The aggregation of commodities for purposes of measuring reduction commitments should be replaced by an agreement that each commodity be negotiated on its own terms. **For pork, all trade distorting domestic supports should be eliminated**.

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 U.S. Must Be Reliable Supplier of Agricultural Products

Article 12 of the Uruguay Round Agreement on Agriculture details the use of export prohibitions and restrictions that can restrict foreign consumers' access to food. Importing countries demand greater assurance of access to food supplies in exchange for the improved market access they are being asked to provide for imports. In the upcoming trade round the U.S. should pursue a multilateral supply-assurance commitment within the WTO that would end the possibility of discrimination against foreign purchasers. Such agreement would provide foreign consumers access to agricultural products equal to the access enjoyed by domestic customers, and it would eliminate the market distortions that rise from periodic export controls, taxes or restrictions.

The WTO Dispute Settlement Understanding Should Be Reformed

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

First, the loopholes that the EU seeks to exploit in the Bananas and Beef Hormone cases must be closed. The DSU needs to be clarified, particularly Articles 21 and 22, so that WTO findings will be expeditiously implemented. Second, the U.S. should negotiate to streamline the entire process. Under the current system, even if an industry prevails, a remedy does not occur until almost three years after the consultation process is initiated. (If the case involves EU, which apparently would like to strangle the WTO in its infancy, the waiting period is even longer.) Third, 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 minimum 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 in now being reduced by roughly 13 percent over a five-year period, reaching its final level beginning with Japan Fiscal Year 2000. (There are actually three different gate prices for pork, viz., one for cuts, one for carcasses and one for processed pork products, all expressed in Yen per kilogram.)

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

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

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

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

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

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

- EU Pork Subsidies Must Be Eliminated

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

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

According to the OECD, the Producer Subsidy Equivalent (PSE) for EU pig meat producers in 1997 was 60.5 percent (63.5 percent in 1996). The PSE measure calculates the amount of producers' income accounted for by subsidies, tariffs and other support. (In comparison, the PSE for US pork producers was 4 percent in both 1997 and 1996). These figures refute the often-made claim that EU producers do not get significant support.

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.

Current Refund Levels are:

	Euro/100kg	US$/100kg
Carcasses	40 (3),(2)	43.6
Legs	40 (3),(2)	43.6
Fore end/shoulder	40 (3),(2)	43.6
Loins	40 (3),(2)	43.6
Bellies	25 (4)	27.25
B/less bellies	25 (4)	27.25
Other b/less cuts	40 (3),(2)	43.6
Sausages - other	25 (5)	27.25
Canned:		
Hams, loins	62	67.6
Shoulders	34 (6)	37.1
Luncheon meat	25 (7)	27.25

Notes:
(2) For trade to Russia 70 Euros (US$ 76.3) per 100 kg.
(3) For trade to E Europe 20 Euros (US$ 21.8) per 100 kg.
(4) For trade to E Europe 13 Euros (US$ 14.17) per 100 kg.
(5) For trade to Russia 40 Euros (US$ 43.6) per 100 kg.
(6) For trade to Russia 50 Euros (US$ 54.5) per 100 kg.
(7) For trade to Russia 45 Euros (US$ 49.1) per 100 kg.

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

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)

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

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

Export subsidies of the EU: Maximum levels of Outlays (million ECU)
Versus actual outlays with regard to subsidized exports
(Note: notification for 1997/98 not yet available)

	1995/96		1996/97		1997/98
Product(s)	Outlay Reduction Commitm.	Actual outlays on subsidiz. exports	Outlay reduction commitm.	Actual outlays on Subsidiz. Exports	Outlay reduction commitm.
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.

Private storage aid scheme from 28 September 1998

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

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

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

Exceptional Support Measures

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

National Measures

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

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

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

Effect Of Agenda 2000

The recent tentative agreement on CAP reform under the Agenda 2000 initiative, while not having a direct bearing on pork production, could have a significant impact nonetheless.

Under the proposals, the intervention price for cereals is set to be cut in 2 steps from 2000, with producers being compensated by an increase in direct (area) payments from 54 to 66 euro (US$71.9)/metric ton. In addition, compulsory setaside will be set at 10 percent in both 2000/1 and 2001/2, but then reduced to zero.

The EU's objective of cutting the support price for cereals is to reduce the price and therefore improve the competitiveness of EU cereals on world markets. A fall in the price of cereals will also reduce the price of feed to pork producers, improving their competitiveness.

EU Pork Import Restrictions

The EU pork market has basically been closed to the U.S. pork industry for over 10 years as a result of the EU's Third Country Meat Directive and other restrictive measures. The regulation, which affects U.S. pork, beef, and poultry bound for the EU, has usurped the role of USDA's Food Safety and Inspection Service and does not enhance the safety of U.S. meat and poultry as the EU claims. Under this system, EU inspectors determine, on the basis of arbitrary factors, such as the color of plant walls, whether a U.S. plant is qualified to export to the EU. The random enforcement of this regulation has resulted in a complete cut-off of U.S. poultry exports and has reduced to a trickle U.S. pork and non-hormone beef exports from a few token plants. Ironically, it is widely known that the majority of EU meat plants do not meet TCMD requirements. Holding U.S. facilities to a set of rules that the EU's own producers are unable to comply with is clearly discriminatory and violates the EU's trade obligations.

The U.S. filed two Section 301 petitions which culminated in an agreement in 1992 which the EU did not implement. Further, a framework for a veterinary equivalency agreement was reached in the spring of 1997 that was to be implemented in October of that year, but the EU also failed to implement that agreement. To add insult to injury, the EU - led by Denmark - recently approved, without scientific basis, a ban on the use of many antibiotics in livestock feed. The Danes, the EU's largest pork producer, know that this antibiotic ban will ensure that U.S. pork (or beef or poultry for that matter) never, ever will be sold in the EU. The ban becomes effective as to all member states on July 1.

So long as imported pork is restricted entry into the EU by non-science-based barriers such as the Third Country Meat Directive and EU external tariffs remain at their present levels, EU pork producers will continue to be shielded from world competition. This set of circumstances is therefore likely to stimulate EU production of pork and cause the U.S. pork industry further harm in international markets.

A strong response to the EU's treatment of U.S. pork exports is long overdue and need not wait until the next trade round. Pork is an extremely compelling candidate to be included on the retaliation list if the hormone matter is not settled to the satisfaction of the U.S. beef industry. Many of the U.S. beef exporters' being injured by the EU hormone ban also are in the pork business and most compete in the U.S. with subsidized EU pork. Although the EU does not export beef or poultry to the United States, during the last five years, every EU country, with the exception of Greece and Luxembourg, has exported pork to the United States. Annual EU pork exports to the U.S. have comprised less than one percent of our production and U.S. hog supplies are at record high levels. Thus, the U.S. could easily supply its entire domestic demand, even if all EU pork exports were stopped.

If we don't enforce our legal rights in the WTO and follow through on the banana and beef retaliations, it will send the wrong signal to the European Union as we prepare for the next trade round.

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Statement by Hon. Ileana Ros-Lehtinen, Chair
Subcommittee on International Economic Policy and Trade
for Hearing on:
<u>Leveling the Playing Field, Opening Markets: Negotiating a WTO-Agriculture Agreement</u>
Tuesday, March 23rd, 2:00 p.m., 2255 Rayburn

For many countries around the world agriculture is one of, if not <u>the</u> most, important sector of the economy. This is certainly true for the United States who, in 1998 alone, exported over 53 billion dollars worth in agricultural goods. It is therefore necessary for this Subcommittee to focus on the status of agricultural trade and the opportunities and concerns raised by the upcoming round of negotiations at the World Trade Organization.

Because of agriculture's importance in most countries' domestic economy, it played a pivotal role in the 1994 Uruguay Round of Multilateral Trade Negotiations. The goal of this round of negotiations was to establish a new set of rules for conducting agricultural trade which would increase access to global markets and spur the significant growth of exports world-wide.

The agreement reached at the Uruguay Round produced a historic shift in the way agriculture was approached within multilateral trade agreements and set a precedent and a plan for the future of trade liberalization.

It established a set of multilateral rules for export subsidies, market access, and domestic support. WTO members agreed to convert existing non-tariff barriers to tariffs and committed to reducing tariffs, export subsidies, and domestic support.

Measures to address public health and environmental concerns relating to the movement of products across international borders were adopted and standards to ensure an acceptable level of protection were put in place.

In retrospect, many will agree that the 1994 negotiations produced notable reforms which have, thus far, had a significant impact on global markets and trade flows. However, there are disagreements on whether the effects on U.S. agriculture have been positive or negative.

The various sectors within U.S. agriculture have raised concerns about the implementation of the reform process initiated in the Uruguay Round - concerns which we must take into consideration as we approach the negotiating table later this year.

For example, some in the industry are troubled by the manner in which various countries have administered tariff rate quotas, arguing that the current agreement provides little expanded access for agricultural products and that many products still remain highly protected.

The U.S. and various other WTO members have also brought attention to the efforts of some countries to avert subsidy reduction requirements, pointing to recent cases involving Canada and the European Union to shoulder their claims.

Others have raised the issue of the WTO's ability to enforce its rulings regarding agricultural trade barriers and the willingness of disputants to negotiate compensation rather than to liberalize their trading practices and remove their barriers. The EU ban on U.S. beef is demonstrative of this.

Lastly, there were emerging issues such as those relating to biotechnology or genetically engineered or altered products which were not addressed previously but would be included in the next round of negotiations.

These are priority items for the U.S. from both a trade competitive perspective as well as from safety considerations.

On the one hand, this group of products is being rapidly introduced into the U.S. agriculture markets and many in the U.S. have expressed concern about potential risks to human, plant, and animal life which are addressed in the WTO Agreement on Sanitary and Phytosanitary Measures. On the other hand, the U.S. agricultural sector is concerned about WTO member countries adopting policies regarding the importation of these products and establishing labeling systems which will adversely affect U.S. commodity exports.

As we approach a new round of negotiations this year we do so with the purpose of continuing a trade reform process that will benefit all. With so many diverging interests involved, the United States must carefully balance its position as a global trade leader with the need to secure an agreement that opens markets and levels the playing field for the U.S. agriculture industry. As officials from the US Department of Agriculture, the U.S. cannot allow the unconditional surrender of its markets to those who – by choice or need – are not fully committed to the process of market liberalization.

We hope this hearing provides us with recommendations on what U.S. priorities should and must be. I look forward to the testimony from our witnesses today and to their insight on this issue.