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REVIEW OF THE TRADE TITLE OF THE FARM BILL

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

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REVIEW OF THE TRADE TITLE OF THE FARM BILL

WEDNESDAY, APRIL 25, 2001

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The Committee met, pursuant to notice, at 9:07 a.m., in room SR–328A, Russell Senate Office Building, Hon. Richard Lugar, [Chairman of the Committee], presiding.

Present or submitting a statement: Senators Lugar, Roberts, Fitzgerald, Crapo, Conrad, Baucus, Miller, Nelson, and Dayton.

STATEMENT OF HON. RICHARD B. LUGAR, A U.S. SENATOR FROM INDIANA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

The CHAIRMAN. I welcome everyone to this hearing of the Senate Agriculture Committee.

This morning we will receive testimony on reauthorization of the trade title of the Farm bill. The committee will convene a second trade hearing in the near future in which witnesses from the administration and the private sector will engage in discussion of a broader range of trade issues impacting agriculture.

Today, we will focus more specifically on the trade title of the Farm bill and the issues and programs related to reauthorization. As we begin this process of drafting a new farm bill, we emphasize again the vital importance of foreign markets to United States agriculture.

Nearly every one of our 50 States exports agricultural commodities and benefits from export-generated employment, income, and rural development. No sector of the United States economy is more critically dependent on international exports than agriculture. The products of roughly 3 out of every 10 acres of the United States agricultural production are exported, and farmers in this country are reliant on the ability to export what they grow.

Ninety-six percent of the world's population lives outside of the United States, and each of these persons is a potential customer. We can best secure our farmers' and ranchers' profitability by promoting access to foreign markets. It should be borne in mind that agricultural exports generate and sustain hundreds of thousands of jobs and considerable income and activity in the American non-farm economy as well.

When Congress enacted the last Farm bill, the FAIR Act of 1996, we gave farmers the right to make their own planting decisions free from Government interference. However, there is unfinished business which we are discussing again today in securing free and fair trade in farm products and by opening more foreign markets to agricultural production from our country.

There are a number of programs to increase United States' agricultural exports and facilitate farmers' access to those markets. We will hear testimony this morning on the various USDA export and food aid programs. It is important to remember that many of the barriers to increased exports are unfortunately outside the jurisdiction of this committee and cannot be addressed by Congress in the context of the Farm bill.

But today's hearing will begin an overview of the agricultural export outlook, provided by Bruce Babcock of the Food and Agricultural Policy Research Institute and Ron Heck, a soybean producer from Iowa who will discuss his experience with South American agriculture. His presentation is very important as we consider the international agricultural landscape over the years covered by the next Farm bill.

The second panel will address USDA's export programs. Bob Stallman, of the Farm Bureau, and Lee Swenson, of the National Farmers Union, will provide the committee with their organizational views. Also appearing on the panel will be Joe O'Mara, with O'Mara and Associates; James Echols, with the National Cotton Council; Tim Hamilton, with Mid-America International Agri-Trade Council and Food Export USA-Northeast; and Dennis McDonald, with Ranchers and Cattlemen Action Legal Fund.

The third panel will focus on food aid programs, and that panel will include Judith Lewis, of the World Food Program; Ken Hackett, of Catholic Relief Services; and Gary Martin, of the North American Export Grain Association.

We are pleased and honored to have each of these witnesses this morning. We look forward to an insightful hearing.

I would like to call on my colleague, Senator Miller, and ask if he has an opening comment or statement.

STATEMENT OF HON. ZELL B. MILLER, A U.S. SENATOR FROM GEORGIA

Senator MILLER. Thank you, Mr. Chairman.

I would like to thank all those who are going to testify before the committee this morning.

I do have a statement, but in the interest of time, I will submit it for the record.

The CHAIRMAN. It will be published in the record. I thank the Senator.

[The prepared statement of Senator Miller can be found in the appendix on page 62.]

The CHAIRMAN. Dr. Babcock and Mr. Heck, we are very pleased to have both of you in front of us this morning. I will ask that Dr. Babcock testify first and then Mr. Heck, second.

I will ask that you summarize your testimony in 10 minutes, if that is possible.

We will proceed with you, Dr. Babcock.

STATEMENT OF BRUCE A. BABCOCK, DIRECTOR, CENTER FOR AGRICULTURAL AND RURAL DEVELOPMENT, IOWA STATE UNIVERSITY, AMES, IOWA

Dr. BABCOCK. Thank you, Mr. Chairman. Thank you for the opportunity to participate in today's hearing.

My research center at Iowa State University, together with FAPRI at the University of Missouri, jointly developed the annual FAPRI baseline. From this baseline, I have prepared a brief overview of what we see happening over the next 5 years in the agricultural economy.

When are prices going to rebound? That is the No. 1 question that I am asked. Prices have been weak for most crops since 1997, and pork and beef prices in the late 1990's hit rock bottom, although both have subsequently recovered.

When discussing where prices are going, it helps first to take a long historical view. For agriculture, if you look back, the long run, inflation-adjusted price trend is clearly downward. Productivity increases have resulted in the supply of agricultural commodities growing faster than demand. Other commodities such as metals, oil, wood, chemicals, and computer capability have also experienced this downward trend.

This downward trend in inflation-adjusted prices really does represent a success story for economic growth and wealth creation. Despite claims that the world will inevitably run short of basic commodities, low prices indicate that basic commodities have become relatively less scarce over time, not more.

Technological progress means that we can spend relatively less on basic commodities, which helps increase standards of living.

However, this long run trend does not imply that prices cannot rise over a 5-year period, particularly if prices start at a lower-than-expected base level, as they currently are now for agricultural crops.

How did our prices get so low? First, the average yields for corn, barley, and sorghum were above trend each year from 1996 to 1999. They fell slightly below trend in 2000. Average world wheat yields were below trend in 1996 but above trend for the following 4 years, so we had a lot of supply. As we look to the next 5 years, we should expect a more equal number of years in which yields are above trend or low trend, which should help prices out over the next 5 years.

Second, the Asian financial crisis in 1998 had a direct effect on United States prices. The economies of Thailand, South Korea, Philippines, Indonesia and China either shrank in size or had significant declines in growth rates. This crisis caused United States exports to either fall, as in the case of grains, or to remain flat, when they were expected to grow sharply, as with meats.

Most Asian countries have rebounded quickly from that crisis, with the notable exceptions of Japan and Indonesia. Continued economic growth in the region should help strengthen export demand for United States agricultural products.

Third, United States prices were weakened by the strength of the dollar. Both in 1997 and again in 2000, the dollar strengthened considerably against European and most Asian currencies. It is difficult to determine if the dollar will weaken any time soon, although some think it is overvalued right now.

Last, changes in domestic policies in the mid-1990's contributed to weak prices. The new United States farm policy passed in 1996 allowed farmers to take advantage of high market prices in the middle 1990's and expand their acreage, and large countercyclical farm payments have helped keep United States total planted acreage up even though price levels have fallen dramatically.

China policy in 1997 and 1998—they decided to reduce the size of their corn, wheat, and cotton stocks. This internal policy decision helped switch China from a net importer to a net exporter of these commodities, which weakened prices.

Public and private transportation infrastructure investments in Brazil and Argentina have allowed both countries to expand planted acreage, particularly soybean acreage, which has tended to expand total world supplies.

Some of these policy decisions may be transitory. We expect China to become a net importer of corn, wheat, and cotton as they rationalize their producer incentives under the WTO. Congress may decide to lower loan rates and eliminate any further emergency payments; they may not. Brazil and Argentina could decide to return to a policy of higher taxes on agriculture, which would hold down their supply expansion. Any of these policy changes would lead to higher United States crop prices.

In summary, we see no reason to believe that the long run trend in real prices will be reversed in the next 5 to 10 years. However, recent price weakness is caused by short-run factors that are reversible, and we do see some reverse. So let me talk about in particular some of the price projections we are making.

Wheat prices are expected to increase by 16 percent, from $2.67 to $3.17 in 2005. But United States exports are projected to remain flat. Because of its policy reforms, the EU is able to expand exports of wheat significantly without subsidies. If major producing and consuming countries like China and India suffer poor crops, wheat prices will be much higher than projected.

Corn prices are projected to increase 20 percent between now and 2005. Our projection that China will become a net importer of corn by 2005 is a key factor underlying the price increase. World stock levels are projected to be adequate to forestall dramatic increases in price from a single year of poor growing weather, so the private sector really is holding stocks.

Continued large LDP payments to soybeans will limit United States corn acreage, thus helping corn prices. If United States soybean loan rates are rebalanced downward, corn prices would tend to be lower than projected.

Soybean prices are projected to remain below United States soybean loan rates for the next 5 years. Continued expansion of soybean acreage in South America and continued expansion of other acreage of competing oilseeds, combined with maintenance of large United States soybean acreage, keep prices weak.

Despite continued high United States support prices, the United States share of world soybean trade declined over the period. Productivity gains in the United States and in other countries have made soybeans a relatively attractive crop to grow around the world.

Cotton prices have already rebounded somewhat from their recent low levels. We project cotton prices to remain largely at current levels over the next 5 years. This static projection reflects moderate growth in world demand, significant increases in cotton acreage in Brazil, and continued liquidation of large Chinese stocks.

Domestic rice prices are projected to rise by 25 percent. Strong increases in United States demand and growth in world rice trade fueled this increase. However, United States prices do not rebound as much as strong demand growth might suggest because other exporting countries are in a position to increase their share of world markets. Thailand, Vietnam, China, and India are all projected to increase their rice exports.

Cattle prices are the bright spot in United States agriculture. Strong domestic demand combined with a continued decline in total cattle numbers have led to this strength. As herds rebuild over the next 5 years, we project prices to remain strong. In the short run, strong demand increases imports of cattle, but as the cattle cycle moves on, and prices fall a bit, we see exports expanding.

Strong domestic demand and problems with foot and mouth disease in other exporting countries have led to a recovery in pork prices, although they still remain below the levels observed in most of the 1990's. Domestic hog numbers are projected to increase over the next few years, driving down price, but increasing exports. Pork exports are projected to increase 36 percent over the next 5 years. The phenomenal productivity growth in the United States pork sector is projected to continue, making the United States a low-cost producer in the world.

In our baseline projects, we assume that current policy decisions are maintained throughout the projection period. Thus, for dairy, we assume that the dairy support price program is terminated at the end of 2001, which lowers price, and United States production lowers as United States production lowers as United States producers respond to lower dairy prices.

Overall, we project moderate growth in crop prices over the next 5 years. With the notable exception of soybeans, we should see significant declines in price support payments. Crop prices will rise significantly if there is a major supply disruption. But over a 2- or 3-year period, the extent to which prices can rise is limited by the continued downward pressure of agricultural productivity increases in the United States and other exporting nations.

We are optimistic about the health of the livestock sector. Strong demand, low-cost producers, and high-quality products are making the United States quite competitive in world markets. Of course, this strong position would be quickly eroded if the United States loses its FMD-free status. Public investments in maintaining this status may yield the largest short- and long-term returns in agriculture available to Congress and the USDA.

As you rewrite the trade title of the Farm bill, keep in mind that 10 years ago, program commodities accounted for 64 percent of the value of agricultural exports. In 2000, they accounted for 49 percent. Continued world economic growth will result in relatively greater demand for United States exports of higher-value commodities. A farm bill that gives United States agriculture the right incentives to deliver the kinds of food products overseas customers want will enhance the long-term health and competitiveness of the sector.

One last comment. The committee knows that it cannot spend more than the amber box limits under the WTO of about $19.1 billion. This constraint, along with the generally accepted notion that world economic growth is enhanced with increased trade, gives momentum of the policies that do not directly influence world prices or trade flows.

As the EU considers the future of its agricultural policies, it seems that it is replacing its food security rationale for intervention with a rural development/environmental quality rationale. A similar search for justification for United States intervention has led many to push for expansion of conservation payments to farmers, such as Senator Harkin's Conservation Security Act. Supporters of conservation payments point out that taxpayers are more likely to support payments to farmers if they are getting environmental quality in return—and it is much easier for conservation payment programs to be classified as green box under the WTO.

Thank you again for the opportunity to participate.

The CHAIRMAN. Thank you very much, Dr. Babcock, for a very comprehensive review in a very short period of time.

Let me just indicate to both of you gentlemen and to all of the subsequent witnesses that your comments will be published in full even though you have striven to summarize and given our hopes that we could proceed in this way.

[The prepared statement of Dr. Babcock can be found in the appendix on page 66.]

The CHAIRMAN. Mr. Heck, would you proceed with your testimony.

STATEMENT OF RON HECK, PERRY, IOWA, VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. HECK. Good morning, Mr. Chairman and members of the committee.

I am Ron Heck, a soybean and corn producer from Perry, Iowa. I currently serve as vice president of the American Soybean Association, which represents 29,000 producer members on national issues of importance to all United States soybean farmers.

ASA commends you, Mr. Chairman, for holding this hearing and appreciates the opportunity to testify today.

Brazil has emerged over the past decade as the principal competitor to the United States for exports of soybeans, soybean meal, and soybean oil. ASA and other United States oilseed organizations are spending a great deal of time and resources to assess the long-term challenge which Brazil represents to our industry, since we depend on foreign markets for fully one-half of our annual soybean production.

In addition to this national interest, every soybean producer wants to base decisions affecting the viability of their own operation on the best available information.

The future competitiveness of Brazil in both the world and our own domestic market will affect the livelihood of my family in the coming years. We all need to accurately assess the impact of Brazilian production costs, production and exports in making decisions on whether to purchase additional land and plan to expand production.

For these reasons, I have visited Brazil and Argentina four times in the last 14 months. I have also hosted Brazil's largest soybean farmers, the Maggi family, in a visit to my farm in September 1999 to tour Iowa State University's Precision Farming Project on my farm.

Following these visits, I wanted to share my experiences and views with my colleagues at ASA, with other producers, and with the industry at-large. I developed a powerpoint presentation which is summarized in the tables, charts, and comments included in the balance of my testimony. I would like to briefly summarize this information for the committee and then will be happy to respond to any questions.

The title of the powerpoint presentation is "Can U.S. Farmers Compete with South America?" It says I would like to get the facts straight about that. I am disturbed about some of the things I have been reading in the press.

The first thing I would like to call the committee's attention to is the total world crop acres. In a long-term chart, we used to add about 5 million acres a year in total acres farmed for all crops, but in 1996, the year of $5 corn and $8 soybeans, the world farmers suddenly added 45 million acres all in 1 year, which is a 9-year supply of new acres and, certainly, just before the Asian crisis, this caused a short-term oversupply problem.

I would also like to point out to the committee that since 1996, world acres have declined every year. We are not in an expansion mode in world acres; we are in a world contraction.

The next slide, number 6, talks about the average yield for coarse grains that Dr. Babcock referred to. We had an old trend line yield, and the yields went up and down every year. But there again, in the same year, 1996, we had a sudden productivity jump of 5 percent all in 1 year, which is enough of a production increase to last for 7 years, further compounding the supply problem.

I believe this sudden jump was because of genetically modified biotech crops, particularly in the coarse grains areas from BT corn, which makes your yields much more stable and higher than they were before that product existed.

In Slide 7, we take a look at the world coarse grains area, which peaked in 1985 and has been going down ever since. As we became more productive, we did not need as many acres in the coarse grains, including corn and wheat, and the world's farmers responded by planting more soybeans. You see that world soybean production has been shooting up, but actually, world soybean ending stocks, surprisingly, have been going down during the decade of the 1990's.

There is, however, a troubling trend. Although United States soybean stocks are down in the last 10 years, for the last few years, they have been going up a little faster than world carryover stocks. I think there are two reasons for this.

Slide 11 shows the 1995 projection for what the value of the United States dollar would be, and this was the baseline forecast for the FAIR Act. It was projected before the Asian crisis and before the euro faltered that the value of the dollar would decline, but instead of declining, it went up 25 percent higher than the forecast. I would say that our price problem is largely because of this value of the dollar. Six-dollar beans with the predicted $85 index instead has turned into $4.50 beans with our current 115 dollar index. This is the price problem.

But in theory, regardless of our price problem, the marketing loan should allow our prices to go down to a level where the United States stocks would always clear—yet this does not seem to be happening exactly as I would have predicted it. I think there is a reason for this, too.

Slide 12 shows European Union imports of soybeans and yield by country of origin. You will notice that as their imports from the United States have gone down, their imports from Argentina and Brazil have gone steadily up. I would like to point out to the committee that all of Argentina's beans are GMOs, and the Europeans take them without complaint while they do complain about ours.

The next few slides are general facts taken from the 1995 CIA Factbook; they are a little dated, but they are consistent, and that is the source that I used.

Talking about the differences between the United States and Argentina and Brazil, basically, they say over the next couple of pages that we are a much larger country, with many more resources to work with, including our Federal Government. In the interest of time, we need to skip over that.

Slide 19, unemployment; of course, you know the United States is fully employed. Argentina and Brazil now are currently suffering through maybe 25 percent unemployment—I am not sure that anyone really knows.

But so what? Here is the turning point. In 1995, the world certainly needed more food, but we got three responses. Investments were made by Europe and Japan in South American infrastructure, leading to an acreage expansion down there. The multinationals released the biotech products that they had, and that caused an increase in productivity and more expansion and supply. The U.S. Government passed the FAIR Act—all at the same time. All three investments worked, and we got more food.

So, which one is going to survive? That may be up to some of you in the room today.

Unfortunately for soybeans, soybeans became the battleground, because they are the commodity that is easiest to grow; they have a worldwide market; they have enough value per bushel to pay the freight; and they have United States production patent.

Now we get down to looking at our exact competitors in South America, and there are really three. Southern Brazil is the first one. Land down there is as high as $2,500 an acre, just like ours. They grow mainly orange juice and ethanol. It is fully developed. They cut soybean acreage this year to raise more corn. Corn a year ago in Sao Paulo was $4 per bushel because Brazil did not allow the import of Argentine or United States corn, because they wanted to stay GMO-free. So Brazilian farmers responded and planted more corn and less beans this year, and they are really no further threat to expansion because they are in full production.

Argentina has good soil and climate, but they only have 5 million acres that are still available. They are very financially stressed, having a hard time, struggling. As you know, they have lax patent and copyright infringement and intellectual property laws, so they buy some of their inputs cheaper because they do not pay royalties, but nevertheless, they cannot expand much more, and they are suffering at these prices.

Really, the Cerrados in central Brazil is the only area that I am concerned about for myself. The reason is there are several hundred million acres available; the land is cheap; but they have transportation costs that are as high as $2 per bushel. As they improve that, that will be a problem for us.

They give relatively decent yields—30 bushels an acre is common, 45 bushels an acre on good farms—but they have very high production expenses, which is in contrast to what you may have heard.

Slide 25 is a list of areas where the Cerrados is certainly not competitive. Slide 26 shows some areas where the Cerrados is competitive. I would be happy to answer questions on that, but time does not permit that we go through each one in detail.

Slide 27 is what is in the popular press and what is being said about the cost of production in Iowa and Matto Grosso, and I would like to slow down for a moment and take a closer look at that.

In the lower right-hand corner there, the conclusion is that Iowa's cost of production is $5.89 per bushel, and in Matto Grosso, it is $2.98 per bushel. That gives the impression that this is a hopeless situation for us, and that is just absolutely not accurate.

The chart starts out with land as a fixed cost and a permanent cost, and as farmers, we all know that land rent is the residual after the production costs and revenue are determined.

So let us take out the land and replace that with transportation cost to deliver it to the customer, because after all, the soybean on a farm has no value; it has to be delivered to a customer.

Moving to the next page and the rest of the story, just making the one change to freight instead of land and also, at the bottom, changing the yield to 50 bushels an acre for Iowa and 45 bushels for Matto Grosso—Matto Grosso has never reached 45 bushels an acre yet; I expect that they will, but they have not yet. The Iowa cost is now lower than Matto Grosso's—$3.79 a bushel versus $4.67 in Matto Grosso.

We are not done with costs yet. Looking at the other figure, $110.99 for Iowa and $40 for Matto Grosso.

Slide 29 talks about how inaccurate that statement is. It is just not true.

So on Slide 30, the best estimate is that Iowa production costs are $3.79; Matto Grosso costs are $6.23. So we are the lower cost area. We have some short-term problems here. We can handle our conservation problems in Iowa. In Matto Grosso and the tropical areas, they are mining their soil of nutrients, they are degrading their soil, they are operating at a loss, and they are really only being kept in business because of currency devaluations. The Brazilian real was cut in half in January 1999, and they are producing for the current signals, not for the market signals.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Heck can be found in the appendix on page 72.]

The CHAIRMAN. Thank you very much, Mr. Heck. This information is extremely valuable, and I commend to all the members of the committee and the staff the powerpoint presentation you have described and which is in fact a part of your testimony. This is very valuable data.

Let me begin the questioning by pointing out that you, Dr. Babcock, cited that you have had good weather, an Asian crisis, expanded acreage—both of you pointed out the 1996 jump—and of course, in your powerpoint presentation, Mr. Heck, you pointed out that acreage remained high. In other words, it was a leap, but people did not fall back in the total sense of the acreage being utilized. Then, finally, there were policy changes; policy changes here and elsewhere.

Yesterday, when I met, as some of us did, with the farm editors, we were pointing out that some of these policy change have an effect, of course, upon supply in the United States, one of which is our crop insurance program. Many observers, and perhaps you, Dr. Babcock, having done some work with FAPRI, have indicated perhaps as much as three percent more production occurs because we have crop insurance, and marginal lands, or lands that would be more challenged, are in fact utilized because of that.

Some have in fact pointed out—and the cost figures you have presented, Mr. Heck, are very interesting, because they get to the heart of the problem with the LDP—some have suggested that the LDP, the loan deficiency payment, was meant as a safety net, a sort of a catch-all at the lower end. But we have some efficient producers who are apparently able to produce for less than the LDP, and some incentive therefore to do more.

The wide variety of costs on various farms is certainly an important factor, but nevertheless we may be getting more production even as we are trying to provide safety nets, either with an LDP or a safety net through crop insurance. That is likely to lead to lower prices. So on the one hand, as people come in, as they will to this committee throughout our discussion of the commodity title, lamenting lower prices, most would not be in favor of eliminating crop insurance or lowering the LDP or the soybean loan or any of the other fixtures that we have, all of which would appear to contribute to more production and consequently lower price, if you had the same weather.

You are probably correct, Dr. Babcock—you will not always have weather that is the same. You, Mr. Heck, have pointed out that the dollar rose 25 percent as opposed to projections that it would fall. Those are consequences beyond this committee and maybe beyond any committee—they are the facts of life of the world.

I would just suggest, finally, that although the price has been a preoccupation, sometimes the volume is important; price times volume equals income. As a matter of fact, as people have become more efficient and produced three times as much now, 70 years later, than they did in the 1930's, revenue has increased even though price in a secular way, as Dr. Babcock just pointed out, may have decreased given these efficiencies or breakthroughs in research and so forth.

I mention all of this because there is a mercurial aspect about what we are chasing here. If somebody has price in mind, and that is the only thing on their mind, why, that is one problem. But if we were to look strictly at that, why, of course, I suppose we would adopt policies that would be very abnormal with regard to our freedom to use land, quite apart from our export policy.

Let me ask as an overall question to both of you, if you were to advise this committee on changes in farm legislation that would have an effect on our ability to be better exporters—and we have to take on faith now that our Trade Representative will be more adept and that somehow, we'll get fast-track authority, politically difficult as this may be, so that we are credible and have some chance of making a difference—because my judgment is that we will not have any difference at all without fast-track; we'll be whistling in the dark, hoping for something to happen there. But let's say we get those assumptions, so we do have a freer road to negotiate with other countries. What, in terms of our current policies, should we change to make us more competitive or more likely to be able to take advantage of those favorable world situations?

Can you offer a suggestion, Dr. Babcock?

Mr. BABCOCK. I look at the current farm policy, and I look at it in terms of the policy tools that this committee has at its disposal. It is export-friendly. I mean, if you look at the guaranteed prices put in with the LDPs, as Ron Heck said, they do allow the market price to fall to the level needed to clear the markets, which means that—and if you look at world markets, and you talk to other exporters, they think this is the worst possible program for them because it hurts their export price. So from a grains point of view and the program crops, it is export-friendly.

From a livestock or meat side, it is export-friendly, too, because we are not artificially driving up or, actually, with the program causing prices to be lower than they were, which lowers feed cost, which expansionary for the livestock sector, which helps them.

So if I look at the current policy, it is already export-friendly.

Now, you can talk about particular—and I think the later panels will talk about particular programs that might expand exports in one direction or another, but from a macro or a global point of view, I think that the FAIR Act is the most export-friendly policy that we have had.

The CHAIRMAN. Mr. Heck.

Mr. HECK. Yes, I would agree with that. I think that is an excellent answer.

The question I really needed the answer to for my own farm, and it is the same for the committee, too, is this a long-range problem or a short-range problem; will the dollar always be high, and will the Cerrados in Brazil always be able to produce. I do believe it is a short-run problems that currencies will correct. I do not believe the Cerrados can continue at these prices.

I think that our current policies are actually the right ones and should remain in place, and we should continue to pursue more aggressively the elimination of trade barriers around the world, whether they are tariffs or non-tariff barriers.

The CHAIRMAN. Senator Baucus, I know that you have some time constraints, so I want to call on you so that you have an opportunity.

Senator BAUCUS. No, no. Senator Miller was here ahead of me.

Senator MILLER. I do not have any questions.

Senator BAUCUS. Thank you.

Which trade barriers are the worst, cause the greatest problems for American producers, particularly wheat?

Mr. BABCOCK. My experience is that the worst trade barriers are the ones that are not transparent, that you cannot get a handle on. That is why the past negotiations have tried to convert quotas, licensing restrictions, into tariffs, so that then you can negotiate those tariffs down. But it is very hard to get a handle on a trade barrier that is maybe a phytosanitary trader barrier, because you cannot tell if it is really reflecting true concerns about food safety or spread of disease versus a true wanting to protect domestic producers.

Senator BAUCUS. Could you give me some examples of phytosanitary barriers that you suspect are really trade barriers? I will tell you that one is beef hormones. That is clear. My authority is Margaret Thatcher. Several years ago, I was sitting across the table from her, after listening to about a half-an-hour lecture on everything under the sun, and we got to talking about beef. I said, "You know, we think that that is trade-related, not health-related."

She said, "That is right; of course. But that is the continent"—she was putting the blame on the continental Europeans. But she flat out said that absolutely, that is what that is all about. Of course, that is just her own opinion.

But what are some that come to your mind?

Mr. BABCOCK. That one came to my mind right off the bat. If you look at it, look how long it has taken to—even though the WTO ruled that it was not a phytosanitary reason for doing it, or a health problem, we are still negotiating; it is still on the table.

So those are the hardest to get resolved. IT is very difficult—for example, we just instituted a policy to keep us FMD-free, our FMD status free, and Russia banned imports from the EU for the same reason. There, you have to say that that is probably a wise decision. But where you draw the line on some of the more phytosanitary things is more difficult than on others. Some are true, some are not true. Some are trade-restricting, some are not. Those are the hardest to get, and I think people are moving more toward that, because they are easier to defend.

I would say the worst ones also are strict quotas, and I think the WTO has attacked import quotas as things that need to be converted into tariffs over time.

Senator BAUCUS. In your statement, you say you think the European Union is reforming its agricultural policy. I know they talk a lot about it, and there is some talk that when they take in those Eastern countries, they are forced to, but I will bet you they bring them in under different conditions so that they are a little less forced to restructure.

Mr. BABCOCK. The reform I am talking about is a lowering of their intervention prices. Basically, they are putting more of their programs into what we call the blue box, which are less trade-distorting than their old programs were. As I said, they seem to be going more for direct payments to farmers for rural development/environmental quality reasons rather than for what I would call enhanced production reasons.

Senator BAUCUS. Have you given any thought to what the best leverage we have is as far as knocking down these trade barriers? I believe that no country, altruistically, out of the goodness of its heart, is going to lower a trade barrier. They just do not. Why should they, unless there is leverage, unless they are forced to?

Mr. BABCOCK. Our leverage over the EU, just talking about EU now, is in a large sense—I have travelled through there—they are a big country—or, a big entity, not a country—they are a big entity, and they have lots of variation in the types of production regions they have. They clearly can be self-sufficient in food, and they—sometimes, I find it hard to get a lever on the EU because they are so big, and their internal politics are so complicated. It is hard for me to see how we can leverage the EU to do something.

Now, the banana dispute was resolved, I think, because the trade representatives from the United States and the EU got together and decided that that was in the best interest of both parties. But I read about the EU, and I cannot see what leverage we have over them.

Senator BAUCUS. It is difficult; otherwise, we would have come up with it by now, but we have got to find it, whatever it is, because frankly, I just think that the EU is by far the biggest offender with respect to agricultural trade barriers, and it is going to be very difficult. There is talk in the WTO that the next two big areas are agriculture and services, but I do not know what leverage we have on the EU at this point to get anywhere. But we have got to find it—that is our job. I think we gave up the store a few years ago when we agreed to proportionate reductions of export enhancements, and we sold ourselves a bill of goods, frankly, by giving up too much at that time, so we are in a box right now, and it is difficult right now.

Nevertheless, that is a fact, that is what we face, and we just have to deal with it the best we possibly can.

Mr. Chairman, thank you very much.

The CHAIRMAN. Thank you, Senator.

Senator BAUCUS. I also want to welcome Dennis McDonald, from Melville, Montana, who will be testifying later in the second panel. I will not be able to be here for his testimony, but I urge you all to listen very closely. He is a very wise guy, in many sense of the term.

The CHAIRMAN. We promise to do that, and thank you for your introduction.

Senator Crapo.

Senator CRAPO. Thank you very much, Mr. Chairman.

I just have one question. Dr. Babcock, in your testimony—first of all, let me say I appreciate it—you address one of the perplexing questions that we have asked ourselves for years now, and that is why the ag prices continue to be so depressed.

And with regard to domestic policies, you stated in your written testimony that "Larger, countercyclical farm payments have helped to keep United States planted acreage up even though prices are down."

Do you believe that the countercyclical farm payments are a good or a bad aspect of United States domestic farm policy?

Mr. BABCOCK. Well, to answer that, you have to figure out what the exact objective of United States farm policy is, and I have struggled with that for the last couple years in preparation for the next Farm bill, about identifying that objective. If you could identify the objective, then you could figure out if it is a good or a bad thing.

We can look at the effects of countercyclical policies, and I think the biggest effect—and when I talk about countercyclical policies, I am talking about the LDP payments, the crop insurance payment, and the emergency AMTA payments. All of those have gone up over the last 3 or 4 years, so together, they are countercyclical.

What those three programs have done primarily is keep the cash-flow flowing in agriculture, which has really reduced a lot of financial difficulty in the agricultural sector. It has also kept land rents up, land prices up. So it has probably kept more people on the farm than otherwise would be, and it has kept land prices up.

Now, whether that is good or bad depends on if that is your objective, and I would say that that probably was the objective of those countercyclical payments, and so in the short-run objective, it is a good thing.

I think we have to look longer-term, though, and ask are those countercyclical payments a way of creating more financial stability so that we can keep liquidity flowing into agriculture, or are they a way of basically transferring more money to agriculture, because for example, my projection is that the LDPs for soybeans will be there for a long time—that is not an emergency safety net when it occurs 3 years, 4 years, 5 years, 6 years. What it really is is a transfer of income. So it is moving away from kind of a countercyclical payment into more of a transfer payment, so you get a little bit of a divergence there. But I would say that it did what it was intended to; it keeps people on the farm and keeps land prices up.

Senator CRAPO. Thank you.

The CHAIRMAN. Thank you very much.

Senator Miller.

Senator MILLER. No questions, Mr. Chairman.

The CHAIRMAN. Let me comment on Senator Crapo's question and your response, because I think this is really a very, very important question and answer with regard to the Farm bill and farm policy.

As you have said, Dr. Babcock, you have studied all of this, and you have tried to define what our objective was in this, and of course, one of the objectives was to bring about more freedom of decisionmaking, and I think that has been achieved, and likewise, to have an export-friendly situation, which both of you have testified that you support and have found very useful.

But what, clearly, although unstated, we have been attempting to do is to really save every farm in America, that is, to keep cash-flow or values or what-have-you alive. Now, that may not have ever been blurted out in the precis or the preamble of all of this and so forth, but the effect of looking each year, as we have been doing, at what net farm income is—and that line in the USDA report—and then at what the projection of what that might be next year, and if it looked like it was $4 billion less next year, or $5 billion less, it has been fairly predictable that the Congress would plug in 4 or 5 or whatever was necessary to bring net farm income back up to where it was before, leaving aside anything else going on in the world, whether it was the high dollar or the Brazilian exports or so forth.

Now, that may or may not be a good idea, but I think that very clearly, that is what we have been doing, with pretty wide support in both Houses of the Congress.

Second, your point, Dr. Babcock, is that we have also been engaged in what might be called transfer payments to agriculture. This means essentially that in the pool of taxpayer funds that comes to this Government, to this committee and others, with the support of the Congress, we have dedicated more of those funds to agriculture arbitrarily, if necessary, either to supplement income, to keep the cash-flow going, or on occasion simply to say that agriculture, as we have discovered, is a low-return business in comparison to a lot of other things going on in our economy, in fact, it is so low that those who are having struggles in agriculture are likely to be below zero. You get a four percent return on invested capital with the best-managed farms over the years, and that is still a very low return in comparison to Federal bonds, for example.

So you have a lot of latitude to make transfer payments even to get that return up into the ball park to something that might be competitive.

Now, whether the rest of the country will stand still for that perpetually always remains a political question which is resolved by all of us—not just by this committee, but by all of our colleagues—who try to decide what the allocation of resources should be.

Nevertheless, a lot of farm policy revolves around those two concepts, and I think the question is critically important as we try to discuss where we are headed, whether it be in exports or in the various titles.

But we thank you for illuminating the territory so well, with so much good data which will be very, very helpful for our consideration.

Thank you for coming.

We will now call the next panel. That panel will include Robert Stallman, president of the American Farm Bureau Federation; Leland Swenson, president of the National Farmers Union; Charles J. O'Mara, president of O'Mara and Associates in Washington, D.C.; James Echols, chairman of the National Cotton Council; Tim Hamilton, executive director of Mid-America International Agri-Trade Council and executive director of Food Export USA-Northeast; and Dennis McDonald, chairman of the Trade Committee for R–CALF, the United States Stockgrowers of America, from Melville, Montana.

Gentlemen, we welcome you to this hearing. I will ask that you attempt to summarize your testimony in 5 minutes. The full testimony which you have prepared will be made a part of the record in full.

After we have heard from each of the six of you in the order that I introduced you, we will ask questions of you, and members will be recognized for that purpose.

First, Mr. Stallman.

STATEMENT OF ROBERT STALLMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, COLUMBUS, TEXAS

Mr. STALLMAN. Thank you, Mr. Chairman, members of the committee.

I am Bob Stallman, president of the American Farm Bureau Federation, and a rice producer and cattleman from Columbus, Texas. I appreciate the opportunity to speak with you today about trade issues affecting agriculture and the trade title of the next Farm bill.

As you know, United States agriculture is highly dependent on access to world markets. Our sector has long enjoyed a trade surplus, but it is steadily decreasing due to declining support values and barriers to trade that are erected by our trading partners.

At the same time, our competitors are outspending us on export subsidies and market promotion programs. We cannot expect our producers to compete on the world stage when they are outgunned by foreign government spending. Congress must equip United States producers with adequate funding to promote their exports.

To put the specifics of the trade title in perspective, I am going to highlight a couple of other issues to show what we are up against, and much greater detail is in my written testimony.

First, as the Chairman has indicated, Congress must secure trade promotion authority for the President in order to improve our access to world markets and correct the trade inequities now facing our sector. Granting this authority will signal to the world that the United States is ready to negotiate.

However, trade promotion authority should not include labor and environment provisions that use trade as a weapon. Putting labor and environment standards in trade agreements and, more troubling, imposing sanctions on countries that fail to enforce their labor and environment standards, is a recipe for ensuring that no future commercially meaningful trade deal will be struck.

Farm Bureau continues to oppose unilateral export sanctions. The sanctions legislation that passed last year was a good first step on the road to achieving meaningful reform. We urge the administration to issue the implementing regulations for this legislation without delay.

Also, the restrictions on Federal export promotion assistance, financing of sales and travel to Cuba, and licensing requirements must be repealed in order to allow United States farmers and ranchers true access. We support S. 171, which will accomplish this objective.

The negotiations on agriculture in the World Trade Organization are critical for our sector, as they represent our best opportunity to increase market access. However, true progress in these negotiations cannot be achieved unless a global trade round is launched. WTO member countries should support a broad-based round to ensure that all sectors in the global economy benefit from increased trade liberalization.

Completion of China's accession to the WTO is another critical issue. All outstanding issues for China's accession package should be resolved before the United States gives its final approval for China to join the WTO, including resolution of China's allowable domestic support commitments and the bilateral agreement to import our wheat, meat, and citrus products.

On the bilateral front, Chile, as part of the Free Trade Area negotiations now under way, must agree to resolve all outstanding SPS measures that restrict United States exports to that market and must agree to eliminate its price band system which places imports into Chile at a price disadvantage.

Regarding the Jordan FTA, Farm Bureau opposes including labor and environment provisions in the agreement and strongly objects to the use of sanctions to enforce labor and environment provisions.

Concerning regional agreements, the FTAA, Free Trade Area of the Americas, will create an open market of 34 countries. These countries already enjoy significant access to our market and compete with us in the international marketplace. It is imperative that United States producers begin to enjoy access to the FTAA markets on equal terms.

Moving now to trade disputes, we believe that the list of European products subject to retaliation should be immediately rotated and continue to carousel in accordance with United States law until EU lifts its ban on United States beef.

Now, regarding the trade title of the next Farm bill, Farm Bureau supports approval for additional funding up to the WTO allowed limits for all export programs. Specifically, we support a 10 percent increase in food aid programs. The Market Access Program, or MAP, need to be funded at a minimum of $155 million rather than the current $90 million, and the Foreign Market Development Program, FMD, needs to be authorized at a minimum of $43 million rather than the current level of $33.5 million.

The EEP and DEIP programs should be reauthorized at the maximum levels consistent with WTO rules.

Mr. Chairman, the United States is facing an important juncture for agricultural trade. International conventions are writing new rules and standards for tomorrow, and ongoing bilateral and multilateral negotiations will design the future of global trade. The United States must assume a strong leadership role to ensure that these new rules and standards create a favorable trading environment for our producers. Our Government must take the necessary steps to make us a leader at the negotiating table and to once and for all open new markets for United States agriculture.

Thank you for this opportunity for Farm Bureau to share our views. I look forward to questions.

The CHAIRMAN. Thank you very much for your testimony. It is always good to have American Farm Bureau at the table and likewise to have National Farmers Union, and we will hear now from Mr. Swenson.

[The prepared statement of Mr. Stallman can be found in the appendix on page 87.]

STATEMENT OF LELAND SWENSON, AURORA, COLORADO, PRESIDENT, NATIONAL FARMERS UNION

Mr. SWENSON. Thank you, Chairman Lugar and members of the committee.

I am Leland Swenson, president of the National Farmers Union, and I thank you for holding this hearing and commend you for taking the leadership in addressing this very important issue as part of the discussion of the next Farm bill.

NFU understands and appreciates the potential benefits of agricultural trade. I think it is important to understand that the United States focus on export volume is not the cure for the problems that exist as we take a look at the challenge facing us in agriculture. It is a part of it, but it is not the cure-all of the economic problems. Sometimes we use it as the excuse when performance does not meet our expectations as to why we have low prices, and sometimes I think we ignore the importance of the domestic market, which has consistently shown the highest level of demand growth and usage over the years.

When we look at the next Farm bill, and we take a look back at the 1996 Farm bill, it was really based on a lot of expectations of unabated growth and export demand that was going to occur. Well, I think we ran into some bumps in the road. We saw countries place a high value on self-sufficiency and food security and concern for food safety and other benefits that they saw to their society that they began to address and effect what was expected to occur under the structure of the Farm bill.

United States producers and other producers around the world, who cannot individually influence what happens to price but are directly impacted by what price occurs, sought then to maximize returns or, as we have seen in the last number of years, minimize losses by expanding production, because that was their only alternative.

The United States is not likely, as we take a look at the global situation, to be the low-cost supplier of most commodities, because we do not find ourselves in the situation to be the low-cost producer.

In agricultural trade, we find ourselves to be a residual supplier to most countries when they do not provide a majority of what they need themselves.

As we take a look at what has happened, the majority of export earnings growth that occurred in the mid-1990's was due to commodity price increases, not export volume. As we take a look at the majority of the current reduction in export earnings, it is due to a decline in commodity prices and not necessarily a reduced export volume.

Competitive imports also represent the other side of the ledger that I think we cannot ignore. United States agricultural trade balances declined about one-third since 1989. It has been a function of both declining exports in recent years, and an increase in competitive imports that we have seen occur in this country.

Well, we can continue to blame periodic events—the Asian crisis—but I just want to draw to members' attention to the fact that we have seen these kinds of situations occur almost every decade, be it the Russian crisis, the Mexican crisis, the Poland crisis, the Brazil crisis. We have had similar events that have had a tendency to disrupt the market decade after decade.

We and others have trade-distorting policies. How likely is it that we will be able to eliminate all those trade-distorting policies in the near term? Will Congress, as AFBF president Stallman just mentioned, and the administration support the total removal as they apply to sanctions on food and medicines, on a global basis?

So, for farmers and ranchers, a test of trade policy and export promotion and sales promotion programs is the impact that those initiatives have on the income and the future opportunity for farmers and ranchers.

As we take a look at the trade issues, we have the traditional issues—export subsidies, market access, sanitary/phytosanitary regulations, dispute resolution, domestic agricultural programs—and we believe they should all be addressed.

But we cannot ignore other, what we would like to raise as more important, issues affecting our competitiveness, such as exchange rates, labor standards, environmental goals and the regulation and harmonization of regulatory policies, the emergence of genetically modified products, GMOs, and the trade impact that these issues are having.

Let us take a look at trade objectives as we look at the next Farm bill from the Farmers Union perspective. For traditional trade issues, we have to improve our capacity to monitor compliance. One of the biggest concerns we raised during PNTR was how are we going to monitor and enforce compliance. We should reform the dispute resolution process of the WTO and the regional agreements.

We should ensure comparable health, safety, labor and environmental standards, No. 1. No. 2, we should extend tariff rate quota coverage to competitive imports that currently circumvent our customs schedules, such as "stuffed molasses" and other products.

We should expand the application of end-use certificates to legally imported products when utilization is restricted by domestic law, such as milk protein concentrate.

We should require country-of-origin labeling for imported agricultural products.

We should oppose further proportional reductions in trade and domestic policies that reduce our capacity and flexibility to respond to trade and economic circumstances until all nations achieve comparable levels of reduction relative to the size of their agricultural industry.

We should oppose any efforts to weaken or negotiate reductions in domestic trade law, such as anti-dumping, countervailing duty, and Section 201 and 301 trade remedies.

We should have a full review of all of our current export promotion sales incentive programs.

We should review current practices, policies and barriers to trade employed by others, including exchange rates.

We should eliminate unilateral economic sanctions, as we mentioned, including Cuba.

here should be implementation of the Byrd Amendment and extension of the Trade Adjustment Assistance Act to agriculture.

We would also like to see included in the next Farm bill an expansion of our humanitarian food assistance programs, such as the proposed global school lunch program. We think that provides a real opportunity in the area of enhancing international trade opportunities.

We should also seek international cooperation to address the potential of surplus production, including international food security buffer stocks.

These are some of the areas that we believe, on an international basis, provide a basis for some better discussions on trade policy.

Mr. Chairman, those are some of the ideas that we bring to the table, and we look forward to the questions and opportunity to discuss those with you.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Swenson.

[The prepared statement of Mr. Swenson can be found in the appendix on page 96.]

The CHAIRMAN. Mr. O'Mara, would you please proceed with your testimony.

STATEMENT OF CHARLES J. O'MARA, PRESIDENT, O'MARA AND ASSOCIATES, WASHINGTON, DC, ON BEHALF OF THE AMERICAN OILSEED COALITION

Mr. O'MARA. Thank you, Mr. Chairman.

I am here today on behalf of the American Oilseed Coalition, which includes the American Soybean Association, the National Cotton seed Products Association, the National Oilseed Processors Association, the National Sunflower Association, and the United States Canola Association. I am very grateful, Mr. Chairman, to have the opportunity to speak on the important trade programs of the 1996 FAIR Act—export credits, food aid, and export promotion programs.

In 2000, United States producers harvested 2.8 billion bushels of soybeans, the largest crop in our history, valued at $12.5 billion. Exports of oilseeds and oilseed products in calendar year 2000 were valued at over $7.5 billion. These data show the importance of exports to our industry. United States oilseed producers and processors depend on maintaining and expanding access to world markets.

An aggressive United States trade policy and use of export programs are essential in maintaining market-oriented foreign policies. Full use of legitimate export assistance and promotion programs, and expanded food aid programming, were key commitments made by the Congress and the administration when the current FAIR Act was enacted in 1996.

Full planting flexibility and production require enhanced efforts to increase United States farm exports and competitiveness. The success and continuation of currently domestic farm policies will require a renewed commitment to use our export credit and food aid programs consistent with our WTO obligations.

The AOC fully supports export credit programs as a vital Government incentive to encourage exports of oilseeds and oilseed products. As you know, under the Uruguay Round Agreement on Agriculture, export subsidies have been cut, with further reductions or perhaps elimination, when the current WTO agriculture negotiation is completed. This means that export credits are the primary export tool available. We must make sure that export credits are consistent with WTO rules and disciplines.

How to deal with export subsidies, including export credits, was one of the major issues during the Uruguay Round of multilateral trade negotiations. In that negotiation, the United States came under enormous pressure to accept disciplines on the use of export credit programs. The Cairns Group, for example, wanted export credits and credit guarantees to be treated as export subsidies and subject to the disciplines requiring reduction of such subsidies.

The United States successfully resisted this pressure, and within the Uruguay Round Agreement on Agriculture, export credit programs were not specifically listed as subsidies, subject to the reduction commitments that were applied to such programs as the United States Export Enhancement Program and the EC export restitutions.

Export credit programs were given a special status that exempted them from these reductions. In return, the United States and other WTO members agreed "to work toward the development of internationally agreed disciplines to govern the provision of export credits," and to apply these disciplines once they were negotiated. This is the so-called Article 10(2) of the Agreement on Agriculture.

Article 10(2) is a best-efforts commitment. It does not specify a timetable for concluding discussions, nor does it specify that credit programs need to be reduced. It was intended to be a discipline to govern their use, not to reduce them. Although not specified, the implicit assumption was that the discussion would take place in the Organization for Economic Cooperation and Development, or the OECD.

Many people have asked why we need this OECD agreement if, during the Uruguay Round, we negotiated a special status for export credits, and if there is no timeframe mandated by the WTO for concluding negotiations.

The reason is that our program could be challenged under what are known as the "circumvention provisions" of the Article 10 of the same Agreement I spoke of a moment ago. These circumvention provisions state that export subsidies not subject to specific reduction commitments—in other words, export credit programs—cannot be used in a manner that results in circumvention of the agricultural export subsidy commitments. Granting export credits or credit guarantees to a product in excess of the WTO-bound commitment could lead to a violation of our WTO obligations.

I see that my time is running out, Mr. Chairman, so I will try to summarize even more quickly.

In two sentences, as far as export credits are concerned, we are at a very important juncture on that program because of the status of the OECD discussions, and as you can tell from what I have said up to now in my testimony submitted for the record, this is a vital,

vital program that not only does the soybean and soybean products industry need for exports, but all of United States agriculture.

If I could take a few minutes on food aid, sir, the AOC believes that food aid programs need to continue to be strongly supported by the Congress and implemented by the administration. The National Oilseed Processors Association and ASA, the Soybean Association, have proposed a soy food initiative that could reduce United States farm program outlays by helping to raise soybean prices. Under the proposal, the U.S. Department of Agriculture would purchase soybeans and soybean products and donate them under various concessional sale and donation programs, including P.L. 480 and the International School Lunch Initiative.

There are other initiatives in my testimony for the record that I will not mention now, but these initiatives could be enacted without a new authorization or funding from Congress and would result in a net savings to the Government and would provide increased assistance to those in greatest need—the hungry of the world.

Now, if you will just permit me another half-a-minute with respect to the Market Development and MAP programs, both of these programs are also essential to continued United States agricultural export enhancement and promotion, and we would appreciate you and the committee taking the importance of these programs into account.

Thank you, Senator, and I will be happy to answer any questions.

The CHAIRMAN. Thank you very much, Mr. O'Mara.

[The prepared statement of Mr. O'Mara can be found in the appendix on page 104.]

Mr. Echols.

STATEMENT OF JAMES ECHOLS, CORDOVA, TENNESSEE, CHAIRMAN, NATIONAL COTTON COUNCIL

Mr. ECHOLS. Thank you, Mr. Chairman and members of the committee. Thank you for having this hearing today.

My name is James Echols. I am president of Hohenberg Brothers Cotton Company in Memphis, Tennessee, and I currently serve as Chairman of the National Cotton Council of America. I have been in the cotton merchandising business for over 40 years, selling both in the domestic and international markets.

Trade is very important to the United States cotton industry, with about 40 percent of our approximately 17 million bale crops exported each year. In addition, we exported the equivalent of 5 million bales of cotton in the form of textile and textile products in 2000.

Mr. Chairman, the United States cotton industry is facing stiff competition for export markets and for our domestic markets. We need trade policy that ensures our raw product is competitive, that opens markets for both raw cotton and United States-produced cotton textiles, and that ensures that the terms of competition are fair.

One of the most significant influences on the United States cotton market is cotton textile imports. Although domestic consumption of cotton textiles at retail is about 21 million bales, over half of that market is sourced by imported textiles made from foreign cotton.

This level of competition in our domestic market will continue to intensify as textile quotas are phased out.

We are also witnessing the impact of the strong dollar. Compared to other agricultural products, cotton is uniquely vulnerable to the effects of an appreciating dollar through its impact on imports of cotton textiles and apparel products.

Mr. Chairman, we must remain competitive. Cotton's marketing loan and three-step competitiveness provisions form the cornerstone of an effective United States cotton program. Maintaining all aspects of this program is central to the long-term competitiveness of our industry. Without the presence of cotton's Step 2 program to offset some of the impact of a strong dollar, United States raw cotton exports would likely have experienced a far larger decline than was the case in 2000.

It is important that opportunities to increase demand be fully realized. Last year, the cotton industry stressed the importance of enacting a CBI, Caribbean Basin Initiative, parity bill to grant trade preferences for apparel produced in the Caribbean Region from United States-origin textiles. The CBI bill is enacted, but implementation is not complete. As a result, we have not yet experienced significant increases in demand. We have urged the United States Customs Service to issue final regulations implementing this legislation as quickly as possible.

We must also have strong export assistance programs in place. However, a proposal being considered in the Organization for Economic Cooperation and Development would undermine our export credit guarantee program while providing no corresponding reductions in export subsidy programs operated by our competitors.

Over $5.5 billion in agricultural exports have benefited from that GSM–102 program the past 2 years alone, yet the latest OECD proposals contain fee increases, shortened loan terms, and repayment requirements that would make the program ineffective for United States exports of cotton.

We have estimated these changes could reduce annual United States cotton exports around one-half million bales and have as much as a 3-cent-per-pound impact on prices.

United States officials have kept us informed but have not provided any estimate as to the actual fee increases expected, nor have they provided an analysis as to the impact of these changes on United States agricultural exports.

The Council is very concerned about the future of this critical United States export program. We urge the committee to closely monitor the OECD negotiations, and we have provided suggestions for improving the GSM program in the new Farm bill in our written statement.

The Council also supports market promotion activities carried out under the Market Access Program and Foreign Market Development Program. These programs are consistent with World Trade Organization rules and are classified as green box activities.

The combined investment of private and public funds coupled with industry marketing expertise results in innovative, forward-looking programs that leverage money into high-dollar-impact campaigns and promotional efforts. Our written statement includes a number of examples of highly successful accomplishments carried out by the cotton industry using the MAP funds.

It should be noted that funding under the FMD program in particular has not kept pace over the last 2 years. We encourage the committee to provide funding for the FMD program at a minimum of $35 million per year and to consider restoring overall support for the MAP program to its 1992 level of $200 billion. We urge our tradeofficials to ensure the United States-China Agreement is not undermined during the final accession discussion. China is the largest cotton-producing country and the largest textile and apparel exporter in the world.

While the agricultural portion of the United States-China agreement were favorable to the United States, the textile provisions of that agreement would introduce even more competition into the United States textile market. But even the agricultural portion of this could be undermined if China is allowed to claim developing country status with respect to agriculture and textiles.

The National Cotton Council supports the concept of fast-track negotiating authority provided that it requires consultation with Congress and the private sector and contains negotiating objectives that will encourage trade agreements that will benefit the United States cotton industry.

While the cotton industry supports expanded and liberalized trade, each new trade agreement must be evaluated on its own merits. While we support free trade arrangements that will benefit our industry, we have concerns about arrangements that further open our markets to our most difficult competitors. These concerns are particularly evident concerning textiles, where all quota restrictions are due to be phased out in four years. Should the United States complement that quota phaseout with the elimination of import duties on some of the world's most prolific textile-producing countries, the United States textile industry will not be able to recover.

The cotton industry therefore supports the efforts of our Government to further liberalize market access and trading rules within the WTO and has outlined a set of priorities for the ongoing negotiations, including improving market access for cotton and textiles, improving rules restricting the use of downstream export subsidies, limiting exemptions for countries that are competitive in cotton and textile products, and ensuring countries do not erect nontariff trade barriers against agricultural biotechnology products.

This concludes my testimony, and I will be happy to answer any questions at your convenience.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Echols.

[The prepared statement of Mr. Echols can be found in the appendix on page 109.]

Mr. Hamilton.

STATEMENT OF TIMOTHY F. HAMILTON, CHICAGO, ILLINOIS, EXECUTIVE DIRECTOR, MID-AMERICA INTERNATIONAL AGRI-TRADE COUNCIL, AND EXECUTIVE DIRECTOR, FOOD EXPORT USA-NORTHEAST

Mr. HAMILTON. Thank you, Mr. Chairman.

I would like to tell you this morning about how the Market Access Program specifically is being used to help United States food producers not only get started exporting but also to promote our country's value-added exports.

Secretary Veneman has outlined that expanding trade is the administration's top priority for United States agriculture. We feel that continued support for trade promotion through the Market Access Program is a critical part of that effort.

The MAP is designed to focus on value-added products. There are approximately 70 non-profit industry groups across this country representing all sectors of agriculture that participate in this program.

The 50 State departments of agriculture participate in MAP through four State regional trade groups which I represent today. These groups coordinate the export promotion efforts of the States and focus on assisting particularly smaller food and agricultural processors.

Our services rely heavily upon funding from the MAP program, along with considerable private and State investment.

We identify three different levels of assistance for smaller exporters—specifically, exporter education and training, market access and opportunity, and market promotion. Let me tell you how we use MAP funds to support these efforts.

Under exporter education and training, our Food Export Helpline is available to companies with specific questions on how to enter new markets, or how to handle documentation or other technical issues that they confront. We also publish a regular newsletter which informs thousands of particularly smaller companies around the country about opportunities and events in the export market.

Under market access and opportunity, we simply help companies find importers and distributors overseas. International trade shows are one of the most important means of locating new customers. We support United States companies with the technical information that they need to learn if their product can be competitive in a market.

Under market promotion, our Branded Program offers cost share assistance through which we support 50 percent of the promotional costs for small companies. This encourages firms to take the risk to attend international shows and promote their goods—risks that they might not otherwise take. We routinely hear from small companies that they simply would not have considered the export market were it not for the market access program.

The MAP focuses on value-added products, including branded foods. Overseas consumers, like those here in the United States, tend to buy products based on brand names. By promoting those brand names that contain American agricultural ingredients, we build long-term demand for our products. These value-added products support jobs and encourage investment in our own domestic processing industries.

I would like to give you just one example, if I could. Palermo's Villa is a small Midwestern supplier of frozen pizzas. They used MAP funding to sponsor in-store promotions in Canada, just like you see at grocery stores here in the United States. From these promotions, their export sales have more than tripled, and as a result of that, they have doubled their purchase of agricultural inputs like wheat flour, cheese, tomato sauce, and meat. They have added more than 30 new jobs at their small plant. This effort supports long-term sustainable demand for those United States agricultural products and the jobs that add value to those products here in the United States.

The MAP also stimulates private investment. While the MAP requires that companies match all Federal dollars on a one-for-one basis, in fact, most of our companies spend much more than that. Last year, companies in our program contributed approximately $4 for each dollar that they were reimbursed under our program.

During the last year, United States companies signed more than 1,000 new customer agreements worldwide as a result of help through the MAP, and over 200 small companies made their first export sale ever. None of this would have been possible without support from this important program.

Our competitors in Europe outspend us by a factor of 20 to one in promoting their products worldwide. As we have seen increased spending by other nations, we have seen our United States market share decline.

How does this play out in the marketplace? Some major retail chains around the world have simply stopped budgeting for their buyers to travel to other countries, and they simply rely on their suppliers and promotion agencies like ourselves to simply pay for those costs. If we are not willing to pay those costs, they are not interested in looking at our products. Just last week, a major importer in Hong Kong canceled our invitation to visit the United States because he received a more generous offer from Canada.

American products are seen worldwide as high-quality products, safe products. Selling higher-quality products requires promotion. The MAP is an investment in promotion that pays off.

As world trade increases, so does competition. It is essential that we retain and in fact increase funding for the Market Access Program in order to continue to build our export markets for United States agriculture. We encourage the committee's support for efforts to increase funding for MAP, including S. 366 introduced by Senators Murray, Craig, and others, which would do just that.

I have included additional information, including other stories about companies that have used the program successfully, and I have included a statement from the Coalition to Promote Agricultural Exports, which we are a member of.

Mr. Chairman, thank you.

The CHAIRMAN. Thank you very much, Mr. Hamilton.

[The prepared statement of Mr. Hamilton can be found in the appendix on page 120.]

The CHAIRMAN. Mr. McDonald, you have already been introduced by Senator Baucus earlier, and hopefully, you were present for his comments, and we promised to listen carefully to you, which we will.

Please proceed.

STATEMENT OF DENNIS MCDONALD, MELVILLE, MONTANA, CHAIRMAN, TRADE COMMITTEE FOR R–CALF UNITED STOCKGROWERS OF AMERICA

Mr. MCDONALD. Well, thank you, Mr. Chairman, members of the committee.

I am Dennis McDonald from Melville, Montana. I am a cattle rancher there, although I must say not a real wise cattle producer, as Senator Baucus alluded to.

You probably do not know where Melville is located. It is located in south central Montana, about an hour's drive north of Yellowstone Park.

My wife, Sharon, of 25 years and our four children operate the ranch. Our children share the love of the ranch and participate in its operation. Sharon and I would like nothing more than to be able to pass this ranch on to our children, and we would like to do so without being accused of child abuse.

The ranch consists of about 30,000 acres where we run 850-plus mother cows, and after weaning in the fall, background our calves and often continue to own the cattle until slaughter. We also breed about 100 brood mares, quarterhorses primarily, cutting, reining, and working cow horses.

I am here representing the Ranchers-Cattlemen Action Legal Fund. R–CALF was formed about 3 years ago to litigate an antidumping and countervailing duty case against Mexico and Canada. We represented 29,000 cattle producers from across the country and 140 different cattle organizations. The Department of Commerce determined that we represented 25 percent of the Nation's cow herd. In that endeavor, we collected over $1 million in small donations to finance the litigation.

Today, R–CALF has members in 30 States and is the fastest-growing cattle organization in the Nation. As an organization, we focus on trade and market issues. We have actively participated in restructuring and rulemaking of the Packers and Stockyards Administration, sought and helped obtain an agricultural representative within the Justice Department, pushed for mandatory price reporting of live cattle, and participated in the rulemaking process. We have been active in trade matters and hold two active seats on the Business Forum of the Americas for input into the Free Trade Area of the Americas negotiations.

I serve on the Agricultural Trade Advisory Committee, and I thank Senator Daschle and Senator Baucus for giving me that opportunity.

I travel here to Washington in that capacity several times a year. I have attended WTO hearings around the world, including the Ministerial in Seattle and most recently, the Business Forum of the Americas in Buenos Aires, where I spent a week earlier this month.

R–CALF strongly supports the free trade efforts and specifically supports efforts to expand access of United States cattle producers to foreign markets. In that regard, R–CALF supports those provisions in the Farm bill that promote exports of United States beef and related products.

However, R–CALF believes that more attention must be paid to ensuring that the benefits of expanded exports and market access flow equally to individual ranchers and cow/calf producers, as well as to the shareholders of large agribusiness.

We are really mindful that last year, for the first time in history, we exported over 2 million metric tons of beef. But we are acutely aware that all too often, the effect of that export trade has not filtered down to our family ranches and communities.

Therefore, in addition to the current provisions in the Farm bill, R–CALF urges the committee to look forward and consider what additional measures and provisions should be included to ensure a viable and profitable cattle industry at the grassroots level. Maintaining a strong cattle industry will assist in preserving and rekindling the energy in rural America and help maintain our conservation measures and maintain our national vistas.

Specifically, we urge, as has been mentioned earlier, that country of origin be a primary issue. As cattle producers, we feel that we are raising and can market the most nutritious, safest, cleanest, best, most tasty beef in the world. We need the opportunity to set our product apart from that produced in the rest of the world.

In addition, and just as important, we need our foreign trade partners to identify the product that they are selling in our market. USDA recently entered into a rule with regard to Argentine beef, requiring that that beef be labeled as originating in Argentina. Our trading partners, the European Union, Japan, South Korea, all have stringent country of origin labeling requirements. It is a shame that we have not done likewise. R–CALF strongly supports Senator Tim Johnson's bill, known widely as "The Consumer's Right to Know." You go to the store, and you know where your clothing is manufactured, you know where the tools that you buy are made—it is a shame that you go to the meat counter, and you cannot determine where the beef that you are purchasing originates.

I see that my time is about up. I would like to mention one last issue, and that is the USDA grade stamp. That grade stamp is a mark of excellence known around the world. Cattle producers made it so by raising, again, the best beef in the world. It is a shame that that stamp is being placed on beef and cattle coming down from Canada and up from Mexico. That is our brand, and ranchers need to have that trademark. Again, it is known around the world as a mark of excellence.

I did not get through nearly what I wanted to say, but I thank you very much for the opportunity.

[The prepared statement of Mr. McDonald can be found in the appendix on page 124.]

The CHAIRMAN. Thank you, Mr. McDonald. As you know, your full statement will be made a part of the record for the benefit of Senators and staff and the public.

I am going to defer my questions for a moment and call upon my colleagues in this order. I will call upon Senator Roberts, then Senator Dayton, Senator Fitzgerald, and Senator Nelson.

Senator Roberts.

STATEMENT OF HON. PAT ROBERTS, A U.S. SENATOR FROM KANSAS

Senator ROBERTS. Thank you, Mr. Chairman.

I would like to thank all the members of the panel for excellent testimony. I have a short statement, and then I want to get to the questions, and I know that we have limited time.

Last year, former Senator Kerrey and I held a subcommittee hearing that the chairman agreed to do where we took a serious look at all the export programs in the USDA, and quite frankly, what we found was that these programs are underfunded, they are understaffed, and they need a redirection of resources. I have indicated my strong belief in that regard as to the result of the hearings to our current Secretary and the staff down there. Tim Galvin came up and gave that testimony.

I think it is time that we start to think out of the box. I might add that I am not sure there ever was a box that Senator Kerrey was in, Mr. Chairman, but at any rate, I think that we should really start to think about that. We have a good number of programs in place, but in the last 4 or 5 years, we have seen the United States share of export markets continue to fall. All the witnesses have testified to that, more especially with the value of the dollar.

One study last year argued that a 16 percent appreciation in the value of the United States dollar was responsible for a 17 to 25 percentage point decline in corn and wheat prices. Four years ago, it was $61 billion in exports, and now it is somewhere between $49 and $51 billion. If you just subtract the difference, I think you can take a look at the budget and see what we are sending out with regard to lost income payments to farmers.

It is not a one-for-one cause—do not misunderstand me—but I think that it is germane.

There is another problem here, and that is in regard to sales. It used to be that the United States—we hoped we were not a residual supplier. Sometimes, we got to that. We were a very reliable supplier. But today, sales have shifted and are being made to private buyers in countries that are purchasing much smaller quantities at a time, as opposed to a large Government sale. So they shop around, and they purchase grain from our competitors at a cheaper level than they can get it from the United States, and that is the way it is.

This is a fundamental shift in the way that we are doing business, and I think we need to take a serious look at the existing programs, Mr. Chairman, and really stop for a minute and think and ask, are we in the same situation that we were before.

I think most of the witnesses and most of my prejudice is to say that we have good programs on the books. I remember the people who put them in place. I used to work for Senator Frank Carlson a long time ago as a staff member. He was one of the godfathers of the Food for Peace program, the P.L. 480 program. I am not quarreling with that at all—it is next to motherhood and sunsets in Kansas—I think it is a good program, but I think we really have to take a good, hard look.

I know there is a school of thought, a generational gap in Kansas, that when we are sitting around the coffee table or a coffee klatsch, and some of the younger farmers will tell some of the older farmers, "Hey, this is not the 1950's." Well, this is not even the 1985's. So we are in a different world, and the landscape has changed, and I do not think these programs may be able to get the job done any longer.

I remember the first time I went down to a meeting of the Export Enhancement Program, Ben, when Ed Zorinsky said, "I am not going to vote for a budget until we get this stuff sold." I do not want to give you any ideas, but that is what he said. So Berkeley Bidell from Iowa and I went down to the first meeting, and we were very puzzled as to the fact that here was an export program that we really felt was to move the grain, but it was on a very selective basis, had to go through a committee, and all sorts of things. It was sort of alike a shotgun. I am not really advocating the E–Program now, but at least during that particular time, we were faced with a big problem, and I think we need to put our thinking cap on.

In terms of questions here, I will try to get to them quickly. Let me just say, Bob, thank you for coming to the committee. If you had one recommendation for a new program to increase United States access to world markets, what would it be—not especially the ones that you testified to, but if you had one idea out of the box, what would it be?

Mr. STALLMAN. I think it may be outside the trade title. I talked about the programs within the trade title that are very important. But I think it has more to do with trade policy, and actually, for the future, in terms of the single most important policy that we can implement, it is probably trade promotion authority, because without it, we are not going to go out and negotiate any meaningful trade agreements.

Senator ROBERTS. So it would be fast track, or what we now call the Presidential trade—I call it enhancement—I changed the MAP program, by the way, when I was somebody in the House and was chairman of the sometimes powerful House Agriculture Committee—instead of "trade promotion," I called it "access." I think that that whole perception—access and enhancement. But you would say that that would be the most important thing?

Mr. STALLMAN. For the current makeup of where we stand in international markets, I think that would be key.

Senator ROBERTS. All right, sir.

Leland, you made some very good comments in regard to the currency concerns. Do you have any ideas along those lines? I have been wracking my brain trying to figure out what kind of an export program you could address on a sliding scale. I do not even know what I am talking about yet, but the value of the dollar and these currency concerns, there is no question that that study shows that we have lost a tremendous amount of products.

Do you have any comments?

Mr. SWENSON. Senator, I think that that is the No. 1 issue in eliminating our ability to expand our export market, as well as impacting the level of imports coming into this country.

I agree with you—I think we have got to think outside the box about how to address that issue. I think we could use an adjustable type of monetary financing program. You talked about the Export Enhancement Program. I think we should look at a monetary finance program that levels the playing field in the area of currency. We should aggressively seek to do that, because most of our competitors on an international basis are within specific commodities. It is not just across the board. We know who our wheat export competition is. We know what our feedgrains export competition is. We know what our beef competition is. We can center those out, and we need to aggressively address them.

Senator ROBERTS. Let me tell the witnesses that my colleagues, the distinguished chairman, myself, and others, went down to the White House about 2 weeks ago in advance of the meeting in Canada with the President, and we talked about fast track. There were about 15 to 20 Members down there, both Democrat and Republican, House and Senate, and it was obvious that we were trying to figure out the third away.

Our trade ambassador, Bob Zoellick, was there, and we were trying to figure out how on earth we could do this with the environment and labor, and the distinguished chairman is now quoted today in the National Journal. He indicated that some countries will accuse the United States of trying to intervene in their domestic affairs and insisting on labor and environmental provisions in the trade agreements, but he says the United States is not credible as a trading partner without fast track. Then, the chairman says this: We have our work really cut out for us.

I see my time is expired, but could you just indicate to us what is the "third way"? Now, I have to admit to you that I am the doberman on the chain on this issue; I think that if you add in labor and environmental issues, which are terribly important—but I think we have other venues we can approach that with—I do not think you will make many sales. On the other hand, I know that we are not going to pass fast track unless we have a third way. What is the third way?

Mr. SWENSON. To pass fast track?

Senator ROBERTS. Yes. What is the third way that we can bring in the labor and the environmental concerns and still not get into a muddle or a real briar patch in that regard and not make sales?

Mr. SWENSON. Well, I think that we need members to think outside the box about how important producers in this country——

Senator ROBERTS. That is not fair—you are using my terms back at me. Come on.

Mr. SWENSON. But we have members who are stuck in a rut, who say we cannot do anything about the environment, we cannot do anything about labor, and they stay there, and that is all they see.

I think that we have got to think outside the box. Environmental rules and regulations are impacting the cost of production for producers in this country and making us noncompetitive in the world market. We hear companies talk about the need for MAP assistance to promote and compete in the global market. We have got to be able to level that playing field, and there are factors that come into play, and those include environmental costs of rules and regulations, chemicals that they can use in Canada and produce in a week that we cannot use in this country, made by the same company, based in this country.

We have got to get outside that mentality and outside that rut, that furrow. We do not plow anymore. We use no-till. We have got to take a look at how we can address these issues and do it aggressively in negotiating trade agreements. I do not think that we need fast track to negotiate trade agreements. This President can do it; past Presidents have done it. They can be responsible to you as Members of Congress, and if they lay a good trade agreement before you, this Congress will pass it.

Senator ROBERTS. I did not play that speech, Mr. Chairman, but I thought I would toss up a softball to Leland and let him express that.

Mr. SWENSON. Thank you.

Senator ROBERTS. My time has expired. I have several other questions, and I hope we have time for another round.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Roberts.

Senator Dayton.

STATEMENT OF HON. MARK DAYTON, A U.S. SENATOR FROM MINNESOTA

Senator DAYTON. Thank you, Mr. Chairman.

Thank you, members of the panel.

I believe I have an open mind regarding trade, but I have a very parochial concern, which is how does it imbalance benefit or harm Minnesota farmers, producers, and the Minnesota economy, and I have a broader concern which is America first—how does it imbalance, benefit, or harm our national farm and overall economy, and it is that measure and trying to achieve that measure of balance that kind of dictates my views on this topic.

I guess I would like to use as a starting point, Mr. Stallman, your comment and ask each of you, given my brief time, to respond briefly in turn to this. But I think your point is very well-taken. You said we view FTAA—and I would say also the redrafting of this Farm bill—as an opportunity to apply the trade lessons we have learned from the North American Free Trade Agreement. On average, NAFTA has significantly benefited the United States agricultural sector. When you take a look at specific commodities, however, there have been some winners and losers.

I confess—and I think it would be an exercise that I would like to try to engage in—assessing imbalance and whether Minnesota farmers and producers have benefited or been harmed, but I know anecdotally—and maybe I hear from the sectors that are being harmed more than those that are benefiting—that certainly, Minnesota dairy producers, Minnesota sugarbeet growers, and wheat producers have been adversely affected both by the design of some of these agreements and I think also the failure of our own Government to enforce our side of the agreements. Certainly in areas like corn production, soybeans, I would say the export imbalances have probably been beneficial, although I think the specter of some of this countries like Brazil, in terms of soybean production and the like, do not auger well for the future.

So I guess I would like to ask each of you what specific lessons you think we have learned from NAFTA that we could apply to the future negotiations, and as you view the specter of enlarging this agreement to include all of central Latin and South America, do you view in the balance that it is going to be of benefit or not?

Mr. STALLMAN. On balance, I definitely think it would be a benefit to have an FTAA agreement.

Among the lessons that we have learned, one in particular is that with respect to agriculture as an industry sector in these agreements, we have to real sure that at the end of the day, agriculture is not held out and the deal cut, in essence, not as good a deal for agriculture as perhaps other sectors get, in terms of looking over the shoulders and being sure what we are getting.

I would concede that NAFTA is not perfect. There are things that need to be addressed. There were side letter agreements which were purported to solve some problems that have not actually been enforced, and enforcement then gets to be the second lesson we have learned, and that goes across the trading board.

Being a Texas cattleman, I will use beef and the been hormone issue in the EU. There is a growing sense in the countryside that we are truly not willing to enforce the trade agreements based on the laws that are available, particularly, in this case, carousel retaliation. So I think that to be credible for the future, for our members and for our producers out there, we have to show a real willingness to enforce those agreements. So those are two things—watch out for the negotiations with respect to agriculture and be sure we enforce the agreements.

Senator DAYTON. Thank you.

Mr. Swenson.

Mr. SWENSON. Just touching quickly on some of the issues relating to the NAFTA agreement that I think we need to address as we look at expanding it to the Free Trade of the Americans, one is the currency, and I will come back to that. Second is harmonization—the use of chemicals in some countries that you cannot use in other countries and the very same chemical and components thereof; import surges and how we are going to deal with import surges and their impact on producers. The other thing is what I call the transshipment. For example, we have the "stuffed molasses" issue of a product coming in from Canada that has been exchanged, and we have sugar now, we have the peanut paste issue. There are a number of those that we have failed to address. Those are some of the things that I think we have got to deal with as we expand the trade agreement.

Senator DAYTON. Thank you.

Mr. O'Mara.

Mr. O'MARA. I was a big part of the NAFTA agreement in my former capacity, and I think there are really two lessons to be learned from it from the standpoint of being on the negotiating side.

One is that a lot of the mistakes that were made with the United States-Canadian Free Trade Agreement were not duplicated, as a matter of fact, on the Mexican side, and those mistakes on the Canadian-United States Free Trade Agreement, most of the time was wasted on what the two sides were not going to do; the focus was all on the negative, so dairy was left out, for example. How can you have a free trade agreement with that important sector left out?

On the Mexican side of the Free Trade Agreement, there were no exceptions. Now, I accept that has caused complications in certain sectors like sugar, but I think that if you look at the numbers, and you look at the overall benefit of the agreement, the outcome on the Mexican part of the NAFTA speaks for itself.

I think the second point is—and I was very happy to hear compliments already made about the new United States Trade Representative by the chairman—I think that it is essential to have an aggressive United States trade policy, not necessarily in-your-face, but people who are competent in dealing with the immensely complex issue such as exchange rates. If there is a way to do it in a trade agreement, frankly—I have not thought out of the box far enough to figure that one out—but I think you have to have competent people in the field, and I think you have them in this administration in both Bob Zoellick and Secretary Veneman.

So I think that the outlook for the FTAA is a positive one.

Senator DAYTON. I see my time is up, so I will ask each of you to respond briefly, if I may have the chair's indulgence.

The CHAIRMAN. Yes.

Senator DAYTON. Thank you.

Mr. Echols.

Mr. ECHOLS. The National Cotton Council has been a strong supporter of NAFTA. However, as we consider FTAA, a lot of those countries are significant producers of both textiles and raw cotton. We are still evaluating exactly how that may impact the two sides of our industry, both our domestic industry as well as the producer segment. A lot will depend on the rules of origin that are adopted there as to exactly what our position might be.

Senator DAYTON. Thank you.

Mr. Hamilton.

Mr. HAMILTON. I think that our country's strength as a producer and our strength in the marketplace is based on our position as a value-added and a high-quality producer, so to the extent that our producers fit into that marketplace—and in Minnesota, I think you are taking a lead in a lot of those areas with identity preservation and value-adding—so to the extent that we are in that position in the marketplace, I think that the FTAA offers some real opportunities for us. It is important that we differentiate ourselves from the other members of the FTAA, however, to give ourselves that competitive advantage.

Senator DAYTON. Thank you.

Mr. McDonald.

Mr. MCDONALD. I agree with all the comments of the folks here on the committee. I guess I would just say two things. One, as we go down this road negotiating the Free Trade Area of the Americas Agreement in particular, we need grassroots participation in the process. I have been told that I am the first grassroots cattle producer to serve on the Agricultural Advisory Livestock Committee. That committee, which has 15 members, should be dominated by grassroots producers.

So, Senators, I would ask that you see that those slots on those committees, Small Grains, be filled by your grassroots constituents. I think they can have valuable input.

Second, an idea that I have been carrying around is a variable-rate tariff quota so that at times of surges in imports and collapsing commodity price, that variable tariff rate quota could serve as some support. It would certainly work for cattle and beef. I am less sure that it would be useful for grains. But that is an idea that I have been trying to put out at some of these meetings.

Senator DAYTON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Dayton.

Senator Fitzgerald.

Senator FITZGERALD. Thank you, Mr. Chairman.

I would ask for unanimous consent that I be allowed to submit my statement for the record.

The CHAIRMAN. It will be accepted and published in full in the record.

[The prepared statement of Senator Fitzgerald can be found in the appendix on page 64.]

Senator FITZGERALD. Thank you.

I want to welcome Mr. Hamilton to the committee. Mr. Hamilton is from Chicago and is thus one of my constituents. So I appreciate your being here, Mr. Hamilton.

I know that Mr. Swenson indicated that he did not feel that fast track was necessary, and I wonder if other members of the panel want to comment on that, particularly Mr. Stallman.

How important do you think fast track is to the farmers in your organization?

Mr. STALLMAN. It is very important. Yes, it is true, you can negotiate agreements without a trade promotion authority or without that process. But at the end of the day, you will find it very difficult to, quote, get the "best deal" from the parties, the other countries you are trading with, if they know they have to take a certain amount of political heat for putting a proposal on the table to meet in the middle, and then it comes before the Congress and can be amended and cut apart. So in essence, you can negotiate the agreement, but you are not going to get the best deal. That is the essence of the problem without having trade promotion authority to do that.

Senator FITZGERALD. Do other members of the panel want to comment on that issue?

Mr. O'MARA. I would just add, if I could, Senator, that fast track, or trade promotion authority as it is now being called, is essential. President Stallman is absolutely correct; you cannot possibly negotiate agriculture globally without fast track.

The second point is that we also must have a comprehensive negotiation to get the best deal for agriculture. It cannot be a sector-by-sector negotiation.

Senator FITZGERALD. I am also wondering if any of you would care to comment on what lessons we might have to learn from the Russian food aid program that we could apply to future food aid programs. There was a lot of criticism about significant waste, fraud, and abuse in the Russian food aid program, and I am wondering whether that harms our food aid programs going forward.

Would anybody care to comment?

Mr. SWENSON. I think that any time you are dealing with a country in as much turmoil as Russia has been through in the last number of years, as any developing country—it depends on the type of structure of government within those countries—you risk, in developing markets with them, some fraud and some abuse.

Should that distract from continuing to try to move forward and continuing to try to improve programs? I do not believe it should, because if we are going to create market opportunities, every market opportunity expansion and exploration is probably going to have some risk in it. We hope that we will make adjustments and improvements and be able to address those issues.

It is one of the reasons that I believe some of the initiatives even of the World Bank and the IMF are misdirected, in that they push a lot toward free markets and market-driven structures rather than looking at what investments they make in infrastructure. If we are really going to have market access to get food products, value-added products, out to the people for their consumption, they have got to have an infrastructure in many of those countries with which to be able to access that food and that food product. We see less commitment being made to some of those infrastructures then we do trying to create this market development, and I really think that that is one of the redirections that, as a committee, you should try to encourage the World Bank and the IMF to look at.

Senator FITZGERALD. Thank you.

Some are concerned that large food aid shipments are displacing potential commercial markets. What effect has the food aid program had on the world's commodity price? What efforts does the USDA take in approving food aid programs to not displace domestic markets or disrupt free trade in the world marketplace?

Would anyone care to address that?

Mr. STALLMAN. Just briefly, there are processes in place to prevent that from happening. The criticism has been that even with that determination process that it has occurred—and you can get significant debate as to what extent and how often. Once again, it sometimes becomes a judgment call—how do you really know when you have displaced a commercial sale with a subsidized sale or with free aid? It is difficult to determine. I think that you need to make every effort to try not to displace commercial sales, but I do not think you can use the possibility that that may occur infrequently and at some times as a reason to do away with or limit those food aid programs, because I think they are very important, and they are a topic of concern in the WTO negotiation amongst all the countries of the world.

So I think it is something that we have to be in and continue to be in. I think we have to monitor it and try to keep it from displacing commercial sales.

Senator FITZGERALD. Thank you.

Deloitte and Touche released a study evaluating the Market Access Program. This evaluation shows positive impacts for the MAP program. However, like GAO, the study also showed that MAP's management and measurement of benefits could be improved.

What should be done to improve the management of the program and the tracking of its impact?

Mr. Hamilton.

Mr. HAMILTON. I have seen the report, and I have actually seen some changes that have been implemented by USDA in the form of implementing some called "results-oriented management," and in the allocation of the MAP funds, they have directed them more toward those groups that have done an effective job of planning and evaluating based on strategic performance measures. So it is not simply things like overall export sales, but it is interim steps that are leading toward additional export sales.

Those are some of the steps that have already been put in place. I think there has also been some relaxation in the administrative regulations that had been implemented early on with the program as a way to give industry more flexibility to use the funds. The MAP is a market-driven program; we are dealing with buyers and sellers in the open market here, so we need the flexibility to accommodate the needs of those, particularly our customers. I think that some of those changes have been made on the administrative side.

Senator FITZGERALD. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Fitzgerald.

Senator Nelson.

STATEMENT OF HON. BEN NELSON, A U.S. SENATOR FROM NEBRASKA

Senator NELSON. Thank you, Mr. Chairman.

The trade title of the Farm bill is clearly one of the most important components, in my opinion, at least. I think I agree with many of my colleagues and many who have witnessed the relationship of American agriculture in the world today, that the expanded trade opportunities can provide great promise to the future of agriculture as well as the food aid or commodity donation programs have a dual value, both in helping needy people, which is worthy, and supporting our agricultural industries, which is likewise worthy. So I am pleased that the committee is taking up these issues today.

In Nebraska, agricultural trade is extremely important. While Governor, I took 11 trade missions, and we increased our international trade by 200 percent over 8 years. We are currently ranked third among States in agricultural exports. We export nearly $3 billion worth of commodities annually, led by meat and feedgrains, and the export business continues to grow in Nebraska. Our meat exports, for example, increased 13.5 percent between 1997 and 2000.

I do not want to take full credit—I just want people to remember that it happened during my watch.

But despite these rosy numbers, I think trade has a different cast to it today than it had at one time. I think it is less popular and has the risk of becoming unpopular as times goes by. In particular, many of the producers see a connect between the export statistics and their own individual bottom line, and when that occurs, it is hard to disagree with them, because we need to look not only at volume but at what the impact is, the export value to producers.

We cannot look at agriculture as a monolith, although typically, we do that. We try to break it down by sector, but typically, people will talk about agriculture—and I must include myself—as thought it is a singular industry, and what is good for part of it seems to be good for the rest of it may not always be the case. That is why the work of this committee is so important.

I really do look forward to close examination of the existing agricultural trade programs and the policies as we consider the new

Farm bill. I am encouraged by comments by the chair that we need to take into account labor and environmental issues as we move forward on this. I think it has bene pretty clear that we have expected agriculture to take a disproportionate share of the costs of trading. It is always an afterthought in trade agreements, not part of the original agreement—side letters, enforcement questions, sanctions, and all the rest of the things that agriculture faces today and has for the last several years, it is little wonder that we are experiencing some of the challenges in agriculture that we are experiencing today.

So I hope that we will be able to focus on this and come up with trade and food aid programs that clearly make sense both in the short term and the long term, and that we will stop having agriculture be an afterthought as we move forward on trade issues.

I appreciate it. I will extend my time back to my colleague, Senator Roberts, who has already indicated that he has a bunch more questions that he would like to ask.

The CHAIRMAN. Very well.

Senator Roberts.

Senator ROBERTS. Well, Mr. Chairman, I do not want to take your time.

The CHAIRMAN. I will take some at the end. Go ahead.

Senator ROBERTS. I appreciate that.

I would like to go further down the list and ask Charles in the "out of the box" category—just to refresh your memory, I think you indicated that we have many existing programs on the books now, and most of us feel that they are underfunded, and we always need to shake that up some in terms of direction, and you have had quite an experience in that regard and bring a great deal of expertise.

Do you have any recommendation under the category of "out of the box" that you could share with the committee?

Mr. O'MARA. Thank you, Senator Roberts.

It is always good that you force me to think out of the box every time I meet with you. I think that many comments that have been made here this morning have been very relevant to thinking out of the box, actually. There is just no question that even though there are certainly differences of views represented at this table, fundamentally, United States agriculture has to be market-driven, and there may be ways and maybe ways need to be found to deal with certain dislocations or complications that happen from time to time—the exchange rate issue has been raised by you and others—but of course, exchange rates change in most cases because of market forces, and sometimes the dollar is high, sometimes the dollar is low. That is the way it is. Is it a requirement of foreign policy to deal with that? Well, I guess that is an issue that the committee is going to have to face. I think it would be very difficult to do it. Or, is there some other way to manage income complications because of exchange rate differences?

Well, the fact is the green box that comes out of the Uruguay Round Domestic Support Agreement provides for the Congress, provided for the administration to convey income to producers without restrictions as to what the reason for it is. It dictates how it is delivered. So if your motivation is to compensate for exchange rate differences, as long as you do it in a decoupled way, you can do it.

So fundamentally, we have to keep on the market orientation track.

Senator ROBERTS. I think we need to upgrade this debate in a more general way if we possibly can. Let me give you an example.

I was in Egypt with some appropriators and the chairman of the Appropriations Committee, Ted Stevens. There are one million new Egyptians born every 9 months; one million people they are adding every 9 months. I know the soybean folks have a food supplement—it is a new kind of food supplement, and I apologize for not knowing the name of it—and they feel this will have a very dramatic effect in alleviating the problem of hunger and malnutrition.

I went down to Latin America with the leader of the Senate, Trent Lott, and we visited Guatemala, Ecuador, Costa Rica, and Panama and other countries. I remember talking with President Clinton about this, and he had a win-win-win speech, talking about we could export the bulk commodities if we had fast track. This was during one of the efforts where, unfortunately, that did not pass. If we exported the bulk commodities, those countries could go to more specialty crop areas. As we toured the countries, we saw people putting all sorts of agricultural chemicals to increase their production of the basic commodities that basically were not suited to that part of the country, and obviously, that led to a lot of degradation to that part of that country.

So if you would export the bulk commodities, that is a win for us; if you were able to assist these countries, which we have many programs to do, with the specialty crop production—there are 360 million people in the Southern Command, average age 14 years—so the humanitarian programs are leading those countries to become more self-sufficient with specialty crops, and then you do not get into the business of simply tearing up the rain forest. So it is a win for the environment, a win for those countries, and a win for the bulk commodities.

With the President talking about that in connection with fast track legislation or some kind of bilateral agreement as, say, Leland has talked about, that is the kind of talk that I think is very helpful. You put it on a larger scale than you do in terms of an individual commodity.

Do you have any suggestions in regard to how our food aid programs could be improved? Senator Durbin has a bill to use the 416 program on a humanitarian basis as well as to export the bulk commodities.

Do you have any suggestions on the food aid situation?

Mr. O'MARA. Frankly, I am not an expert on this, but I do have an opinion, if that is OK to make.

Senator ROBERTS. Yes.

Mr. O'MARA. I think the focus on food aid needs to be, as we have talked throughout this morning, on what the problems are now—not what existed when P.L. 480, frankly, was established a few years ago, even before I was born.

I think we need to take a very serious look at what the food aid needs are. They are very different. They are broader, and in many cases, they are not only hunger-driven, but they are driven, as they are in Africa, by HIV and other diseases. I am not at all convinced, either from the point of view of the Government or the private voluntary organizations that work on these matters, that these broader issues are properly taken into account.

Senator ROBERTS. That was exactly the advice that we received from people in Egypt, that if you were able to apply this soybean supplement to the AIDS victim, that then got the AIDS patient to a level of health where other medicines could be applied. Without that, it is just a losing proposition. It seems to me that that is important.

Jim, any out-of-the-box suggestions?

Mr. ECHOLS. Well, I think we have some as far as cotton is concerned. We have our Step 2 program to help us counteract some of the currency adjustments, but the strong dollar is a tough hurdle. It has been mentioned a dozen times by virtually everyone here. It is a very difficult one to overcome. But up through 1995, I think, we exported about 47 percent of our crop, and since then, with the strengthening of the dollar, we have dropped to 37 percent. The cost of a pound of yarn in Pakistan, for instance, was $1.42 back in that period, and now it is about 87 cents, so it is a really serious problem to our domestic textile manufacturers, and I think we will come up with a proposal specifically for cotton, but I cannot speak for the other commodities.

Senator ROBERTS. Mr. Hamilton.

Mr. HAMILTON. I will echo the earlier comment; I think it must be market-driven. I think we are still reeling from the effects of the programs that were eliminated under the FAIR Act; we still have the effect that there is a lack of connection between production and market demand, so we need to be producing those products that our customers are looking for specifically, and as that goes into specialty crops and things like that, I think we will find more opportunities there. But there is still a sense among producers that they will produce what they have always produced, without regard for what the customers are looking for. As a marketer, I am looking to what the customers want rather than what we have to sell, and there is not always a connection between those.

So I think we need to look at creating that connection between what customers are looking for and what we are really producing.

Senator ROBERTS. I might add that that was part of the design of the FAIR Act—I had a little bit to do with that—to give the farmer the flexibility to seek different markets or niche markets or whatever, as opposed to command and control from Washington. I had to put in that editorial.

Mr. McDonald.

Mr. MCDONALD. Yes, thank you.

My thought is, particularly with regard to the cattle industry, that support for programs, especially programs that will help us reach those niche markets—we received in Montana a grand from USDA that was very helpful, and we were able to set up the Montana certified CAP program, protocol for vaccination, basically improving the quality of the cattle, to reach those specialty markets.

I was going to tell Senator Nelson, another such program that was very helpful in Nebraska was the certified corn program, which was very similar. So, support for those kinds of programs that will help us to reach that niche market.

Second, I have carried around another idea—we have heard several comments about the effect of currency fluctuations among our trading partners and the effect on our commodity prices here. This is just an idea that, again, I have been carrying around, and that is creating a watch committee within USDA so that producers could get up-to-date information on these currency fluctuations. I know that during the depressed cattle market in 1994, 1995, 1996, one of the things that prolonged the down leg of the cycle was the low Canadian dollar that made it attractive to the Canadians to take advantage of some of the opportunities here.

I think, just having come back from South America, that several of those currencies may be facing devaluation once again. I am thinking of the real in Brazil, but also the Argentine peso, which as you know has been tied to the dollar, and they are now in their third year of some difficult economic times, and there is some movement to rid the country of that coupling of the peso with the dollar.

So if that could be monitored and that information provided to producers on a timely basis, it might give us an opportunity to react as some global opportunity.

Senator ROBERT. I want to thank all the witnesses.

Mr. Chairman, I do not want to let this opportunity go by without thanking you for your continued leadership and your perseverance on sanctions reform. You have I think by far the best comprehensive bill. We tend to look at it on a country-by-country basis, but I want to encourage you to keep up the fight, and you will have my strongest help.

Staff has just given me a note—400,000 metric tons we could sell; beef exports would be 20 to 50 million annually; rice exports would be 40 to 60 million per year; soybean meal exports would be 42 to 48 million a year. We passed something called sanctions reform on Cuba—that is what I am talking about—but there is no United States-based credit or financing or travel or access to the report, yet we called it reform.

I do not understand that, and I hope we can make some progress, and I want to thank you for your continued efforts.

The CHAIRMAN. Well, thank you very much, Senator Roberts, for that comment, and I will lead off from that thought.

Clearly, comprehensive sanctions reform legislation is important, I believe, for what we are talking about today. I visited with administration people, and we are eager to proceed with another comprehensive bill, but we want their support. We want to make sure that somebody is holding our coat back there as opposed to undermining the procedure, which has been occurring, really, during the last 8 years of these efforts.

But I think the sanctions situation brings to the fore part of the problem that we have in this committee and part of the problem that we have in agricultural America. That is, we are a fairly small situation, and when push comes to shove—and I think you made this point, Mr. O'Mara—the need to have a comprehensive negotiation is critical. I think Mr. Stallman and Mr. Swenson also pointed out that sometimes, if we are not careful, agriculture is sacrificed.

The fact is that agriculture would not even have been at the table during the Uruguay Round, ultimately, or the GATT before that, without there being a lot of other things that people in this country and in this world wanted. We discussed leverage with the Europeans earlier. On agriculture alone, our first witnesses were hard-pressed to figure out where the leverage is. Well, it is not with agriculture, and if we are to make progress with the European Community, it comes because there are a number of things that Europeans do want to see in terms of trade liberalization, and we want to see agriculture as a part of that package.

Ultimately, this is why the fast track authority, or trade promotion authority, is absolutely critical. It is impossible to do this without having that authority.

We come then to our own current political situation in the Congress, and President Clinton tried very hard twice, and the House of Representatives by fairly large majorities rejected fast track authority.

The new administration comes, and President Bush hoped to approach the Quebec conference this last weekend with the fast track authority in hand, or some promise that it might occur. But it is a long distance away, and the fact is that Mr. Zellich and the President and everybody else meet continuously with people at the White House, trying to see if in fact they really want to have trade liberalization or not. The answer thus far has frequently been no, they do not.

So here we are having a discussion on how to enhance agricultural exports in the world in the face of pretty strong feelings by many Americans and their representatives indicating this that they really do not want to take that chance. They want to protect particular things that are important to them and their States and their localities and their professions.

I heard a very interesting speech yesterday by the former President of Russia, Mikhail Gorbachev. He spoke about many things, but one thing that disturbed him was that he had had a visit with John Sweeney, the head of the AFL–CIO, and he said, "I agree with Mr. Sweeney that essentially, trade and business ought not to be our paramount objectives. We must be protecting the environment of the world." He got into a little bit of the globalization rhetoric that had been a part of Quebec and Seattle. Well, that is a fairly big issue right now, with many people fearing that "globalization," in quotes, undermines their status in all countries around the world, and some Americans feel that way here, too, so they want to protect what they have. They do not want to see this liberalization that we are talking about.

Sanctions reform does not come about in large part because a lot of Members of Congress and previous administrations wanted sanctions. They want to have that ability, arbitrarily and fairly rapidly, to impose sanctions and make it very difficult ever to remove them, modify them, even get cost estimates of them, and to sunset them. So the books are filled with this sort of thing.

Here we are in this committee—we have passed out of the committee, as Senator Roberts has pointed out, bills from time to time that we thought we had some jurisdiction on, but the Foreign Relations Committee has frequently said, "No—we have jurisdiction on that. You are overstepping your bounds, because this is a foreign policy problem, not an agricultural problem.''

I simply mention this because this is a rock-and-a-hard-place situation. We are talking about looking outside the box, but if you look inside the box, at the politics of just simply getting the votes to get this authority, getting votes to get sanctions reform or to support those who want to do so it is pretty formidable.

Mr. Swenson, you made the point—and I think this is worth exploring—that after all, trade is important, but our domestic markets are large, and they may expand. That may be true. My own common sense, though, leads me to believe that probably, consumption of food products in America is fairly stable. It may change product by product or in differentiation of product. Granted, we are growing a little bit as a population each year, incrementally. I think we still are back to the fact that we are fully able to produce by several times everything we need in this country.

In other words, if we are thinking in terms of any kind of dynamic growth, it probably has to be outside the country. But could you illuminate that issue just for a moment?

Mr. SWENSON. Yes. Thank you, Mr. Chairman.

First of all, let me commend you—I think that when you talk about the whole issue, we have a tendency to have it perceived in the public that trade is the silver bullet that is going to solve all of our problems. We have got to get past that. It is not the silver bullet, but it is a component, it is one of the elements that can be beneficial if we advance it in the right way.

In the area of domestic market, I just want to point out, and I want to commend you, Mr. Chairman, for your leadership in the introduction of the renewable fuels standard. What a tremendous increase in demand that could create for not only corn, but sugar products, soybeans, and alternative uses, not necessarily a food or a feed product, but benefit our economy as a whole. That is one example of tremendous growth in demand.

We just returned within the last 8 months from a trade trip to Japan and China with a group of our organization's leadership, trying to advance a market opportunities for value-added products, looking at cheese components, trying to take a look at some rendering products, those types of items, into an international market.

I think we can take a look at value-added products that are processed domestically and can create some opportunities in the market. We have a tendency to look mainly at bulk commodities. I think we have got to rethink what our growth potential is, and I think some of it is looking at what we can do in value-added in a diverse manner.

In addition, I think one element is sanctions relief, but we need total sanctions relief, not the piecemeal approach that is perceived to provide some benefits.

I just want to emphasize that there are a number of factors. Let us not leave with the perception that production agricultre's problems are all going to be solved with one silver bullet.

The other component is a strong domestic farm program that is able to complement the other initiatives.

The CHAIRMAN. Well, I appreciate that comment, and I certainly agree that the use of agricultural products for fuel or energy for industrial situations, we really have to promote, and certainly this committee will work with you and all of your members to do that.

To get back to the problem of needing breakthroughs, I think, in terms of our exports if we are going to have very, very substantial gains, I think we are all of a mind to try to do that, and my comments today are really to try to enlist the support of the witnesses—the other way around—because I think that that kind of political input is going to be important if we are going to get out of this situation.

Let me make a comment, because a lot of you have talked about the dollar and its strengths. We started with a very interesting powerpoint presentation and graph which was mentioned, but which indicates that a forecast of one group was that the dollar would decline in value with regard to the bulk of currencies, and in fact it went up by 25 percent from 1996.

But the chart also shows, using a model of 1982 as the baseline, that it really never got below 100 throughout the eighties and the nineties. In other words, the dollar has been strong. Now, this is not a surprise, because essentially, as we all know, many people deposit their money in the United States of America. The safety of having it here is obvious. This fluctuates as political risk is perceived. But here we have a world in which the U.S. Government sometimes offers gratuitous advice to Japan on how to improve their economy and are disappointed that for 10 years, they have not made headway with that, even if they took the advice. That certainly is strange; if you were to hold a hearing in this committee, as some of us remember, say, 24 years ago, with regard to the yen and the dollar, there was a very different outlook. People were commenting that the Japanese were eating our lunch at that time, and that it was only a matter of time until the West Coast might very well be purchased. But not so for the last 10 years. The Asian community has had its problems, but these are exacerbated by having this enormous country, Japan, with a great economy, in a position where it has not been able to make much difference in that area.

Now, Latin American countries are up and down with their currencies, and even the euro, which was forecast to be a strong competitor to the dollar, and many people were very worried about that situation, has not turned out to be that strong thus far.

So here we have a very strong dollar. Most Americans, if they think about that, think that that is probably a pretty good idea, because it has brought huge amounts of capital to this country and has kept our interest rates very low in a secular way. As a matter of fact, to take the other standpoint, if we really were to advocate a weaker dollar, and people began to sell Treasury bonds wholesale and move off into some other situation, we would have some problems, in agriculture or in any other business.

What we have wrestled with today is given the fact that this is an overall good for America, it is not necessarily an overall good for specific farmers who are exporting cotton or wheat or what-have-you.

In a way, the countervailing policies that Congress has adopted have tried to meet that problem, and one reason why net farm income is not sometimes as high as it was the year before is because export sales have been down. Some reasons for that relate to a high dollar, among other things. In other words, the attempt to have some countervailing payments, whether as an extra payment that was not contemplated by the Farm bill, another AMTA payment or whatever we are doing, in a way tries to be a countervailing factor against these situations. Maybe we are not doing enough of it. Some will say we are doing too much of it all the time. Some lament all of this. But I do not know how you concoct a policy that would be better than that. I do not know how you index each crop versus the dollar, or that type of thing. You have an aggregate problem, I believe.

I mention that just off the top of the head really to gain your reaction. If you are trying to weigh against this dollar problem, you take a comprehensive look at what agricultural income is in the country, you try to take some steps to shore it up or at least to keep it at that point. Maybe our rationalization has not been as good about that as it might have been, but this is at least one way you could argue it, I suppose.

Mr. Stallman, you have surely thought a lot about this. What comment do you have about it?

Mr. STALLMAN. Well, you have covered the ball park pretty well, Mr. Chairman. I think it is very difficult to address the currency exchange problem in the context of farm policy. I think that what we have been doing, providing the supplemental assistance to offset many effects, but that being one of them, to net farm income in this country is probably about the best you are going to do. The idea of variable rate tariff structure, commodity-by-commodity, country-by-country, sounds unworkable, to be perfectly honest, in terms of addressing this problem, and we think that that is probably the wrong direction to go in the international context of trade.

The globalization that is occurring throughout the world is really democratization—democratization of finance, of information, of technology, and of capital flows and goods. As all of that occurs, these situations with currency exchange rates are going to fluctuate, but as the borders are open, the come back into balance. When you start trying to seal off the borders is when countries get into difficulties, and they do not achieve that balance.

So what we are doing domestically to support net farm income in the context of the problems we face internationally, I think has certainly been useful and helpful. I do not know that we can do a lot more in terms of directly affecting exchange rate, however.

The CHAIRMAN. Mr. Swenson, do you have a comment?

Mr. SWENSON. I appreciate your comments. I think a couple of things have unfolded, though, in the last 10 to 15 years that we need to recognize in the area of the currency.

No. 1 is to identify the impact, especially on the producers, of the lack of access to markets. We saw a reduction in tariffs, which we thought was going to increase our market access, but countries simply took the opportunity to adjust their currencies so the tariff reduction provided no greater access, but provided greater access of many of their commodities to the United States, and we have seen a significant increase in the import of competitive products during this same timeframe—and I am not at all an advocate of devaluating the dollar; do not get me wrong. I think we have got to search for a mechanism to level that currency issue.

The CHAIRMAN. Would you agree, though, that if a country deliberately lowers the value of its currency, it is deliberately hurting the standard of living of its people. In other words, it may be a way of stopping our wheat from entering the country, but the people of that country who are trying to stop it are going to be hurting because clearly, that depreciates their standard of living.

Mr. SWENSON. When you take a look at what Australia and New Zealand did, for example, in the adjustment to the tariff we placed on lamb, they adjusted their currency and continued to flow lamb into this country. So yes, it does have an impact on their producers.

But one of the other things I wanted to point out that we have seen is a change in the multinational structure of entities, both in the food retailing system as well as the processing and the marketing system. It has changed dramatically in the last 10 years in the movement of commerce.

The other is the importance of the diversity of trade, and how the currency issue impacts all crops and products . It is not just the exchange of bulk commodities that can be tied to the exchange rate issue. I agree with Bob—I am not sure how you would tie it into the structure of farm programs, because the impact is more than just bulk commodities. It is the impact exporting value-added products and other areas of international commerce. That is why I think the importance of addressing currency is so critical.

The CHAIRMAN. Mr. Hamilton, I wanted your thoughts—you made a good point, I believe, that we ought to have production that is market-driven, and that is what you look at. You suggested that some farmers, some producers, are continuing to produce whatever they used to produce without regard to this, which is probably true. Some here would say, "Well, what else do you want me to produce?" In other words, I have a weather problem, or a climate problem, traditional situations.

Ideally, under the FAIR Act, people would take advantage of freedom to farm to produce new things or different quantities with relation to the market.

On the other hand, some of the other policies, of course, that we have adopted, whether it be the crop insurance situation I mentioned earlier on, or LDPs, or various safety net situations, in a way encourage farmers to continue along that course. They offer a comfort level that maybe more rigorous market economies would not.

Would you illuminate further what you mean when you say you feel we need to move in that direction, and why don't people see it that way—why aren't they more market-oriented, in your judgment?

Mr. HAMILTON. If I could, Mr. Chairman, first, I would like to go back and address your earlier question about exchange rates and currency values. I think the effect that the high dollar has had over the last number of years is that it is simply a price issue, and it makes United States products more expensive than those of our competitors, and any time you are asking your customer to pay more for a product, they are going to want to know what is in it for them, what is the additional value that you have added in order to require that additional cost. I think that that is where we as a country do have a competitive strength. If we are matching our products on a commodity-for-commodity basis, then it is difficult to try to exact higher price from your customer. So I think that where we need to look is at what value are we adding with our products in order to convince our customers to buy those products. If you look at the export profile of the United States over the last 25 years, you will see that the value-added component of our agricultural exports has increased steadily over those 25 years, and in fact last year I think exceeded the bulk commodities for the first time, and it is part of a very steady long-term trend.

So if you are trying to address the issue of currency and exchange rates, I think that is a much larger issue than we can address within the context of agriculture, so you have to kind of deal with what the market is giving you; so if our products are going to be more expensive, then we have to justify that additional cost by adding value.

With regard to your second question and relating to the issue of production, I think you are dealing with a very long tradition of producers who are comfortable producing what they always have; there is a disconnect between individual producers and overseas markets. It is a long way from Nebraska to Japan, and there are a lot of steps in between, moving those products from Nebraska to Japan.

Again, we have the largest, most homogeneous market that we have ever had in the history of the world. Our producers here are focused on that domestic market, and their decisions are based on what they see around them. I think we need to do a better job of communicating back to our producers what the market demand really is about. There are many issues about identify preservation, genetic modification, those kinds of issues, that I think that if producers had all the information in their hand and if there were a distribution and transportation system in place, they would be able to make more informed decisions.

I think we are starting to see that—some of the more proactive producers and suppliers are out there—but I think that that is a longer-term trend that we need to encourage.

The CHAIRMAN. Mr. Swenson.

Mr. SWENSON. I want to challenge the statement that farmers have not adapted. I think that farmers have adapted in the United States more quickly than producers in any other country in the world, and they will adapt to different production, to different commodities, as well as we have adapted to changes in genetics, be it in the livestock and/or in the grains sectors.

First of all, farmers are going to look at price—can they afford to make the investment in the production of that particular commodity, the equipment that it takes, and everything else, versus the return they are going to get? If the processor wants it well below the cost of production, absolutely, producers are going to be leery of making the investment. But I have watched agriculture change. I have been involved in the change in production agriculture, and producers have adapted in this country. That is why, when you talk about yield, we are the most efficient yield producers in the country, not necessarily the lowest-cost producers.

The other element that farmers get caught in is the rules—they are not clear, they are not understood. Take a look at Starlink and the impact that it has had on producers, and on the whole market system.—The local elevators, the segregation of commodities, the contamination—and we are supposed to trust that system?

We are willing to adapt. I have never seen a system more easily adaptable and willing to change—but we have got to get decent compensation for it.

The CHAIRMAN. Well, I thank each one of you, not only for your testimony but for staying through this extended period. You can tell that members of the committee are deeply interested in what you have had to say, and we will refer back to your testimony as we proceed to our next trade hearing and formulation of that section of our bill.

I thank you for coming.

The CHAIRMAN. I want to call now on our third panel, which includes Judith Lewis, acting director of Resources and External Relations at the World Food Program; Ken Hackett, executive director of the Catholic Relief Services; and Gary Martin, president of the North American Export Grain Association.

We appreciate your coming before the committee and look forward to your testimony. I will ask each of you to attempt to summarize your testimony in five minutes, and your full comments will be placed in the record in full.

Ms. Lewis.

STATEMENT OF JUDITH LEWIS, ACTING DIRECTOR OF RESOURCES AND EXTERNAL RELATIONS, WORLD FOOD PROGRAM, ROME, ITALY

Ms. LEWIS. Thank you, Chairman Lugar, members of the committee.

Thank you for this opportunity to speak to you today on the issue of global food assistance.

Katherine Bertini, the executive director of the World Food Program, wanted to be with you today, but she had a family emergency and was not able to be here, so she sends her most sincere best wishes for a wonderful hearing.

The CHAIRMAN. Please convey our best wishes to her. She is a good friend of the committee, has appeared frequently, as you know, and we are glad that you are here.

Ms. LEWIS. Thank you so much.

I would like to start my comments today by thanking Congress and the U.S. Government for its continued commitment to reducing hunger around the world.

There are approximately 800 million hungry people today in this world. Every 4 seconds, someone dies from hunger. It is hard for us to imagine this type of hunger, but it does exist, and in far too many countries in the 21st century.

Since its inception in 1963, the World Food Program has been on the front lines of fighting throughout the world. Today, WFP is the largest humanitarian agency in the world. Last year, we delivered approximately 3.8 million tons of food to 83 million people in more than 80 countries—and more than 1.5 million tons of this food was produced by American farmers.

I would like to start my comments today by mentioning one of the most exciting initiatives underway today, which you have already heard about several times this morning. This is the Global Food for Education Initiative.

This initiative, which has been spearheaded by former Senator Bob Dole and Ambassador George McGovern, provides a wonderful opportunity for WFP, other NGO's and PVO's, and the U.S. Government to work together to provide nutrition and education to tens of millions of children who are deprived of both.

There are more chronically hungry children in the developing world than there are people in the United States—over 300 million in all. Studies have proven that children will stay in school longer and graduate if there is some type of food incentive present. This is especially critical for girls. When girls are educated, they grow up to become women who are more likely to be engaged in the work force and have smaller, healthier, and more prosperous families.

The Global School Feeding Initiative is not charity, and it is not an international entitlement program. The vision that Senators McGovern and Dole have is to assist developing countries as they build their own capacity to maintain their own school feeding programs and then phaseout the foreign assistance.

The U.S. Government has been critical in getting the Global School Feeding Initiative off the ground, and WFP is working hard to gain additional support from other countries for school feeding activities. Continued United States support, demonstrating to other countries that the School Feeding Initiative is not simply a short-term effort dictated by the presence of surplus United States commodities, is critical for securing broader international commitment and to keep this initiative on track and growing.

I hope the members of this committee and Congress in general will look favorably on this legislation for this initiative and support our joint efforts of feeding and educating tens of millions of children throughout the world.

Mr. Chairman, as you begin your deliberations on the Farm bill, I would like to urge you to continue to strengthen the United States commitment to food aid. Increased levels of food aid will help nearly 800 million hungry people around the world; and increased levels of food aid will help America's farmers, many of whom have been struggling with low prices for the past several years.

According to the 1999 United States Action Plan on Food Security, United States levels of food aid decreased from 8.3 million tons to 3 million tons between 1986 and 1996. This alarming downward trend in food aid has only been arrested due to the availability of exceptional food surpluses that have been made available to WFP under Section 416(b) of the Agricultural Act of 1949.

Considering that the number of humanitarian emergencies has been on the rise in recent years, it is hoped that the U.S. Government will put in place the necessary mechanism to ensure a stable source of humanitarian food aid in the years to come.

In this regard, I would like to point out that during the 1980's, two-thirds of WFP's resources went to development efforts. Today, nearly 80 percent of our resources are focused on keeping people alive in emergency situations—emergencies like the Kosovar refugees who fled by the hundreds of thousands into Albania two years ago; the people of El Salvador and India who lost their homes and livelihoods in earthquakes this year, and the millions who suffered the effects of a devastating drought in the Horn of Africa last year.

Thanks to the U.S. Department of Agriculture's 416(b) stocks, the past few years have been a reverse in the decreasing food aid trend. However, 416(b) is an unpredictable source of aid, and it is based on the availability of surplus commodities. Therefore, P.L. 480 Title II remains the major and most stable source of United States food assistance.

The appropriated levels of Title II resources have essentially been frozen over the past 8 years, ranging between $821 and $837 million since 1994. Given the rising number of humanitarian emergencies throughout the world, the stagnation of funding provided through Title II is extremely alarming.

While recognizing that the appropriated funding level for Title II resources will be debated in the Agriculture Appropriations Subcommittee, I urge this committee to support increases to Title II authorization and appropriation funding levels.

Another issue that I would ask you to look at during your consideration of P.L. 480 Title II is the coverage of costs associated with commodity contributions. The P.L. 480 Title II funding window has provided WFP and various American NGO's and PVO's, including CRS, with millions of tons of food over the past few years. In addition to the actual commodities, the United States has provided accompanying funds to pay for transport, storage, handling, and associated costs for the food. This funding is imperative for our operations. However, under the current Title II language, it is only available to emergency-related operations.

I would ask that during its reexamination of the Farm bill, this committee consider amending the Title II language so that costs related to recovery and development activities can be included as well.

As has been stated today in the other panels, unless food aid is carefully managed, it can undercut local prices and remove incentives for local farmers to produce. Poorly managed monetization of donated food aid can be particularly damaging.

WFP has designed its food aid operations to minimize local market disruptions. We have adopted a fairly strict regime against local monetization, as we distribute food in projects or in emergency operations only. We do not simply hand over large amounts of food to governments. WFP's food assistance is targeted to the very poorest and the most vulnerable people in the poorest countries in the world.

Our targeting helps to ensure that food gets into the mouths of the country and not for sale in the markets. Our philosophy is that food is to be eaten.

Another issue of concern is the possibility that food aid could supplant a surplus sale by the United States or another exporter. To ensure that there is no market displacement, our food aid activities are reviewed in the Consultative Subcommittee on Surplus Disposal, which is chaired by the FAO, to see that our projects are not supplanting commercial exports by the United States or other major exporters.

But the simple fact of the matter is that the beneficiaries that WFP is supporting are not commercial buyers. They are people fleeing drought, crowded into refugee camps, or in the most remote corners of desperately poor countries—not people who are usual commercial buyers of imported food.

The good news is that studies have repeatedly shown that as poor people in developing countries earn more, the first thing they spend their money on is more food and better food, and this is good news for America's farmers, as 1 day, these same beneficiaries may well be commercial food buyers.

Mr. Chairman, as I started my remarks, I said every 4 seconds, someone dies from hunger worldwide. The talent and productivity of America's farmers can be brought to bear in a renewed battle to end that tragedy. With the strong commitment of the U.S. Congress, this battle can be won.

Thank you.

The CHAIRMAN. Thank you very much, Ms. Lewis.

[The prepared statement of Ms. Lewis can be found in the appendix on page 132.]

Mr. Hackett.

STATEMENT OF KENNETH HACKETT, BALTIMORE, MARYLAND, EXECUTIVE DIRECTOR, CATHOLIC RELIEF SERVICES, ON BEHALF OF THE COALITION FOR FOOD AID

Mr. HACKETT. Thank you very much, Senator.

I would really like to thank you for this opportunity that you and the committee have offered to s how our appreciation for the food assistance that has been provided under the Farm bill through the private voluntary agencies.

I am here also today to encourage urgently needed changes in food aid legislation so that we can make a much stronger contribution to our Nation's commitment to cut world hunger and poverty.

I am speaking to you today both as the executive director of Catholic Relief Services and as the spokesperson for the Coalition for Food Aid, which is a group of 13 American private voluntary organizations—CARE, Save the Children, Africare, the Adventist, et cetera. These 13 organizations count millions of private contributors and constituents across our Nation.

I would like to start by stepping back a bit from many of the complicated details of the United States food aid program to make a few key points pertaining to, first, the levels and the stability of assistance that is needed in terms of food aid, and second, a fundamental change in the mindset needed in the way the U.S. Government works with private voluntary organizations on these programs.

The Coalition members, these 13 private voluntary organizations here in the United States, believe that food aid is a very precious resource. We have all used food aid, many of since the 1950's, to respond to emergencies, drought, civil unrest. We have supported development programs in health and agriculture, and have really helped people who have limited capacity to help themselves, and we have done it all with food assistance.

We have support from the American people in these efforts, and we are representing what we feel to be the true exhibition of solidarity and concern and compassion of the people of the United States. That was attested to by a recent study by the University of Maryland indicating that Americans overwhelming support efforts to alleviate hunger and world poverty. We want to work with the Congress to make the critical changes necessary to the upcoming farm bill so that United States international food aid programs, in all of their manifestations, become much more effective tools for private voluntary organizations and organizations such as the World Food Program to use in meeting the needs of hunger around the world.

First, I would like to ensure, if we may, that there be adequate budgetary provisions so that the United States private voluntary organizations can rely on United States food aid and programs for their multiyear programs and for multiyear periods. To date, food aid availability has varied widely depending on production here in the United States, and the discussion that went on a little bit earlier indicates the motivations of American farmers that are changing continually. Production obviously is a function of weather and of the planting decisions and farming decisions of American farmers. But on the other hand, food aid needs are generated out of circumstances that are often beyond the control of organizations such as our own, are generated from drought and civil unrest and AIDS epidemics, and the commitments that PVO's and other organizations have toward changing and affecting long-term improvements in health and agriculture and education.

We need to increase tonnage levels for Title II from 2 million metric tons to 2.5 million metric tons, and for Food for Progress from 500,000 metric tons to 1 million metric tons, with a discretionary provision for the Secretary of Agriculture to add an additional million metric tons to the program. This will ensure a solid-based level of assistance above which additional resources may be programmed on a short-term basis.

Second, we are proposing radical change in the way food programs are conceived. Radical may relate to Senator Roberts' comments on "out of the box," but we are asking that United States food aid be provided to United States PVO's to support the PVO's' planned relief and development activity.

That really does not sound very radical, but it is a radical departure from what has gone on over the last decades. We want to be able to find the best ways, innovative and creative ways, to use food aid to support our own strategic plans, which will incorporate, in addition to the U.S. Government assistance, the private resources we raise here among our contributors in the United States.

Over the last 10 to 15 years, PVO's have been increasingly constrained in how we can use food aid. We often feel treated as contractors carrying out a changing agenda, one which we have not helped to establish and one which has not benefited from our practical on-the-ground experience. For many years, for example, PVO's have been discouraged from developing school lunch and education programs under the Title II program. Then, only last year, we were very happy to see the new major global food initiative launched.

The point is it came on us very rapidly; it was something new, something different, and we had to scurry about trying to address those concerns.

A central component of this new conception of how food aid programs are carried out is to make the private voluntary organizations part of the decisionmaking process for resource allocation and for how programs are implemented and evaluated.

We have accumulated expertise in technical fields and in food management and logistics. We have knowledgeable national and international staff in countries where we work around the world. We have many partner organizations that work directly with communities and with people who benefit from assistance. Yet we are not at the table when the priorities are set and the decisions are made.

We are open and willing to explore new U.S. Government institutional arrangements and structures that will support us and improve our work on the front lines of hunger and poverty. We are not asking for carte blanche. We commit ourselves to meet the agreed-upon performance standards for food programs. We welcome U.S. Government audits and systems of accountability. But we need your help to make some big changes in how these programs are designed and run in the future.

Finally, let me reiterate a point that I made in our testimony last July in front of your committee. We believe that the distribution of food aid alone, without complementary and supportive resources, is an insufficient and in many cases wasteful use of this precious resource. As recently as last month, an evaluation of school feeding programs in Haiti which we were a part of indicated that food distribution alone is an ineffective means of improving nutrition or enhancing educational impact. Food distribution can only be effective when it is combined into an entire program with a series of complementary inputs.

So as we think through the future of food aid programs, I hope we can find ways to leverage other complementary Government resources as well as the resources of our own private contributors to make food assistance more meaningful and effective.

I thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Hackett.

[The prepared statement of Mr. Hackett can be found in the appendix on page 139.]

The CHAIRMAN. Let me intervene at this point to mention that our distinguished ranking member, Senator Tom Harkin of Iowa, had planned to attend this hearing but encountered very difficult circumstances in terms of scheduling today, including attending to matters of a death in the family. He simply wants all witnesses to know of his regard for them and their testimony, which he will study.

In particular, he wants to note the attendance of Iowa witnesses and in his stead, I will do that, and we appreciate the ranking member.

Mr. Martin.

STATEMENT OF GARY MARTIN, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, WASHINGTON, DC

Mr. MARTIN. Thank you, Mr. Chairman and members of the committee, for the opportunity to participate in the hearing this morning. It is a special privilege, Mr. Chairman, for me to appear before you, our association's recipient of the Agricultural Trade Leader of the Year Award just this past year.

The North American Export Grain Association, founded in 1912, is the association that represents the publicly and privately owned companies as well as cooperatives that ship practically all the bulk grains and oilseeds from the United States. That is $16 to $20 billion, perhaps as much as 40 percent of our total agricultural exports each year. When we ship, we take the risk, both in the short-term, of individual shipments that range up to $35 million and, of course, have the long-term investment risk in the facilities that provide for the export of the grain.

Food aid programs in particular are a very significant and important component of the United States bulk grain and export market. Every year, NAEGA member companies sell millions of tons of commodities, which are exported through the various food aid programs.

Our association recognizes and supports the contribution of United States international food assistance, not only in alleviating hunger but also in providing for economic growth, the foundation of increased demand for our products.

As commercial exporters, we see much opportunity to improve and strengthen United States food aid programs. The testimony which you have been kind enough to enter into the record emphasizes and makes recommendations related to three priorities of our association—first, to provide for consistency and sustainability of food aid funding and improve performance in the delivery of United States food aid programs to recipients themselves; second, to improve the process of allocating commodities to specific countries in order to ensure that food aid programming is consistent with overall market development and domestic agriculture support programs; and third, to ensure compatibility of our food assistance programs with the United States strategy to provide for more open and free international trade.

In our testimony, we make four very specific recommendations. First of all, the process under which the USDA and others determine aid eligibility and target food donations to specific countries needs improvement. Food aid is an important component of the bulk grain export market, as I said before, and it does provide additional demand for bulk grains, but at an excessive level, food aid displaces commercial exports. Our companies feel that most directly.

Shifting the resource base for food aid away from surplus to more permanent funding and including private sector input into the decisionmaking process is key to more effective programming. Food aid programming in the United States and around the world is based on internationally accepted calculations based on usual marketing requirements. We suggest that United States producers and agriculture business should be engaged in the development of UMR and UMR formulae for more timely and market-sensitive—not only based on quantity but also on quality—programming standards.

Second, food aid shipments prior to fiscal year 1999 averaged about 3 million metric tons per year; after that, 8 to 9 million metric tons per year in recent years has been the case. That level of 3 million metric tons plus an expansion of perhaps a million metric tons, depending on emergency and programming justification, is much more reasonable, sustainable, and acts as a cap to assist in the prevention of commercial displacement.

Again, provisions to provide for long-term funding would alleviate most of the adverse program consequences and lead to the necessary incorporation of market needs from the commercial markets.

Third, the Title I P.L. 480 concessional program is a valuable market tool and should be retained in any rewrite of the food aid title. While our competitors maintain the ability to directly subsidize exports and distort markets through the monopoly power of State trading enterprises, our Title I concessional sales program is fully justified and should be more strongly promoted and defended in international trade negotiations.

Fourth, we are quite satisfied with the procurement operations that exist under the current program, P.L. 480 Titles I, II, 416(b), and Food for Progress, but would suggest, as we look forward to a more sustainable environment that provides for long-term funding, more flexible conditions for procurement and delivery that recognize, again, market needs not only from a timeliness standpoint but from a quality standpoint as well as a quantity standpoint and both economic development and humanitarian needs.

I see that I have just a bit of time, and I am going to take the liberty of digressing from my prepared statement to address two trade issues that I think were somewhat overlooked in this morning's hearing. I have had the privilege of sitting through the entire hearing.

First of all, mentioned in my testimony is the problem and the barriers represented by the State trading enterprises, particularly for the United States wheat industry. Those must be addressed very directly as part of this next round of agricultural negotiations.

Second, on Senator Baucus' comments that the biggest problem is the most serious trade barriers, I think we would be remiss if we did not point out that the lack of consistency in terms of trade and regulatory procedures with regard to biotechnology in international trade are perhaps the most significant and growing barrier to United States trade of agricultural products, particularly grains and oilseeds, that we have to deal with today.

A drive for international consistency in those regulatory and trade terms is an absolute imperative. Our members have seen a loss of market share around the world in particular commodities, like corn that may exceed 10 million metric tons in just the last 12 months.

Those two points in particular I wanted to bring out in addition to the testimony.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Martin can be found in the appendix on page 156.]

The CHAIRMAN. Thank you very much, Mr. Martin.

Let me begin by mentioning—although none of you addressed this specifically—that one barrier to our feeding people around the world has frequently been political repression.

For instance, we have had Dr. Borlug and others before us estimating the need for maybe three times as much food production in the world in the next 50 years given population increases and likewise rising standards of living. But as all of you have testified from your experience and as we have heard from the earlier witnesses, the flow of this food is obstructed in many ways. There is no industry in the world more protected than agriculture, and it is because specific governments have adopted policies to protect either their producers or themselves in some cases, or protect certain parts of the population even in worst cases, that others are left to starve.

These are difficulties which are beyond our committee, but we recognize an imperfect world and a very imperfect flow in terms of the trading system, whether it be humanitarian or commercial, as the case may be.

Having said that, the subject of the Global Food for Education Initiative is important to what we are discussing this morning, because it is a bold suggestion. Our former colleagues, Senator Dole and Senator McGovern, who used to sit around this table, as you know, are very distinguished giants of the American political system, and they remain that, and their initiative was listened to by the committee at a well-attended hearing in which I think some of you were involved.

The dilemma of translating that into legislation boils down to some of the things that you have mentioned, Mr. Hackett. As we proceeded into the minutiae of this, the problem of how the private voluntary organizations are to be treated—as you say, why they were not at the table in this big initiative was sort of a surprise—well, it cannot just remain a surprise, and it is not going to work out until the PVO's, all of the organizations which have some legitimate reason to be involved in addition to the multinational organizations, are there.

That will take some doing in terms of the internal politics of humanitarian distribution. I want to underline that. This was an immediate feeling, not necessarily of bad faith but of difficulty, even among people whose idealism could not be questioned, so we take that seriously.

You mentioned the monetization problem, Ms. Lewis. We heard testimony at that hearing, and we have been hearing it ever since, and it comes down to something like this. People who are in rural schools in developing countries frequently say that the dilemma of distribution of this food to the children or to other recipients is very difficult. Furthermore, we have a school lunch program which seems almost axiomatic—children who are better fed learn better, and so forth, and this is likely true in developing countries. As a practical matter, it boils down to this suggestion: let us monetize the food because we need the money; We need the money to set up a school that will even have teachers in it.

We had very poignant testimony about parts of Africa where large numbers of the teaching staff have been seized with AIDS and are suddenly gone in the prime of life. The recruitment of staff, quite apart to ever getting to place where you have a stable school, education, and then feed the children lunch or breakfast, assumes all sorts of infrastructure.

The thought that you globalize the school lunch program is an important idea. But then, as you get into the various countries—you have all dealt with this as experts—actually making this work is very complex.

So the monetization issue is not a sticky point, but it is really going to have to be addressed in several different ways that will require great sophistication.

Then, the commercial displacement issue is always with us in this area. It is not going to disappear, yet at the same time, sometimes is more of a problem than in others. I simply mention it because if monetization is a factor, which I think it is, as well as the cooperation of governments, who is to allow this intrusion? Well, this requires a fairly liberal regime on some occasions, some schools to be more favored than others, and so on—a number of various issues differing from region to region.

Leaving those very large barriers aside, I simply want to mention this because this committee takes very seriously the initiative. It is something that, from the beginning, I have been enthusiastic about and have been a public witness to that.

But I am also listening to sophisticated people like yourselves on who are bringing these factors to light that are going to be important if we are going to have ongoing legislation as opposed to a one-shot appropriation or a Presidential edict that says we will do it this year, but you work out the details.

If we are going to have something that has longevity long after this committee has been sitting here, these are factors. So I invite you—you are very specific technical witnesses beyond this hearing; you know the issues well, you know the problems of legislative language that finally can help persons such as yourselves or those who will administer your duty after you have left.

Beyond that, let me say that in hearings such as this one, although it has been unstated today, I shall state it—we have a number of producers who off the record would say, "Listen, we have huge surpluses. We have overhanging surpluses. They depress our prices." Now, it would be nice if you could think of some legitimate way of getting this out of here in a humanitarian sense. But in fact, if it is sunk in a boat at sea, it would accomplish the same thing. In other words, move it, under any circumstances, any time you can.

That, of course, disrupts everybody. If it sinks at sea, no one eats. If it gets to a country and is monetized, this bothers some people. If it is maldistributed by a government that uses it for its own political advantage, that seems to me worse still. If it displaces a commercial sale or roils internally a country that says, "Despite all that you are saying, what you folks are really after is dumping on us"—you have got a big problem.

It is amazing—we have talked about Russian aid today, and having had some experience back and forth in that country on other circumstances, on arms control, I run into Russians who say, cynically, "Of course, there are a lot of us who do not have very much food, but in fact your motivation is clear—you have got surpluses, and you are dumping them on us, and you are hurting Russian farmers, whoever they may be." This is widely felt throughout the world; there is a cynicism as opposed to an appreciation for American idealism.

From the other standpoint, American taxpayers, if you take a look at firm appropriations for this, say, OK, maybe we should be doing more than the $814 to $837 million—the range that you mentioned, Ms. Lewis—but on the other hand, how is this being administered? Is this good money after bad? Who are the people doing it, and who are the recipients? Are they appreciative?

Well, maybe so, maybe not. Many of them feel that our motivation is unclean. But the taxpayers' motivation is clean. They were not farmers or producers. This is a transfer payment from other taxpayers to American agriculture, in a way, or to a humanitarian organization to achieve something.

So if cynicism abounds too much, then we have not only freezes on this, but we may have declines. The whole foreign aid area that we discuss in the Foreign Relations Committee is indicative of this. It has been declining substantially, and for all sorts of reasons, because many Americans say we have big problems with Medicare and Social Security right here at home, or food pantries in our cities.

It is all well and good to talk about this, but we are not really sure, we are not as confident about this. So it is incumbent upon all of us who are involved in the emergency projects to be pretty clear in describing what we are doing, and that is hard to do, because there are many of us doing it, many organizations, under various auspices.

I make this precis because I think you all are knowledgeable about it. Can you make some comment, specifically targeting for a moment the Global Food Initiative on how can we work out in a sophisticated way both the problems of how PVO's generally can be involved, and what do we do with regard to monetization and the problem with these school teachers or the others who are trying to help.

Have you given thought to that—I am sure you have—and what advice do you have today?

Ms. LEWIS. I think all of us have thought about this and discussed it. We see it as an opportunity for partnership where we can use food for the actual school feeding initiative, and then, other partners who want to be involved can monetize to provide the educational equipment, to help build an infrastructure, to help provide teachers.

So you could see it as a well-balanced partnership if we work together, if we are certain that we are all working in the same areas and the most vulnerable areas where we can make the most of the initiative.

So that is one way we could look at it, as looking at strong partnerships to make the entire initiative not only for food but for the education as well.

The CHAIRMAN. Ms. Lewis—and that is a reasonable outline—but moving from that to legislative language that will last the test of time, how do we draw this up in ways in which the guidelines are clear as to what is prohibited or what we can do and so forth? Is that possible?

Ms. LEWIS. I do not know. I would have to seek Mr. Hackett's opinion.

Mr. HACKETT. If I may, Senator, I believe it is possible, and I think the American PVO's are ready to put the energy behind such an effort soon. We will work with WFP and others to make sure that we are not bumping into each other and stepping on each other's toes, but are basically complementing each other's efforts so that we can make a significant impact.

Senator LUGAR. Well, I invite you to do that promptly, because we have a legislative situation here where a lot of people are very hopeful of success, yet we are not making a lot of headway in part because the expertise and even the organizations involved in these issues have got to help us come to grips with a sharp pencil as to how you draft this and what do you say so that there is not an afterglow that somehow we forgot that or that someone was shortchanged.

I mention that really specifically to take advantage of this hearing. This is an ongoing project but one of some urgency, certainly felt by you in your testimony today. The extent to which you can work with our staffs on some legislative language would be very helpful.

Mr. HACKETT. If I may, Senator, again to repeat, the Coalition is prepared to go all the way, so to speak.

I was taken by a comment in the earlier testimony when we were talking about farm bill and the trade relations and food aid, that it is not the same as it was 50 years ago. I believe this is the opportunity for all of us to take a look at what it should be for the future, not what it was.

The CHAIRMAN. I agree.

Mr. HACKETT. So we are with you on that.

The CHAIRMAN. Good.

Mr. Martin, looking at this from your perspective, what would you advise the Global Food Initiative people who are going to be meeting and helping us with this language? Do you have some suggestions?

Mr. HACKETT. Actually, I think the suggestion has been turned into action already in that the producer groups, commodity groups, and commercial entities involved in handling grain and oilseeds in particular, but even other products, have agreed to sit at the table with the PVO community and sort through the legislative process to support initiatives like the Global Food Initiative, but expand that into the consideration of Title II expansion as well as discipline on the overall food aid.

The CHAIRMAN. Well, that is important while you are at the table to take up Title II and other issues. I do not mean to have an exclusive conference, but obviously the Global Food Initiative is a large new subject that was not a part of the 1949 Farm bill or subsequent iterations. But it offers an avenue, once again, to discuss this among yourselves and with the American people, who must ultimately support this idea if it is to be politically viable and to have some legs over time.

I think we all understand what we are talking about here within this committee and the hearing group and the humanitarian group. This is an initiative that could strike people as being a very, very good idea and others as almost a fanciful giveaway of sorts. We need to make sure it is the former by a really sound program that has the commercial people and the Catholic Relief Services and other PVOs and the world organizations—everybody—aboard in a very unusual but important coalition.

I appreciate very much your preparation of your testimony, which will be published in full, and likewise your testimony and responses this morning. We look forward to working with you and entertaining you back here again some time.

Having said that, the hearing is adjourned.

[Whereupon, at 12:28 p.m., the committee was adjourned.]

APPENDIX

APRIL 25, 2001

ZELL MILLER
GEORGIA

Zell Miller

United States Senate

WASHINGTON, DC 20510-1006

Hearing Statement of Senator Zell Miller 4-25-01

Thank you Mr. Chairman,

First, I want to thank the panelists for their time and providing the committee an opportunity to hear their ideas on this important aspect of the up-coming farm bill.

As stated previously, we exist in a global economy in which the United States stands as a technology leader. The advancements in technology can be seen in all facets of America's agricultural production.

Through this technology American's not only have the ability to provide a safe food supply for our own citizens, but also provide a growing market for other countries to purchase our agricultural products.

I am proud of America's farmers and the abundant crops they produce, it is critical for Congress to give our farmers opportunities to sell their products in a global market.

In the state of Georgia, poultry and cotton are major commodities that will benefit from increased trade. Trade opportunities for these products are awaiting, we must focus our efforts on giving the administration and negotiators the tools to establish fair agreements within these markets.

It is important to note that Congress can not continue lock our farmers out of markets with sanctions. We have learned from past policy decisions that sanctions have little effect on the intended individuals or government, but deny needy its citizens the right to a safe abundant food supply. In the global economy of today food should never be used as a weapon.

In 1996, Congress passed "Freedom to Farm," with the intention of reducing farmer dependance on government assistance while opening trade opportunities to make-up for the loss. I believe we have failed in our obligation to provide our farmers that opportunity. Many of the current export programs have had some success, however more resources are needed. Continued support for farm export and food aid programs is essential for developing new trading partners. Also, I encourage my colleagues to consider "Fast Track" legislation as soon as possible.

We must provide the resources to educate our trading partners on the safety of our food supply and I encourage all agriculture sectors to help in this process. America's farmers operate under the some of the most strict regulations in the world, regulations that imply sound, science based judgements on biotechnology and pesticide use. Our partners in the EU must learn to understand the safety and tremendous benefits of biotechnology and opportunity its has of solving the problem of hunger around the world.

We must take a hands on approach, with an aggressive intent on increasing trade. We are fortunate to live in a country where food is plentiful, there is no excuse for our farmers to be denied the opportunity to share their products with the rest of the world.

Once again I thank the panelists today and look forward to their testimony.

Thank you Mr. Chairman

Peter Fitzgerald

Statement of Senator Peter G. Fitzgerald
Hearing on Trade Title of the Farm Bill
Committee on Agriculture, Nutrition and Forestry
Wednesday, April 25, 2001

Free and open international markets are vital to my home state. Illinois' 78,000 farms cover more than 28 million acres – nearly 80 percent of Illinois. Our farm product sales generate nine billion dollars annually and Illinois ranks fifth in agricultural exports. In fiscal year 1999 alone, Illinois agricultural exports totaled $2.75 billion and created 57,000 jobs for my state. Needless to say, agriculture makes up a significant portion of my state's economy, and a healthy export market for these products is important to my constituents.

Our agricultural trade surplus totaled $27.2 billion in 1996. However, the United States Department of Agriculture projects that our agricultural trade surplus in 1999 will have dwindled to approximately $12 billion dollars. Reversing this trend through an effective trade title of the farm bill, fast track negotiating authority for our President, and a strong position in the next round of multilateral trade negotiations must be a top priority of this Committee and the Congress. America's farmers demand it and we should be responsive.

While the average tariff assessed by the United States on agricultural products is less than 12 percent, the average agricultural tariff assessed by other World Trade Organization members exceeds 62 percent. This situation is clearly unfair and certainly depresses U.S. agricultural commodity prices.

The problem does not end with tariffs. The European Union has become the master of utilizing export subsidies and sanitary and phytosanitary barriers to disadvantage American producers. According to the Foreign Agriculture Service, the European Union represents approximately 90 percent of the value of all export subsidies, and the EU continues their trend of ignoring WTO dispute resolutions. This trend must not continue.

Finally, we must pass permanent fast-track authority. This trade negotiating authority will give the president a freer hand to expand our producers' access to world markets. Until we pass fast track, foreign governments will be discouraged from negotiating with the U.S. because of uncertainty over whether Congress will revise or kill the agreements. Using their fast-track authority, U.S. Presidents have had great success in forging important trade agreements, including GATT and NAFTA. Fast track authority will help President Bush and future presidents create new markets for American products abroad and move the U.S. economy forward.

As you know, farm commodity prices have recently been in a severe slump, and agricultural commodity surpluses are abundant. This situation makes this hearing even more timely and necessary. Potential new sales to other countries could give a significant boost to our rural economy.

I thank the Chairman for scheduling this hearing, and I look forward to working with my Colleagues to construct a farm bill trade title that helps to ensure the prosperity and vitality of our family farmers.

TESTIMONY BEFORE THE UNITED STATES SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY APRIL 25, 2001

Bruce A. Babcock
Center for Agricultural and Rural Development
Iowa State University

Thank you Mr. Chairman for the opportunity to participate in today's hearings. My research center at Iowa State University has the primary responsibility for modeling international commodity markets and their impacts on U.S. agricultural prices, production, and trade flows. These models, along with the domestic models, which are the primary responsibility of the University of Missouri, are the basis for the annual FAPRI baseline projections and subsequent FAPRI analysis of farm bill policy options. It is in this context that I have prepared a brief overview of what we see happening over the next five years in the agricultural economy.

Why Are Agricultural Prices So Low?

The one question continually asked is, when are prices going to rebound? We have seen price weakness for most program commodities since 1997. And recently the weak prices have spread to many non-program crops, such as apples, potatoes, and carrots. Because this hearing is focused on reauthorization of farm programs, I will focus my comments on program crops and livestock.

Current low prices are caused by a combination of short- and long-run events. Most of us focus on the short-run events that are causing weak prices, but over a five or ten year horizon, long-run trends may be equally important. Since the early part of the last century, the long-run trend for agricultural prices, in real terms, is down. Increases in productivity in production agriculture, transportation, and food processing have resulted in the supply of agricultural commodities growing faster than the demand. This situation is not unique to agriculture. Metals, oil, wood, chemicals, and computer capability have all experienced this downward trend.

Overall, this downward trend represents a success story for economic growth and wealth creation. Despite claims that the world will inevitably run short of basic commodities, the downward trend in prices indicates that basic commodities have become relatively less scarce over time, not more. With respect to agriculture, the U.S. has showed the world how agricultural productivity can be enhanced through application of science. As the U.S. and other countries continue their investments in agricultural research, we should continue to see downward price pressure over the next 10 years.

However, this does not mean that agricultural prices will actually fall below today's levels. The last three or four years have also seen short-run factors that have pushed prices down. These are 1) beneficial growing weather in many countries which have increased short-run supply above trend; 2) macroeconomic weakness in importing countries which have reduced short-run demand below trend growth; and 3) domestic policy changes in both the U.S. and other countries that have tended to push up domestic supplies. This supply increase either reduces prices directly or reduces demands for U.S. exports.

Good Growing Conditions

The first factor that has caused prices to be lower than expected since 1997 is that world crop yields have been higher than expected. Average world coarse grain yields (corn, barley, and sorghum) were above trend yields in 1996, 1997, 1998, and 1999. They fell slightly below trend in 2000. Average world wheat yields were below trend in 1996, but above trend for the following four years. These higher than expected yields reflect a lack of significant weather problems in the major wheat and feed grains growing areas. As we look to the future, we should expect a more equal number of years in which yields will be above and below trend, which should boost wheat and feed grain prices over the next five years. Of course, a major supply disruption would result in a significant boost in prices, particularly if it occurs after grain stocks have been drawn down from current levels. And continued good growing conditions will result in somewhat depressed prices. But it would be highly unlikely that we will see the kind of favorable crop growing conditions in so many parts of the world that we have seen over the last four years. A return to more "normal" crop growing conditions should increase prices somewhat for major grains.

Drop in Export Demand

The second factor that caused weak prices in the late 1990s is the reduction in demand for U.S. agricultural exports caused by the Asian financial crisis. The economies of Thailand, South Korea, Philippines, Indonesia, and China all either shrank in size or had significant declines in growth rates. This caused U.S. exports to either fall, as in the case of grains, or to remain flat when they were expected to grow sharply, as in the case of meats. This unexpected softness in export demand led to weakness in U.S. domestic prices.

Most Asian countries have rebounded quickly after their recession, with the notable exceptions of Japan and Indonesia. Continued economic growth in the region should help strengthen export demand for U.S. agricultural products.

The other macroeconomic factor that led to weak U.S. prices is the strength of the dollar. Both in 1997 and again in 2000, the dollar strengthened considerably against European and most Asian currencies. The strong dollar makes U.S. exports relatively more expensive than competitors' products which tends to lower domestic prices. What the future holds for the dollar is uncertain. Many expected the dollar to weaken as U.S. economic growth weakens. But U.S. productivity growth continues, which tends to hold down U.S. inflation, and hold up real U.S. interest rates.

We see continued economic growth in Asia, which leads to some strength in U.S. prices. This strength would be enhanced by a weaker U.S. dollar.

Domestic Policies

The third factor that has led to weak prices is the domestic policies of countries around the world. The U.S. farm policy change in 1996 allowed farmers to take advantage of high market prices in the middle 1990s and expand crop acreage. Large counter-cyclical farm payments have helped keep total U.S. planted acreage up even though price levels have fallen dramatically. Because the counter-cyclical payments are relatively higher for soybeans than wheat, we see more U.S. soybean acreage and less wheat acreage, but total acreage remains high.

China decided in 1997 and 1998 to reduce the size of their corn, wheat, and cotton stocks. This internal policy decision helped switch China from a net importer to a net exporter of these commodities. We anticipate China staying as a net importer of these commodities over the next five years.

Public and private transportation infrastructure investments in Brazil and Argentina have allowed both countries to expand planted acreage, particularly soybean acreage, which has tended to expand total world supplies.

Some of these policy decisions may be transitory. For example, unexpected supply shocks may convince China to expand its corn and soy oil stocks, thereby becoming a net importer. We could decide to lower soybean loan rates and eliminate any further emergency payments. Brazil and Argentina could decide to return to a policy of higher taxes for agriculture, which would hold down their supply expansion. Any of these policy changes would lead to higher U.S. crop prices.

Five-Year Price Projections

FAPRI makes price projections as part of its annual baseline analysis. These are not price forecasts because we know that unforeseen supply and demand shocks make accurate price forecasts impossible. Rather, the price projections reflect the net effect of underlying trends in macroeconomics and domestic policies that affect prices. "Normal" growing conditions are assumed throughout.

Wheat

Wheat prices are expected to increase substantially over the next five years as increased international demand combined with flat world production reduces world stock levels. U.S. prices are projected to increase from $2.67 per bushel for the current marketing year to $3.17 in the 2005 marketing year. U.S. exports are projected to be flat as the EU is able to expand exports significantly without subsidies. Wheat price volatility is expected to be large. If major consuming countries like China and India suffer poor crops, wheat prices will be much higher than projections. If the two countries have bumper crops and become net exporters, then prices will be weaker than projected.

Corn

Corn prices are projected to increase from $1.87 in the current marketing year to $2.24 in the 2005 marketing year, an increase of about 20 percent. Significant increases in domestic feed use, combined with steady increases in export demand fuel this increase. Decreases in corn exports from China, with China becoming a net importer by 2005, are a key factor in this projected growth in export demand. If China remains a net exporter, then prices will tend to be weaker than projected. World stock levels are forecast to be tighter over this period than in recent years, but still adequate to forestall dramatic increases in price from a single year of poor growing weather. Continued large LDP payments to soybeans will limit U.S. corn acreage, thus helping corn prices. If U.S. soybean loan rates were adjusted downward, corn prices would tend to be lower than projected.

Soybeans

Soybean prices are projected to remain below U.S. loan rates for the next five years. Continued expansion of soybean acreage in South America and continued expansion of other acreage of competing oilseeds combined with maintenance of large U.S. soybean acreage keep prices weak. Despite continued high U.S. support prices, the U.S. share of world soybean trade declines over this period. Productivity gains in the United States and in other countries have made soybeans a relatively attractive crop to grow.

Cotton

Cotton prices have already rebounded somewhat from their recent low levels. We project cotton prices to remain largely at current levels over the next five years. This static projection reflects moderate growth in world demand, significant increases in cotton acreage in Brazil, and continued liquidation of large Chinese stocks.

Rice

U.S domestic rice prices are projected to rebound significantly in the next five years from a projected current marketing year average of $5.78/cwt. Responding to strong increases in U.S. food demand and to projected growth in total rice trade, U.S. price is projected to rise to $7.26/cwt by 2005. However, U.S. prices do not rebound as much as strong demand growth might suggest because other exporting countries are in position to increase their share or world markets. Thailand, Vietnam, China, and India are all projected to increase their rice exports because of declining growth rates in domestic rice consumption combined with continued growth in per-acre yields.

Beef

Cattle prices are the bright spot in U.S. agriculture. Strong domestic demand combined with a continued decline in total cattle numbers have led to this strength. As herds rebuild over the next five years, we project demand to remain strong, and prices to peak in the next year or two. In the short-run, strong domestic demand draws in increased imports as exports remain flat. As U.S. domestic cattle numbers rebound, exports are projected to increase as domestic price begin the downward phase of the cattle cycle.

Pork

Strong domestic demand and problems with foot and mouth disease in other exporting countries have led to a recovery in pork prices, although they still remain below the levels observed in most of the 1990s. Domestic hog numbers are projected to increase over the next few years, eventually driving down domestic price—especially in 2002—and increasing exports. Pork exports are projected to increase 36% over the next five years. The phenomenal productivity growth in the U.S. pork sector is projected to continue, making the U.S. a low-cost producer in the world.

Dairy

In our baseline projections we assume that current policy decisions are maintained throughout the projection period. Thus, for dairy, we assume that the dairy support price program is terminated at the end of 2001. This assumption slows down the growth in U.S. production as U.S. producers respond to lower dairy prices. An adjustment period with lower prices in 2002 follows.

Some Concluding Thoughts

Overall, we project moderate growth in crop prices over the next five years. With the notable exception of soybeans, we should see significant declines in price support payments. Steady export demand for most crops is projected. Crop prices will rise significantly if there is a major supply disruption. But over a two or three-year period, the extent to which prices can rise is limited by the downward pressure of continued agricultural productivity increases in the United States and other exporting nations. .

We are optimistic about the health of the livestock sector. Strong demand, low-cost producers, and high quality products are making the U.S. quite competitive in world markets. Of course, this strong position would be quickly eroded if the United States loses its foot and mouth disease free status. Public investments in maintaining this status may yield the largest short and long-term returns in agriculture available to Congress and USDA.

As you consider rewriting the trade title of the farm bill, I urge you to consider the economic changes that have taken place over the last 10 years. Ten years ago, program commodities broadly defined (grains, feeds cotton, oilseeds and oilseed products) accounted for 64% of the value of agricultural exports. In 2000, they accounted for 49%. We project they will account for even less in the future. The United States faces increased competition in bulk grain and oilseed export markets. Export demand for higher-value commodities, such as meat, processed foods, and fruit responds directly to increased per-capita income levels. Thus, continued world economic growth will result in relatively greater demand for U.S. exports of these higher-value commodities. A policy focus on expanding exports of wheat, corn, soybeans, and cotton, which does not reflect this change in demand, will not be as productive as a policy that looks to promote the products that foreign consumers increasingly are able to buy.

Another significant change that has taken place over the last 10 years is the greater integration of world agricultural markets. Increased integration means that agricultural commodities will flow more readily to markets that offer a price premium. From an economist's perspective this means less price variability across markets and less price variability within domestic markets. From agriculture's perspective, greater integration means more competition and a greater need to deliver products that the world's consumers want. A farm bill that gives U.S. agriculture the right incentives to deliver the kinds of food products overseas customers want will enhance the long-term health and competitiveness of the sector.

A last note, as this committee continues work on preparing a new Farm Bill, it knows that it cannot spend more than the amber box limit of $19.1 billion under the WTO. This constraint, together with the generally accepted notion that world economic growth is enhanced with increased trade, means that more countries are adopting policies that do not directly influence world prices or trade flows. As it considers proposals from commodity groups, Congress must reconcile its commitment to U.S. agriculture, U.S. taxpayers, and the WTO. The same reconciliation is taking place in the European Union as it continues to reform it agricultural policy. It seems that the EU has replaced its food security rationale for intervention with a rural development/environmental quality rationale. A similar search for justification for U.S. intervention has led many to push for expansion of conservation payments to farmers, such as Senator Harkin's proposed Conservation Security Act. Supporters of conservation payments argue that taxpayers are more likely to support payments to farmers if they were getting environmental quality in return. And it is much easier for conservation payment programs to be classified as green box under the WTO.

ASA
American Soybean Association

STATEMENT BY RON HECK
VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

before the

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

April 25, 2001

Good morning, Mr. Chairman and Members of the Committee. I am Ron Heck, a soybean, corn and pork producer from Perry, Iowa. I currently serve as Vice President of the American Soybean Association, which represents 29,000 producer members on national issues of importance to all U.S. soybean farmers. ASA commends you, Mr. Chairman, for holding this hearing, and appreciates the opportunity to testify today.

Brazil has emerged over the past decade as the principal competitor to the U.S. for exports of soybeans soybean meal, and soybean oil. ASA and other U.S. oilseed organizations are spending a great deal of time and resources to assess the long-term challenge which Brazil represents to our industry, which depends on foreign markets for fully one-half of annual soybean production.

In addition to this national interest, every soybean producer wants to base decisions affecting the viability of their own operation on the best available information. The future competitiveness of Brazil in both the world and our own domestic market will affect the livelihood of my family in coming years. We all need to accurately assess the impact of Brazilian production costs, production, and exports in making decisions on whether to purchase additional land and plan to expand production.

For these reasons, I have visited Brazil four times in the past 14 months. I have also hosted Brazil's largest soybean farmers, the Maggi family, in a visit to my farm in September 1999 to tour Iowa State University's Precision Farming Project.

Following these visits, I wanted to share my experiences and views with my colleagues at ASA, with other producers, and with the industry at large. I developed a Power Point presentation, which is summarized in the tables, charts and comments included in the balance of my testimony. I would like to briefly summarize this information for the Committee, and will then be happy to respond to any questions.

Slide 1

Can US Farmers Compete with South America?

April 2001
Washington, DC
Ron Heck

Slide 2

My Viewpoint…

- September, 1999: Maggi visit to my farm
- February, 2000: Rondonopolis, Rio, S.P.
- March, 2000: ASA-USB with Country Directors. Buenos Aires, Brasilia
- December, 2000: Rural Sao Paulo
- March, 2001: Farm Show, Argentina

Slide 3

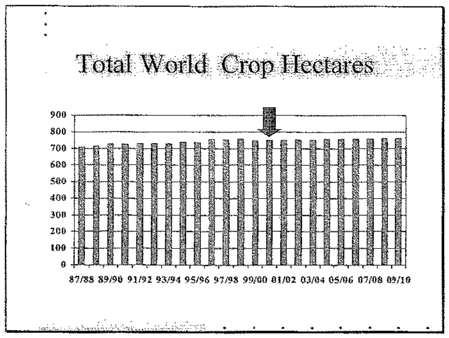
Mark Twain

"Get the facts first…then you can distort 'em as much as you please."

&…

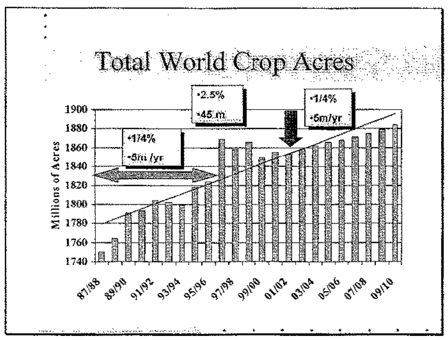
"There's always a hole in theories somewhere, if you look close enough."

Slide 4



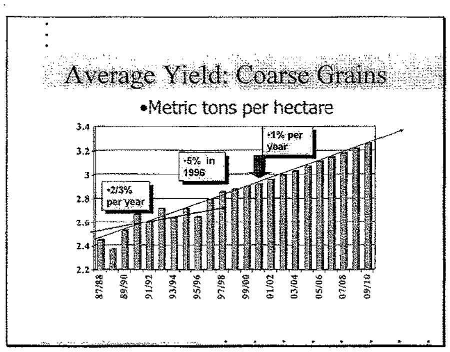
Doesn't look like much--it seems pretty flat.
The red arrow is the 2001 crop year--after that is FAPRI's projection.
Includes wheat, rice, corn, barley, sorghum (in descending order) plus soy, rape,sun,palm,peanut (in descending order)
Lets convert to acres and take a closer look...

Slide 5



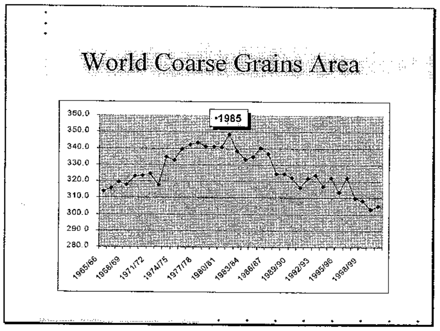
The red arrow is still on the 2001 crop year.
From 1987 to 1995, acreage growth was 1/4% per year=5 million acres.
Suddenly, in 1996, we had $5 corn, and acreage jumped 2.5% in ONE year--enough to satisfy normal demand for NINE years!
....then prices had to decline to reduce acres, until we get back to the trendline acres. BUT...acres in production wasn't the only reason for an increase in world supply.......

Slide 6



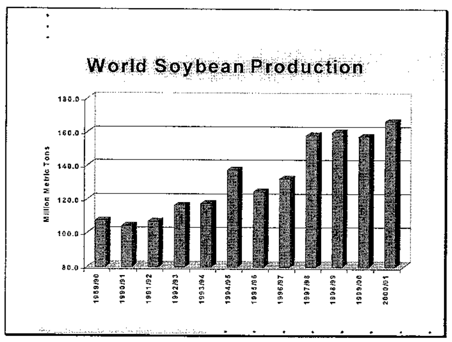
Yield gains had been averaging 2/3% per year during the early 90's.
Future gains are predicted to be 1% per year.
1996 had a sudden 5% yield jump, and we have kept that yield for 5 years in a row....BT CORN!
The 2.5% acreage jump might have been manageable, but adding in the 5% yield jump, for a total of an 8% increase instead of the usual 1% increase, was enough production increases for the next 7 years from yield alone!
With too much corn & wheat...
What did the world's farmers do?...

Slide 7



Fortunately for the corn market futures (not cash), farmers around the world cut back on expensive coarse grain acres (corn,barley, sorghum for USDA figures)

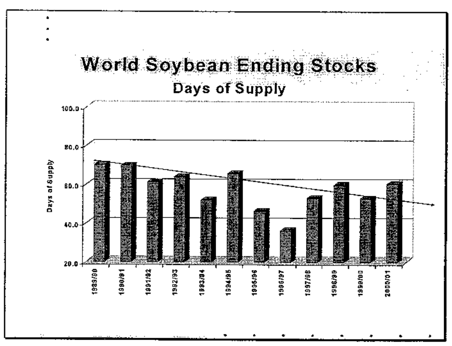
Slide 8



...and the world's farmers responded by planting more soybeans, especially S. America.

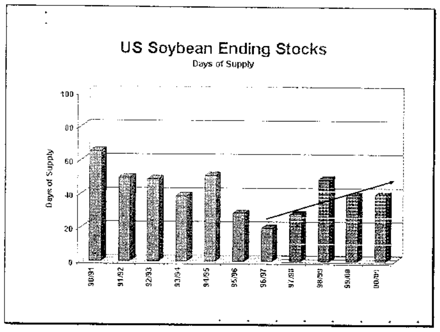
With all of these new acres, carryover must be HUGE...

Slide 9



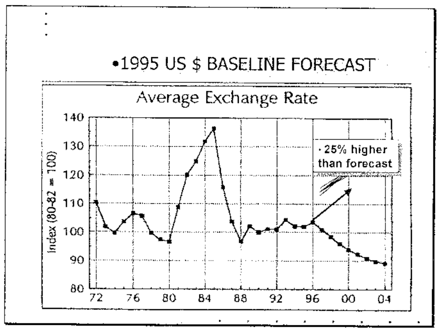
But world days of supply carryover has actually been trending down during the 90's. The 1996/7 carryover was dangerously low, but we have not rebuilt stocks to the burdensome levels of the mid 1980's.

Slide 10



While US carryover has declined since 1990, carryover has been going up since 1996…
partly because the US dollar has made us less competitive than we were in 1996.

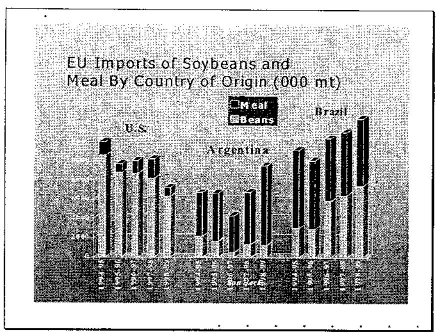
Slide 11



$6 beans with an 85 dollar index are $4.50 beans with a 115 dollar index

but there is more to it than that--in theory, our marketing loan, our better soybean quality, and our reliable transportation and export facilities should make the US the first choice supplier, but….

Slide 12



Here is the reason…
the Europeans have a preference for buying from themselves!!!

German and Italian are more common than English.
Let's take a closer look at the economies of Argentina and Brazil…

Slide 13

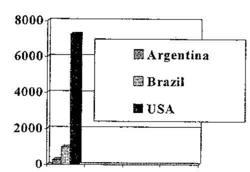
Population

	Total	Under 14	Over 65	Expect
Argentina	35m	28%	9%	72
Brazil	163m	31%	4%	62
USA	266m	22%	13%	76

1995 CIA Factbook…only source for consistent data on the Internet

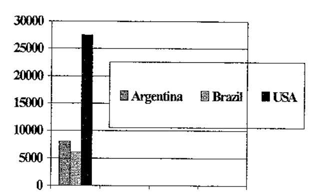
Slide 14

GDP in $ Billion

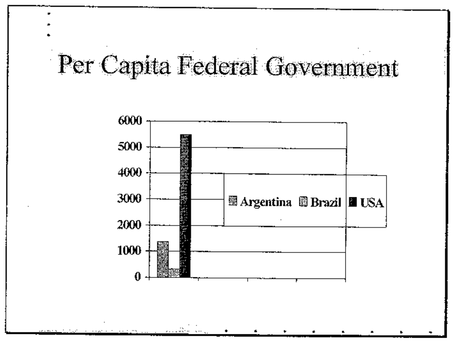


Slide 15

Per Capita Income



Slide 16



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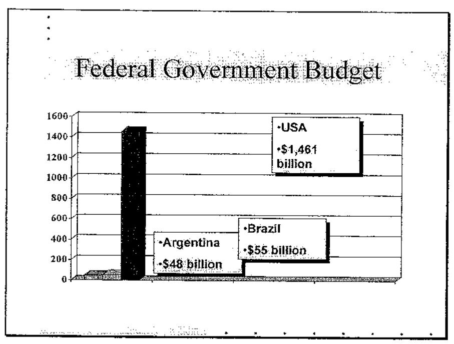

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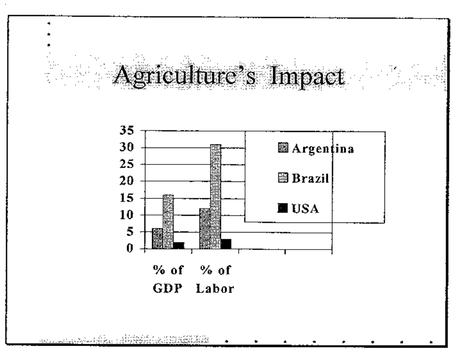


Slide 19

Unemployment

- Argentina...20%
- Brazil...officially 5%
  - At least 20%
  - 1/4 population live outside of government
- USA...4%

Slide 20

So what...

- In 1995, the world needed more food
- Investments were made
  - Europe, Japan in S.A. infrastructure
  - Multi-nationals in biotech
  - US government in FAIR act
- All three investments produced more food...but which one will survive?

Slide 21

Soya Is the Battleground

- Soybeans are the only commodity
  - That are easy to grow
  - That have a worldwide market
  - That have enough value to pay the freight
  - That have a US production patent

Slide 22

Three competitors

- Southern Brazil
  - $2500 per acre land
  - Orange juice, ethanol
  - Fully developed
  - Cut soy acreage this year to raise corn
    - Corn $4/bu one year ago!
- No further threat for rapid expansion

Slide 23

Argentina

- Good soil and climate.
- Only 5 million additional acres available
- Stressed, but saved by Roundup
  - Cash rent $70-80 per acre
  - Gasoline $3.80/gallon
  - Tractor sales 2014, a 20 year low
    - 7336 sold in 1997

Slide 24

Cerrados, central Brazil

- Several 100 million acres available
- Cash rent near zero to $20 per acre
- Transportation costs up to $2/bushel
- 30 bu/acre yields common
- 45 bu/acre excellent farms
- Very high production expenses...

Slide 25

Cerrados NOT competitive in:

- Yields
- Machinery cost
- Freight
- Overnight UPS
- Financing
- Lime, fertilizer
- Insecticide, fungicide
- Research
- Marketing choices
- Fuel costs
- Cash reserves
- Government support
- Off-farm jobs
- Erosion
- No organic matter

Slide 26

Cerrados IS competitive in:

- Land availability
- Farm size
- Farm structure
- Attitude
  - Manifest destiny
  - Joy of creation
  - No exit plan
- Farmer education
- Currency impact
- They speak European
- Cheap labor per day

How do the advantages and disadvantages add up?

Slide 27

December 2000, Soybean Digest

	Iowa/a	MG/a	Iowa/bu	MG/bu
Land	$140	$29	$2.80	$0.58
Fertilizer	25.25	75.00	.51	1.50
Labor	18.99	5.00	.38	.10
Other	110.99	40.00	2.20	.80
TOTAL	$294	$149	$5.89	$2.98
Yield			50	50

This chart appeared exactly like this…with the conclusion that Iowa's cost of production was almost double the Cerrados, but... Change "Land" to "Transportation"

Slide 28

The Rest of the Story...

	Iowa/a	MG/a	Iowa/bu	MG/bu
Freight	$35.00	$90.00	$0.70	$2.00
Fertilizer	25.25	75.00	.51	1.67
Labor	18.99	5.00	.38	.11
Other	110.99	40.00	2.20	.89
TOTAL	$190	$210	$3.79	$4.67
Yield			50	45

Take out land—it is the residual investment. Replace with Freight. Yield—Iowa record is 51, Matto Grosso record is 45—not average. Not sure I believe Fertilizer and Labor, but…
…..LOOK AT "OTHER"!!!

Slide 29

"Other"

	Iowa	Mato Grosso
Machinery	46	Double??
Seed	18	& Insecticide
Herbicide	30	& Fungicide
Miscellaneous	10	Roads!
Interest	7	12% to 30%
TOTAL	$111	$40??

Machinery…1250 acres per combine per year. 40 acres /day for CaseIH 2188 (I get 160 acres per day on beans, 3500 acres per year)
Brazil seed same price as ours for same quality, except for illegal Argentine Roundup
Herbicides about the same for same product, but less used so far…but tropical climate require insecticides and fungicides
"Miscellaneous"…how about building your own roads and bridges? Powerplants? Towns?
Interest…12% from ag suppliers, 20 to 30% other sources
AT LEAST USE THE SAME AS IOWA!!!

Slide 30

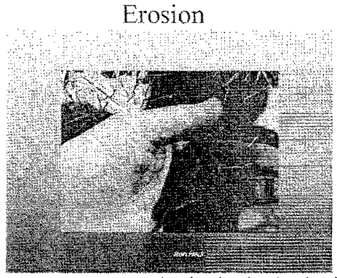
A Better Estimate...

	Iowa/a	MG/a	Iowa/bu	MG/bu
Freight	$35.00	$90.00	$0.70	$2.00
Fertilizer	25.25	75.00	.51	1.67
Labor	18.99	5.00	.38	.11
Other	110.99	110.00	2.20	2.45
TOTAL	$190	$280	$3.79	$6.23
Yield			50	45

And these are just the cash costs....

Slide 31

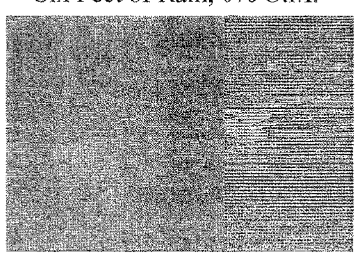
Erosion



With no crop residue, fine clay soil turns to powder easily.

Slide 32

Six Feet of Rain, 0% O.M.



In color, this is a river that runs red through a soybean area into a larger, blue river.

Slide 33

International Food Policy Research Institute

- "The generally positive current trends in food production may mask negative trends…e.g. nutrient mining, soil erosion…"
- The overall nitrogen, phosphorous and potash deficit for Argentina, Brazil, Chile, Paraguay, and Uruguay is 53 lbs/acre/year

Slide 34

International Food Policy Research Institute

- "Agroecosystems' share of carbon storage is estimated to be 18-24% of global total."
- "…the carbon stored in soils is generally more than double that stored in the (natural) vegetation that these soils support…)

Store 102 metric tons/hectare versus 17-47 before agriculture

Slide 35

International Food Policy Research Institute

- "..65 years of cultivation of a Canadian prairie reduced the soil carbon content by almost 50%, while only 6 years…in a Brazilian semi-arid thorn forest reduced the soil carbon content by 40%…

Slide 36

Summary

- The Cerrados is NOT a low cost production area!
  - Production costs are HIGHER
  - Currency signals production, not markets
  - Better transportation increases US risk
- Our customers have invested in S.A.
- Is Cerrados agriculture sustainable?
  - Capital? Soil? Environment?

Slide 37

Summary

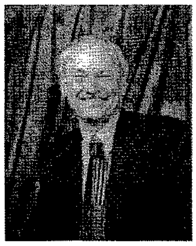
- World acreage is declining since 1996
  - Low prices
  - Biotech equals higher yields
- US farmers penalized by:
  - Worldwide low commodity prices
  - US prices are in dollars
  - Buyer preferences
  - 60% average food import tariffs

Slide 38

Questions?

•RON HECK

Ron Heck



Ron Heck, Treasurer
American Soybean Association

Ron Heck, a producer from Perry, Iowa, is Treasurer of the American Soybean Association (ASA) and serves as a member of the ASA Executive Committee. He also serves as Chairman of the Finance & Administrative Services Committee. In 1999-2000, Heck was also Treasurer and Chairman of the Finance & Administrative Services Committee.

Heck also served on the Finance Committee for two years, the Audit Committee in 1998, and the MIS Committee in 1998.

He has been a member of the Iowa Soybean Association since 1975 and served as Membership Chairman in 1991, Public Affairs Chairman in 1992 and President in 1993. Heck also served on the Iowa Farm Bill Study Team from 1993-95.

Heck served on the Iowa Farm Bill Study Team from 1993-1995. Heck also served on the National Biodiesel Board for one year and on the Iowa State University Precision Farming Research Project Cooperator for four years.

Heck farms an average annual soybean acreage of 1500 acres and 1500 acres of corn.

The American Soybean Association is a national, not-for-profit, grassroots membership organization with about 28,500 members that develops and implements policies to increase the profitability of its members and the entire soybean industry. ASA has affiliated offices in 26 states, and international offices in 14 foreign countries.

Soybeans accounted for 26% of all U.S. crop acres planted in 1997, and represented a farm gate value of more than $17.6 billion. The United States produced 47 percent of the world's soybean production in 1997. The value of U.S. soybean and soy product exports in 1997 exceeded $9.9 billion, making them the #1 U.S. agricultural export.

The American Soybean Association was founded in 1920.

Statement of the American Farm Bureau Federation

TO THE
SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE
REGARDING
TRADE ISSUES AFFECTING AGRICULTURE

Presented by

Bob Stallman
President

April 25, 2001

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As the national voice of agriculture, AFBF's mission is to work cooperatively with the member state Farm Bureaus to promote the image, political influence, quality of life and profitability of the nation's farm and ranch families.

FARM BUREAU represents more than 4,800,000 member families in 50 states and Puerto Rico with organizations in approximately 2,800 counties.

FARM BUREAU is an independent, non-governmental, voluntary organization of families united for the purpose of analyzing their problems and formulating action to achieve educational improvement, economic opportunity and social advancement and, thereby, to promote the national well-being.

FARM BUREAU is local, county, state, national and international in its scope and influence and works with both major political parties to achieve the policy objectives outlined by its members.

FARM BUREAU is people in action. Its activities are based on policies decided by voting delegates at the county, state and national levels. The American Farm Bureau Federation policies are decided each year by voting delegates at an annual meeting in January.

**STATEMENT OF
THE AMERICAN FARM BUREAU FEDERATION
TO THE
SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE
REGARDING
TRADE ISSUES AFFECTING AGRICULTURE**

Presented by

Bob Stallman
President

April 25, 2001

Mr. Chairman, members of the Committee, I am Bob Stallman, President of the American Farm Bureau Federation and a rice producer and cattleman from Columbus, Texas. AFBF represents more than five million member families in all 50 states and Puerto Rico. Our members produce every type of farm commodity grown in America and depend on access to foreign markets for our economic viability.

I appreciate the opportunity to speak with you today about trade issues affecting agriculture and the trade title of the next farm bill. As you know, U.S. agriculture is highly dependent on access to world markets with over one-third of our bulk crop production and almost one-quarter of our total production destined for foreign shores. Our sector has long enjoyed a trade surplus, but that surplus has steadily decreased in recent years due to declining export values and barriers to trade that are erected by our trading partners.

At the same time, U.S. agricultural imports continue to rise. This is evidence that our market is among the most open in the world. U.S. farmers compete head-to-head with their competitors in their own market, but are not given equal opportunities to compete in foreign markets.

In addition, our competitors are outspending us in their use of export subsidies and market promotion programs. We can't expect our producers to compete on the world stage when they are outgunned by foreign government spending. Congress must equip U.S. producers with adequate funding to promote their exports.

We need to secure Trade Promotion Authority for the president in order to improve our access to world markets and correct the trade inequities now facing our sector. Granting this authority will signal to the world that the United States is ready to negotiate.

However, Trade Promotion Authority should not include labor and environment provisions that use trade as a weapon. Putting labor and environment standards in trade agreements, and more troubling, imposing sanctions on countries that fail to enforce their labor and environment standards, is a recipe for ensuring that no future commercially meaningful trade deal will be struck.

Moreover, sanctioning U.S. exports historically has proven to be an ineffective policy tool that merely cuts off U.S. producers' access to vital export markets without achieving the desired policy result. Meanwhile, our competitors are all too happy to take over these sanctioned markets at our expense.

It is for this reason that Farm Bureau continues to oppose unilateral export sanctions in any form on U.S. agricultural exports. The sanctions reform legislation that passed last year as part of the agricultural appropriations bill was a good first step on the road to achieving meaningful sanctions reform.

However, the restrictions placed on the use of federal export promotion assistance, financing of sales and travel to Cuba, and licensing requirements are provisions that need to be repealed in order to allow U.S. farmers and ranchers true access to these previously sanctioned markets. We support S. 171, which will accomplish this objective.

Congress should repeal these onerous restrictions as part of its proven desire to lift unilateral economic sanctions on U.S. agricultural exports. Full sanctions reform will enable America's producers to compete in a market valued in excess of $6 billion.

The negotiations on agriculture in the World Trade Organization represents another important opportunity to increase America's access to international export markets. Farm Bureau-supported objectives for these trade talks include the elimination of export subsidies, substantial reduction of tariffs worldwide, increased transparency of state trading enterprises, access based on scientific principles for bioengineered products, expiration of the peace clause, elimination of the blue box category of government allowed subsidies, adoption of an equitable approach to domestic support spending between nations and the conclusion of negotiations on export credits in the Organization for Economic Cooperation and Development (OECD).

However, true progress in the WTO agricultural negotiations cannot be achieved unless a global trade round is launched. WTO member countries should adopt a broad-based approach for a new round to ensure that all sectors in the global economy benefit from increased trade liberalization. To accomplish this, the United States must insist that a single undertaking approach for the negotiations is adopted wherein all elements of the agreement are concluded and implemented simultaneously.

Another important trade issue affecting agriculture is the completion of China's accession to the WTO. America's farmers are eagerly awaiting the opportunity to compete in the Chinese market. However, it is vitally important that all outstanding issues for China's accession package be resolved before the United States gives its final approval for China to join the WTO.

We are concerned that China has not fully implemented its bilateral agreement with the United States to import our wheat, meat and citrus products. China must fully comply with the letter of that agreement. Importation of these products into China will serve as evidence that China intends to fulfill its international obligations. The United States should not give final authorization for China to join the WTO unless it lives up to its commitments, including the bilateral promise to remove sanitary and phytosanitary (SPS) barriers on U.S. wheat, meat and citrus exports.

Additional regional and bilateral free trade agreements are now being negotiated that could significantly impact U.S. agriculture. These negotiations present an important opportunity to address specific bilateral and regional trade issues affecting our sector.

On the bilateral front, Chile, as part of the free trade area negotiations now underway, must agree to resolve all outstanding SPS measures that restrict U.S. exports to that market, including meat, poultry, dairy and salmon eggs, and must agree to eliminate its price band system, which places imports into that market at a price disadvantage.

Recent reports indicate that the administration may be considering pursuing a free trade area with Australia. Australia is an important ally of the United States in the WTO negotiations on agriculture. However, there have been numerous bilateral SPS barriers to trade that Australia has erected to keep our exports out of its market. All outstanding SPS issues must be resolved in a scientific manner before a commitment is made to commence free trade negotiations with Australia.

Regarding the Jordan Free Trade Area, Farm Bureau opposes including labor and environment provisions in the agreement and strongly objects to the use of sanctions to enforce labor and environment provisions.

We also oppose Executive Order #13141 that mandates environmental reviews of trade agreements and believe this administration should rescind it. U.S. negotiating proposals for trade agreements should not be subjected to the faulty, non-science based process that this executive order will impose.

Concerning regional agreements, the Free Trade Area of the Americas will create an open market of 34 countries. Several of these nations produce many of the same commodities that we grow in America. Producers from these countries already enjoy significant access to our market and also compete with us in the international marketplace. It is imperative that U.S. producers begin to enjoy access to the FTAA markets on equal terms.

We also view the FTAA as an opportunity to apply the trade lessons we learned from the North American Free Trade Agreement. On average, NAFTA has significantly benefited the U.S. agricultural sector. When you take a closer look at specific commodities, however, there have been some winners and losers. While we cannot expect significant gains for all commodities in all trade agreements, we can, and must, ensure that the rules that are adopted as part of the FTAA result in fair trading opportunities. To this end, we have requested that special safeguards be implemented in the FTAA for perishable commodities that account for seasonality and regionality.

Setting aside the issue of trade negotiations for a moment, there are also a number of trade disputes that need to be resolved.

We support a negotiated solution to the Mexico sugar and high fructose corn syrup issue that is equitable for our producers and maintains their economic viability. We are also concerned that Mexico's requirements placed on the importation of dry beans are not consistent with its NAFTA obligations and should be corrected.

We call upon the Canadian government to implement the WTO ruling on dairy in a manner that is consistent with WTO rules

We believe that the European Union should lift the ban on U.S. exports of hormone treated beef consistent with the WTO ruling. Because the EU has not complied, the list of European products subject to retaliation should be immediately rotated and continue to carousel in accordance with U.S. law until a solution to this longstanding dispute is imminent.

The U.S.-Canada Softwood Lumber Agreement expired at the end of March. U.S. timber producers will now be subjected to unfairly subsidized imports of Canadian lumber, which promise to further exacerbate the low price conditions they already face. We support the pursuit of a countervailing duty case by U.S, producers, but continue to believe that a negotiated solution is preferable to litigation.

The Andean Trade Preferences Act is set to expire at the end of this year. Renewal of this trade act should only be granted if a competitive trigger similar to that of the Generalized System of Preferences (GSP) is implemented that eliminates the tariff preference once a country becomes internationally competitive in a specific commodity and the safeguard mechanism for perishable products is improved.

Finally, the issue of biotechnology continues to be a top trade concern for U.S. agriculture. The European Union has maintained a de facto moratorium since 1998 on additional approvals for new varieties of genetically enhanced commodities. However, the European parliament recently approved a revised 90/220 directive outlining the process for GMO approvals.

Although all member states are required to conform to this revised directive, several have indicated that they will not implement it. In short, the de facto moratorium is legally over but not in practice. We believe the Europe Union should reinitiate its approval process based on science and should implement it without exception or delay.

In addition, international provisions and standards governing biotechnology are being discussed and adopted in a number of forums, yet the United States lacks a coordinated policy approach on trade in these products. We support the establishment of an interagency committee to address biotechnology matters in a coordinated fashion. The United States should also forge stronger alliances with its international allies on this issue, thereby depolarizing the U.S.-EU biotechnology debate.

Regarding the trade title of the next farm bill, the market-oriented approach adopted in the 1996 farm bill places increased importance on an aggressive trade policy to further develop export markets. Farm Bureau supported provisions for the trade title of the next farm bill include:

Approval for additional funding (up to the WTO allowed limits) for all export programs. We have participated with other agricultural groups to try to ascertain the necessary amounts for each of the export-related programs and are still working on those figures.

Farm Bureau supports a greater percentage of increase in funding for expansion of agricultural exports than any other recommendation in our farm program testimony -- $400 million in additional funding annually. With over one-third of our production moving into the export market, expanding those markets rather than allowing them to continue to shrink is key to the recovery of the current farm economy crisis. Opening markets and leveling the playing field is more important than ever. We cannot afford to remain on the sidelines while other countries use similar export programs to capture our markets.

The GSM program is an export credit guarantee for commercial financing of U.S. agricultural exports. The programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees.

Title I of the PL 480 program is used to provide overseas food aid, also known as Food for Peace, which includes concessional sales. Food aid is vitally important to many developing countries around the world. The ability to provide this assistance should not be altered in the ongoing negotiations on agriculture in the WTO. Farm Bureau supports a 10 percent increase in food aid programs.

The Market Access Program (MAP) uses funds to aid in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products by forming a partnership between non-profit U.S. associations, cooperatives, small businesses, and the USDA to share the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing.

MAP, after being adjusted for inflation and exchange rate movements has declined $45 million since 1986. Using the same assumptions, the MAP program would need to be funded at a minimum of $155 million rather than the current $90 million. In order to arm U.S. agriculture with the same amount of market development funding it had in 1986, the Foreign Market Development (FMD) program would need to be authorized at a minimum of $43 million rather than the current level of $33.5 million.

We are very interested in USDA numbers for the FMD program which examine the global inflation and exchange rate changes that have reduced the "real" or "effective" levels of market development funding since 1986 (the year following the 1985 farm bill which was really the first push for expanded export programs). The numbers show that "real" FMD allocations, after being adjusted for inflation and exchange rate movements have gone down by almost $12 million since 1986.

In short, the FMD program authorization and appropriation should be increased to $43 million and the MAP program to $155 million.

The DEIP helps exporters of U.S. dairy products meet prevailing world prices for targeted dairy products and destinations. The major objective of the program is to develop export markets for dairy products where U.S. products are not competitive because of the presence of subsidized products from other countries.

The Export Enhancement Program (EEP) helps products produced by U.S. farmers meet competition from subsidizing countries, especially those of the European Union. The major objective of the program is to challenge unfair trade practices. The EEP authorization level has been at least $478 million over the past four fiscal years; however, the past administration never utilized any more than $5 million in any of those fiscal years.

The EEP and DEIP programs should be reauthorized at the maximum levels consistent with export subsidy reduction commitments made in the WTO agreement.

The total cost to increase food aid and export promotion programs by 10 percent per year and to raise EEP and DEIP to their maximum allowable WTO limits is about $120 million per year.

U.S. farmers and ranchers are the most efficient producers in the world. They produce a high quality product that can out-compete the competition if they are allowed to meet it head on without being disadvantaged by excessive export subsidies and insurmountable barriers to trade.

Congress should support our producers in every way possible to ensure that access to foreign markets is unrestricted and the terms of trade are fair. Increasing spending on MAP, FMD, EEP, DEIP and food aid and securing trade promotion authority and full sanctions reform represents the best means in the short term for enabling U.S. producers to increase their export potential.

Mr. Chairman, the United States is facing an important juncture for agricultural trade. Bilateral and multilateral negotiations are underway to design the future that will govern the global movement of our commodities and international conventions are writing new rules and standards for tomorrow.

The United States must assume a strong leadership role to ensure that these new rules and standards create a favorable trading environment for our producers. We are already the world's leader in production efficiency and product quality. We now need our government to take the necessary steps to make us a leader at the negotiating table and to once and for all open new markets for U.S. agriculture.

Thank you for this opportunity to share Farm Bureau's views on trade issues affecting agriculture and the trade title of the farm bill.

NATIONAL FARMERS UNION

STATEMENT CONCERNING

AGRICULTURAL TRADE ISSUES

BY

MR. LELAND SWENSON
PRESIDENT
NATIONAL FARMERS UNION

BEFORE THE

SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE

APRIL 25, 2001

STATEMENT CONCERNING AGRICULTURAL TRADE ISSUES
BY MR. LELAND SWENSON, PRESIDENT – NATIONAL FARMERS UNION
BEFORE THE SENATE AGRICULTUE, NUTRITION AND FORESTRY COMMITTEE
APRIL 25, 2001

Chairman Lugar, Ranking Member Harkin, members of the committee, I am Leland Swenson, president of the National Farmers Union (NFU). It is an honor to appear before you today representing the agricultural trade interests of the 300,000 family farmer and rancher members of the NFU.

Background

The National Farmers Union fully understands and appreciates the potential benefits that can be achieved through agricultural trade. We recognize these benefits can accrue not only to America's farmers and ranchers, but also our economy in general as well as a significant portion of the world's population that is, at least in part, dependent upon agricultural trade to ensure an adequate level of nutrition.

We are concerned however that U.S. agriculture has become so focused on the volume of exports as a panacea that will cure for all its economic problems and miraculously create prosperity for farmers that we fail to maintain any sense of objectivity when discussing trade issues. Instead, we find a variety of excuses for the inability of agricultural trade to meet the high level of expectation that we ourselves create while doing little to resolve those issues or recognize them as inherent long term limitations on our trade future. At the same time we generally ignore our domestic market that has provided the most consistent and highest level of growth for agriculture even while we experience greater competition in our own backyard. Furthermore, the U.S. market continues to present new opportunities for increased demand for not only food and fiber products but also alternative markets for farm commodities.

The policy direction of the 1996 farm bill was in large part based on the assumption that the volume growth in U.S. agricultural exports, that in fact peaked in 1996, would continue unabated in the future. Growth in export demand from the U.S. was expected to be driven by world population growth, increased incomes overseas and a domestic farm policy that would force others to adjust to market conditions. None of these assumptions have been proven to be correct. In fact, the opposite has occurred.

Countries continue to place a high value on food self-sufficiency, security and national views concerning food safety, quality and the "value" of a domestic agricultural system.

In addition, for U.S. producers and farmers around the world, their inability to influence the prices they receive for their production results in a rational decision to maximize production even when commodity prices decline.

Agricultural trade continues to provide the residual supply necessary to supplement domestic food production when it fails to meet local demand due to weather or other factors.

We understand the emphasis export merchandisers place on sales volumes, as the major determinant of their economic success. We also note, that most exporters, including some U.S. cooperatives, operate multi-nationally, thus their company interest is not the same as our national objectives in terms of ensuring that benefits from trade accrue to U.S. farmers or the domestic economy in general. For our farmers, however, the situation is different, their market concerns are a combination of both sales volume and price associated with domestic and export markets as well as the effects of import competition.

In 1996 little attention was paid to farm prices, producer incomes or imports of competitive products because of the belief that U.S. farmers would be the "low cost" producers of commodities ensuring their competitive position in world markets if various forms of government intervention could be reduced or removed. As we should now be aware, our comparative production and trade advantage predicated on a superior natural resource base, adoption of advanced technology and an efficient marketing system no longer assures our competitiveness.

Compared to the 1990/91-1991/92 period, U.S. agricultural export volumes for wheat declined in the 1995/96-1996/97 period by 4.6%. Farm-gate export earnings however increased 50%. The positive improvement was due entirely to the prices received by wheat growers. For the 1998/99-1999/00 period export volume further declined to a level 9.3% below the base period while the producer value of exports fell 17.6%. Nearly one-half of the decline in wheat export earnings was due to reduced prices.

For corn, compared to the same 1990/91-1991/92 period, the 1995/96-1996/97 farm-gate export earnings increase of 57.2% was about 38% due to increased export volume and 62% the result increased producer prices. An increase in volume of 18.3% and decrease in the farm-gate export value of 4.3% characterized the 1998/99-1999/00 period. Declining corn prices from the base period resulted in a loss of nearly 23% of potential export earnings.

The soybean example provides a similar conclusion. In the mid-1990's volume increased nearly 47% over the base years, while producer export earnings increased about 83%. Over 43% of the improved soybean export situation was due to price. For the 1998/99-1999/00 period compared to 1990/91-1991/92 export volume increased 50.7% but export earnings were up only 26.8% due to producer price declines relative to the base period.

Commodity prices have had a much greater impact on producer income from exports than have export volumes.

While a great deal of attention was focused on our export performance in the mid-1990's, policy makers and analysts ignored the other side of the ledger, that of competitive imports - those imported products that are also produced in the U.S. In 1979, U.S. farm exports were about 53% of the 1996 level but competitive imports were only 28.4% of our agricultural exports, and our agricultural balance of trade was nearly $16 billion.

By 1989 our agricultural balance of trade had grown to over $18 billion, but competitive imports had increased to over 38% of our export levels and amounted to nearly 71% of all imports.

In 1996, our record export year, our trade balance declined about $1 billion from the 1989 level as competitive import products represented over 40% of our export level and 75% of all agricultural imports.

Preliminary data for 2000 project a positive trade balance of only $12 billion, about two-thirds of the 1989 level, while imports that compete directly with U.S. production increased to over 60% of our export sales and nearly 80% of all U.S. agricultural imports.

The U.S. can continue to blame periodic failure of the export market to achieve our expectations on one or more global events and/or trade policies such as the Asian financial crisis, trade distorting public policy or U.S. food sanctions. We agree these issues have an impact on our export potential. However, any objective person would not assume away these issues in planning for the future when no mechanisms have been put in place to fully mitigate their impact or when other, likely more important, concerns fail to be discussed or acted upon.

For farmers and ranchers, the test of trade policy and export promotion and sales programs is the impact those initiatives have on their income and future economic opportunity. Creating a "level playing field" to address a broad range of trade distorting and anti-competitive practices rather that some philosophical or moral "high road" in global trade should be the objective of our policies here at home as well as in negotiations with our trade partners and competitors.

Trade Issues

The U.S. has tended to view the traditional trade issues of export subsidies, market access, sanitary/phytosanitary regulations, dispute resolution and domestic agricultural support programs as the universe for trade negotiations and application of domestic trade law remedies. We support efforts to limit the most distorting characteristics of these issues as long as responsible food security and agricultural policy flexibility is maintained. We believe, however, this rather myopic view of agricultural trade has led us to promote and accept trade agreements that both ignore other important issues that impact our trade competitiveness and potential as well as sacrifice significant protections against the unfair trade practices of others.

Issues such as exchange rate fluctuations and manipulation, labor standards and the application of environmental practices may well have more to do with our global competitiveness and ability to achieve consistent long term export demand growth than the traditional undertakings in trade negotiations.

The U.S. should expect limited export gains from further multilateral discipline of export subsidies or market access provisions unless and until the issue of exchange rates can be satisfactorily resolved. In addition, the growth in competitive imports should be expected to continue as relative currency values make foreign goods cheaper in our own market that remains one of the least protected from agricultural imports of any in the world. It is unlikely U.S. farmers will benefit from enhanced market opportunities as long as the U.S. dollar remains strong and overvalued compared to the currencies of our major export/import competitors as well as potential international customers.

For many producers, particularly those engaged in labor intensive, specialty crop production, the issues of labor cost and availability directly effect our ability to compete with other global producers. It should not be our goal to reduce the economic position of workers or the health and safety regulations that serve to enhance their productivity. The U.S. likely has more to gain than any other nation by ensuring that progressive commitments are made to establish comparable and enforceable labor standards as part of all future trade agreements.

Environmental standards impact not only the competitive position of the U.S. producers, but also represent increasingly important elements in ensuring long term global food security and natural resource sustainability that in many cases go hand in hand with efforts to improve and harmonize sanitary and phytosanitary regulations.

For U.S. producers, domestic environmental regulations provide "public" goods in a variety of ways including cleaner air and water and enhanced safety for both agricultural workers as well as domestic and international consumers. However, these regulations also require U.S. producers to incur costs that many of our competitors avoid. In many cases it is the application of U.S. domestic laws that contribute to the reduced competitiveness of our own growers. For example, last year, U.S. producers were precluded from purchasing a less expensive but equally safe and efficacious wheat fungicide from Canadian sources that was comparable to a product registered for use in the U.S. although we allowed Canadian wheat to be imported that was treated with the "illegal" product. Similarly, we do not allow U.S. producers to purchase products already registered in the U.S. from foreign sources, e.g. Canada, even though the only difference in the product is the price and style of the label.

These problems have only been exacerbated with the introduction of genetically engineered crops. These crops generally require the payment of premiums and technology fees as well as commitments to other contractual obligations by U.S. producers, while the same seed may be purchased by a competitor without any of the conditions imposed by the developer in the U.S. market.

Furthermore, many products that have either been banned for use by U.S. farmers or never registered in the U.S. are available to foreign producers who then export their production to us or directly compete with U.S. producers in overseas markets.

Whether in the area of crop production products or resource management, the U.S. should be proud of the efforts it has made to date as well as our future prospects that will promote a more environmentally friendly and sustainable production agriculture system. However, we must recognize these benefits accrue a cost to producers that cannot be passed on to consumers through higher commodity prices in the marketplace without further eroding our competitive position.

Environmental policy considerations should be a component of trade negotiations to ensure fair market competition and encourage higher, enforceable global standards for environmental stewardship. In addition, U.S. environmental and resource conservation policy should be a significant part of our domestic policy discussions to provide compensation to producers for the public benefits they provide while making sure that programs and regulations make sense and are consistently enforced within our country and at our borders.

Trade Objectives

As the U.S. engages in the negotiation of regional and global trade agreements as well as the development of domestic trade and export policy, we believe certain objectives must be achieved to create opportunities for farmers and ranchers to realize the benefits of agricultural trade.

The current U.S. position concerning trade agreements continues to focus on the traditional issues noted above. We believe a critical component of that process is to seek the correction of many of the problems that exist with current agreements. These include: 1) strengthening our capacity to monitor compliance, particularly in the case of new agreements or the expansion of agreements to additional countries, 2) reforming the dispute resolution process in both the WTO and regional agreements; and, 3) ensuring that comparable health, safety, labor and environmental standards that apply to U.S. producers are implemented and enforced by our trading partners.

Furthermore, we should extend tariff and tariff rate quota coverage to imports that currently circumvent our customs schedules such as "stuffed molasses" and expand the application of end-use certificates to legally imported products where utilization is restricted under domestic law, e.g. milk protein concentrate. In addition, the U.S. should require country of origin labeling for imported agricultural products.

We will oppose further proportional reductions in trade and domestic policies that serve to reduce our capacity and flexibility to respond to unfair or unforeseen trade and economic circumstances until other nations achieve a comparable level of reduction relative to the size of their agricultural industry.

In terms of domestic trade policy, we oppose any effort to weaken or negotiate reductions in current U.S. trade law including the antidumping, countervailing duty, Section 201 and Section 301 trade remedies.

The NFU urges a full review of all current export promotion and sales incentive programs funded by the government to determine their impact on producer incomes. In addition, we support an expanded review of current practices, policies and barriers to fair trade employed by others to include the impact of exchange rates and the effects of differing labor and environmental standards.

We support legislation and/or executive action that eliminates the application of foreign policy sanctions on other nations with regard to agricultural or medical products, including Cuba.

Furthermore, we support domestic policies that provide and extend assistance to agricultural sectors or producers that have been adversely effected by the unfair trade practices of others or subject to the negative impact significant increases in the level of import competition. This should include full implementation of the so-called Byrd Amendment to the FY 2000 agriculture appropriations legislation as well as expansion of the Trade Adjustment Assistance Act to include appropriate provisions that would apply to production agriculture.

Addressing the aforementioned concerns and objectives can improve the potential for U.S. farmers and ranchers to benefit from agricultural exports. In addition, other opportunities should be pursued to increase both short and long-term demand for U.S. food products and achieve a better balance between global agriculture production capacity and real consumer demand.

We fully support and encourage both unilateral and multilateral action to expand the use of humanitarian food assistance for developing nations, including the implementation of an international school lunch program and appropriate commodity reserves to ensure supply adequacy during periods of production shortfalls.

The school lunch program will result in improved levels of education and nutrition for a population estimated to exceed 300 million children who are currently malnourished. Additionally, it will provide a solid foundation for future economic development and commercial demand for agricultural products in countries whose capacity for economic growth may remain severely limited without assistance. At a time when the developed countries and their agricultural producers face real problems due to an oversupply of farm commodities, this cooperative program can help achieve a better supply/demand balance globally. Furthermore such a program will reduce the incentives for surplus producing nations to utilize trade distorting practices to maximize export volumes in order to maintain or expand market shares.

Even the best efforts to enhance global demand and distribution for agricultural products may still be inadequate to achieve a balance of supply and demand that provides reasonable returns to producers while ensuring global food security at affordable consumer prices. We believe the U.S. should seek international cooperation to address the potential for surplus production of agricultural commodities. This should be accomplished in ways that are consistent with international food security objectives such as shared buffer stock responsibilities, global environmental needs including the reduction of greenhouse gases through on-farm carbon sequestration and national priorities that address non-food production benefits of agriculture and rural communities.

Conclusion

Mr. Chairman, the National Farmers Union recognizes the importance of trade to the economic well being of our Nation's farmers and rural communities. However, we are concerned that all too often, those benefits are oversold to both producers and the public and the potential is not realized in a way that improves farmer income or the economic opportunity for rural America. We have identified a number of conventional as well as less traditional issues, objectives and opportunities that we believe must be addressed through trade negotiations and in the context of domestic policy if we are to achieve the success we all seek in the global market.

Thank you and the committee for the opportunity to share our thoughts concerning agricultural trade issues with you today. I will be please to respond to any questions you or your colleagues may have at the appropriate time.

STATEMENT OF CHARLES J. O'MARA ON BEHALF OF
THE AMERICAN OILSEED COALITION
BEFORE THE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
ON THE TRADE TITLE OF THE
FEDERAL AGRICULTURE IMPROVEMENT AND REFORM ACT OF 1996
APRIL 25, 2001

Mr. Chairman and Members of the Committee, I am Charles J. O'Mara, President of O'Mara & Associates. I previously was Counsel for International Affairs to the US Secretary of Agriculture and Special Trade Negotiator for Agriculture. I am here today on behalf of the American Oilseed Coalition (AOC), which includes the American Soybean Association, the National Cottonseed Products Association, the National Oilseed Processors Association, the National Sunflower Association, and the U.S. Canola Association. I am grateful for the opportunity to speak on important trade programs of the 1996 FAIR Act—export credits, food aid, and export promotion programs.

In 2000, US producers harvested almost 2.8 billion bushels of soybeans, the largest crop in our history, valued at $12.5 billion. Exports of oilseeds and oilseed products in calendar year 2000 were valued at over $7.5 billion. These statistics show the importance of exports to our industry. US oilseed producers and processors depend on maintaining and expanding access to world markets.

An aggressive US trade policy and use of export programs are essential in maintaining market-oriented farm policies. Full use of legitimate export assistance and promotion programs and expanded food aid programming were key commitments made by the Congress and the Administration when the current FAIR Act was enacted in 1996. Full planting flexibility and production require enhanced efforts to increase US farm exports and competitiveness. The success and continuation of current domestic farm policies will require a new commitment to WTO-legal export programs, including export credits and food aid programs.

Export Credits

The AOC fully supports export credit programs as a vital government incentive to encourage exports of oilseeds and oilseed products. As you know, under the Uruguay Round Agreement on Agriculture, export subsidies have been cut with further reductions or elimination very likely when the current WTO agriculture negotiation is completed. This means that export credits are the primary export tool available. We must make sure that export credits are consistent with WTO rules and disciplines. That is what I want to discuss today.

Export Credits in the Uruguay Round

How to deal with export subsidies, including export credits, credit guarantees and insurance programs ("export credit programs") was one of the major issues during the Uruguay Round of multilateral trade negotiations. In that Round, the United States came under enormous pressure from the Cairns Group and other agricultural exporting countries to accept disciplines on the use of export credit programs. The Cairns Group wanted export credits and credit guarantees to be treated as export subsidies and subject to the disciplines requiring reduction of such subsidies.

The United States successfully resisted this pressure. Within the Uruguay Round Agreement on Agriculture, export credit programs were not specifically listed as subsidies subject to the reduction commitments that were applied to other programs such as the US export enhancement program and EC export restitutions. Export credit programs were given a special status that exempted them from these reductions. In return, the United States and other WTO members agreed, "to work toward the development of internationally agreed disciplines to govern the provision of export credits, export credit guarantees or insurance programmes" and to apply those disciplines once negotiated (Article 10(2) of the Agreement on Agriculture). Some WTO members, who felt strongly that export credit programs are export subsidies and should be subject to WTO disciplines, only reluctantly accepted this agreement.

Article 10(2) is a best-efforts commitment. It does not specify a timetable for concluding discussions on disciplining export credits in agriculture. Nor does it specify that such credit programs need to be reduced, but rather "disciplined". Although not specified, the implicit assumption was that the discussion on agricultural export credits would take place in the Organization for Economic Cooperation and Development (OECD).

OECD Export Credit Talks

The OECD has worked for years on disciplines on export credits for industrial products. The OECD Arrangement for industrial products sets guidelines for cash down payment requirements, maximum repayment periods, interest rates, and the minimum concessionality level for tied aid. It contains no enforcement mechanism, but since it is incorporated by reference into the WTO Agreement on Subsidies and Countervailing Measures, any country providing export credits or guarantees inconsistent with the OECD Arrangement would be subject to WTO dispute settlement.

OECD discussions on agricultural export credit programs have gone on for over five years now. At the most recent meeting in the OECD on this issue, agreement was reached by all members but Canada on an OECD agreement (Chairman's Text) that would discipline export credits, credit guarantees and insurance programs. The proposed agreement covers areas such as tenor (length of repayment period), risk premiums, reporting requirements, and other elements. Canada reportedly has concerns about applying the disciplines to certain state trading enterprises.

Need to Approve the OECD Chairman's Text

People have asked why we need this OECD agreement if during the Uruguay Round we negotiated a special status for export credit programs, and if there is no time frame mandated by the WTO for concluding negotiations on disciplines for export credits.

The reason is that our program still could be challenged under what are known as the "non-circumvention provisions" of the Article 10 of the WTO Agreement on Agriculture. The non-circumvention provisions of the Agreement on Agriculture state that export subsidies not subject to specific reduction commitments (which includes export credit programs) cannot be used in a manner that results in circumvention of the agricultural export subsidy commitments. Granting export credits or credit guarantees to a product in excess of the WTO-bound export subsidy commitment level would be a violation of our WTO obligations.

That presents problems for the United States. Because certain commodities were not receiving export subsidies at the time of the Uruguay Round base period, they have no authorized level of export subsidy support under the WTO. These commodities include corn, oilseeds, oilseed meals, cotton, hides and skins, and tallow. In my view, these products could be particularly vulnerable to a circumvention challenge today. And if a challenge were successful, we would have to eliminate export credit programs for these commodities. And for other commodities, we could have to reduce the level of the export credit programs to ensure that we stayed within our overall export subsidy commitment level.

To date, countries have refrained from challenging export credit programs as a circumvention of the export subsidy commitments mainly because of the ongoing discussions in the OECD. We need to successfully conclude the discussion on the OECD agreement on agricultural export credits as soon as possible. Such agreement would protect our oilseed, corn, cotton and other producers who benefit from export credits from a WTO challenge.

In addition, even if there were no WTO challenge, we are in the midst of a new round of agricultural negotiations in the WTO. Those countries that wanted export credits subject to reduction commitments in the Uruguay Round are renewing their demands for reduction or elimination of export credits in this round of talks. While the proposed OECD arrangement may not be perfect, it is far more likely to be a better agreement for us than what we could negotiate in the WTO today. In addition, concluding the OECD agreement now would give us a solid basis of support for our position in the negotiations in Geneva.

We therefore believe that our best interest is for the United States to make a major effort to work with other OECD members to finalize an OECD Understanding on Export Credits for Agricultural Products as soon as possible.

Food Aid

The AOC believes that US food aid programs accomplish two important objectives: (1) provide humanitarian relief to citizens of poor countries; and (2) encourage exports and long-term market development for US oilseeds and oilseed products. We believe that these programs should be continued, this year and in the future and at a later date we will provide our recommendations of how to make them more effective.

Unfortunately, the system for reviewing food aid proposals by the USDA and allocating these important resources has broken down. Food aid announcements of soy products, per a March report, were down 80 percent from the last two years. Other groups indicate a similar blockage. The interagency approval process has prevented the timely programming and purchase of badly needed food and economic aid and many in the development community are questioning whether fiscal year 2001 will be a lost opportunity.

The National Oilseed Processors Association (NOPA) and the American Soybean Association (ASA) have proposed a soy food aid initiative that could reduce US farm program outlays by helping to raise soybean prices. Under the proposal, the US Department of Agriculture would purchase soybeans and soybean products and donate them under various concessional sale and donation programs, including P.L 480, the International School Lunch Initiative, and HIV/AIDS programs.

Under the proposal, USDA would purchase 3.1 million metric tons of surplus soybeans, soybean meal and soybean oil for food aid, at a total cost of $847 million. The resulting increase in the market price for soybeans would lower soybean loan program payments by $1.27 billion, resulting in a net savings of $427 million for US taxpayers.

In addition, ASA and NOPA are working to expand the variety of soy protein products available under US food aid programs to include soy flour, protein concentrates and isolates, textured vegetable protein, and milk replacer. Private voluntary organizations and the World Food Program are being encouraged to include these products in their requests for overseas feeding programs, including in special diets for HIV/AIDS patients.

These are initiatives that USDA could enact without a new authorization or funding from Congress. They would result in a net savings to the government and would provide increased assistance to those with the greatest need – the hungry of the world.

Beyond the soybean complex, the AOC supports restoring funding for the P.L. 480 program to its 1985 level of $2.2 billion, and substantially increasing funding for Food for Progress. Total annual US food assistance should average five million tons annually rather than varying with production and surpluses.

Export Promotion Programs

The AOC strongly supports the Foreign Market Development (Cooperator) Program and the Market Access Program (MAP) as effective, WTO-legal initiatives for promoting US agricultural products in global markets. These efforts have only become more critical to exports of US oilseeds and oilseed products as the availability and use of export subsidies has declined under the Uruguay Round Agreement. With the US pushing for complete elimination of export subsidies and other government-supported export incentives in the new WTO round, funding for the Cooperator and MAP programs needs to be increased in the next farm bill.

We are particularly concerned about persistent efforts reflected in annual Administration budget proposals to reduce funding for the Cooperator program to $27.5 million from normal operating funding of $34 million. This cut would reduce funding for the program administered by the ASA and other Cooperators by 20 percent in the year starting October 1, 2001. With the new Administration and Congress expressing active support for increasing US farm exports, this is the wrong signal to send.

ASA is supporting increasing Cooperator funding for fiscal year 2002 to $35 million. In addition, ASA will work to provide annual minimum funding of $43.25 million for the Cooperator program in the next farm bill. This amount reflects the 1986 level for the program, adjusted by international inflation rates.

ASA and other oilseed producer organizations also support increasing funding for the MAP from $90 million to $200 million per year. The MAP program promotes annual sales campaigns for exports of U.S. farm products, and complements the longer-term market development activities carried out under the Cooperator program..

Conclusion

US oilseed producers and processors need the OECD understanding on agriculture export credits to ensure that they continue to have access to the export credit programs now permitted under WTO rules. And the soy food initiative benefits US taxpayers and countries in need as well as US producers and processors. Full support of our export promotion programs will increase the opportunities for foreign market access.

Thank you. That concludes my statement Mr. Chairman and I would be pleased to answer any questions.

Testimony of James Echols

Chairman of the National Cotton Council of America

before the Senate Committee on Agriculture, Nutrition and Forestry

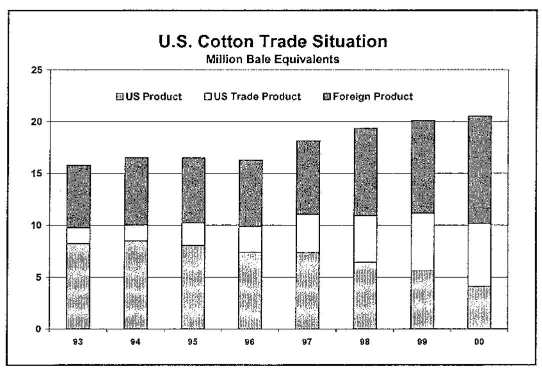
Mr. Chairman, thank you for having this hearing today. My name is James Echols, I am President of Hohenberg Bros. Company in Memphis, Tennessee, and currently serve as the Chairman of the National Cotton Council of America. I have been in the cotton merchandizing business for over 20 years.

The National Cotton Council is the central organization of the United States cotton industry. Its members include producers, ginners, oilseed crushers, merchants, cooperatives, warehousemen, and textile manufacturers. While a majority of the industry is concentrated in 17 cotton producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and homefurnishings are located in virtually every state.

The industry and its suppliers, together with the cotton product manufacturers, account for one job of every thirteen in the U.S. Annual cotton production is valued at more than $5 billion at the farm gate. In addition to the fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. While cotton's farm gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of $50 billion annually. Cotton stands above all other crops in its creation of jobs and its contribution to the U.S. economy.

Trade is very important to the U.S. cotton industry, with about 40% of our approximately 17 million bale (480-lb) crops exported each year. In addition, we exported the equivalent of 5 million bales of cotton in the form of textile and apparel products in 2000. Without these markets, our industry would be significantly reduced.

Mr. Chairman, the U.S. cotton industry is facing some of the stiffest international and domestic competition I can remember. An effective trade strategy for the United States must acknowledge this competitive situation and should enable the U.S. cotton industry to meet this competition.



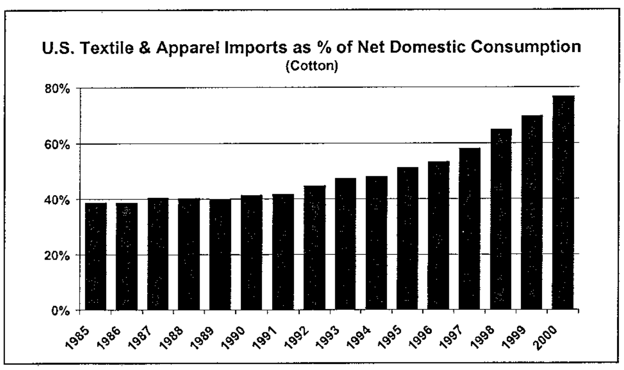
One of the most profound influences on the U.S. cotton market is cotton textile imports. The National Cotton Council estimates that domestic consumption of cotton textiles was about 21 million bale equivalents in 2000. This is the single largest retail market for cotton textiles and apparel. Unfortunately, an increasing proportion of our market is sourced by imported products. Gross imports of cotton textiles and apparel amounted to 15.7 million bale equivalents. Council economists estimate that approximately 5.5 million bales of the imported products were U.S. cotton trade products of either U.S. raw cotton or U.S. cotton manufactured products returning as finished goods. Still, one-half of the U.S. cotton textile retail market is taken by completely foreign sourced product, and the share is rising.

Impact of Exchange Rates

We have seen the adverse impact of strong exchange rates during the past year. Exchange rates affect each commodity differently, depending on such factors as the percentage of their production typically moving in to the export market and the countries with which they compete in the export market, but they are unquestionably a major factor affecting trade in cotton and cotton textiles.

A strengthening dollar raises the effective price of U.S. commodities in local currencies. According to USDA-ERS, the U.S. real cotton trade-weighted exchange rate has appreciated by 17% since 1995. Furthermore, the U.S. dollar has appreciated by almost 34% relative to the currencies of our primary competitors in the export market, placing U.S. cotton producers at a severe competitive disadvantage.

Exchange rate movements are particularly important for commodities in which exports account for a significant portion of production, such as cotton. From 1986 to 1995, the U.S. exported an average of 7 million bales annually, accounting for approximately 47% of its annual production. It should be noted that the dollar was steadily depreciating over this period. Since 1996, however, U.S. raw cotton exports have averaged less than 6.5 million bales, accounting for only 37% of its annual production, as the strong dollar has impeded the competitiveness of U.S. raw cotton in international markets. Without the presence of U.S. cotton's Step 2 program to offset some of the impact of a strong dollar, U.S. raw cotton exports would likely have experienced a far larger decline.



The greatest damage to the U.S. cotton industry from the strong dollar comes from surging imports of cotton textile and apparel products that have decimated the U.S. cotton textile industry. U.S. mill use of cotton is down by 2 million bales from its level in 1997, and recent estimates of use place the reduction as large as 2.6 million bales. Compared to other agricultural products, the U.S. cotton industry is uniquely vulnerable to the effects of an appreciating dollar through its impact on imports of cotton textile and apparel products. The strong appreciation of the dollar has significantly lowered the price of foreign produced textiles and apparel in the U.S. market, increasing the competitive advantage of foreign textile firms at the expense of U.S. spinning mills and textile enterprises.

For example, at current prices and exchange rates the FOB price of Pakistani yarn in U.S. dollars is approximately 87.5 cents/lb. In 1995, this same Pakistani yarn would have cost about $1.42/lb. Appreciation of the dollar relative to the Pakistani Rupee has lowered the effective price of Pakistani yarn in the U.S. market by over 60%. Not surprisingly, imports of cotton yarn and textile products from Pakistan had almost doubled by 2000 to about 1.24 million bale equivalents. Likewise, imports of cotton textile and apparel products from all sources have soared over the past few years. In 1997, the United States was importing the equivalent of 10.5 million bales of cotton textiles and apparel; by 2000, imports had grown to 15.9 million bale equivalents.

The U.S. cotton industry faces competition for export markets and stiff competition in our domestic market from imported products. We need trade policy that ensures our raw product is competitive, that opens markets for both raw cotton and U.S. produced cotton textiles, and that ensures the terms of competition are fair.

The Council's trade policy priorities include:

- Maintaining cotton's competitiveness provisions included in U.S. farm law and continuing farm policy that enables the industry to produce a competitively priced product;
- Effective implementation of existing regional trade arrangements to enhance the overall competitiveness of the U.S. textile sector;
- Maintaining effective export assistance programs;
- Ensuring that the agreement between the U.S. and China is not detrimentally changed during the last stage of China's accession to the WTO and working to monitor China's compliance with that agreement;
- Ensuring that regional trade arrangements currently being negotiated are favorable to U.S. cotton; and
- Working for a new agreement in the World Trade Organization that improves the competitive position of the U.S. cotton and textile industries.

I will briefly discuss each of these priorities in turn.

A. Competitiveness Provisions

Cotton's marketing loan and three-step competitiveness provisions continue to form the cornerstone of an effective U.S. cotton program. Maintaining all aspects of this program is central to the long-term competitiveness of our industry. There may be ways to adjust this program in order to help the cotton industry cope with the adverse effects of the strong dollar.

B. CBI Implementation

Last year the cotton industry stressed the importance of enacting a CBI parity bill to grant trade preferences for apparel produced in the Caribbean region from U.S. origin textiles. Both NAFTA and the CBI allow an apparel product made from U.S. fabric to be cut and sewn within those countries. The result is an apparel product that is competitively priced with Asian-sourced apparel imports and is far more likely to contain U.S. cotton. This enhanced competitiveness is crucial for the U.S. cotton industry, particularly with respect to the increased textile imports we expect once China accedes to the WTO.

The CBI bill is enacted, but implementation is not complete. As a result, we have not yet experienced significant increases in demand. We have urged the U.S. Customs Service to issue final regulations implementing the legislation as quickly as possible. Until the rules are finalized, it appears that growth in demand will be limited.

C. Effective Export Assistance Programs

In order to maintain our competitiveness, it is important that we have strong export assistance programs in place. The Council supports market promotion activities carried out under the Marketing Access Program and the Foreign Market Development Program. It should be noted that funding under the FMD program, in particular, has not kept pace in the last two years. We encourage the Committee to provide funding for the FMD program of $35 million per year and to consider restoring overall support for the MAP program to its 1992 level of $200 million.

Export Credit Guarantee Program

Mr. Chairman, the export credit guarantee program has been a mainstay of U.S. agricultural export assistance activities for almost 20 years. Over $5.5 billion in agricultural exports have benefited from GSM-102 the past 2 years alone. The viability of this program is threatened by the ongoing negotiations within the Organization for Economic Cooperation and Development.

The latest proposals being considered within the OECD contain fee increases, shortened loan terms and repayment requirements that would make the program ineffective for U.S. exports of cotton. The National Cotton Council has estimated that an ineffective GSM 102 program could reduce annual U.S. cotton exports around 500,000 bales and have as much as a 3-cent per pound impact on U.S. cotton prices.

Officials of the Foreign Agricultural Service have been diligent in consulting with us during these negotiations. However, they have not provided any estimate as to the actual fee increases expected under the latest proposal; nor have they provided any economic analysis as to the impact of these changes on the GSM-102 program or on U.S. agricultural exports.

Without a doubt, the OECD negotiations are targeted at the United States. But comparing the GSM program to the export subsidy expenditures carried out by the European Union is inappropriate. They are not even in the same ballpark.

As currently structured, the OECD proposal undermines a central export program of the United States while providing no corresponding reductions in subsidy programs operated by our competitors. This result would place the United States at a disadvantage entering another round of multilateral agricultural trade negotiations.

Instead of moving to cripple this important program, we should be attempting to improve its effectiveness. The cotton industry has indicated that the program should be modified to begin to address differences in currency valuations, to allow repayment in local currencies, and to include freight and other shipping charges in the total amount guaranteed. In addition, we have also communicated our concerns with some paperwork requirements associated with operation of the program into Mexico. We have recommended that the Department carry out a pilot program under which the repayment of credit is guaranteed based upon documentation other than letters of credit, and we have suggested that the amount of loan guaranteed under the supplier credit program be increased to 85% of the credit made available.

Foreign Market Development and Market Access Program

The export promotion partnership between the U.S. Government and the U.S. cotton industry is an investment that generates a positive return to both the U.S. cotton industry and the U.S. economy.

The Foreign Market Development (FMD) and Market Access Program (MAP) are consistent with World Trade Organization (WTO) and are classified as "green box" activities. Such investment of public funds is especially prudent in light of more aggressive export competitor activities and a goal of long-term viability for U.S. agriculture in the global market.

The combined investment of private and public funds, coupled with industry marketing expertise, results in innovative, forward-looking programs that leverage money into high-dollar impact campaigns and promotional efforts. Public funding is "seed capital" that attracts substantial private investments from a large and highly diverse industry to focus on a common national good – profitable exports of quality U.S. raw cotton and manufactured cotton products.

The cotton industry carries out many of its export promotion programs through Cotton Council International ("CCI"). CCI builds international markets for U.S. cotton and cotton products with guidance from industry and government policies, and with funding support from industry trade groups, private companies, promotion partners and the public sector through USDA.

Despite consolidations and globalization, the cotton trading and manufacturing segments of the U.S. industry are comprised of small and medium-sized business enterprises that operate on razor-thin margins. Only a few companies could individually afford to effectively replicate the services of CCI. Consequently, CCI has broad policy and financial support from the industry to develop centralized strategies that benefit all cotton producers, exporters and manufacturers, regardless of their size.

CCI's COTTON USA Advantage program is a simple, yet effective, "Supply-Push/Demand-Pull" strategy that instills a preference for products containing U.S. cotton at virtually every point along cotton's value chain, from the initial mill buyer to the final consumer. The strategy creates incentives for textile mills and manufacturers to choose U.S. cotton over man-made fibers and over cotton from other sources.

"Supply-Push" activities are funded by U.S. industry matching contributions and USDA's FMD Cooperator program. Supply-Push activities bring buyers and sellers together during Special Trade Missions to the U.S.; Executive Delegations to targeted countries; COTTON USA Orientation Tours; Workshops; Conferences; Summits; and leading international trade shows.

The "Demand-Pull" activities concentrate on increasing demand for U.S. cotton and cotton products among textile and apparel manufacturers, retailers and consumers to "pull" additional U.S. product through the value chain and marketing system.

This component of CCI's strategy uses the COTTON USA Mark licensing and promotion program to identify U.S. cotton within qualified products from processing through to final consumer. The licensing program is an incentive for textile mills and manufacturers to choose U.S. cotton over cotton from other sources.

Demand-Pull activities, which are funded by the MAP, industry and promotion partner contributions, aim to create a preference for products made from U.S. cotton. This consumer preference is communicated to manufacturers and retailers. Those manufacturers and retailers who commit to use significant amounts of U.S. cotton, are provided the opportunity to participate in CCI's COTTON USA consumer advertising and retail promotion program.

Examples of "Demand-Pull" activities include trade and consumer advertising campaigns that promote the advantages of U.S. cotton and cotton products, and demand-building retail promotions that increase sales of COTTON USA Mark-labeled products that contain a majority of U.S.-grown cotton.

Because it is difficult to differentiate different growths of cotton, CCI created a marketing trademark to identify products made from U.S. cotton through all stages of processing and marketing. Since its launch in 1989, CCI has successfully used the COTTON USA Mark licensing and promotion program as a way to reward loyal buyers of U.S. cotton and cotton products and as a way to attract new buyers. The use of this quality symbol is limited to high-quality, 100 percent cotton products that contain at least 50 percent U.S.-grown cotton.

For CCI programs to be effective, resources must be used as efficiently as possible. CCI uses public funding, administered by USDA, to leverage larger contributions from the U.S. cotton industry and strategic promotion partners.

The U.S. cotton industry's commitment to the COTTON USA program has allowed CCI to continue to increase the percentage of industry funds allocated to international market development.

At a time when U.S. agriculture, and the cotton sector, is reeling from depressed prices and economic consolidation, CCI has pledged a record 145 percent matching industry funds for MAP in the 2001 Unified Export Strategy plan year. CCI continues to be one of the leading cooperators in this area.

CCI conservatively estimates that the Mark Licensing Program resulted in the consumption of 200,000 additional bales of U.S. cotton in program countries during 1999 than would have occurred if U.S. cotton were used at a rate similar to the country average. This means that at least an additional $65 million of U.S. cotton moved into the market due to the COTTON USA Mark Licensing program.

Export revenue from shipments of U.S. cotton and cotton products is a global measure of success, but payoff for the COTTON USA program comes one sale at a time. CCI monitors retail sales to determine program results.

In 2000, consumers in Asia, Europe and Latin America purchased $142 million of U.S. cotton-rich products labeled with the COTTON USA Mark. That represents a 153 percent increase over the previous year's levels. A few examples include:

- CCI's COTTON USA - Closed Lucky Draw promotion in Japan increased sales of U.S. cotton-rich products by 12 percent to $42 million.
- The COTTON USA - Caress Pure Cotton sales promotion in Taiwan increased sales by 12 percent to $36 million over previous year's level.
- CCI's promotion with Betten Rid, one of Germany's leading home furnishings retailers, generated $700,000. The promotion featured U.S. made Royal Velvet towels identified during a Special Trade Mission to the U.S. The promotion was made possible by the export sales that resulted from the Mission, and as a results of sales negotiations that occurred at the U.S. Cotton Pavilion at Heimtextil, the world's leading home furnishings trade show.
- Thai licensee Blue Corner International's experience provides an excellent example of the Mark's power. Blue Corner reports 18 percent sales increase for the first three-quarters of 2000. Blue Corner's managing director maintains that competitors' revenues come from 50 percent full retail and 50 percent discount-priced sales, whereas, in the midst of a weak retail environment, Blue Corner has been able to sell COTTON USA Mark-labeled merchandise at full price or with minimal price-off promotions. In 1999, Blue Corner's sales volume was 150 million Baht, ($3.4 million), 90 percent of which comes from the sale of 217,763 COTTON USA Mark-labeled products. Blue Corner spent 2.6 million Baht ($60,000) on advertising, brand-building and promotions with the COTTON USA Mark over the period.

The centerpiece of CCI's value-added efforts in 2000 was the launch of the new Sourcing CBI Program. A fully integrated marketing plan supports U.S. cotton textile mills in the development of sales contacts in Central America and the Caribbean.

Nine U.S. companies, plus the American Yarn Spinners Association, became project partners and, along with Cotton Incorporated, financially support the effort. This support enabled CCI to secure additional funding from USDA.

The first trade event program was the COTTON USA Seminar and Sourcing CBI Trade Fair in Costa Rica. Participating U.S. mills met with 24 knitting and apparel manufacturing companies from the Dominican Republic, El Salvador, Honduras and Costa Rica. The U.S. participants reported 138 new business contacts. Twenty sample orders were placed.

The second event was the COTTON USA Pavilion at the Guatemala Apparel Sourcing Show. U.S. mills reported 107 new business contacts. Future business from contacts made at the show is estimated to reach 1.5 million pounds of yarn.

Building on the momentum achieved in Costa Rica and Guatemala, CCI organized a series of one-day meetings with knitters and apparel manufacturers in Central America. The seminars and trade fairs, which coincided with the implementation of the CBI bill, were held in Guatemala, El Salvador and the Dominican Republic. A total of 58 Central

American companies, including buyers from Haiti, participated in the meetings. U.S. mills reported sales and sample orders during the week. Other CBI-directed activities included trade advertising, the roll out of a regional web site, a Sourcing CBI Summit in Miami, an U.S. cotton yarn buyer's guide and a direct mail campaign. All activities highlighted the U.S. mills that participated in the project.
The export promotion partnership between the U.S. Government and the U.S. cotton industry is an investment that generates a positive return to the broad U.S. cotton industry and the U.S. economy. FMD and MAP provide public seed money for long-term agricultural export market development through WTO-compliant programs effectively leveraged and carried out by the private sector.

D. China

The U.S. cotton industry has been neutral on the subject of Chinese accession to the WTO. While the agricultural portion of the U.S. / China agreement was favorable to the United States, the textile provisions of that agreement would introduce even more competition into the U.S. textile market.

Even the agricultural portion of the agreement could be undermined if China is allowed to claim developing country status. Throughout the Uruguay Round Agreements and throughout the WTO structure, developing countries are provided special and differential treatment. They are given relaxed time periods with which to comply with WTO rules or outright exemptions.

These exemptions exist in agriculture, and they also exist in the area of industrial subsidization.

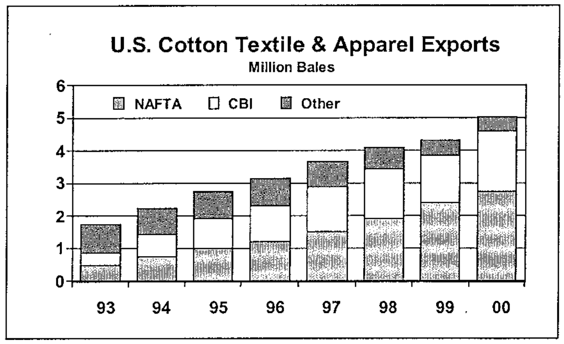
It is crucial that China not be allowed to claim special and differential treatment in the area of agriculture and textiles. China is very competitive in international markets with respect to cotton and textiles and should be made to conform to trade disciplines that are equivalent to those adhered to by the United States.

It is disingenuous for a country with a highly developed military infrastructure and nuclear weapons capability to claim developing country status within the world trading system.

E. Regional Trade Arrangements

The National Cotton Council supports the concept of fast-track negotiating authority, provided that it contains provisions requiring consultation with Congress and the private sector and contains negotiating objectives that will encourage trade agreements that will benefit the U.S. cotton industry.

The U.S. cotton industry has supported several regional trading arrangements which offered innovative approaches to enhancing competitiveness. We are an ardent supporter of the North American Free Trade Agreement. The particular structural factors that are in place with respect to the cotton industries of Mexico and the United States ensured that NAFTA would enhance demand for U.S. cotton and U.S. textiles. The agreement has also strengthened the textile sector in Mexico.



We pursued a similar but even more innovative strategy with respect to trade preferences recently granted to the Caribbean Basin region and sub-Saharan Africa, which I referred to earlier.

The United States is currently engaged in free trade discussions with Israel, Chile, South America in general, Singapore and Australia. We have made overtures to many more countries and regions.

While the cotton industry supports expanded and liberalized trade, each of these agreements must be evaluated on its own merits. The cotton industry supports free trade arrangements that will benefit our industry. We have some concerns about arrangements that further open our markets to some of our most difficult competitors. These concerns are particularly evident concerning textiles, where all quota restrictions are due to be phased out in 4 years. Should the United States complement that quota phase-out with the elimination of import duties from some of the world's most prolific textile producing countries, the U.S. textile industry will not be able to recover.

Our industry generally sees opportunity in liberalized trade in this hemisphere. But I caution that a Free Trade Agreement for the Americas is not without risk to the U.S. cotton and textile sectors.

We see less opportunity in free trade arrangements with textile producing countries in Asia, and we are opposed to such an arrangement with Singapore.

F. WTO Negotiations

According to the International Cotton Advisory Committee, trade flows in cotton continue to be indirectly distorted through the use of production subsidies. In MY1986, an estimated 69% of global production received income and/or price supports from governments. By MY1997, only 50% of global production was receiving these payments. However, because prices declined throughout the latter half of the 1990s, production subsidies began increasing once again. In MY1998, 53% of world production was subject to income- and/or price-support programs, led by China, the US, Greece, Turkey, and Spain.

The following table shows that payments by the Chinese Government to local cotton farmers amounted to more than half of total production subsidies worldwide in 1998. Payments were given in the form of procurement prices which overpaid farmers for the costs of ginning, packaging, storage, and transporting their cotton.

	Avg subsidies (¢ per lb produced)		**Subsidies to cotton production ($mil)**	
Country	**1997**	**1998**	**1997**	**1998**
China	20	27	$2,013	$2,648
US	7	14	597	953
Greece	86	74	659	660
Egypt	39	13	290	66
Brazil	4	5	29	49
Mexico	3	3	13	15
Total	17	22	$3,811	$4,814

Sources: *ICAC, FAS/USDA, US International Trade Commission*

The cotton industry, therefore, supports the efforts of our government to further liberalize market access and trading rules within the WTO and has outlined a set of priorities for the ongoing negotiations. The Council supports --

- securing timely and effective access to foreign markets for U.S. grown raw cotton and U.S. manufactured textiles;
- stopping the erection of non-tariff trade barriers against agricultural biotechnology products;
- improving disciplines applicable to the state trading of agricultural commodities;
- maintaining the provisions of the WTO Agreement on Textiles and Clothing and not significantly reducing tariffs on textile imports into the United States;
- improving rules restricting the use of export subsidies, including rules with respect to downstream subsidization of agricultural products, use of export taxes to reduce prices of processed products, content requirements for exports and exemptions from taxes for exported products;

- reducing trade distorting agricultural subsidies worldwide, but preserving important US domestic and export programs as long as necessary to compete with the treasuries of our competitors;
- maintaining strong US rules to protect against unfair trade practices;
- maintaining the ability of the United States to enter into beneficial regional trading arrangements; and
- improving the ability of the WTO to address managed and/or manipulated exchange rates.

The Council also urges our negotiators to work for methods of implementation of the WTO that will not allow countries that are competitive in world markets with respect to cotton, cottonseed and their products and textiles to take undue advantage of WTO provisions providing special and differential treatment to developing countries.

Today's hearing is primarily about the agricultural trade title in any new farm bill, so I will not dwell on the WTO negotiations. I do want to point out, however, that the Uruguay Round ceilings on domestic spending for commodity programs were so high that many in the U.S. thought we would never approach them. Recent experience is showing otherwise. In any new agreement, and as we work to structure new farm policy, we should be mindful of the caps on spending contained in the WTO. We should not limit ourselves in the WTO to the point that our program is ineffective, but we should also structure our programs so they comply with our commitments.

Finally, even though other sectoral negotiations are not moving very much, we remain concerned about attempts to speed up the phase-out of textile quotas. Those quotas are scheduled to end in 2005. The textile industry is already facing very stiff competition from imports. We should not injure this industry further.

That concludes my testimony. I would be happy to answer any questions.

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Testimony before
Senate Agriculture Committee
Regarding
Farm Bill Reauthorization
Review of Trade Title
Market Access Program

Presented by

Timothy F. Hamilton
Executive Director
Mid-America International Agri-Trade Council (MIATCO)
Food Export USA – Northeast

April 25, 2001

Member States

★ Illinois ★ Indiana ★ Iowa ★ Kansas ★ Michigan ★ Minnesota ★ Missouri ★ Nebraska ★ North Dakota ★ Ohio ★ South Dakota ★ Wisconsin

Good Morning.

I'd like to tell you this morning about how the Market Access Program is being used to help U.S. food producers get started exporting, and to promote our country's value-added agricultural exports. Secretary Veneman has outlined that expanding trade is the Administration's top priority for U.S. agriculture. Continued support for trade promotion through the Market Access Program is a critical part of that effort.

The MAP is designed to focus on value added products. There are approximately 70 non-profit industry groups across this country representing all sectors of agriculture that participate in this program.

The 50 state departments of agriculture participate in MAP through four state regional trade groups. These groups coordinate the export promotion efforts of the states, and focus on assisting smaller food and agricultural processors.

Our services rely heavily upon funding from the Market Access Program, along with considerable private and state investment.

We identify three different levels of assistance for smaller exporters: Exporter Education and Training, Market Access and Opportunity, and Market Promotion. Let me tell you how MAP funds are used to support those efforts:

Exporter Education and Training

- Our "Food Export Helpline" is available to companies with specific questions on how to enter new markets, or how to handle documentation or other technical issues they confront. We also publish a regular newsletter, which informs thousands of companies about opportunities and events in the export market.

Market Access and Opportunity

- We help companies find importers and distributors overseas. International trade shows are one of the most important means of locating new customers. We support U.S. companies with the technical information they need to learn if their product can be competitive in a market.

Market Promotion

- Our Branded Program offers cost share assistance, through which we support 50% of the promotional costs for small companies. This encourages firms to take the risk to attend international shows and promote their goods. We routinely hear from small companies that they simply would never have considered the export market if not for this program.

The MAP focuses on value-added products, including branded foods. Overseas consumers, like those here in the U.S. tend to buy products based on brand names. By promoting brand names that contain American agricultural ingredients, we build long-term demand for our products. These value-added products support jobs and encourage investment in our own processing industries.

Here's just one example:

Palermo's Villa is a small Midwestern supplier of frozen pizzas. They used MAP funding to sponsor in-store promotions in Canada. From those promotions, their export sales more than tripled and they've doubled their purchases of inputs, like wheat flour, cheese, tomato sauce and meat. They've added more than 30 new jobs at their plant. This effort supports long-term, sustainable demand for U.S. products and the jobs that add value to those products.

The MAP also stimulates private investment. While the MAP requires that companies match all federal dollars on a one-for-one basis, in fact most companies spend much more than that. Last year, companies in our program spent over $4.00 for each dollar they were reimbursed.

During the last year, U.S. companies signed over 1,000 new customer agreements worldwide, through our efforts. And over 200 small companies made their first export sale of U.S. agricultural products. None of this would be possible without support from the MAP program.

Our competitors in Europe outspend us by a factor of 20 to 1 in promoting their products worldwide. As we've seen increased spending by other nations, we've seen our U.S. market share decline.

How does this play out in the marketplace? Some major retail chains overseas no longer budget for travel for their buyers because they expect us to cover those costs. Just last week, a major importer cancelled our invitation to meet with U.S. suppliers because he received a more generous offer from Canada.

American products are seen world wide as high quality products. Safe products. Selling higher quality products requires promotion. The MAP is an investment in promotion that pays off.

As world trade increases, so does competition. It is essential that we retain, and in fact, increase funding for the Market Access Program, in order to continue to build our export markets for U.S. agriculture. We encourage your support for efforts to increase funding for MAP, including Senate 366, introduced by Senators Murray and Craig, which would do that.

I have included additional information as part of my written testimony. That includes the statement of the Coalition to Promote Agricultural Exports, which we are members of.

Thank you.

THE AMERICAN CATTLE INDUSTRY

RESTORING HOPE AND FAIRNESS TO RURAL AMERICA

PROPOSALS BY R-CALF USA FOR THE 2001 FARM BILL

Presented by:

RANCHERS-CATTLEMEN ACTION LEGAL FUND
UNITED STOCKGROWERS OF AMERICA
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INTRODUCTION

R-CALF USA (Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America) is a national cattlemen and cattlewomen's organization representing the live cattle industry on trade and marketing issues. R-CALF USA is the fastest growing cattle organization in the United States with members in over 30 states focusing on the marketing and trade issues affecting the independent family cattle producers. The organization has been involved in anti-dumping cases against Canada and Mexico, has actively participated in the restructuring and rule-making of the Packers and Stockyards Administration, sought for and helped obtain an agricultural representative within the Justice Department, pushed for mandatory price reporting, and holds two active seats in the Business Forum of the Americas for input into the Free Trade Area of the America's negotiations. R-CALF USA has a representative on the Agricultural Trade Advisory Committee and the Agricultural Policy Advisory Committee. R-CALF USA has participated in agricultural trade matters in Seattle and Buenos Aires.

TRADE

First, R-CALF USA supports efforts to expand access of U.S. cattle producers to foreign markets. In that regard, R-CALF USA supports those provisions in the Farm Bill that promote exports of U.S. beef and related products. However, R-CALF USA believes more attention must be paid to ensuring that the benefits of expanded exports and market access flow equally to individual ranchers and cow-calf operators as well as to the shareholders of large packers and processors.

In that regard, in addition to the current provisions in the Farm Bill, R-CALF USA encourages the Committee to look forward and consider what additional measures and provisions should be included to ensure a viable and profitable cattle industry.

R-CALF USA proposes that the Committee add the following to the Farm Bill:

1. R-CALF USA believes that the trade section of the farm bill should be broadened to include country of origin labeling of beef. Country of origin labeling to the end consumer on all beef should be defined as identifying country of birth, where the calf was raised, where fed to finished weight, and processed. This should apply to all beef both domestic and imported.

   R-CALF USA notes that USDA has specified that "[o]ne of the conditions for the importation of fresh beef from Argentina has been that the beef originate in Argentina. In order to avoid any misunderstanding of our intent regarding the term 'originate,' . . . fresh (chilled or frozen) beef to be imported from Argentina must originate from bovines that were born, raised, and slaughtered in Argentina."[1]

[1] U.S. Department of Agriculture, *Importation of Bovine Parts From Argentina*, 65 Fed. Reg. 39782, 39783 (col. 2).

R-CALF agrees with this definition of the term "originate" as applied to beef imports, and R-CALF believes that this same interpretation of "originate" should be used for the labeling of beef sold in the United States, including both beef originating in the United States as well as imported beef.

Regarding country of origin labeling, R-CALF USA is also concerned in that the Office of the U.S. Trade Representative is pursuing a "specific tariff shift" approach in the Free Trade Area of the Americas negotiations. In the case of cattle and beef, this approach would mean that beef produced in the United States from fed cattle imported from other countries is "U.S. beef" because the processing of the cattle resulted in a product shift. R-CALF is concerned that USTR is proposing a less effective rule of origin for beef produced in the United States than the rule that USDA applies to beef produced in Argentina.

2. Restrict use of USDA grading stamp to cattle born, raised, and processed within the United States. This grade stamp signifies the brand of excellence. It is a trademark made unique by our cattle producers – producing the best beef in the world.

3. Tariff Rate Quotas should be maintained at their present levels in light of the supply sensitive nature of the cattle and beef industry.

4. Support the inclusion of cattle and beef as a "perishable product" in all trade negotiations.

5. Maintain our current tariffs on live cattle and beef until all other trading partners have reduced their tariffs to the same level as the United States.

6. Maintain anti-dumping and countervailing duty definitions.

7. Maintain Byrd Amendment guarantees.

8. Create a "watch" committee to monitor and report manipulation of exchange currency rates, which can alter trade flows.

9. Create a variable Tariff Rate Quota that would be triggered and implemented in times of collapsing cattle prices and corresponding surges in imports.

10. Negotiate sanitary regulations requiring immediate notice to all trading partners in the event of an outbreak of BSE or FMD. This should include protocol for independent verification and for a five-year window of "no imports" following an outbreak of FMD or nine years in the case of BSE post eradication.

11. Prohibit the importation of all live cattle and beef until good science points to a return of trade.

12. Support redefinition of "like-kind" in our United States trade laws to include cattle and beef as one. It is unclear to United States cattle producers why they would be mandated to fund research, development, and promotion of beef and then be denied access to fair trade laws where injury has occurred due to lack of "likeness". Obviously, if the advancement of beef through improved marketability can benefit cattle producers, then damage from unfairly traded beef to the market can harm cattle producers, especially in a perishable commodity such as cattle.

CATTLE CHAPTER

The national importance of the United States cattle industry is significant. It is the single largest sector in agriculture with approximately 1 million cattle producers in all 50 states. These producers generate approximately $30 billion annually for our national economy. Cattle producers contribute significantly to our rural communities and represent a cultural foundation that provides the fabric to the American way of life.

During recent years, the United States cattle industry has faced great challenges to its economic viability. The obstacles have included a lack of competitiveness in the marketplace, concentration in the processing sector of the industry, competition from our foreign trading partners, ever increasing costs related to production, and a multitude of environmental issues which provide challenges. Nevertheless, our United States producers collectively provide the tastiest, most nutritious, safest, and cleanest beef in the world. Therefore, a cattle chapter in the new Farm Bill is imperative.

A cattle chapter within the Farm Bill should address the following issues:

I Adequate Ranch/Farm Safety Net

R-CALF USA supports the concept of establishing a safety net for cattle producers and independent feeders that utilizes a market oriented approach to balancing domestic and import supplies with consumer demand. The use of a Variable Import Quota, for example, could be triggered when imports exceed a pre-established, market depressing level. The imposition of a Variable Import Quota would have the effect of disciplining the market against seasonal oversupplies and/or import surges. This would allow the market to better respond to supply-side changes without the disastrous consequences presently associated with a market sensitive to seasonal import supply increases that coincide with peak domestic marketing periods. Such a market oriented safety net would enhance market stability and predictability without necessitating any federal budget outlays.

Senator Tom Daschle introduced S. Res. 13 (farm policy) with 19 co-sponsors (Akaka, Baucus, Carnahan, Conrad, Dayton, Dorgan, Durbin, Edwards, Harkin, Johnson, Kennedy, Kerry, Kohl, Leahy, Rockefeller, Sarbanes, Schumer, Stabenow and Wellstone). R-CALF USA strongly endorses this effort which expresses a sense of the urgency regarding the Farm Bill. In particular, the budget resolution for FY 2002 should include a farm income safety net eliminating the need for off-budget emergency spending. It should also provide additional sums necessary to fund other Farm Bill priorities such as rural development and telecommunications, conservation, research, nutrition and food safety.

II Market and Industry Concentration, Competition and Antitrust Matters

The Farm Bill should provide for healthy competition within the agriculture sector. Ranchers need assistance restoring fair and open competition in the production and sale of agriculture commodities.

The beef packing sector is now more heavily concentrated than at any time in our history, with three packers controlling the majority of the market. While a similar situation has existed in the past, the creation of the Packer Consent Decree and the Packers and Stockyards Act, along with applications of the Sherman and Clayton anti-trust laws, reversed the concentration trend and infused healthy competition in this sector. However, these gains were destroyed in the last 20 years by a shift in the basic economic philosophy as it relates to the application of antitrust laws.

The current economic mantra is "efficiency". Efficiency is most aptly characterized simply by a concentration of resources and speed in the delivery of those resources. Such economic efficiency can bring greater profits to the sector that is concentrated – but it is not a creation of new wealth. Rather, it is a shift of wealth from dispersed sectors (in this case the primary cattle producer and the consumer) to the concentrated sector. USDA has reported in recent years the greatest price spread ever between what the farmer or rancher gets for his product versus what the consumer pays in retail price. Consumers are also paying record prices for beef.

Benefits to those who are concentrated for efficiency are gained in two primary ways: (1) the ability of a few buyers to pressure prices down to many producers, and (2) the ability to externalize costs to the greater community as a whole in environmental degradation, forcing their below-cost labor's subsequent needs into community social programs, health programs, and even treating health and safety concerns of their product as a luxury and not as a necessary expense of doing business, thereby requiring tougher local, state, and federal laws governing the safety of beef processing.

Also dampened in this new age market of bulk and speed are creativity and innovation, two qualities often undervalued but crucial to a healthy economy and healthy food supply. Innovation in the packing sector has largely been limited to creating larger plants with what are called "faster chain speeds". Lost are quality values which not only ensure the product is pleasurable to eat, but one that is also safe. The Center for Disease Control in Atlanta has reported skyrocketing problems with e-coli, listeria, salmonella, and other food born illnesses as a result.

R-CALF USA values a diverse, competitive market that properly balances the chain of production from producer to consumer. No one sector should be given a carte blanche signal from our government to gain and operate with such power that it may shift risks that are wholly its own to others (market risks to producers, safety risks to consumers and social costs to taxpayers). Therefore, we recommend the following as part of a competition provision within the Farm Bill:

A. Enforcement of Antitrust Laws

1. Create an agricultural antitrust division within the Justice Department to actively pursue the divestiture of the packing industry when the HHI index exceeds the allowable limit for highly concentrated markets.
2. Require a moratorium on all agribusiness mergers where a company's market share exceeds 25% of the market.
3. Create a fairness provision for agriculture contracts which would include the following producer safeguards:
    (a) Require contracts to be established on a fixed price basis.
    (b) Support prohibiting "ledger contracts" which allow buyers to loan producers operating expenses at considerable risk to the producers.
    (c) Allow producers who are contracted and who do not own the livestock under contract to be considered "labor" and be allowed to collectively bargain.
    (d) Support prohibiting the capricious termination of contracts as a form of retribution.
    (e) Support prohibiting mandatory membership in any organization as a requirement for contract participation.
4. Prohibit packers from owning livestock more than 14 days prior to slaughter with the exception of plants that process less than 100 head per day.
5. Amend Mandatory Price Reporting rules deleting the 3/60 rule from the regulations. This rule adopted by USDA has stymied the operational effect of this legislation. Presently, the price reporting information that a producer has available to determine the value of his cattle is less than before mandatory price reporting was passed. Further, this rule has the effect of being counter-competitive in that it encourages less than three packers to buy cattle in any particular market on a given day and may encourage "regionalization" whereby the packers divide the country by regions and only participate in markets where no other packer is participating and thus totally evading the reporting requirements.
6. Pass legislation nullifying the affect of the "Illinois Brick" decision and allow all who are affected along the production chain to receive damages for harm caused by entities which have violated the law.
7. Balance the focus of antitrust enforcement to include producer harm as well as consumer harm.
8. Prohibit slotting fees and other fees in the retail sector which discriminate against small and independent processors.

B. Incentives for Creating a Healthy, Diverse, Competitive Production Sector

Just as antitrust enforcement is crucial to a healthy market, so is the creation of an environment conducive to competition. The so-called "efficiency" of today's new age market has drained many rural communities of their ability to support and sustain the basic production systems surrounding them. Much of this is because many communities are not prepared to process what they produce. There are already many incentives and programs to assist in the development of cooperatives and R-CALF USA supports these programs.

C. Regulatory Overview

R-CALF USA supports the following matters now under scrutiny by various agencies:
1. USDA review of GIPSA captive supply estimations.
2. US Department of Commerce study of foreign subsidies for beef and cattle industries.
3. GAO study of economic modeling in cattle and beef industries.
4. GIPSA sponsored new rules to ensure fair competition in livestock.
   (a) Rules to clarify record keeping requirements for packers.
   (b) Rules mandating disclosure of specific production contract terms.
   (c) Rules specifying conditions under which packers may offer premiums and discounts in carcass merit transactions.

D. Support Interstate Shipment of State Inspected Beef

It is unclear to United States cattle producers why imported beef that is only randomly inspected would have greater access to United States markets than our own state inspected plants.

III Support Rural Banking and Economic Development

1. R-CALF USA urges support of our rural communities and therefore strongly encourages initiatives in the Farm Bill which will:
   (a) Continue funding for Agricultural Development Grants including feasibility and marketing studies which will assist ranchers in bringing to market value added products.
   (b) Support Business Development incentive programs.
2. Include funding for agricultural loans and develop a simplified process whereby producer operating loans are more accessible, expedient, and simplified.
3. Provide funding for programs supporting value added products that will enable cattle producers to obtain a fair share of the retail value of beef.

4. Provide more flexibility and local decision making so that USDA credit programs can be customized to better meet local needs, which may include the pooling of funds from various programs.

IV Conservation

Ranchers as the original environmentalists support conservation programs that enhance or sustain wildlife habitat while rewarding ranchers for costs including production and equity losses.

CONCLUSION

The implementation of these proposals will assist ranchers in meeting market challenges and surviving and thriving as an industry in this era of globalization. Not only is the issue the survival of an industry, but a way of life: a culture and heritage that serves to form the moral fiber of our country. The well being of our rural communities is inextricably tied to a thriving cattle industry. With your help we will successfully adapt and continue to provide the best beef in the world, while participating in the preservation and restoration of rural America.

Respectfully submitted,

R-CALF USA

Statement of
Ms. Judith Lewis, Director
Resources and External Relations
United Nations World Food Programme (WFP)

Before the
Senate Agriculture Committee
Wednesday, 25 April 2001

Chairman Lugar, Ranking Member Harkin, members of the committee, thank you for this opportunity to speak on the issue of global food aid.

I would like to start my comments today by thanking Congress, and the U.S. Government, for its continued commitment to reducing hunger around the world.

There are currently approximately 800 million hungry people in this world. Every 4 seconds, someone dies from hunger. It is hard for us to imagine this type of hunger, but it exists – and in far too many countries, here in the 21st Century.

Since its inception in 1963, the World Food Programme has been on the frontlines of fighting hunger throughout the world. It was Senator George McGovern, former member of this committee and current US Ambassador to the UN food agencies in Rome, who found the seed money to get WFP started.

Today, WFP is the largest humanitarian agency in the world. Last year we delivered approximately 3.8 million tons of food to 83 million people in more than 80 countries. And more than 1.5 million tons of this food was produced by American farmers.

I would like to take a moment to discuss an exciting new initiative that is very much in keeping with the American spirit of caring for the hungry poor – the Global Food for Education Initiative.

The Global Food for Education Initiative is something that many of you are familiar with; as I know last July your committee conducted a hearing on it. This initiative, which has been spearheaded by former Senator Dole and Ambassador McGovern, provides a wonderful opportunity for WFP, other NGOs and PVOs, and the United States government to work together to provide nutrition and education to tens of millions of children who are deprived of both.

There are more chronically hungry children in the developing world than there are people in the United States -- 300 million all told. Studies conducted by WFP and others show that school lunches can double enrollments within a year, and in just two year's produce a 40 percent improvement in academic performance. Children stay in school longer and graduate. This is especially critical for girls. When girls are educated, they grow up to become women who are more likely to be engaged in the workforce and have smaller, healthier and more prosperous families.

Of the 130 million children who do not attend school today, 6 out of 10 are girls. It is for this reason that WFP has targeted girls in its efforts to build school attendance, even in very traditional societies like rural Pakistan and Sudan. We are putting all the experience we have gained in 40 years of school feeding to work in this drive. We have seen girls' attendance skyrocket -- in one case in Pakistan, girls' attendance shot up by 300 percent.

Global School Feeding is not charity and it is not an international entitlement program. The vision that Senators McGovern and Dole have is to assist developing countries as they build their own school feeding programs, and then phase out assistance.

The United States Government has been critical in getting the Global Food for Education Initiative off the ground, and WFP is working hard to gain additional support from other countries for school feeding activities. Continued U.S. support, demonstrating to other countries that the school feeding initiative is not simply a short-term effort dictated by the presence of surplus US supplies, is critical for securing broader international commitment and to keep this initiative on track and growing.

I understand that there are ongoing discussions about legislation that would make the U.S. commitment to a global school feeding project long term. I hope that members of this committee, and Congress in general, will look favorably on such legislation and support our joined efforts at feeding and educating tens of millions of children throughout the world.

While much progress has been made to reduce hunger and malnutrition worldwide, much work remains to be done. In the 1960s, 1 in 3 persons worldwide was suffering from hunger and malnutrition; today that number is down to 1 in 7. This is in no small part due to the generosity of the United States Government and its citizens. But to have even 1 in 7 go hungry is simply unacceptable today.

Mr. Chairman, as you begin your deliberations on the Farm Bill. I urge you to continue to strengthen the U.S. commitment to food aid. Increased levels of food aid will help nearly 800 million hungry people around the world. And increased levels of food aid will help America's farmers, many of whom have been struggling with low prices for the past several years.

Of all countries, the United States has been the most generous in the fight against hunger. However, according to the 1999 U.S. Action Plan on Food Security, U.S. levels of food aid decreased from 8.3 million tons to 3 million between 1986 and 1996. This alarming downward trend in food aid has only been arrested due to the availability of exceptional food surpluses that have been made available to WFP under Section 416(b) of the Agricultural Act of 1949. Considering that the number of humanitarian emergencies has been on the rise in recent years, it is hoped that the US Government will put in place the necessary mechanism to ensure a stable source of humanitarian food aid in the years to come.

In this regard, I would like to point out that during the 1980s, two-thirds of WFP's resources went to development efforts. Today, nearly 80 percent of our resources are focused on keeping people alive in emergencies, including the Kosovar refugees who fled by the hundreds of thousands into Albania two years ago, the people of El Salvador and India who lost their homes and livelihoods in earthquakes this year, and the millions of victims of a devastating drought across the Horn of Africa.

Thanks to the United States Department of Agriculture's 416(b) stocks, the past few years have seen a reverse in the decreasing food aid trend. However, 416(b) is an unpredictable source of aid as it is based upon the availability of surplus commodities. PL 480 Title II remains the major and stable source of U.S. food aid assistance.

Since first enacted in 1954, Public Law 480 – particularly Title II -- has been the U.S. Government base for providing food aid abroad. The appropriated levels of Title II resources have essentially been frozen over the past 8 years – ranging between $821 and $837 million since 1994. Given the rising number of humanitarian emergencies throughout the world, the stagnation of funding provided through Title II is extremely alarming. These emergencies eat up an ever larger proportion of food aid so the hundreds of millions of chronically hunger people, especially women and children, are receiving less assistance than before.

While recognizing that the appropriated funding level for Title II resources will be debated in the Agriculture Appropriations Subcommittee, I hope that this committee will support increases to Title II authorization and appropriation funding levels

Another issue that I would ask you to look at during your consideration of PL 480 Title II is the coverage of costs associated with commodity contributions. The PL 480 Title II funding window has provided WFP and various American NGOs and PVOs, including CRS, with millions of tons of food over the past few years. In addition to the actual commodities, the U.S. has provided accompanying funds to pay for transport, storage, handling, and associated costs for the food. This funding is imperative for our operations. However, under the current Title II language, it is available only to emergency-related operations.

This funding restriction seriously impedes our ability to provide recovery and development assistance – assistance which is essential in order for beneficiary countries to become self-sufficient. It also compromises our ability to monitor and manage our resources as effectively as possible. I hope that during its re-examination of the Farm Bill, this committee will consider amendments to the Title II language so that costs related to recovery and development activities can be included, as well.

While I am on the topic of costs, I do want to bring to the committee's attention the fact that WFP's overhead is under 8% -- which makes it one of the lowest among aid agencies in the world, I believe.

Food aid is supported by millions of Americans. A survey recently conducted by Bread for the World showed that 8 out of 10 Americans felt that we should work with other industrialized countries to cut hunger in half by the year 2015. I share the support that the American people have for food aid, yet I also recognize that there are some concerns about the potential negative effects that food aid can have a on food production in recipient countries.

Unless it is carefully managed, food aid can undercut local prices and remove incentives for local farmers to produce. Poorly managed monetization of donated food aid can be particularly damaging.

WFP has designed its food aid operations to minimize local market disruptions. We have adopted a fairly strict regime against local monetization. We distribute food in projects or in emergency operations only. We do not simply hand over large amounts of food to governments. WFP's food assistance is targeted to the poorest and most vulnerable people. Our targeting helps to ensure that the food gets into the mouths of the hungry, and not for sale in the markets.

Another issue of concern is the possibility that food aid could supplant a commercial sale by the US or another exporter. To ensure that there is no market displacement, our food aid activities are reviewed in the Consultative Sub-Committee on Surplus Disposal, chaired by FAO, to see that they are not supplanting commercial exports by the US or other major exporters.

But the simple fact of the matter is that the beneficiaries that WFP is supporting are not commercial buyers. They are people fleeing drought, crowded into refugee camps, or in remote corners of desperately poor countries -- not people who are usual commercial buyers of imported food. But if we help them through activities such as the Global School Feeding Initiative, one day they may well be good customers for U.S. food exports. This is the kind of investment in people that provides a clear, long-term pay off. Studies have repeatedly shown that as poor people in developing countries earn more, the first thing that they spend their money on is more food and better food. And that is good news for America's farmers.

Mr. Chairman, every 4 seconds someone dies from hunger worldwide. The talent and productivity of America's farmers can be brought to bear in a renewed battle to end that tragedy. With the strong commitment of the U.S. Congress, that is a battle we can win.

Coalition for Food Aid

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STATEMENT OF KENNETH HACKETT
Executive Director
Catholic Relief Services

on behalf of

The Coalition for Food Aid

before the
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

April 25, 2001

Mr. Chairman, thank you for the opportunity to testify regarding US food aid programs as the Committee reviews food and agricultural laws in preparation for the Farm Bill.

I am Kenneth Hackett, Executive Director of Catholic Relief Services. CRS receives contributions from 940,000 Americans and currently conducts relief and development initiatives in 87 countries. CRS has sponsored US food aid programs overseas for fifty-five years. Today, I am pleased to testify not only for CRS, but also for the US private voluntary organizations and cooperatives (jointly referred to as "PVOs") that are members of the Coalition for Food Aid. We greatly appreciate the confidence that our private American donors and the US Government have placed in us so we may provide services and aid to alleviate suffering and to improve people's lives.

For developing countries that are strapped with debt and cannot afford to import adequate amounts of food to meet the nutritional needs of their populations, food aid is very important. According to the United Nations Food and Agricultural Organization report, "The State of Food and Agriculture 1998," approximately 828,000,000 people are chronically undernourished in the world. While no region is immune to hunger, the vast majority of these people live in 87 low-income, food-deficit countries. The USDA Economic Research Service reports that about 15 MMT of food aid is needed a year to meet the "food gap" in the 60 countries that are considered to be least developed and reliant on food imports. Thus, food aid is needed to help people and countries faced structural food deficits.

To achieve meaningful results, food distribution is not enough. Food aid is most effective when integrated into developmental programs that help people break out of the cycle of poverty and lead productive lives.

In order to plan and to implement programs that can have meaningful results, a variety of commodities need to be available each year. The annual levels of US food aid over the past decade have swung from 3 MMT to 9 MMT, depending on the availability of surpluses. We recommend that, in the future, the US provide a steady supply of approximately 5 MMT of donated commodities year-in and year-out, which would allow programs to be well-planned.

Both PL 480 title II and Food for Progress were established to use food aid to have food security and developmental impacts, and they have helped millions of people. (Examples of programs are provided in Attachment A). Resources for these proven programs should be expanded and their food security and development objectives reinforced.

Additional food may be necessary in years when emergency needs are high. Since the level of need for emergencies cannot be predicted, an emergency reserve of food and funds should be available for such circumstances.

Equally important as providing sustained and adequate levels of food aid, is creating an administrative structure that supports the constructive use of food aid. Despite the many successes of food aid, and the potential for great benefits in the future, in recent years we have witnessed a deterioration of the administration of US food aid programs that hinders implementation and PVO participation. Food aid programs have become entangled in a web of lengthy, inconsistent and difficult-to-follow policies, regulations and guidelines. PVOs seek to engage in a constructive partnership with the US Government. Too often now, PVOs must engage in continual dialogue with numerous government officials about minutiae and try to guess what the next policy change may bring.

The remedy is to overhaul the administrative structure and to eliminate prescriptive regulations and guidelines, replacing them with performance standards based on best practices that are developed through consultations with PVO partners. A PVO that certifies that it meets these standards would be eligible to enter into an "Institutional Agreement" with the US Government that would apply to all food aid programs and would be able to receive resources through streamlined procedures. Further, PVOs cannot always rely on selling commodities and using the proceeds to support their program implementation and administrative costs; access to additional cash assistance is needed to support implementation and administration of their food aid programs.

Today, we are asking the Committee to revitalize the US commitment to food aid and its partnership with American PVOs. Rather than considering food aid programs piecemeal, the Coalition encourages the Committee to take a comprehensive approach to restructure food aid priorities and administration in a public-private partnership to promote food security and development. Our recommendations and testimony focus on programs in which PVOs are engaged: emergency and developmental programs through PL 480 title II, Food for Progress and Section 416.

FARM BILL RECOMMENDATIONS:

PUBLIC-PRIVATE PARTNERSHIP TO PROMOTE FOOD SECURITY AND DEVELOPMENT

Reliable Program Levels

To provide predictability and a reliable supply of food aid that can be integrated into well-planned, multi-year initiatives, there should be a steady availability of 5 MMT of a mix of commodities each year, most of which would be made available through PL 480 title II and Food for Progress.

Food aid should not be surplus driven; it should be based on meeting needs overseas. According to the Economic Research Service, at least 15 MMT of food aid a year is needed to meet the minimum requirements in the 60 countries that are least developed and reliant on food imports. The United States, as the most productive country in the world, should commit to providing 5 MMT, or one-third of this need, each year. Additional amounts may be required for emergencies.

Thus, instead of the current baseline level of 3 MMT, 5 MMT would be available. To achieve this, expansion of PL 480 title II and Food for Progress is recommended.

1) **PL 480 title II** requires the donation of commodities each year for PVOs and intergovernmental organizations to conduct a range of initiatives in developing countries to alleviate hunger and its causes. Funding levels are subject to annual appropriations. Three-fourths of the food aid is available for "nonemergency programs," which target areas of chronic hunger to improve people's health, living conditions and livelihoods. The remainder is available for emergencies. We recommend an increase in the minimum tonnage level from 2.025 MMT to 2.5 MMT, which could be phased in over a few years, and increases in the cash assistance available to support program implementation.

2) **Food for Progress**

   Food for Progress provides donations to developing countries and countries that have or are undergoing market reforms through agreements with foreign governments, US PVOs, intergovernmental organizations or other private entities. CCC funds may be used to provide up to 500,000 MT of commodities, $30 million for transportation and $10 million for administrative costs in any fiscal year. The request for these resources has been tremendous; USDA received 280 proposals for several million tons for FY 2001. The cap on transportation funds is particularly restrictive; for FY 2001, it will only cover the costs of shipping 160,000 MT of commodities.

   Through CCC, the Secretary should be required to provide a minimum of 1.0 MMT each fiscal year and to provide the transportation and administrative funds needed to make these commodities available. The Secretary should have discretion to make available an additional 1 MMT, and to provide up to $180,000,000 for transportation and $60,000,000 for administrative funds for the second 1 MMT.

3) **Emergency Reserve**

Recognizing that it is impossible to predict how much food will be needed for emergencies in any one year, it is important that there be a stand-by reserve for this purpose. When an emergency occurs, it would be counterproductive to divert food from nonemergency, food security programs. Doing so diminishes the ability to have a lasting impact on poor communities. Surplus commodities cannot be relied upon for emergencies since surpluses are not always available in years or time of need.

In addition to the 25% of PL 480 title II that is available for emergencies, the Bill Emerson Humanitarian Trust, which can hold up to 4 MMT of commodities or equivalent funds for emergency needs, should be revised to make it a reliable source when disasters occur. Currently, it is rarely used to provide additional commodities for emergencies. It is primarily used as a source of commodities that can be purchased with PL 480 funds, rather than buying on the open market, when USDA determines that market supplies are tight.

Program Priorities: Food Security and Development

Promoting food security and development, rather than surplus removal or general foreign policy objectives, should be the priorities of food aid. This concept should be reinforced in the Farm Bill.

Food aid is more than a hand out of US grain, oilseed and dairy products, dry peas, beans and lentils, and other agricultural products. When linked with development objectives and activities, food aid can have a lasting benefit.

In the near term, food aid provides an additional market for US goods and can remediate short-term food deficits and hunger. However, the long-term benefits are very important.

If properly planned, food aid programs promote "food security" -- the ability of people to produce, to buy or otherwise to access enough food to meet their nutritional needs. As a family improves economically, it can afford to buy more and as a developing country improves its economic situation, the demand for food and higher-valued food increases. Thus, there are linkages between food aid programming and the ability of countries to afford to import foodstuffs in the future. Today, 40% of our commercial agricultural exports are sold to countries that were food aid recipients.

PVOs use US food aid to promote food security in many different circumstances. PVOs work with local governments, institutions, communities and private businesses to assess the impediments to food security and economic progress, to identify interventions that would promote health and economic development, to determine which interventions should be pursued through a US food aid program, and to develop a program plan to submit to USAID or USDA. These programs are designed to improve sanitation, access to clean water, education, enterprise development and incomes, skills training, community and financial institutions, children's health and development, and agricultural production, processing and marketing. Where people are incapacitated or dying of disease, children are orphaned or abandoned, or people are otherwise unable to care for themselves, PVOs seek to provide food, clean water, shelter, clothing, and care. Program examples are provided in Attachment A.

Public–Private Partnership for Success

Both legislation and congressional oversight will be needed to overhaul the administration of food aid programs to make them more efficient and user-friendly for US PVOs that implement programs and US agricultural and commercial entities that provide commodities and services to the programs.

1) **Eliminate the active role of the Food Assistance Policy Committee** (FAPC) in decisions about which programs to fund. Once the budget is set, program policies and approval should be the responsibility of the administrative agency that has authority over the programs.

2) **Reduce the number of government agencies and offices** involved to provide consistency in program procedures and clear lines of authority. Ideally, there should be one governmental or quasi-governmental agency with the capacity to administer the programs, including the ability to develop appropriate program standards in consultation with cooperating sponsors, to review proposals, to develop standards for commodities, to make the chosen commodity available in the planned delivery period and to follow up on commodity quality and delivery issues. Adequate staffing levels and training are needed, as well as access to technical assistance.

3) **Best practices and performance standards** should be developed in consultation with PVOs and should replace prescriptive regulations and guidelines. A PVO would certify that it meets such standards in order to enter into an "Institutional Agreement" with the USG, which would permit it to receive food aid and related program support funds under streamlined procedures either (i) as a block grant with flexibility for programming to meet stated objectives or (ii) for a specific project under simplified procedures. This type of agreement would substantially reduce government micro-management by granting PVOs greater managerial responsibility for food aid programs and provide greater flexibility for program adjustments, as needed, to achieve program objectives.

4) **Monetization** is an integral part of food aid programming. Monetization procedures should be uniform for all food aid programs and should include selling the commodity for the reasonable market price in the recipient country or a nearby country; selling the commodity overseas for dollars or another currency; and market analysis that looks at a variety of commodity options. The funds can be used to carry out a variety of economic and human development activities, to support the delivery of food to intended beneficiaries and to support the administrative costs associated with such programs.[1]

5) **Adequate funds** for proper implementation and administration should be available to PVOs for PL 480 title II, Food for Progress and Section 416. PVOs cannot rely on monetization to meet the costs in all cases. For CCC-funded programs, PVOs should have

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[1] PVOs have jointly developed a manual for best practices for monetization, and individual PVOs also have their own guides to monetization, including user-friendly computer software. PVOs jointly hold monetization workshops in different regions of the world for field staff to review procedures for monetization and commodity management, and seek participation of US agricultural cooperators and other interested agricultural entities at those workshops.

access to funding for implementation and administrative costs to support their programs, as is provided to intergovernmental organizations that carry out programs under the same authorities.

6) **Liabilities and responsibilities** of the USG agencies and PVOs should be clearly identified and funds for insurance protection should be available for program sponsors.

7) **Programs should be approved before the beginning of, or early in, the fiscal year.** Delayed program approvals have been common in recent years, which places tremendous stress on administrative agencies and program sponsors, alike. It is difficult to purchase and to supply commodities in accordance with a planned delivery schedule and increases the potential for interfering with normal patterns of commercial trade. It can also result in additional storage time and cost in the recipient country and increased procurement and shipping costs.

Options for Commodity Choice

As required under all food aid programs, when developing a program, the PVO or other program sponsor must analyze the market, determine which commodities would be appropriate to sell or distribute, and assure that the provision of the commodities will not interfere with commercial patterns of trade or with local production and marketing. These basic requirements should be continued.

In addition, there should be flexibility for commodity choice, including quality requirements, to allow the right commodity to be chosen for the target country; to provide new products that have particular nutritional benefits or could help the recipient country improve the quality and variety of its food supply; and to allow more creative ways to use food products in food aid programs.

PVO APPROACH TO FOOD AID: PEOPLE-TO-PEOPLE

The essence of US food aid programs is the expression of American good will through "people-to-people" programs. American farmers produce the food, American businesses process, package and transport the food, and American PVOs make sure it is used properly and effectively.

When PVOs receive food and cash assistance from the US Government, they must provide detailed budgets account for the use of the resources, and are audited and evaluated according to US Government-procedures. They have established mechanisms for food monitoring and reporting from point of departure from the US to the ultimate recipient. In the case of monetization (commodity sales and the use of funds for pre-approved program activities) or if funds have been provided for program support, itemized records of the use of such funds are maintained. They also keep records to assess the ultimate impact of the program on the intended beneficiaries. When choosing the commodities to provide, PVOs, in consultation with many US and recipient country governmental and private sector entities, consider which of the commodities that USDA and USAID offer would be best for the situation, and which of those would not be a disincentive to local production or marketing or interfere with commercial trading patterns.

PVOs are supported by the American public through contributions and are accountable to their donors. Private donations support the general operations of PVOs, enable them to have a strong presence in many countries and fund certain development and relief activities and related administrative costs. However, private donations cannot supply the level of funding needed for procuring, transporting, implementing, monitoring and administering food aid programs. PVOs must rely on the US Government to provide the food aid and funds necessary to implement and to oversee these programs. PVOs add value by strengthening the management capabilities of local institutions so efforts can be sustained; providing a network of contacts and relationships linking people overseas with Americans; encouraging entrepreneurship and private sector development; and creating programs that have lasting benefits.

PVOs are thorough when planning programs—conducting needs assessments to identify target population groups; analyzing food habits, local markets and consulting with agricultural experts to choose appropriate commodities; working closely with local governments, businesses and community groups to develop program objectives, procedures and evaluation plans; establishing management, distribution, sales and monitoring systems; and assuring personnel and systems are in place for oversight and accountability.

The great benefit of food aid is that it can be used to address a variety of problems. For example, nutritious foods along with immunization and health care are provided during critical growth periods for mothers and children. A nutritious meal served in classrooms combined with the establishment of PTAs, teacher training and improved lessons provide an incentive for poor families to send their children to school. Infrastructure and sanitation in poor communities are improved by giving food as payment for work on sewage and water systems. Land use and conservation are enhanced when food is provided as an incentive for community participation in reforestation and land conservation projects. Agricultural productivity and incomes are improved by selling donated food and then using the sales proceeds to invest in agricultural and small business projects. Currently, PVOs are requesting food aid as part of their assistance efforts in communities where HIV/AIDS is prevalent. Examples of PVO programs are provided in Attachment A.

LINKAGES TO US AGRICULTURE

From a US agricultural perspective, food aid is one intervention in a continuum of programs that can lead from aid to trade. Many of the countries where PVOs operate have not been analyzed or targeted by US agricultural organizations since they are low income and are not current targets for commercial sales. Yet, there is more and more interest among agricultural organizations, as they realize that the growth and development of low-income countries is critical to expanding markets and trade.

As PVOs plan food aid programs, they are interested in the long-term availability of food in the country, the quality of the food supply and expanding access to nutritious foods for the poor. Since some US agricultural organizations and businesses also focus on these issues, they are cooperating with PVOs by providing information about their products, responding to questions by PVOs about the efficacy of using a particular commodity or assisting with market analyses and the development of monetization plans in a target country.

As an example, in the summer of 1999, U.S. soybean producers, through their contributions to the United Soybean Board (USB) and state soybean boards, initiated a collaborative effort with PVOs to identify the best uses for donated soybean products in developing countries. The purposes are (1) to provide soybeans, soybean meal and soybean oil to countries that need these products in the near term, (2) to have a long-term benefit by integrating the proceeds from the sales of these products into economic and social development programs, and (3) to identify opportunities to use soy protein products to improve the nutritional quality of foods available in a target country.

As PVOs develop innovative proposals in collaboration with agricultural groups, administrative agencies must provide an environment that is conducive for the submission and review of such proposals. Current title II regulatory restrictions and limited Food for Progress resources make this difficult to achieve. The changes we recommend for the Farm Bill should help to clear the way for more innovative approaches.

FOOD AID AND TRADE POLICY

Under Article 10.4 of the Uruguay Round Agriculture Agreement, food aid is permitted as long as it meets the requirements set forth by the Food Aid Convention (FAC). Food aid may be provided for emergencies or non-emergency purposes and through governments, international organizations or PVOs. The food may be distributed or sold in the recipient country. US food aid programs meet these requirements.

The treatment of food aid should not be subject to change under the new WTO agricultural negotiations, since it is very important that donor countries maintain their commitments to less-developed and food-deficit countries. The US position paper submitted last year to the WTO contains this recommendation.

Monetization, the sale of food aid commodities and the use of the proceeds for specific assistance programs, is a very important form of food aid and is permitted under the FAC. Care must be taken in program development to assure that commodity chosen does not interfere with commercial sales or local marketing. In cases where a country is experiencing economic hardships, food aid can also be justified for temporary assistance.

Monetization has multiple benefits. First, it increases the availability of the commodity in the market, which is particularly important for a "low-income, net food-importing country." These are low-income countries that depend on imports to meet basic food requirements. Under the Uruguay Round Trade Agreement, the Ministers acknowledged that such countries might not benefit from expanded trade, since they do not have adequate hard currency earnings from exports. Thus, they will need assistance, and food aid is cited as one way to provide the aid. Second, the funds are used in programs that have an impact on economic and social development. Most important, there is flexibility to adapt the program to meet local needs. Finally, the monetization process itself can be an effective way to expand private marketing systems.

GOVERNMENT AGENCY ADMINISTRATION

The Farm Bill changes that the Coalition recommends are based on years of experience implementing food aid programs and our observations of how US programs have been administered in recent years. By way of background, this section reviews some recent experiences that stimulated our recommended changes.

Multiple Decision-Makers

Two different agencies are responsible for administering US food aid programs. USAID administers PL 480 titles II and III, while USDA administers Food for Progress, PL 480 title I and Section 416, including the pilot Global Food for Education Initiative (GFE).

PVOs and intergovernmental organizations are eligible to implement title II, Food for Progress and Section 416 programs. Title II emergency programs, Food for Progress and Section 416 may also be implemented through agreements with foreign governments. Title III is reserved for government-to-government agreements and title I, although it allows agreements with private entities, is primarily used for government-to-government agreements, as well.

At USAID, the Food for Peace Office (FFP) is in charge of program administration, but the USAID field missions and geographic bureaus are also involved. Often, different views and requirements are given by FFP and the field missions.

In the case of USDA's Section 416 and GFE programs, an interagency group, the Food Assistance Policy Committee (FAPC), comprised of USDA, USAID, State Department and the Office of Management and Budget (OMB), meets over many months behind closed doors and decides the Section 416 countries and tonnages for each country, and how much will be allocated to WFP. The closed-door negotiations take so much time that last year USDA only had 6 months to develop agreements and to order commodities, while this year there will be less time. This is a terrific administrative burden and does not contribute to good program planning, orderly delivery of commodities and effective implementation.

Prior to the 1990 Farm Bill, an interagency group called the Food Aid Subcommittee decided which programs would be approved under PL 480. The 1990 Farm Bill eliminated that group and gave direct authority to each implementing agency -- either USDA or USAID -- for food aid programs under its jurisdiction. Below as an excerpt from the Senate Agriculture Committee Report 101-357, pp. 159-160:

> If any message regarding the PL 480 program came through loud and clear to the Committee it was the wide ranging expressions of concern from both inside and outside the Administration that bureaucratic procedures and delays have seriously and adversely affected U.S. food aid programs. This frustration has been focused on the Food Aid Subcommittee of the Development Coordination Committee (DCC). The DCC is an interagency group comprised of USDA, AID, State, Treasury, and OMB an occasionally the NSC.
>
> Just as an employee cannot work well with five bosses, Public Law 480 does not work well with five agencies overseeing its operational decisions . . .. The bill makes specific government agencies responsible.

It seems that history is repeating itself, with unfortunate consequences. Thus, we believe the program would benefit if one agency, with the full scope of capabilities necessary to administer these programs, was placed in charge of food aid programming.

The Limits of Surplus Removal and Dispositions

Surplus donations abroad have been high for the past two years: in FY 1999, almost 6 MMT; in FY 2000, 3.5 MMT; and for FY 2001 the level is not final, but including the GFE and carry-in from last year, the current estimate is under 3 MMT. Other than nonfat dry milk, which was acquired under the dairy price support program, the commodities were purchased with CCC funds pursuant to the CCC Charter Act, which allows the Secretary to remove surpluses from the market.

Because surplus removal is temporary and variable, and the types of commodities available are limited, these programs have limited applications. Emergencies or meeting other short-term needs through distribution, or selling the commodities in low-income, food deficit countries and using the proceeds for development programs, can be an effective way to use commodities.

We recommend that US food aid should not rely on surplus commodities. Instead, there should be a sustained level of a mix of commodities available each year, with increases as needed for emergencies. When surpluses are available, certain procedures should be followed to assure they are put to good use, such as:

- The availability of commodities should be announced before or at the beginning of the fiscal year.
- Program criteria and the review process should be developed in consultation with implementing partners. OMB consultation should only apply to the overall budget level.
- As permitted by law, monetization should be recognized as an appropriate method for providing assistance as long as analysis shows that the commodities will not interfere in commercial patterns of trade or create disincentives for local production and marketing.
- Approvals should be made early in the fiscal year in order to have timely commodity deliveries, to avoid market disruptions, and to allow programs to have the intended impacts.

Food for Progress

The creation of Food for Progress in the 1985 Food Security Act was true foresight. It was developed to provide assistance to help improve private sector agriculture, food systems and marketing in countries that were making reforms in their agricultural economies. With the wave of democratization in Eastern Europe and the dissolution of the Soviet Union, Food for Progress was a valuable tool for providing assistance.

Today, the demand for Food for Progress from governments and nongovernmental organizations is growing, as economic reform and private sector expansion is occurring throughout the developing world. Thus, this valuable program should be expanded and required, and more should be programmed in the poorer countries that are instituting economic reforms.

PL 480 Title II

Title II provides food aid to alleviate hunger and its causes. In FY 2001, over 2.2 MMT of commodities will be provided overseas under this program. Since title II relies on annual appropriations, PVOs are grateful that Congress has continued to fund this program.

We would like to see the donations expand under title II, and recommend an increase in the statutory minimum tonnage level from 2.025 to 2.5 MMT. At the same time, the administrative agency, currently USAID, should expand the types of programs allowed. The law allows a broad array of programming options to meet local needs, and these options should be offered to PVOs that implement these programs.

USAID often cites the legal "mandates" as the reason for limiting program options for PVOs -- particularly the "subminimum tonnage" that requires about 75% of commodities to be used in nonemergency programs that focus on food security and the requirement that 75% of these nonemergency commodities be processed, fortified or bagged. PVOs support the requirement that 75% of the commodities be provided for multiyear programs that can improve people's lives. USAID could be more proactive in meeting this requirement by encouraging the submission of title II proposals by PVOs and lifting the restrictions on the types of programs that can be implemented.

Regarding the 75% set aside for processed, bagged and fortified commodities, it seems that USAID makes this requirement more difficult than it has to be. For example, USAID created a long-running debate and consumed much time over the past few years by deciding that crude, degummed vegetable oil will not qualify as a processed commodity and soybean meal will not be eligible at all. The intent of the processed, bagged and fortified provision was to provide greater discretion to PVOs to choose higher-valued commodities for their programs, rather than to be limited to bulk commodities because they may be less expensive. When USAID strays from the accepted definition and decides to pick among the various processed products it will accept, it favors certain American products over others, rather than seeking to provide the commodity that would be best for the situation.

Overall, current program policies, requirements and procedures for title II are provided through lengthy and constantly changing regulations, guidelines and handbooks, as well as individual program officer decisions. Specifying the minute details of programs takes away the discretion of PVOs to assess local realities and to adjust programs accordingly to meet their program objectives.

Despite efforts by Congress in the last two farm bills to streamline administrative procedures by USAID, to encourage USAID to enter into a real partnership with PVOs, and to provide greater flexibility for PVO programming, improvements are still greatly needed.

Solutions included in our recommendations for the Farm Bill include an Institutional Agreement between the PVO and the USG that would cover the terms and conditions for providing food aid under all USG food aid authorities, permitting PVOs to develop a broader range of programs, consistent with the concept of food security and the objectives of title II.

Pilot GFE

Many PVOs have extensive experience in food-assisted education and nutrition programs. They were therefore very interested in the proposed Global Food for Education (GFE) program. However, the experience with the FY 2001 pilot GFE has been a difficult one for many PVOs. It is now half way into the fiscal year and most PVO programs on the approval list published by USDA in December 2000 have not been signed.

One of the problems encountered was that the original announcement of the GFE stated that CCC would provide funds to PVOs for internal distribution and and administrative costs, but this policy was changed several months after program proposals were submitted. Instead, PVOs are now being told to find funds elsewhere or to monetize commodities to generate funds to support their programs.

We fail to understand why this change was made. WFP is also participating in the GFE. For WFP, CCC purchases the commodities and pays for ocean transportation, and also funds internal distribution and administrative costs, as well as an additional amount equivalent to 7.8% of the value of the commodities and ocean transportation. For PVOs, CCC only purchases the commodity and pays for ocean transportation. If it is reasonable to provide internal distribution and administrative costs to WFP, it is also reasonable to provide such funds to PVOs.

The administration of the pilot GFE, as well as concerns about how a large, new program can be funded without diminishing the availability of resources for other proven programs, has caused many PVOs to pause when they consider the prospects for a permanent GFE. It is not clear how legislation can be drafted that can assure that the Administration will provide a level playing field for PVOs or that, as a CCC-funded program, GFE will not take away from the expansion of Food for Progress. PVOs have been consulting with senators and congressmen as they work on draft bills to make the GFE permanent to see how these concerns can be addressed.

The pilot GFE experience highlights the need for a transparent administrative process, adequate financial assistance to support PVO programs and a new public-private partnership for PVOs in food aid programs. As part of the Farm Bill, PVOs will be seeking access to funding for implementation and administrative costs to support their CCC-food aid programs, as is provided to intergovernmental organizations that carry out programs under the same authorities.

Mr. Chairman, thank you for this opportunity to present testimony before the Committee. As you develop the food aid portions of the Farm Bill, we look forward to being able to work with the Committee to revitalize the US food aid programs and their public-private partnerships. I would be pleased to answer any questions you may have.

ATTACHMENT A

P.L. 480 Tittle II and Food for Progress

Examples of PVO Programs

BANGLADESH — CARE, Title II

The major constraint to food security in Bangladesh is widespread poverty which is exacerbated by occasional flooding. Despite growth in food production and import liberalization, substantial availability gaps exist. More than 70% of children are stunted; one of the most chronically malnourished groups in the world.

CARE receives title II wheat, which is sold to the Government of Bangladesh for use in the Government's school feeding program. With the proceeds, 525,000 laborers, primarily women with children who have no other source of support, are paid for work on civil works projects and provided funds for investments in small enterprises. This program is integrated with the development of national disaster preparedness systems, including nutritional surveillance and flood-proofing, and has improved nutrition as well as mitigated the effects of flooding.

BOLIVIA — Food for the Hungry, Title II

An estimated 70% of Bolivians are poor — more than 3.6 million people, almost half of whom live in marginal rural areas: 31% of Bolivian children are stunted; 45% of those in rural areas; valuable forest resources are being lost at an estimated rate of 200,000 hectares per year. Thus, both hunger and agricultural productivity need to be addressed.

Food aid is used for school feeding and mother-child health care to help nutritionally vulnerable groups and to generate local currencies to support micro-credit and rural programs seeking to improve food production and increase availability of water in poor rural areas for 95,000 vulnerable poor.

BURKINA FASO — Catholic Relief Services, Title II

Catholic Relief Services works with Burkina Faso's Ministry of Basic Education and Literacy to implement the Education Support Program (ESP), which reaches 328,000 students and their families in areas of Burkina Faso where school enrollment and attendance rates are particularly low. Part of this program is the distribution of title II commodities for school feeding.

Led by both CRS/Burkina Faso and the Burkina Faso Ministry of Education staff, the ESP relies greatly upon the parents of school children and the communities to implement various activities. Parents have several roles in parent-teacher associations, or mothers' associations, which meet frequently to make decisions and undertake various activities that will improve the quality of the school environment for the children. Activities range from building classrooms and latrines to distributing micronutrients and de-worming medicines. Meetings and activities build parental ownership of schools, something that will help sustain enrollment and attendance rates over the long-term. The community is also essential to ensuring when a food shipment arrives and is responsible for proper distribution within the village.

GHANA --- Adventist Development and Relief Agency International, Title II

During the fourth year (FY 2000) of the five year FY 1997-2001 PL 480 title II program, ADRA recorded increases in agricultural productivity and household incomes, and great improvement in household nutrition, health and sanitation for 16,334 client farmers (5.4% above target) in eight of the ten regions of Ghana. Approximately 485,500 persons benefited from the Food Security Program, the components of which include: tree seedling production, inter-cropping food crops with tree crops, nutrition water and sanitation education, storage loss reduction, ventilated improved pits, feeder roads, bee-keeping and bullock plowing.

During FY 2000 approximately 25,017 metric tons of food were produced to enhance food availability for 16,334 client farmers and their 168,894 dependents. At least 2,061 farmers (158% above the target number) who were not directly supported by the project adopted project technologies and systems. During FY 2000, an assessment carried out at the peak of the hunger season indicated that 86% (up from 7% at the time of the baseline in FY 97) of client households consumed at least two meals a day as a result of their enhanced access to food.

GUINEA-BISSAU — Africare, Title II

Though Guinea-Bissau is one of the world's poorest and least developed countries, relatively generous natural resources, especially the arable land, allow optimism for future growth. The distribution of income and access to food is highly skewed.

Africare sells the donated commodities as part of an effort to re-create private trading systems in small areas. The funds support producer associations in business management, training, and credit in production/marketing as a way to increase incomes for rural poor. For the households participating, there has been a decrease in child malnutrition as diets have improved.

INDONESIA --- International Relief and Development, Food for Progress

IRD is implementing a Food for Progress program in Indonesia, using 30,000 MT of wheat in FY 1999 and 40,000 MT of wheat in FY 2000. This project provides flour to small noodle factories that produce an inexpensive variety of noodles, which are consumed mainly by very low-income consumers. During the first ten months of the project, 500 million packages of noodles were produced and sold through small businesses to more than 4 million consumers. Independent surveys indicate that the average income of those purchasing the IRD noodles was less than $20 per month.

In addition to providing a low-cost food product, the project is also putting people back to work. Prior to the project, noodle factories had been operating at less than full capacity. Due to the IRD project, ten participating factories have increased production 70 percent, and hired 360 more employees. The need to deliver and market the noodles has further increased private sector employment. In the city of Bandung alone, more than 1,000 street-side noodle vendors have received a substantial boost to their incomes due to the availability of the noodles.

For the next phase of the project, IRD has proposed a Food for Progress program for wheat and soy flour; the soy flour would be used by the noodle makers to fortify their products, thereby providing greater nutritional quality to the low-income consumers.

INDIA — Catholic Relief Services, Title II

National availability of food has improved, but household access to food is severely constrained by income: 30% of India's 900 million live in poverty. One-half of the 500 million undernourished people in Asia live in India. More than 73 million (63%) of India's children are underweight — more than twice the number in Africa. Current structural adjustment process will, in the short run, exacerbate poverty and unemployment. Therefore, food aid programs focus on those people who suffer the most due to chronic malnutrition.

Food for Work programs are used to increase crop production through improvements in land management and irrigation. Mother-child health care, school feeding and nursery programs improve access by vulnerable mothers and children to nutritious foods.

MOZAMBIQUE – PVO Consortium, Title II

A 1996/97 nationwide survey for Mozambique indicated that 70% of Mozambicans live in absolute poverty. Eighty percent of the population lives in rural areas, where inhabitants are mainly subsistence farmers. Therefore, working to increase income generated from their farms is a key element in eradicating absolute poverty. Surveys of children under five, indicate that about 55% of children are chronically malnourished and there is evidence of widespread micronutrient deficiencies especially those of Vitamin A, iron and iodine. The incidence of HIV/AIDS in Mozambique in the Central Provinces is 22%, while the national average is 15%. The rising HIV/AIDS rate is the greatest threat to food security in the next ten years. Projected effects include reductions to the agricultural labor force, increased dependency ratios with rising numbers of orphans, and increasing household health expenditures for those with full blown AIDS. Given this situation, the HIV/AIDS epidemic threatens to drastically reduce the national capital available for economic growth and to reverse positive gains achieved so far.

World Vision is currently implementing a title II program in Mozambique, under which it sells commodities on behalf of a Consortium of US PVOs (Adventist Development & Relief Agency (ADRA), AFRICARE, CARE, Food for the Hungry International, and Save the Children), which work in different parts of the country and focus on different types of interventions. The funds are used by the various agencies to improve the nutritional status of children under the age of five by using available foods, providing agricultural extension for the production of Vitamin A rich crops, and helping to diversify the diet and improve family incomes. During the next program cycle, the Consortium foresees including a greater number of HIV/AIDS interventions. During FY 2000, the Consortium sold 78,960 MT of bulk wheat and 1,500 MT of crude, degummed vegetable oil to generate proceeds for their activities.

World Vision's partners with government agencies, the private sector, and with communities to improve food security, household income, and maternal and child health (MCH). The monetized funds addressed the developmental issues confronting approximately 400,000 rural households by (1) improving agricultural technology and increasing production of staple and cash crops, (2) providing increased access to rural markets, (3) forming and strengthening farmers associations, 4) increasing marketing of produce through facilitation of effective private sector linkages, (5) rehabilitating rural roads to provide critical access for rural dwellers to markets, education, and health services, (6) provdiding acess to maternal and child health services, and (7) supporting the formation of a cadre of community health volunteers.

SIERRA LEONE --- World Vision, Title II

World Vision has been working in the war-torn, West African country of Sierra Leone since 1996. A civil war has been raging there since 1991, and the productive infrastructure of the country has been devastated. The agricultural sector, which accounts for 40% of the GDP and traditionally employs 78% of the population, has been especially hard-hit. Villages have been deserted by people fleeing the violence and families have been separated by chaos. Public facilities have ceased functioning, and are being used as camps for Internally Displaced Persons.

Throughout the years of turmoil, organizations such as World Vision continue to operate nonpolitical, humanitarian programs, including the distribution of relief and recovery food assistance from USAID's Office of Food for Peace. During FY 2000, World Vision distributed 7,167 Metric Tons of relief food aid in the form of bulgur, vegetable oil, lentils, and corn soy blend. Ration distributions were made to 86,729 targeted vulnerable individuals. Additionally, 15,767 farm families received "food-for-agriculture" rations along with agricultural inputs, providing a needed source of food and protecting seed rice stock from consumption during the height of the "hungry season." Also, approximately 34,600 people were directly engaged in "food-for-work" activities, where take-home food rations are provided for working on road/bridge repair, primary school construction, Inland Valley Swamp rehabilitation, wells and latrine construction, and tree plantation rehabilitation.

TAJIKISTAN --- Mercy Corps, Food for Progress

Since it entered Tajikistan in 1994, Mercy Corps has implemented a program that ranges from immediate humanitarian assistance to development focused activities. Economic development projects provide short-term loans to farmers and entrepreneurs; emergency food assistance is given to those in need through capable institutions; local non-profit agencies, hospitals and clinics are supported, and educational systems are being rehabilitated.

Mercy Corps programs in Tajikistan are helping as many as 700,000 people. The projects include:

■ Implementing a Food for Progress program that monetizes and distributes 18,800 MT of commodities in 2001. Proceeds from monetization are used to support Mercy Corps' in-kind loan project and grant-making support for small business, agriculture, health, education and civil society building initiatives. Direct distribution targets those populations that are most vulnerable through institutions such as kindergartens and schools and those that serve the sick, elderly or people with disabilities.

■ Managing credit portfolios in partnership with a local partner organization, the Association of Business Women-Khujand, to lend small loans to women in and around the city of Khujand, in Shartuz, and in and around Dushanbe City.

UGANDA — ACDI/VOCA, Title II

Uganda is not generally a food-deficit country, although certain regions suffer from occasional droughts and lack of food. However, because of low incomes the rural poor are unable to purchase enough food for a nutritious diet. Malnutrition and disease are still serious problems in rural areas, where life expectancy is low. Thus, food aid programs focus on helping improve rural incomes by supporting the growth of private businesses.

Vegetable oil is auctioned, which has re-established a private trading network and increased the number of importers from 5 to 100. The funds from the sale have been used to re-capitalize an agricultural bank, revitalize oil processing, increase rural incomes and create agricultural sector training opportunities.

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NAEGA Testimony on US Food Aid Programs
Senate Committee on Agriculture, Nutrition, and Forestry
April 25, 2001

Mr. Chairman, my name is Gary Martin. I serve as President and CEO of the North American Export Grain Association, (NAEGA). Thank you for the opportunity to participate in a review of US agricultural trade and international food assistance programs.

Established in 1912, NAEGA is a not-for-profit trade association comprised of private and publicly owned companies and farmer owned cooperatives involved in and providing service to the bulk grain and oilseed exporting industry. NAEGA member companies ship practically all of the bulk grains and oilseeds exported each year from the United States. The Association mission is to promote and sustain the development of commercial export of grain and oilseed trade from the United States.

The feeding of hungry people around the world through US food aid programs is a worthy and noble endeavor. US food aid has benefited millions of people throughout the world. Food Aid programs are a significant and very important component of the US bulk grain export market. Every year NAEGA member companies sell millions of tons of commodities, which are exported through the various food aid programs.

In addition to the tonnage shipped each year, food aid programs have an important role in the development of markets for agricultural commodities. In simplest terms, humanitarian feeding programs help improve health and keep people alive. More complex is the positive effect food aid has on economic development in the recipient countries. Economic development and rising incomes will increase the demand for agricultural commodities. NAEGA recognizes and supports the contribution of U.S. international food assistance in alleviating hunger and in providing for economic progress.

As commercial exporters we see much opportunity to improve and strengthen US food aid programs. We would like to emphasize and make recommendations related to three priorities:

1. Provide for consistency and sustainability in food aid funding and improve performance in the delivery of US food aid programs to recipients.
2. Improve the process of allocating commodities to specific countries in order to ensure food aid programming is consistent with overall market development and domestic agriculture support programs.
3. Coordinate compatibility with US strategy to provide for more open and free international trade.

Sustainability and performance of aid programs from the perspective of the recipient is very important. In many cases, providing for long term progress in health and economic development means making food aid available over several years. Gains in operating efficiency are often tied to programming that can be planned for several years. Title II of PL 480 is designed to capture this opportunity. However the resources made available over the longer terms often fall short of what is needed. Most discussions about making the Global Food for Education Initiative permanent address the need for known resources over several years by making long term funding part of the legislation. These discussions need to include resource availability for Food for Progress and PL 480 programs.

Unfortunately, our food aid programs over the past several years have been increasingly dependent on the sporadic availability of surplus program crops. This availability is subject to annual and sometimes even shorter-term determinations of surplus by the Secretary of Agriculture. Complete implementation of a marketing loan program theoretically should result in a situation (prices at world market clearing levels) in which surpluses are not available for food aid. In an environment of low commodity prices and loan deficiency payments, any domestic price increase resulting from government purchases reduces the farmer's marketing loan gains (Loan Deficiency Payment). Any world market price decrease resulting from the donation reduces the commercial competitiveness of US grains and oilseeds. Thus, donations have the potential to depress world prices and raise domestic price. If this happens to commodities supported by marketing loans, a net loss of competitiveness for US grains with no net economic gain to the producer results – a very undesirable outcome.

Shifting the resource base for US Food Aid from reliance on surplus to the option of longer term funding is key to a successful future for US food aid programs. Ultimately both the world's most needy and U.S. farmer are best served by providing for more stability in food aid programming.

The concessional sales program, Title I PL-480 is criticized by some as an ineffective market development program. NAEGA does not agree and strongly encourages the Congress to retain this program in the re-write of the trade title of new farm legislation. This program of long term, low interest loans to be repaid in US dollars fills an important gap between those low income countries which are food aid donation recipients and the higher income countries where buyers are able to pay cash or buy under GSM credit guarantee programs. This program begins food aid recipient countries on the journey toward buying commodities rather than receiving a donation. Some of the best markets for bulk grains today, such as Korea, Egypt and Mexico, were once recipients of the concessional sales program. Today many commercial buyers in these countries express their gratitude for past Title I assistance. Some have criticized Title I as not being consistent with our international agreement to avoid the use of food aid for direct market development. In light of the ability of our competitors to directly subsidize exports or distort markets through the monopoly power of State Trading Enterprises, our use of Title I concessional sales is fully justified.

Over time the food aid mission has evolved to include economic development as well as humanitarian (emergency and non-emergency) feeding programs. Funding derived from monetization and the use of monetization as a method of distribution rather than direct feeding programs has also become more popular. Monetization is the converting of the commodity (goods) to currency through a commercial exchange. Proceeds from monetization typically are used in the recipient country by the government of the respective country or designated non-governmental contractors to fund development projects.

NAEGA is not opposed to monetization of food aid shipments. Even when the purpose of the food aid is for an emergency feeding program rather than an economic development project, there could be good reasons for monetization of the commodities. Monetization is a very powerful tool for food aid recipient organizations, but monetization of the commodities can have negative, unintended consequences. Monetization increases the likelihood that food aid shipments will disrupt markets within the recipient country and displace commercial exports to the recipient country as well as other export markets where the US competes. This potential for disruption makes it essential that USDA and US-AID manage the various food aid programs with an increased sensitivity to these concerns.

In the last three years - a time of large supplies, slack demand and low prices for farm commodities - many farmers and others believed commodity exports could be increased if government increased the amount of commodities shipped under food aid programs. This may be true, but we should examine the real impact. Beginning with an announcement in July 1998, US food aid shipments were increased from about 3 million tons to 8-9 million tons in fiscal years 1999 and 2000, respectively.

Additional food aid shipments for emergency feeding of hungry people who can not buy foodstuffs due to lack of buying power will surely add to the total consumption of agricultural commodities. Unfortunately, most of the additional food aid shipments of the last couple of years were not destined for emergency feeding programs. When food aid is programmed for non-emergency uses, the determination of acceptable quantities and timing of the delivery is critical. The use of Usual Marketing Requirement (UMR) formula to determine acceptable levels is an internationally accepted practice. The US

UMR process needs to reviewed and updated to better reflect market conditions – quantity, quality and timing. Commercial input into improving the formula and identification of current market conditions for input into the formula is needed.

Demand for foodstuffs is inelastic in the short term. The human stomach is only so big. In the short term, consumption of foodstuffs cannot increase very much, even if the price of the foodstuffs is sharply reduced. In the extreme, when the price of foodstuffs is taken to zero by the US government through a food aid donation, the amount consumed will only increase by a small amount, if at all. The effect is that total trade in foodstuffs may rise slightly, but the food aid shipments will inevitably displace commercial exports.

There is little question that in some countries, some commercial sales have been displaced in the last couple of years. Often when food aid is thrust upon a market, a regular buyer does not need to make a normal purchase because the buyer will purchase the food donation shipment when it arrives in his country. The larger the food aid shipments to a particular importing country, the greater the probability of displacement. Timing of the delivery and quality of product as well as quantity are critical elements in avoiding commercial displacement. Commercial sales have a difficult time competing with food aid donations. Too much of a good thing– food aid- or a good thing at the wrong time or wrong quality, turns out to be not such a good thing.

Food aid shipments to North Korea and Ethiopia surely resulted in additional US export tonnage. Food aid shipments, especially large shipments to many of the other countries, even low income countries like Bangladesh and Pakistan, which are regular commercial importers, has surely resulted in some displacement of commercial exports.

Sometimes the US food aid shipment displaces goods from competitor nations. In fact, many competitor nations view the large US food aid shipments of the last couple of years as an unfair export subsidy program. Other times, the US food aid shipments may directly displace a US export sale. In either situation, the US exporter and US agricultural exports will likely suffer a loss in commercial exports. World trade is a world flow of commodities and if a competitor supplier is knocked out of a commercial export sale by US food aid, the competitor supplier will be forced to compete that much harder to make a sale against US goods in another country.

Recommendations:

(1) The processes under which the USDA determines aid eligibility and targets food donations to specific countries needs improvement. Food aid is an important component of the US bulk grain export market. Food aid does provide additional export demand for bulk grains but, at excessive levels, food aid displaces commercial exports. Shifting the resource base to longer term funding and including the private sector input into the decision making process are key to more effective programming. The calculation of Usual Market Requirements (UMR) needs to be modified to reflect more current market conditions. US producers and

agriculture business should be engaged in the development of more timely and market sensitive programming standards.

(2) Food aid shipment levels prior to fiscal year 1999, about 3 million tons per year plus some expansion of perhaps another million metric tons (depending on emergency and programming justification), is a more reasonable and sustainable level than recent levels of 8 to 9 million tons. Provisions to provide for alternative long term funding would alleviate any adverse program consequences and lead to the necessary incorporation of these needs into the commercial markets.

(3) The Title I PL-480 concessional sales program is a valuable market development tool and should be retained in any re-write of the food aid title of new farm legislation. While our competitors maintain the ability to directly subsidize exports or distort markets through the monopoly power of State Trading Enterprises, our use of Title I concessional sales is fully justified and should be more strongly defended in international trade negotiations.

(4) Procurement operations for food aid programs PL-480 Titles I and II, 416b and Food For Progress as currently constructed work fairly well for the US export industry. However, Congress should consider ways to provide long term funding that is not as dependent on surplus. Longer-term sustainability under transparent, legislated caps needs to provide for flexibility and recognition of current market and humanitarian needs.

Thank you.

DOCUMENTS SUBMITTED FOR THE RECORD

APRIL 25, 2001

Cotton Council International's COTTON USA Program

Developing and Maintaining International Markets for US Cotton and Value- Added Cotton Products

The export promotion partnership between the U.S. Government and the U.S. cotton industry is an excellent investment that generates a positive return to both the U.S. cotton industry and the economy of our nation.

- The Foreign Market Development (FMD) and Market Access (MAP) programs combine private and public funds coupled with industry marketing expertise to create innovative, forward-looking programs that leverage money into high-dollar impact campaigns and promotional efforts. These programs are consistent with World Trade Organization (WTO) regulations and are classified as "green box" activities. These programs enable U.S. cotton to compete despite the aggressive export activities of foreign countries.
- Public funding works as "seed capital" that attracts substantial private investments from a large and highly diverse industry to focus on a common national good – profitable exports of quality U.S. cotton and manufactured cotton products.
- One third of the U.S. raw cotton crop is exported annually and, when the bale equivalents of U.S. value-added cotton exports are added, over fifty percent of U.S. cotton flows into the global market. With 95 percent of the world's population living outside the United States, there is tremendous opportunity for export growth for both U.S. cotton fiber and value-added product.
- The National Cotton Council estimates that a $1 increase in U.S. cotton fiber or manufactured cotton product exports generates some $3 to $4 worth of additional economic activity, which in turn maintains or creates new jobs for a wide range of American workers.
- Cotton is produced in 78 countries around the world, and 18 of the 68 countries that export cotton account for 59 percent of global cotton trade. Competition in the raw cotton trade is fierce, only surpassed by the competitive environment for value-added cotton products.
- With 44 years of experience and a highly skilled global network, CCI helps the entire U.S. cotton industry maintain existing markets and penetrate new markets faster. CCI enables exporters to accomplish what they cannot on their own. CCI's coordinated strategies benefit all cotton producers, exporters and manufacturers, enabling the industry to stay ahead of trade and consumer demand, and effectively positioning U.S. cotton to compete against foreign cotton and man-made fibers.
- CCI's COTTON USA Advantage program is a simple yet effective "Supply-Push/Demand-Pull" strategy that instills a preference for products containing U.S. cotton at virtually every point along cotton's value chain, from the initial mill buyer to the final consumer. The strategy, using the COTTON USA ingredient trademark, creates incentives for textile mills and manufacturers to choose U.S. cotton over man-made fibers and over cotton from other sources.
- At a time when U.S. agriculture and the cotton sector is reeling from depressed prices and economic consolidation, CCI has pledged a record 145 percent matching industry funds for MAP in the 2001 Unified Export Strategy plan year. CCI continues to be one of the leading cooperators in the area of industry financial support for international market development – a solid demonstration of industry support and commitment.

MIATCO

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April 12, 2001

The Honorable Richard Lugar
United States Senate
306 Hart Senate Office Bldg
Washington, DC 20510-1401

Dear Senator Lugar:

As Congress begins consideration of the FY 2002 appropriations bill for the U.S. Department of Agriculture, I am writing to encourage your support for agricultural export promotion efforts.

The Mid-America International Agri-Trade Council (MIATCO) uses funding through the Market Access Program (MAP) to help primarily small Midwest food and agricultural companies to promote their value-added products overseas. In its 32 years of service, MIATCO and its member state agencies, including the Indiana Office of the Commisioner of Agriculture, has helped over 2,800 Midwest companies to increase their agricultural exports.

Last year, 513 companies used our support to promote their products in 43 countries around the world, generating $8 in export sales for every dollar spent. 101 of these companies generated their first export sale in a market and 135 saw their export sales increase over 20%. Our efforts supported more than 12,506 buyer-seller introductions worldwide.

In the current world trading environment, MIATCO views the MAP program as a critical tool to combat heavy subsidies from our competitors. Among some of the factors that weigh heavily in the decrease of U.S. share of world ag. exports has been the inadequate market promotion level. Since 1992 there has been a 50% reduction in our market promotion effort, compared with a 50% increase by our competitors. A recent USDA study shows the European Union spends over $100 million to promote their agricultural products in the U.S. alone, *more than the U.S. spends worldwide!* The MAP investment also stimulates outside spending to promote our exports: each dollar of MAP money invested in MIATCO's program last year generated $4.50 in additional spending by private and state sources.

With over one-third of U.S. agriculture reliant upon export markets, it is essential that we maintain and expand our export promotion efforts. This can only be achieved if we continue to have programs in place that allow U.S. agriculture to remain competitive in a global market place characterized by subsidized foreign competition. I encourage your support of bipartisan legislation (H.R. 98/S. 366) introduced earlier this year in the House by Reps. Hastings (R-WA) and Boyd (D-FL) and in the Senate by Senators Murray (D-WA) and Craig (R-ID), among others. This bill would increase funding for export promotion efforts, and provide needed flexibility to respond to changing market conditions and capitalize on potential new market opportunities.

In 2000, "high-value" products surpassed bulk commodities as the U.S.' leading agricultural export sector, following a 20-year trend. Promotion becomes even more important for these value-added and specialized products than in the days of simple price competition between commodities. We must be able to promote higher quality U.S. products against cheaper, often subsidized foreign competition. MAP is the only U.S. program to do this. For every dollar of export sales, value-added products generate $1.56 in additional economic activity. MAP is one of the few programs that help level the playing field for U.S. agricultural exports.

Enclosed is our 2000 Annual Report which outlines some of the programs and services provided by MIATCO. There is also a list of companies in Indiana that have participated in MIATCO and MAP-supported activities in recent years.

We look forward to working with you in achieving these objectives and in promoting long-term, sustained economic recovery in agriculture.

Sincerely,

Timothy F. Hamilton
Executive Director

enclosures

FOR IMMEDIATE RELEASE
April 13, 2001

Contact: Teresa Miller
312/944-3030
tmiller@miatco.org

Matching Funds Program helps marketing abroad more affordable

Reach new markets!

Have a great food or agricultural product that needs a new audience?

Companies in the United States who grow, manufacture, process, or process food or agricultural products have a unique opportunity to receive financial assistance to promote those products in other countries.

Save marketing dollars, while reaching new markets!

Thousands of companies have benefited from the Matching Funds program by receiving a 50 percent reimbursement of their eligible international marketing activities. The program is focused on encouraging development, maintenance and expansion of commercial export markets for agricultural value-added products.

Eligible activities include:

Promotional Funding:

- Communication and advertising such as media publications, billboards, TV/radio commercials, direct mail, etc.,
- Product demonstrations and promotions in retail stores; end-cap displays, pallet promotions, etc., and
- Package and label modification. Costs associated with package and label redevelopment are eligible if the changes were necessary to meet foreign import requirements.
- Point-of-sales Materials. Production and distribution of catalogs, brochures, posters, and related translation costs.

Travel Funding: (to international trade shows)

- Airfare for 2 company employees on a U.S. flag carrier,
- Hotel per diem for 2 company employees, and
- Meals and incidentals per diem for 2 company employees.

International Trade Show Expenses Funding: Limited domestic activities are also eligible if they meet the program requirements.

- Exhibitor fees (booth space, etc.),
- Set-up and rental costs, and
- Freight costs (product literature and samples).

Matching Program focused on small companies

Who is eligible for the Matching Funds program? Companies defined as "small" (according to the Small Business Administration, usually this means fewer than 500 employees) or agricultural cooperatives are eligible to apply. Additionally, companies must be incorporated in the U.S. and have products that are at least 50 percent U.S. agricultural content by weight (exclusive of added water and packaging) and have rights to the products' brand name. Companies' domestic export agents are also eligible for the program, as long as they meet the above requirements.

Funding for the Branded Program comes from the Market Access Program (MAP) of the USDA's Foreign Agricultural Service.

About the State Regional Trade Groups (SRTGs)

The MAP program is administered by four State Regional Trade Groups (SRTGs). The SRTGs are private, non-profit associations composed of member state agricultural promotion agencies that offer services to help U.S. food and agricultural companies promote their products in foreign markets. SRTGs coordinate activities such as international trade exhibitions, outbound trade missions and in-bound buying missions, technical trade seminars, in-country research, and point-of-sale promotions in foreign retail chains and restaurants.

Interested companies are encouraged to contact the appropriate SRTG below based on their geographic location as soon as possible, since application to the program is competitive in nature.

1. Food Export USA - Northeast: Philadelphia, PA
   Phone: 215-829-9111, Fax: 215-829-7777, http://www.foodexportusa.org
2. The Mid-America International Agri-Trade Council (MIATCO): Chicago, IL
   Phone: 312-944-3030, Fax: 312-944-1144, http://www.miatco.org
3. The Southern U.S. Trade Association (SUSTA): New Orleans, LA
   Phone: 504-568-5986, Fax: 504-568-6010, http://www.susta.org
4. The Western U.S. Agricultural Trade Association (WUSATA): Vancouver, WA
   Phone: 360-693-3373, Fax: 360-693-3464, http://www.wusata.orgout MIATCO

Cost-Share Program Can Offset Costs at International Trade Shows

Tell Me More About This Opportunity

Your company may be eligible to take advantage of a USDA-funded program to help offset the costs of exhibiting at international trade shows. Eligible companies can receive 50% cost reimbursement for a variety of expenses, including exhibiting fees, limited international travel costs, set-up and rental, and freight.

Exhibiting at international trade shows is one of many activities that are reimbursable through the **Branded Program**, a cost-share funding program that supports the promotion of branded and private label food and agricultural products in foreign markets.

What Other Kinds of Activities Are Reimbursable?

Many international marketing and promotional activities are eligible for 50% cost reimbursement through the program, including:

- Advertising and public relations
- Product demonstrations and in-store and food service promotions
- Exhibiting fees at *approved* domestic trade shows (for first time exhibitors only)
- Product literature, point-of-sale materials and freight costs for samples
- Package and label modification (if change was necessary to meet foreign importing requirements)

Only Certain Companies Are Eligible

Unfortunately, the program isn't available to everyone. To be eligible for the program, U.S. companies (or their domestic export agents) must:

1. Be a "small" company (according to Small Business Administration guidelines) or be an agricultural producer cooperative, and be incorporated in the United States.
2. Have products that are at least 50% U.S. agricultural content by weight, exclusive of added water and packaging, and have rights to the brand name.

For More Information

The Branded Program is administered by the four State Regional Trade Groups (SRTGs), which are private, non-profit associations that offer programs and services to help U.S. companies promote their food and agricultural products in foreign markets. Interested companies should contact the appropriate group below based on their geographic location as soon as possible, since application to the program is competitive in nature!

1. **Food Export USA - Northeast:** Philadelphia, PA
   Phone: 215-829-9111, Fax: 215-829-7777, http://www.foodexportusa.org
2. **The Mid-America International Agri-Trade Council (MIATCO):** Chicago, IL
   Phone: 312-944-3030, Fax: 312-944-1144, http://www.miatco.org
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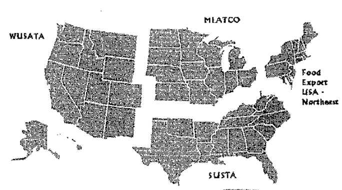
   Phone: 504-568-5986, Fax: 504-568-6010, http://www.susta.org
4. **The Western U.S. Agricultural Trade Association (WUSATA):** Vancouver, WA
   Phone: 360-693-3373, Fax: 360-693-3464, http://www.wusata.org



The SRTGs prohibit discrimination in employment and services. Persons with disabilities who require alternative means for communication of program information or to request a full non-discrimination policy, please contact us.

Region: Mid-America International Agri-Trade Council (MIATCO)
Company Name: American Popcorn Company
Address: PO Box 178, Sioux City, IA 51102
Congressional District: IA 05
Contact: Garrett Smith, Vice President of Sales
Phone: 712.239.1232
Targeted Market(s): Sweden

Branded Program Helps Iowa Popcorn Company Enjoy Big Success In Sweden

American Popcorn Company has doubled its export sales to Sweden over the last two years, in large part because of the promotional support received through the cost-share Branded Program.

"Our ability to build solid foundations for long-term export growth is greatly dependent on the funding we receive from MIATCO's Branded Program," according to Garrett Smith, the company's vice president of sales. "It goes a long way towards helping us set up effective marketing campaigns in many of our overseas markets."

Their recent performance in Sweden certainly supports this claim. The company utilized the Branded Program to increase its promotional budget there, providing the resources needed to advertise in the "Weightwatchers" magazine. The ad campaign was a big success, helping the company's "Jolly Time" brand of microwave popcorn gain the attention of both Swedish consumers and the local trade.

Sales in Sweden have also increased as a result of a new in-store promotional program, made possible with Branded Program support. "We have a cleaner, more efficient way of promoting our product," says Smith. "Our "Jolly Time" popcorn is now much more visible to consumers."

American Popcorn Company, founded in 1914, exports its "Jolly Time" brand of microwave popcorn to numerous markets around the world, including Europe, Latin America and the Middle East. At least five full-time jobs at the Sioux-City-based company are dependent upon export sales, according to Smith. Their export campaign also provides a significant source of income for corn and soybean farmers in Iowa, Nebraska and South Dakota.

MIATCO, or the Mid-America International Agri-Trade Council, is a private, non-profit association of twelve Midwest state agricultural promotion agencies (including the Iowa Department of Economic Development) that uses federal, state and industry resources to promote the export of Midwestern food and agricultural products. MIATCO administers its programs through Market Access Program (MAP) funding from the USDA's Foreign Agricultural Service (FAS).

Originating Office
The Mid-America International Agri-Trade Council (MIATCO)
(312) 944-3030 (January, 2000)

Region: Mid-America International Agri-Trade Council (MIATCO)
Company Name: US SOY
Address: 2808 Thomason Drive, Matton, IL 61938
Congressional District:
Conatct: James W. Skiff, President
Phone: (217) 235.1020
Targeted Market (s): Europe

MIATCO'S COST SHARE FUNDING PROGRAM CONTRIBUTES TO OPEN NEW EXPORT MARKETS FOR ILLINOIS SOY PRODUCTS

Although only recently participating in MIATCO activities, US SOY has already been able to see the pay-off in increased export sales and most importantly in their increased economic impact within their region.

US Soy has been utilizing the Branded Program funds to attend international trade shows. "International exhibitions are a great way for us to meet qualified buyers as well as to identify the potential of our product among the competition" says James W. Skiff president of US Soy. As a result of their attendance at the October 1999 Biofach trade show in Germany, US Soy was able to sell $140,000 on the floor, and they are still in negotiations with contacts from this show.

"International trade constantly changes, there is a lot to learn about it, and MIATCO does a great job keeping us informed of all the opportunities that are out there," adds Mr. Skiff. Furthermore, US Soy regional impact has been relevant after its increase in exports, "As a result of our success in building relationships in the foreign markets, US SOY will be able to increase the number of its suppliers by 30% this year". In order to accommodate the increased demand generated from exports, US SOY has plans to incorporate 15 more growers into their value added economy. Further, due to increased production volume, they will be adding 10,000 Sq. ft of warehousing and processing facilities.

US SOY is located in Mattoon, Illinois. The company markets food-grade, non-genetically-modified soybeans and soybean ingredients.

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Originating Office
The Mid-America International Agri-Trade Council (MIATCO)
(312) 944-3030 (June, 2000)

Region: Mid-America International Agri-Trade Council (MIATCO).
Company Name: Preferred Popcorn L.L.C.
Address: 1132 9th Road, Chapman, NE 68827
Congressional District: NE 03
Contact: Norm Krug, Board Chairman
Phone: 308.986.2526
Targeted Market(s): Mexico

Branded Program Proves Key Resource for Nebraska Farm Economy

When Preferred Popcorn LLC applied to the Branded Program in mid-1998, the 100% farmer owned company wasn't exporting. A little more than a year later, they have successfully utilized the program to help them enter into several overseas markets.

Growing export sales of the company's processed popcorn provided a significant economic benefit to their rural Nebraska community, since all of the popcorn shipped overseas provided needed farm income to their member corn growers. Furthermore, the company now has nine full-time and part-time employees, up from just two when they began exporting a year and a half ago.

Mexico may be their biggest success to date, where the company is currently shipping several boxcars of popcorn across the border every month (one boxcar equals three containers of popcorn!). These sales are the result of the company's attendance at the March 1999 ANTAD trade show in Guadalajara, where they met their current Mexican distributor. Norm Krug, Preferred Popcorn's Board Chairman, is optimistic that sales to this market will continue to increase in the months and years ahead. To accommodate the increased demand generated from exports, Krug expects 2000 production levels to double over 1999 levels.

"I'm so thankful for MIATCO's Branded Program," says Krug. "It's providing us with the tools and support we need to build a long-term future for ourselves through exports. I'm optimistic that these sales are just the beginning of what we can accomplish internationally."

Preferred Popcorn LLC is located near Chapman, Nebraska in the Platte River valley of south central Nebraska. The farmer-owned popcorn processor represents more than 1,000 member farmers through their Coop ownership. Approximately 30 professional farmers from that pool supply the raw popcorn that is processed.

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Originating Office
The Mid-America International Agri-Trade Council (MIATCO)
(312) 944-3030 (January, 2000)

Region: Mid-America International Agri-Trade Council (MIATCO)
Company Name: Nutra-Flo Company
Address: 216 Cunningham Dr, Sioux City, IA 51106
Congressional District: IA 05
Contact: Gerry Keller, Division Manager
Phone: 712.277.2011
Targeted Market(s): Global

MIATCO Company Wins Iowa Exporting Award, Impacts Local Economy

Nutra-Flo Company, a participant in MIATCO's Branded Program, was one of four recipients of the "1999 Governor's Export Award." The company, which began exporting only three years ago, now derives 10% of overall sales from international markets.

"MIATCO's Branded Program has been an integral part of our growth, helping us set up advertising and marketing programs in many of our overseas markets," according to Nutra-Flo's Division Manager Gerry Keller. With the funding support of the program, he says, exports have grown steadily in many overseas markets. He cites Taiwan and Thailand as good examples, where sales from 1998 to 1999 tripled and quadrupled, respectively.

Nutra-Flo's overseas growth has significantly impacted the local Iowa economy. To accommodate their growth, the company has expanded their Sioux City manufacturing facility twice and already hired 5 – 6 new full-time employees. A third expansion is in progress, with plans to hire several more employees. In addition, several of the company's vendors have cited a 'dramatic increase in the volume of business with Nutra-Flo in the last 18 months' because of their increased export sales.

Nutra-Flo Company, founded in 1926, is a manufacturer of animal feeds and fertilizer products. The company currently has 104 full-time employees.

MIATCO, or the Mid-America International Agri-Trade Council, is a private, non-profit association of twelve Midwest state agricultural promotion agencies that uses federal, state and industry resources to promote the export of Midwestern food and agricultural products. MIATCO administers its Branded Program (a cost-share funding program) through Market Access Program (MAP) funding from the USDA's Foreign Agricultural Service (FAS).

Originating Office
The Mid-America International Agri-Trade Council (MIATCO)
(312) 944-3030 (August, 1999)

Region: Mid-America International Agri-Trade Council (MIATCO)
Company Name: SK Foods International
Address: 116 ½ N 6th St
Congressional District: ND 01
Contact: Jennifer Tesch, Marketing Manager
Phone: 701.642.3929
Targeted Market(s): Worldwide

Export Assistance Programs Help North Dakota Company Grow Exports

An active participant in a variety of federally-funded export assistance programs, SK Food International has increased its export sales every year since its inception in 1990. The company credits the support received from these programs as a major contributor to its ongoing success.

"The export programs we've participated in have really benefited our company," says Jennifer Tesch, the company's marketing manager. "They've provided us with great opportunities to learn about overseas markets and to promote our products internationally. We are thankful for the support, and glad that we've been able to take advantage of it."

One initiative that has helped SK Food International establish new overseas customers and build its overseas business is the ongoing U.S. "Organic Export Initiative" (co-sponsored by MIATCO in conjunction with the other State Regional Trade Groups/SRTGs). The company has successfully used the promotions in Japan and Europe as a platform to test-market their organic products, and then (in subsequent years) to travel to the market to meet prospective partners in person.

The company also utilizes funding from MIATCO's cost-share Branded Program to target new markets and expand the reach of its international marketing campaign. The funding support, according to Tesch, is a big help for a company like SK Food International, and allows them to promote their products abroad more aggressively.

Finally, the company actively uses the USDA Buyer Alert Program to receive trade leads on a weekly basis. "We use the leads extensively," according to Tesch. "They're an extremely helpful tool to help us identify trade leads and follow-up with potential overseas customers."

SK Food International is based in Wahpeton, North Dakota. The company exports a variety of certified organic and non-organic branded retail products, as well as food grade speciality commodities, to several overseas markets.

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<u>Originating Office</u>
The Mid-America International Agri-Trade Council (MIATCO)
(312) 944-3030 (January, 2000)

Contact: Donna Fitch
Annie's Naturals
792 Foster Hill Road
North Calais, VT 05648
802 456-8866, x310
fax 802 456-8865
Congressional District: VT01

Annie's Naturals Extends Its International Reach:

Annie's Naturals, a family-owned company with only 13 employees, has made great strides in its export endeavors. This small Vermont company, a producer of natural organic salad dressings, recently added three new UK distributors after attending the Natural Products 2000 trade show in London where staff exhibited product with the help of the Market Access Program (MAP). Management credits MAP support as a catalyst for the company's export success, noting that salad dressing sales to the UK increased two and one-half times in less than a year, jumping from $7,166 in 1999 to $17,957 at the end of November 2000. In addition, the company made significant contacts with distributors in Germany and the Netherlands while exhibiting at the show. Contacts have also been made in Canada where Annie's doubled its product line from 6 to 10 dressings plus 2 new BBQ sauces in the past year. Annie's hopes to see a greater expansion of product lines and a further increase in sales through continued use of MAP Branded Program funds and participation in various organic and natural trade shows through the Generic Program at Food Export USA Northeast.

Coalition to Promote U.S. Agricultural Exports

STATEMENT BY
COALITION TO PROMOTE U.S. AGRICULTURAL EXPORTS
TO THE
COMMITTEE ON AGRICULTURE, NUTRITION,
AND FORESTRY
U.S. SENATE

APRIL 25, 2001

As members of the Coalition to Promote U.S. Agricultural Exports, we commend the Chairman and members of the Committee for their interest and support of U.S. agriculture and express our appreciation for this opportunity to share our views.

The Coalition to Promote U.S. Agricultural Exports is an ad hoc coalition of over 80 organizations, representing farmers and ranchers, cooperatives, small businesses, regional trade organizations, and the State Departments of Agriculture (see attached). We believe the U.S. must continue to have in place policies and programs that help maintain the ability of American agriculture to compete effectively in a global marketplace still characterized by subsidized foreign competition.

Farm income and agriculture's economic well-being depend heavily on exports, which account for one-third or more of domestic production, provide jobs for millions of Americans, and make a positive contribution to our nation's overall trade balance. In 2001, U.S. agriculture exports are projected to be around $53 billion, down $7 billion from 1996. This is caused by a combination of factors, including continued subsidized foreign competition and related artificial trade barriers. U.S. agriculture's trade surplus is also expected to be about $13 billion, down over 50 percent from 1996, with continued low commodity prices also forecast.

According to recent USDA information, the EU and other foreign competitors are outspending the U.S. by a factor of 20 to 1 with regard to the use of export subsidies and other expenditures for export promotion. In 1998 (the most recent year for which data is available), in addition to spending $6 billion in export subsidies, our leading foreign competitors spent a combined $1 billion on various activities to promote their exports of agricultural, forestry, and fishery products, including some $379 million by the EU.

According to USDA, spending by these competitor countries on market promotion increased by 50% over the 1995-98 time period, while U.S. spending remained flat. We have no reason to believe that this trend has changed since then. Furthermore, almost all of this increase has been directed to the high-value and consumer-ready product trade.

Information compiled by USDA also shows that such countries are spending over $100 million just to promote sales of their products in the United States. In other words, they are spending more to promote their agricultural exports to the United States, than the U.S. currently spends

($90 million) through MAP to promote American-grown and produced commodities worldwide! In FY 1999, the U.S. recorded its first agricultural trade deficit with the EU. In FY 2000, that trade deficit nearly doubled to $2 billion.

Because market promotion is a permitted "green box" activity under World Trade Organization (WTO) rules, with no limit on public or producer funding, it is increasingly seen as a centerpiece of a winning strategy in the future trade battleground. Many competitor countries have announced ambitious trade goals and are shaping export programs to target promising growth markets and bring new companies into the export arena. European countries are expanding their promotional activities in Asia, Latin America, and Eastern Europe. Canada, Australia and New Zealand have also sharply bolstered their export promotion expenditures in recent years.

As the EU and our other foreign competitors have made clear, they intend to continue to be aggressive in their export efforts. For this reason, we believe the Administration and Congress should immediately strengthen funding for MAP and other export programs, and ensure that such programs are fully and aggressively utilized. Since MAP was originally authorized, funding has been gradually reduced from a high of $200 million to its current level of $90 million—a reduction of more than 50 percent. Again, given what our foreign trade competitors are doing, we believe it's time to restore funding for this vitally important program up to its original level. American agriculture is the most competitive industry in the world, but it can not and should not be expected to compete alone against the treasuries of foreign governments.

In order to reverse the decline in funding over the past decade for a number of our agricultural export programs, the Coalition is strongly supporting legislation (S. 366) introduced by Senators Murray (D-WA) and Craig (R-ID), et al. that would authorize no less than $90 million and up to $200 million per year for MAP. The bill would also provide a minimum of $35 million for the Foreign Market Development (FMD) Cooperator Program for cost-share assistance to help boost U.S. agriculture exports. Further, it would allow up to 50 percent of available funds under the Export Enhancement Program (EEP) to be used for related market development and promotion activities.

Both MAP and FMD are administered on a cost-share basis with farmers and other participants required to contribute up to 50% of their own resources. These programs are one of the few tools specifically allowed under the Uruguay Round Agreement to help American agriculture and American workers remain competitive in a global marketplace still characterized by subsidized foreign competition. By any measure, they have been tremendously successful and extremely cost-effective in helping maintain and expand U.S. agricultural exports, protect American jobs, and strengthen farm income. In addition to helping achieve these objectives, enactment of S. 366 would provide needed flexibility to respond to changing market conditions and capitalize on potential new market opportunities. It would also send a powerful message to our foreign competitors and strengthen the U.S. negotiating position in future trade talks.

For all these reasons, we want to emphasize again the need to help strengthen the ability of U.S. agriculture to compete effectively in the global marketplace. As a nation, we can work to export our products, or we can export our jobs. USDA's export programs, such as MAP and FMD, are a key part of an overall trade strategy that is pro-growth, pro-trade and pro-job.

Again, as members of the Coalition to Promote U.S. Agricultural Exports, we appreciate very much this opportunity to share our views and we ask that this statement be included in the official hearing record.

Coalition to Promote U.S. Agricultural Exports

COALITION MEMBERSHIP
2001

Alaska Seafood Marketing Institute
American Forest and Paper Association
American Hardwood Export Council
American Meat Institute
American Peanut Council
American Quarter Horse Association
American Seed Trade Association
American Sheep Industry Association
American Soybean Association
American Vintners Association
APA – The Engineered Wood Association
Blue Diamond Growers
Calcot, Ltd.
California Asparagus Commission
California Canning Peach Association
California Cling Peach Advisory Board
California Date Commission
California Kiwifruit Commission
California Pistachio Commission
California Plum Marketing Board
California Prune Board
California Tomato Commission
California Walnut Commission
Chocolate Manufacturers Association
CoBank
Diamond of California
Farmland Industries, Inc.
Florida Citrus Mutual
Florida Citrus Packers Association
Florida Citrus Processors Association
Florida Department of Citrus
Food Export USA - Northeast
Georgia Poultry Federation
Ginseng Board of Wisconsin
Gulf Citrus Growers Association
Highlands County Citrus Growers Association, Inc.
Hop Growers of America
Indian River Citrus League
International American Supermarkets Corporation
Kentucky Distillers Association
Land O'Lakes, Inc.
Mid-America International Agri-Trade Council
Mohair Council of America
National Association of State Departments of Agriculture
National Association of Wheat Growers
National Barley Growers Association
National Cattlemen's Beef Association
National Confectioners Association
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Dry Bean Council
National Grange
National Grape Cooperative Association, Inc.
National Grain Sorghum Producers
National Hay Association
National Milk Producers Federation
National Pork Producers Council
National Potato Council
National Renderers Association
National Sunflower Association
North American Millers' Association
Northwest Horticultural Council
Peace River Valley Citrus Growers
Pet Food Institute
Produce Marketing Association
Sioux Honey Association
Softwood Export Council
Southern Forest Products Association
Southern U.S. Trade Association
Sunkist Growers
Sun Maid Growers of California
Sunsweet Growers, Inc.
The Farm Credit Council
The Popcorn Institute
Tree Top, Inc.
United Egg Association
United Egg Producers
United Fresh Fruit and Vegetable Association
USA Dry Pea and Lentil Council
USA Poultry & Egg Export Council
USA Rice Federation
U.S. Apple Association
U.S. Dairy Export Council
U.S. Grains Council
U.S. Livestock Genetics Export, Inc.
U.S. Meat Export Federation
U.S. Rice Producers Association
U.S. Wheat Associates
Vinifera Wine Growers Association
Washington Apple Commission
Wine Institute
Western Pistachio Association
Western U.S. Agricultural Trade Association
Wheat Export Trade Education Committee

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THE OECD PROPOSED AGREEMENT ON EXPORT CREDITS IS A THREAT TO OUR GSM PROGRAMS AND US AGRICULTURE

TESTIMONY BY DOUGLAS SIMS CHIEF EXECUTIVE OFFICER OF COBANK

BEFORE THE UNITED STATES SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

APRIL 25, 2001

Mr. Chairman, my name is Doug Sims. I'm the chief executive officer of CoBank. In response to the Committee's invitation, we are pleased to submit this testimony focusing on the importance of the GSM export loan guarantee programs to U.S. agriculture. Trade is critical to the agricultural economy and trade financing is a key part of CoBank's business. We look forward to providing the Committee with our views on the wider array of trade issues facing U.S. agriculture at a later date.

With $24 billion in assets, CoBank is the largest bank in the Farm Credit System. We provide financial services to about 2,600 customers, who are also our member-owners. These member-owners include farmer-owned cooperatives, rural telecommunication companies, and electric systems. We also provide financing to support the export of agricultural products.

CoBank has offices in Singapore, Mexico City, and Buenos Aires, as well as throughout the United States. We have correspondent banking relationships with more than 500 banks in 80 countries and have financed the export of a wide variety of agricultural products—everything from apples to wheat and chicken feet to recycled telephone poles.

Historically, CoBank has been an important lending institution in the GSM loan guarantee programs. Since 1982, the bank has provided about $25 billion in loans to support the export of agricultural products. About 90 percent of this financing has been provided in connection with a GSM loan guarantee.

In one important respect, CoBank is different from every other bank that operates in the international marketplace. We are involved in an international transaction only when a foreign purchaser wants to acquire a U.S. agricultural product. International banks will aggressively pursue the opportunity to finance a country's purchase of a product without regard to the origin of the product. CoBank is unique because we are in the business of supporting U.S.-origin agricultural products. Moreover, our owners are the producers of those products.

I would like to comment on three topics: (1) the importance of the GSM programs in opening foreign markets to U.S. products; (2) trade negotiations involving the Organization for Economic Cooperation and Development (OECD) that threaten the viability of the GSM programs; and (3) the value of the GSM programs from the perspective of a foreign purchaser.

The GSM Programs Open and Develop Markets

The GSM program continues to be a critical tool in opening and maintaining markets for U.S. agricultural products. The world market for agricultural products tends to move in cycles much like the agricultural economy itself. As economic and weather conditions change, the users of the program change to reflect those new conditions.

For example, ten years ago Korea was a major user of GSM loan guarantees. It was the GSM program that was instrumental in introducing Korean consumers to U.S. food products. As the Korean economy grew, that nation began making cash purchases of imported food—the volume and value of U.S. products being purchased was increasing and the need for financing was decreasing. However, the recent Asian financial crisis has caused Korea to once again begin making use of the GSM program. The point is the GSM program has been a critical tool for ensuring access for U.S. exports to this important market, no matter where that country is in the economic cycle.

Another example of the benefits of being a reliable trade partner is Mexico. Mexico was one of CoBank's first international customers. Some of our oldest international correspondent banking relationships are with Mexican banks.

With the help of the GSM programs, CoBank and our customers have been able to sell products in Mexico as that country has weathered some fairly serious economic conditions. During some of those downturns in the business cycle, other banks and countries abandoned the Mexican market. GSM financing, however, has helped to ensure that U.S. agricultural products have continued to be available in the market—in good times and in bad.

The result is that Mexican banks and food purchasers have a high degree of loyalty and confidence in the ability of the US to meet their agricultural importing needs. It's difficult to put a dollar value on that kind of relationship. However, we know with certainty that Mexico, and many other countries, when all other things are equal, will choose to do business with suppliers and countries that see benefit in long-term relationships.

For these reasons, the GSM program is an important tool we need to have available at all times—regardless of the economic cycle. It would be very shortsighted to curtail the program or bargain away its key benefits to U.S. agriculture and exporters during trade negotiations because of market conditions at a particular point in time. Market conditions and needs change, sometimes rapidly, and the availability of the GSM programs is an important tool that gives us much needed flexibility at minimum cost.

OECD Draft Proposal will Harm U.S. Farmers

Recently, the U.S. has had to defend the GSM program in trade negotiations. In particular, some of our competitors have been calling for a maximum tenor (i.e., the duration of the loan) for export credit guarantees on all commodities (especially grains) of 6 months. Unfortunately for U.S. farmers, the U.S. negotiators have indicated they are willing to accept tenors of 18 months for most food products.

The U.S. negotiating position might be defensible if our nation's farmers were getting something tangible in return. That is not the case. The billions of dollars in agricultural export subsidies provided by the European Union will be untouched. The credit programs and trade-distorting practices of the state trading enterprises run by Canada and Australia will be left largely unaffected. In fact, the only thing we know with any degree of certainty is that if the U.S. accepts the current OECD proposal, opponents to our GSM program will simply have a better starting point for further reductions to our program, which they have promised to pursue in full WTO negotiations.

Before the Administration makes a final determination about its position on any OECD draft agreement, the Department of Agriculture should provide the agriculture community with answers to the following questions:

- What does USDA project will be the reduced use of the GSM program (and subsequent reduction in U.S. exports) as a result of the tenor changes?

- What analysis does USDA have to indicate that the GSM program will still be an effective program to maintain and increase U.S. agricultural exports with the reduced tenors?

The following chart illustrates just how important 36-month tenors were in making the GSM program an effective export tool in fiscal year 2000. It should also be noted that only $19.4 million in agricultural products were sold using GSM loans with a tenor of 18 months or less. The OECD draft proposes a standard for loan tenors that was used for less than 1 percent of the product sold using the GSM programs in 2000.

Product	$ shipped	% of program	% sold at 2+ years	% sold at 3 years
Oilseeds and protein meals	951.4	32.5%	99.9%	56.2%
Feed Grains	701.8	24.0%	99.6%	39.4%
Wheat Products	435.0	14.9%	100.0%	51.8%
Cotton	377.8	12.9%	100.0%	55.9%
Rice	65.7	2.2%	77.0%	73.1%
totals	2,531.7	86.5%	99.3%	47.7%

The OECD is also considering a proposal that will likely increase the fees (premiums) charged on GSM transactions by, for the first time, requiring risk-based fees. These risk-based fees could increase the cost of U.S. exports under GSM, making them non-competitive in world markets. The current fee structure has been instrumental in the program's success and after making adjustments for war-related losses and reschedulings, fees collected have fully paid for the operation of the program. Increased fees, coupled with tenor reductions, will make the program completely ineffective in U.S. efforts to maintain or increase U.S. agricultural exports.

- What assurance can USDA provide that the average fee charged will not be increased?
- Wouldn't it be appropriate to know the proposed fee schedule prior to agreeing to other terms that weaken the program?
- The draft agreement contemplates that the Congress will amend GSM authorities to remove the current cap on GSM fees. How high above the current statutory cap will fees rise?
- What analysis does USDA have to illustrate the effectiveness of the GSM program with reduced tenors and higher fees?

In summary, we are very concerned that the current draft OECD agreement will effectively render the GSM program useless for U.S. agriculture. The agreement asks U.S. agriculture to surrender one of our most effective trade tools, while our international competitors give up none of their massive export subsidies.

It makes no sense to give up so much on GSM in return for little or nothing now, when our trading partners have made clear that they expect to get a second bite at what's left of the GSM apple when serious WTO discussions begin in November. Why not wait until November to discuss GSM concessions in the context of negotiations in which we can get something in return?

We believe that it would be a serious mistake for our government to enter into such an agreement before performing a detailed analysis of the effects that the agreement will have on U.S. agricultural exports and GSM utilization. We are urging the Bush Administration to make such an analysis public and to carefully consider the damage that would be done to U.S. exports if the GSM program were rendered ineffective.

Attached to this testimony is a paper that raises other questions and issues relating to the OECD negotiations. Some members of Congress have already begun to raise these and related issues with USDA, and we are hopeful that the Bush Administration will reconsider the U.S. negotiating position that has been developed over the past 18 months.

The Value of the GSM Program to Purchasers

We would urge the Administration and other interested parties to take a position that recognizes the critical importance of tenor to the foreign purchaser's decision whether or not to purchase U.S. farm products. In many cases, the tenor of the financing is the factor that determines who will ultimately make the sale. Tenor of the financing is often more important than the price of the product or the interest rate on the loan.

The maximum three-year tenor of GSM financing is critical to the program's success. GSM provides for tenors that are typically unavailable in the market, and this is a crucial strength of the program. Shortening the tenor of GSM-supported financing substantially decreases its economic benefit and the attractiveness of U.S. products. Limiting GSM to shorter tenors undermines the value of the program by removing the economic incentive for a foreign bank and its customers to purchase U.S. agricultural products. The current two-year tenors in Mexico and Korea and other markets already adversely affected export volumes to these markets. We believe that USDA should aggressively use the GSM program at longer tenors that will expand markets for U.S. agricultural products.

Thank you for the opportunity to provide this testimony.