FOREIGN SUBSIDIES: JEOPARDIZING FREE TRADE AND HARMING AMERICAN FARMERS

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

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CONTENTS

FOREIGN SUBSIDIES: JEOPARDIZING FREE TRADE AND HARMING AMERICAN FARMERS

WEDNESDAY, OCTOBER 21, 2015

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Committee met, pursuant to call, at 10:00 a.m., in Room 1300 of the Longworth House Office Building, Hon. K. Michael Conaway [Chairman of the Committee] presiding.

Members present: Representatives Conaway, Goodlatte, Lucas, King, Austin Scott of Georgia, Crawford, Hartzler, Benishek, LaMalfa, Yoho, Allen, Bost, Rouzer, Abraham, Moolenaar, Newhouse, Kelly, Peterson, Walz, McGovern, DelBene, Vela, Lujan Grisham, Kuster, Nolan, Kirkpatrick, Aguilar, Plaskett, Adams, Graham, and Ashford.

Staff present: Bart Fischer, Callie McAdams, Haley Graves, Matt Schertz, Mollie Wilken, Scott C. Graves, Skylar Sowder, Faisal Siddiqui, John Konya, Andy Baker, Mary Knigge, Mike Stranz, Nicole Scott, and Carly Reedholm.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

The CHAIRMAN. All right, good morning everybody. We will start the hearing. I have asked Ralph Abraham to open with a quick prayer. Ralph.

Mr. ABRAHAM. Well, let's pray. Heavenly Father, we certainly appreciate the beautiful day you have afforded us, and thank you for the bounty that this nation provides us on a daily basis. We ask for your wisdom and understanding as we go through this hearing, this week, and this month. And we ask these things in Jesus' name. Amen.

The CHAIRMAN. Thank you, Ralph.

This hearing of the Committee on Agriculture regarding foreign subsidies jeopardizing free trade and harming American farmers, will come to order.

The purpose of today's hearing is to examine the high and rising foreign subsidies, tariffs, and other barriers to trade and their impacts on American farmers and ranchers and the future of free trade.

As you will recall, on June 3, this Committee held a hearing where witnesses catalogued the actions major foreign competitors around the world are taking to support their agricultural industries. In that hearing, we explored the findings of several studies indicating that already high foreign tariffs, subsidies, and trade barriers are on the rise. We learned that in many cases, what foreign countries are doing is patently illegal under their World Trade Organization commitments, while in other instances, foreign countries are extending support to their agricultural sectors in ways that fly below the radar of WTO discipline. And still in other cases, we learned of countries getting a free pass to ignore WTO rules by declaring themselves *developing,* despite these countries having very mature, strong, and in some cases, globally dominant agricultural sectors.

Today, we are going to hear from a panel of witnesses who will testify to the very tangible impacts of these foreign countries' activities on America's farmers and ranchers.

Based on the written testimony of our witnesses, this hearing will give those who doubt the need for U.S. farm policy a glimpse into what American farmers and ranchers are up against every single day. Their testimony is also a warning to our nation's trade negotiators that patience in a sector critical to passing future trade agreements is wearing thin.

In 1993, Trade Promotion Authority, or TPA, was approved in the Senate by a vote of 76 to 16, and in the House by a vote of 295 to 126. At that time, TPA won overwhelming majorities of Democrats and Republicans. But in this Congress, TPA was approved in the Senate by a margin of 60 to 38, and the House by a margin of only 218 to 208.

The Senate's relatively healthy vote in support of TPA this Congress betrays the significant shift that has taken place over the last 23 years. A substantial majority of Democrats in both chambers and an increasing number of Republicans opposed TPA this go around. And, of course, in the House, TPA barely passed.

Now, the Trans-Pacific Partnership has just concluded, but many question whether the newly minted agreement will have to wait until a lame duck session of Congress for consideration. Some speculate that Congressional consideration of TPP could just as easily slip into 2017.

In short, it doesn't take a trade expert to recognize that these are not good omens for the future of our nation's trade agenda. Put simply: Americans are losing confidence in our trade deals.

Now, I want to be clear that my aim here is not to place blame. This is a problem that has been brewing for a long time, and I am sure that there is plenty of blame to go around, but, I will offer one remedy. Our government must begin to take on those who are cheating on their trade commitments. These actions by our foreign competitors are undermining our trade agenda and, as we will hear in testimony today, cheating by foreign countries is also causing serious injury to our nation's farmers and ranchers.

In the case of cotton farmers, who are substantially excluded from the farm bill's safety net, these producers have been whipsawed by Communist China's erratic policies. China has driven global cotton prices to record highs, only to then send them into a total free-fall. Despite these circumstances, there is little to no help for American cotton producers made available under the farm bill.

There are a limited number of things that Members of Congress can do to draw attention to this serious situation. First, we can highlight the cheating going on around the world and to understand how it is harming the American people, jobs, and our economy, much like we are going to do today. Although, perhaps in the future we will need to explore taking more formal, legislative action to ensure our point is made and our rights under various trade agreements are enforced. In this regard, I really want to commend U.S. sugar farmers for banding together in successfully stopping the illegal dumping that was occurring back in 2013.

Second, in the case of agriculture, we can maintain a strong U.S. farm policy and, when warranted, we can further strengthen that policy in order to give our farmers a fighting chance against the cheating that is going on.

For the good of free trade, for the good of our farmers and ranchers, and for the good of our nation's economy and jobs, business as usual is no longer good enough. Things must change. Our agreements must be enforced.

I hope that one day our trade agenda is able to zero out subsidies, tariffs, and other trade barriers around the world, including those here at home. But, until that day becomes a reality, we cannot and we will not unilaterally disarm America's farmers and ranchers.

[The prepared statement of Mr. Conaway follows:]

Prepared Statement of Hon. K. Michael Conaway, a Representative in Congress from Texas

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For the good of free trade, for the good of our farmers and ranchers, and for the good of our nation's economy and jobs, business as usual is no longer good enough. Things must change. Our agreements must be enforced.

I hope that one day our trade agenda is able to zero out subsidies, tariffs, and other trade barriers around the world, including here at home. But, until that day becomes a reality, we cannot and we will not unilaterally disarm America's farmers and ranchers.

With that, I recognize Ranking Member Peterson for any comments he would like to make.

The CHAIRMAN. With that, I recognize Ranking Member Peterson for any comments he would like to make.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman. And I am pleased that we could follow up on what I thought was a good discussion in June. As I said then, we need to keep a close eye on how the countries subsidize agriculture, and this is especially important to keep in mind during our debates on the farm safety net. We need a level playing field if we are going to be able to be competitive in the global market.

Today's hearing will cover a broad array of subsidies, ranging from dairy support programs in Canada and the EU; sugar subsidies in Brazil, Thailand, India, Mexico, and the EU; and subsidies for wheat, corn, rice, and cotton in China, India, and Turkey. We hope we can also continue the discussion that began last hearing on this issue about the impact of advanced developing countries increasing their subsidies. Again, I don't think it is fair for the developing countries, no matter how advanced, that they can designate themselves for special treatment. I also think it is time for the United States to start challenging those countries that fail to meet their WTO commitments.

So I look forward to the testimony. I yield back.

The CHAIRMAN. I thank the gentleman for his comments.

The chair would request that other Members submit their opening statements for the record, so our witnesses may begin their testimony, and to ensure there is adequate time for questions.

I would like to welcome to our witness table today Dr. Dermot Hayes, Professor and Pioneer Chair in Agribusiness, Iowa State University in Ames, Iowa. Dr. Gary Adams, President and Chief Executive Officer at the National Cotton Council, Cordova, Tennessee. Mr. Jack Roney, Director of Economics and Policy Analysis, American Sugar Alliance, here in Arlington, Virginia. Mr. Jaime Castaneda, Senior Vice President, Strategic Initiatives & Trade Policy, National Milk Producers Federation, Arlington, Virginia.

Dr. Hayes, the floor is yours for 5 minutes.

STATEMENT OF DERMOT J. HAYES, PH.D., PIONEER HI-BRED INTERNATIONAL CHAIR IN AGRIBUSINESS, PROFESSOR OF FINANCE, AND PROFESSOR OF ECONOMICS, DEPARTMENTS OF ECONOMICS AND FINANCE, IOWA STATE UNIVERSITY, AMES, IA

Dr. HAYES. Chairman Conaway, Ranking Member Peterson, and Members of the Committee, thank you for your continued attention to this important issue.

As you mentioned, Craig Thorn documented subsidies in China, India, and Turkey from last year and showed that those countries are manipulating their internal markets to achieve self-sufficiency or greater. And the way they do that is to subsidize inputs such as fertilizer and seed, and on the output side they manipulate their domestic markets so that the farmers receive a price that is typically higher than the world price.

As a follow-up to that study, National Wheat Associates asked us to run a model to calculate the impact of that on the world wheat market. The model we used is called the CARD–FAPRI model that we built at Iowa State University of Missouri over the last 30 years, and Dr. Adams to my left here, spent many years working on the crop side of that model. I think the model is conservative and it has been proven to be reliable.

So in one scenario, we removed the input subsidies and domestic market supports in four countries, and examined what would happen to U.S. wheat prices and exports, and the results suggested that U.S. wheat prices would, in 2013, have been about five percent greater, and U.S. exports about nine percent greater. So those countries alone are costing the U.S. wheat industry about $1 billion. We did not do those numbers for corn, but I am familiar with the corn policies in those countries, and I would argue that the impact on the corn market has been even greater.

And the other point I would like to make is that we in the U.S., we do have domestic support programs, but in the last farm bill we eliminated the distortions caused by those programs by tying the payments to historic acres and historic yields, rather than current acres and current yields. So there is a vast difference from an economic perspective between a program that guarantees a price for every bushel produced in a particular country, compared to one where the support is based on historic production and historic yields. Economists would say that that is not a starting program.

I will finish my remarks by the following. Being in Iowa, I sense an enormous amount of support for TPP. It is a good deal, especially for livestock producers, but there has to be an understanding that when we make these agreements that people will follow through and police them. And I suspect that support from farm states may be enough to push that deal over the edge, but it is important for those producers who lead those charges to know that they can then expect the benefits that have been modeled and predicted. I think it is great that your Committee has decided to ensure that these commitments are being met because, in the absence of that, you would lose the trust of the producers and their support for these agreements.

Thank you.

[The prepared statement of Dr. Hayes follows:]

PREPARED STATEMENT OF DERMOT J. HAYES, PH.D., PIONEER HI-BRED INTERNATIONAL CHAIR IN AGRIBUSINESS, PROFESSOR OF FINANCE, AND PROFESSOR OF ECONOMICS, DEPARTMENTS OF ECONOMICS AND FINANCE, IOWA STATE UNIVERSITY, AMES, IA

Chairman Conaway, Ranking Member Peterson, and Members of the Committee—thank you for holding this hearing and for the invitation to testify this morning. This is an important topic, and I appreciate your continued attention to and interest in the impact of other countries' domestic support programs on U.S. agricultural producers. My name is Dr. Dermot Hayes, and I am the Pioneer Chair of Agribusiness at Iowa State University, as well as a Professor of Economics and Finance.

As this Committee heard this past summer from Craig Thorn with DTB Associates, several advanced developing countries like China, India, Turkey, and Brazil have structured their agricultural support programs in ways that lead their farmers to over-produce and subsequently deflate the price of some commodities on the world market, particularly for wheat, corn, and rice.

Earlier this year, I was asked by U.S. Wheat Associates to conduct a study to quantify the economic impact of those countries' support programs on U.S. producers. Last month, I joined with U.S. Wheat and the National Association of Wheat Growers (NAWG) in releasing the study, which included a briefing for this Committee and the Administration, as well as a press conference to share the findings.

The predominant forms of support in these particular countries are input subsidies as well as market interventions aimed at ensuring a minimum price. These minimum prices supports often significantly above the world prices. In using a model that was developed by Iowa State's Center for Agriculture and Rural Development (CARD) and the Food and Agricultural Policy Research Institute (FAPRI), I looked at what would happen if price supports and input subsidies in Brazil, China, India and Turkey were removed, and what the resulting impact would be on production, trade, and prices in the U.S. and globally.

The "CARD–FAPRI model" is a system of econometric, multimarket, price driven models of global agriculture, and it incorporates all major temperate crops, sugar, biofuels, dairy, and livestock and meat products for all major producing and consuming countries. The model captures derived demands for feed for livestock, feedstock for biofuels, substitution between similar products, and competition for land. This model is able to generate 10 year baseline projections of supply, utilization and prices for major agricultural commodities, and can be used to evaluate the impact of policy changes.

In this study, we evaluated the impact of the removal of support prices and input subsidies in each country individually, as well as the net impact of the removal of these support programs in all four countries combined.

These four countries play a particularly important role in the world wheat market, and, as the DTB study showed, they have recently ramped up their trade distorting support policies in recent years; DTB found that a few of these countries had dramatically increased the minimum government support for wheat by as much as $50 to $100 per metric ton since their last study in 2011. The econometric study, which I have enclosed with this testimony,* illustrates that if the trade-distorting

* The document referred to is retained in Committee files.

programs were removed in all four of these countries, global wheat prices would increase by almost 5%, with U.S. net exports increasing by over 9%. Ultimately, this means that U.S. wheat farmers are missing out on nearly a billion dollars a year in lost revenue as a result of depressed market prices. If such policies are removed in a country, it would lead to reduced domestic production and increased domestic consumption in that country, which could mean new trade opportunities for U.S. producers with those countries. Given the similarities in wheat and corn policies I suspect that the results for corn would have been very similar.

In conducting this analysis, my goal was to provide an accurate picture of the impact of subsidies that are structured in such a way that they distort markets. It is important to recognize, that the manner in which a country subsidizes its producers can have a significant impact on world markets. These four particular countries have continually exceeded their trade commitments, and a result, driven down prices received by our producers.

The U.S. International Trade Commission recently conducted a comprehensive investigation of the competitiveness of the U.S. rice industry in response to a request from Ways and Means Committee Chairman Camp. This investigation, *Rice: Global Competitiveness of the U.S. Industry,* was published in April 2015 and included a quantitative assessment of the impact of government programs on the global rice market using the RiceFlow model developed by the University of Arkansas's Department of Agricultural Economics and Agribusiness. The Commission modeled the impact on global rice production and trade from the elimination of six policy instruments (including producer price, factor input and intermediate input supports; consumption support, tariffs and export taxes) across 11 countries including the United States and three of the four countries covered in DTB's report. The USITC staff conducted several simulations and the results are documented in the investigation report. The results indicate global disruptions caused by foreign government rice policies that hurt U.S. producers. Here are the key findings:

Elimination of all barriers except tariffs would have increased U.S. paddy production by 182,000 metric tons (almost three percent) and increased exports by the same amount (almost six percent). Eliminating tariffs in addition to removing other support policies would have led to an expansion in U.S. production of over 1.3 million metric tons (over 21 percent) and a rice in exports of 1.4 million metric tons (about 45 percent).Under WTO rules, participating countries agree to limit various types of programs, based on the degree to which they are considered to be trade-distorting. In the U.S., the new programs created in the Agricultural Act of 2014—the Agriculture Risk Coverage (ARC) program and the Price Loss Coverage (PLC) program—are structured in such a way that payments are decoupled from current planting decisions. Additionally, the Federal Crop Insurance Program helps farmers manage yield and revenue risk through a market-based system. As a result U.S. farm programs are not currently viewed as trade distorting. Additionally, the United States has always met its notification commitments, and has never exceeded its Aggregate Measure of Support (AMS) limit. An outside observer would look at our Price Loss Coverage program, which is a reference price program, and think that this is the same thing as the price supports utilized by these other countries. What isn't always noted is that our PLC program is structured in a way that payments are decoupled and based on historical information for a particular producer. It's essentially a different program from the minimum government price support programs of these other trade-distorting countries.

In developing my econometric study, I'm hopeful that I've been able to provide you with useful insight into why particular types of programs, like input subsidies and price supports, can cause distorted markets and ultimately drive down revenue for U.S. producers. Crop prices have fallen significantly since the DTB study was completed and I am sure that the distortive effect of these minimum price programs has actually increased in recent years.

Let me finish with an observation. U.S. farmers appear to be highly supportive of TPP and I suspect that this support will be pivotal in getting this agreement through Congress. It is important that our crop and livestock producers know that commitments made during these agreements will be met. If countries continue to find ways to offset the concessions made during agreements there will be little reason for them to continue to support trade liberalization.

The CHAIRMAN. Thank you, Dr. Hayes.

Dr. Adams, for 5 minutes.

STATEMENT OF GARY M. ADAMS, PH.D., PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL COTTON COUNCIL, CORDOVA, TN

Dr. ADAMS. Well, thank you, Chairman Conaway, Ranking Member Peterson, and Members of the Committee, for the opportunity to present the views of the National Cotton Council regarding government support conveyed in other countries, and the resulting impacts on U.S. cotton producers.

Burdensome global stocks, stagnant world demand, a stronger U.S. dollar, and lower manmade fiber prices are contributing to cotton prices that are at their lowest level since 2009. U.S. producers responded to the current market situation with 2015 plantings of 8½ million acres; the lowest since 1983. U.S. cotton production of 13.3 million bales is just 12 percent of world production.

In recent years, while U.S. Government support for cotton has declined, government intervention in other countries has been on the increase. Between 2010 and 2015, India's minimum support price increased by 52 percent, with the current level between 70¢ and 80¢ per pound. Cotton farmers in India also benefit from subsidized fertilizer prices. The impacts of these subsidies are evident. Over the past decade, India's cotton area rose by 35 percent, while area outside of India fell by more than 20 percent.

China offers both tremendous challenges and tremendous opportunities. China's fiber policies have been one of the largest factors influencing cotton markets over the past 5 years. From 2011 through 2013, China supported its cotton farmers by purchasing vast amounts of production into government reserves at a price well above the world market. During that same time, China annually imported between 14 and 24 million bales from the world market. After 3 years of amassing more than 50 million bales in government reserves, China, in 2014, instituted a target price program in the Xinjiang Province with the current support level set at $1.40 per pound. At various times during the year, China will announce additional import quota above the WTO-required level. However, the process for determination of additional quota is not transparent. Due to the government-owned reserves, China is limiting import quotas to the minimum TRQ of 4.1 million bales. As a result, cotton imports in 2015 are expected to be the lowest since 2002.

Pakistan, the fourth largest cotton producer, operates a minimum support price estimated between 65¢ and 78¢ per pound. Cotton producers in Brazil receive support through a marketing program based on guaranteed prices. The program supported almost 60 percent of the 2014 crop, with a minimum guaranteed price between 55¢ and 70¢ per pound. Brazil also provides support through production financing with subsidized interest rates.

In recent years, Turkey has been the second largest export customer of U.S. cotton. Unfortunately, over the past year, Turkish authorities have been investigating U.S. cotton exporting companies to determine if U.S. cotton is being dumped into the Turkish market. While we do not believe there is any economic basis for the claims, the uncertainty of the ongoing investigation is dampening interest in U.S. cotton by Turkish mills, as current sales for this marketing year are just ⅓ of year-ago levels.

U.S. cotton farmers are competing with international cotton producers that are benefiting from higher support levels. A November 2014 report by ICAC estimated average direct assistance to cotton production across all countries at 26¢ per pound. However, for the U.S., the average support was just 7¢ per pound.

Notwithstanding the current policies that underscore the challenging condition facing U.S. producers, there are proposals within the WTO that would lead to a further imbalance in the situation. We oppose any efforts to further alter U.S. cotton policy in the WTO's upcoming ministerial conference. We believe that the actions already taken by the United States with respect to cotton policy should be more than sufficient to allow U.S. negotiators to resist any further calls for concessions on cotton. As Ambassador Froman noted before the Senate Finance Committee this past January, a defensive posture regarding U.S. cotton support is outdated, and justifies a shift in focus to other countries' status regarding their WTO obligations. We continue to urge U.S. negotiators to push other countries to be as current and as transparent as the United States with their domestic support notifications. Those continuing to call for U.S. policy changes fail to recognize the actions and impacts of other major cotton-producing countries.

I encourage this Committee and our negotiators to hold firmly to the position that ag markets have changed over the past decade, and that U.S. cotton policy has evolved in ways that far exceed the previous demands within the WTO. A cotton-specific solution focused on developed countries does not address the realities of today's global fiber markets. And to groups that continue to criticize U.S. cotton support, our message is simple: our programs are not having a detrimental impact on world markets or producers in other countries. Under the current farm bill, U.S. cotton farmers are even more attuned to market conditions, and for the U.S. cotton industry to sustain production and infrastructure, it is imperative that production and trade policies in other countries not put U.S. farmers at a disadvantage.

Thank you for the chance to make this statement. I look forward to any questions you may have.

[The prepared statement of Dr. Adams follows:]

PREPARED STATEMENT OF GARY M. ADAMS, PH.D., PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL COTTON COUNCIL, CORDOVA, TN

Introduction

I would like to thank Chairman Conaway, Ranking Member Peterson, and Members of the Committee for the opportunity to present the views of the National Cotton Council regarding government support conveyed to cotton farmers in other countries and the resulting impacts on cotton markets and U.S. cotton producers.

The National Cotton Council (NCC) is the central organization of the United States cotton industry. Its members include producers, ginners, merchants, cooperatives, warehousers, textile manufacturers and cottonseed processors and merchandisers. Cotton is a cornerstone of the rural economy in the 17 cotton-producing states stretching from Virginia to California. The scope and economic impact extends well beyond the approximately 19,000 farmers that plant between 9 and 12 million acres of cotton each year. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year. Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home furnishings are located in virtually every state. Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200,000 workers and produce direct business revenue of more than

$27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420,000 workers with economic activity well in excess of $100 billion.

Current Market Situation

Production

As the 2015 harvest progresses in the United States, producers across the Cotton Belt are facing difficult economic conditions. Cotton futures prices at the Intercontinental Exchange have traded in a sideways pattern since August 2014. With futures markets currently trading in the low to mid 60 cent range, prices are at the lowest levels since the middle of 2009. Burdensome global stocks, concerns about world demand, a stronger U.S. dollar and general price pressure in commodity markets have all played a factor in the current price environment.

In response to the weaker price conditions for cotton relative to competing crops, U.S. producers responded with plantings of just 8.5 million acres of cotton in 2015 (based on the October 2015 NASS estimates). Acreage is down in all regions, and the U.S. total is the lowest since 1983, which was a year when acreage was sharply reduced by government programs that encouraged land idling. With the lower cotton planted area, USDA estimates production of 13.3 million bales, down 18% from the 2014 crop.

With 88% of world production occurring internationally, the United States cotton sector can be heavily impacted by developments in other countries. Historically, eight countries—the United States, China, India, Pakistan, Brazil, Uzbekistan, Turkey, and Australia—account for the vast majority of world cotton production (*Figure 1*). Going a step further, the Top 5 countries account for almost 80% of the world's crop.

Figure 1. World Cotton Production, Historical 5 Year Averages and 2015

	1995–99	2000–04	2005–09	2010–14	2015
World Production (Mil Bales)	90.1	99.4	114.3	121.7	107.4
Share of World Production:					
India	14%	13%	20%	24%	27%
China	22%	25%	30%	27%	24%
United States	19%	19%	16%	13%	12%
Pakistan	9%	9%	8%	8%	9%
Brazil	2%	5%	5%	6%	6%
Uzbekistan	6%	5%	4%	3%	3%
Turkey	4%	4%	2%	2%	3%
Australia	3%	3%	1%	3%	2%

China has historically been the world's largest producer. Until 2006, the U.S. followed closely behind China, with India coming in third. Prior to 2004, India generally produced between 10–14 million bales. Starting in 2004, India significantly increased production to 19 million bales and has continued to increase each year since. For the 2015 crop year, India will be the largest cotton producer, surpassing China for the first time.

The latest USDA estimates show a drop in world cotton production to 107 million bales for 2015, which is more than 10 million bales less than last year. China is responsible for the largest decrease in production, with a drop of 4.7 million bales compared to last year. As previously mentioned, the U.S. crop is estimated to be 13.3 million bales, 3 million bales lower than last year. Pakistan's crop is projected to be about 1 million bales less in 2015. Production in India and Brazil is each expected to decline by 500,000 bales in 2015, while Turkey is projected to lower production by 400,000 bales.

Mill Use

Shifting attention to cotton consumption, world mill use for the 2015 marketing year is expected to exceed production for the first time in 6 years. In a manner similar to production, world mill use is also concentrated in a few key countries. For 2015, the leading eight countries (*Figure 2*) are expected to account for more than 85% of the world total. China maintains the top spot in terms of mill use, with a market share of 31%, which is stable relative to the previous 5 year period. India's cotton use continues to increase and now accounts for almost ¼ of the total. U.S. textile mills are expected to increase consumption in 2015, marking the fourth consecutive year of higher consumption as a result of new investment and growth in textile mills in the United States. However, cotton mill use in the U.S. remains well below levels observed in the late 1990s.

Figure 2. World Cotton Mill Use, Historical 5 Year Averages and 2015

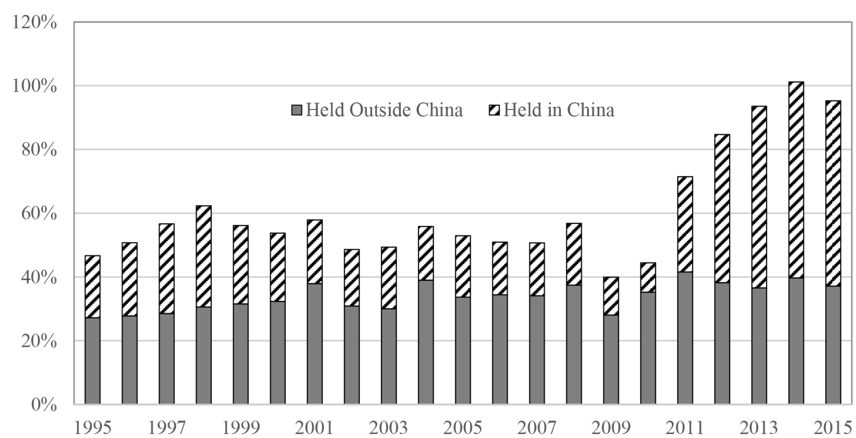
	1995–99	2000–04	2005–09	2010–14	2015
World Mill Use (Mil Bales)	87.4	98.5	119.0	109.7	112.3
Share of World Mill Use:					
China	22%	30%	42%	31%	31%
India	14%	14%	16%	18%	24%
Pakistan	8%	9%	10%	8%	10%
Turkey	5%	6%	5%	5%	6%
Bangladesh	1%	2%	3%	4%	5%
Vietnam	0%	1%	1%	2%	4%
United States	12%	7%	4%	3%	3%
Brazil	4%	4%	4%	3%	3%

Even with modest demand growth projected for the 2015 marketing year, total mill use of 112.3 million bales will be 12 million bales short of the record consumption registered in the 2006 marketing year. Reduced cotton demand relative to previous levels remains a factor contributing to the current price levels. Competition from lower-priced manmade fibers and uncertainty in the global economy make it difficult to envision a significant increase in cotton prices in the near term.

Stocks

For U.S. cotton farmers, the prospect of higher cotton prices is further challenged by a world stocks-to-use ratio that exceeded 100% in the 2014 marketing year (*Figure 3*). Current stocks-to-use ratios stand in stark contrast to historical stocks that generally ranged between 50 and 60 percent of total use. However, the recent increase in stocks was the direct result of policies in place in China for the 2011 through 2013 crops. Outside of China, stocks remain more in line with historical averages. Efforts by China to reduce the reserve level have not been successful and large ending stocks still hang over the market.

Figure 3. Cotton World Stocks-to-Use Ratio



Trade

International markets are of critical importance to the U.S. cotton industry with approximately 75% of U.S. cotton production exported. The U.S. will remain the largest exporter of cotton with 2015 shipments estimated at 10.2 million bales. China remains the largest cotton importer although they are projected to significantly lower imports given the current balance between supply and demand. In recent years, China's imports have accounted for as much as 50% of total world trade, but recent declines in their trade position has lowered that share to below 20%. Much of the reduction in Chinese imports is projected to be offset by increased imports from Bangladesh and Vietnam.

In the last 5 years, the share of U.S. exports by country has changed considerably, particularly for China, Vietnam, and Indonesia. In 2014, China accounted for 23% of U.S. cotton exports compared to their 2010–2014 5 year average of 37%. Vietnam accounted for 15% of U.S. cotton exports in 2014, compared to their 2010–2014 5 year average of 6%. Turkey, Indonesia, and Mexico have continued to remain important export customers as well. Over the past 5 years, Turkey has continued to be our second largest customer, accounting for about 15% of U.S. cotton exports. In the past few years, Korea, Thailand, Peru, and Bangladesh have also increased imports of U.S. cotton.

Government Support & Trade Policies in Other Countries

While U.S. cotton policy has often been a focal point in international circles, there are ample studies and reports that document the various forms of government support present in almost all cotton-producing countries. In recent years, while U.S. support for cotton has been declining, government intervention in other countries has been on the increase.

India

With one out of every four bales of the global cotton crop now produced in India, their government programs can have a significant impact on the world market. In recent years, India has an active history of intervening in cotton support and trade policies. Since 2010, India has employed a variety of trade policies ranging from export subsidies to export bans.[1] The resulting impact of significant policy changes was to create additional uncertainty in the global market. Changes enacted in December 2014 removed the requirement to register cotton exports with the Directorate General of Foreign Trade in an effort to boost exports.

While India's trade policy has been inconsistent in recent years, the government's support to cotton producers has consistently increased. India operates a Minimum Support Price (MSP) for seed cotton in order to ensure a price that will be received by the farmer. If local market prices fall below the MSP, then India's Government will purchase seed cotton at the MSP and then subsequently sell bales of ginned cotton into the market. Any differences between the MSP and the prevailing market price at the time of auction are borne by the government.

The Cotton Corporation of India, a government-run procurement and distribution company, is responsible for administering the price-support program. The MSP is announced by the government each year. Between 2010 and 2015, the MSP for medium staple cotton increased by 52%, while the MSP for long staple cotton increased by 42%. The MSP is announced on the basis of seed cotton. Converting to a lint-equivalent basis requires an assumption about turn-out rates when the cotton is ginned. Assuming gin turn-out rates between 35% and 40%, current minimum prices in India equate to between $0.70 and $0.80 per pound.

Cotton farmers in India also benefit from subsidized fertilizer prices. Though not just limited to cotton, total fertilizer subsidies are estimated at more than $9 billion per year.[2] For urea, producers are estimated to be paying only ¼ of the costs that it takes to produce the product. On a per-acre basis, fertilizer subsidies are estimated to reduce production costs by approximately $100.[3] The result is a significant savings in costs of production and a competitive advantage over growers in other countries.

India's Government support to cotton is one factor that has allowed India to achieve its position as the largest cotton producer. Over the past decade, India's cotton area is up by approximately 35%, while aggregate area outside of India fell by more than 20% over that time period. Currently, 38% of world cotton area is located in India, up from a share of 25% just a decade ago. It is also the case that India's area generally shows less responsiveness to market signals than acreage movements in other countries. Barring a significant change in policies, India appears poised to remain a significant cotton producer for the foreseeable future.

China

China offers both tremendous challenges and tremendous opportunities for the U.S. cotton industry. China remains a valued and significant customer of U.S. cotton. China's fiber policies have been one of the largest factors influencing cotton markets over the past 5 years. In addition, China's policy has been one that has undergone significant changes over those same years and appears to be a policy that is still evolving. For the 2011 through 2013 crops, China supported its cotton farmers by purchasing vast amounts of China's production into government reserves at a price well above the world market. With most domestic production locked in re-

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[1] U.S. Department of Agriculture. Foreign Agricultural Service. *India Cotton and Products Annual 2015.* GAIN Report Number IN5039.

[2] *http://timesofindia.indiatimes.com/business/india-business/India-can-save-1-8-billion-on-fertilizer-subsidies/articleshow/48806936.cms.*

[3] Konduru, S., Yamazaki, F. and M. Paggi. "A Study of Indian Government Policy on Production and Processing of Cotton and Its Implications." *Journal of Agricultural Science and Technology.* Pp. 1016–1028. 2012.

serves, China imported annually between 14 and 24 million bales from the world market. Over the 3 year period, total imports from all sources was almost 59 million bales, with 14 million bales being U.S. cotton.

There were a number of significant outcomes resulting from China's policy of building reserves. First, purchasing the majority of the domestic crop at the support level essentially established a floor on internal cotton prices. By late 2011, China's cotton prices were well above international cotton prices and also well above polyester prices. China's mill use of cotton suffered as a result of uncompetitive prices. China's cotton area was generally stable between 12 and 14 million acres.

However, it became clear that continually building stocks was not a long-term solution. After 3 years of amassing more than 50 million bales of cotton in government reserves, China instituted a target price program for the 2014 crop at a level of roughly $1.45 per pound. The new target price program was applicable to the western province of Xinjiang, while the remaining cotton-producing provinces received a direct subsidy of $0.15 per pound. The target price program was continued for the 2015 crop, although the target price was reduced by 3.5% when measured in local currency. The announced target price equated to approximately $1.40 per pound based on exchange rates prevailing at planting time. In another change from the 2014 crop, no direct support was announced for the eastern provinces. As a result, cotton area in those provinces has sharply declined.

Under the target price program, cotton producers in Xinjiang are compensated for the difference between the target price and an established market price. The current program allows prices to be more reflective of market signals. However, the current situation still provides a challenging situation for the foreseeable future.

China continues to hold approximately 50 million bales in government reserves. Previous efforts to auction cotton from the reserves have yielded very modest success. In 2015, China offered as much as 8.5 million bales for auction, but were only successful in auctioning approximately 290 thousand bales.[4] Cotton made available during the auctions was from either 2011 or 2012 and offered at prices above current internal cotton prices. Given the lack of success in the auctions, China continues to hold significant reserves of cotton. This does not appear to be a situation that will correct itself for some time to come.

At various times during the year, China will announce additional cotton import quota above the WTO-required tariff rate quota (TRQ). The process for determination by Chinese authorities of additional quota is unknown and non-transparent. Furthermore, those imports are generally subject to a variable levy ranging from 5% to 40%, in order to maintain cotton prices in China significantly above international prices and protect prices paid to Chinese cotton growers. An additional problem is that importers must receive import licenses from the central authorities before entering into import contracts. Cotton can also be imported outside of the quota system. However, the importer is still required to acquire an import license and will be assessed a 40% tariff.

With ample supplies in reserves, China has responded by limiting import quota to the WTO-required TRQ of 4.1 million bales. As a result, cotton imports in the 2015 marketing year are expected to be lowest since 2002.

With China's cotton policies limiting demand, manmade fiber consumption has never been greater. Current mill use of manmade fiber is approaching 170 million bales, approximately five times the level of cotton mill use. Cotton demand in China continues to struggle with internal cotton prices in the upper 90¢ range, limited import quotas and polyester prices just below 50¢ per pound.

Pakistan

Pakistan, the fourth largest cotton producer, accounts for 9% of world cotton production. In order to provide support to cotton producers, Pakistan's Government operates a minimum support price. In November 2014, the Trading Corporation of Pakistan, the government's trading arm, announced that it would purchase 1 million bales at the MSP in order to support prices received by producers.[5] According to industry sources, the 2015 MSP is expected to be set between 2,600 and 3,000 rupees per 40 kg of seed cotton. These values are estimated at the equivalent of between $0.65 and $0.78 per pound of cotton lint.

[4] U.S. Department of Agriculture. Foreign Agricultural Service. *China Cotton and Products Update: MY15/16 Cotton Imports Expected to Plummet.* GAIN Report Number CH15029.

[5] *https://www.icac.org/Press-Release/2014/PR-27-Low-World-Cotton-Prices-Incite-Government-In?lang=fr-FR.*

Brazil

As reported by the International Cotton Advisory Committee (ICAC),[6] cotton producers in Brazil receive support through a marketing program that is based on guaranteed prices. The program is called the Equalizer Price Paid to the Producer Program, or PEPRO. The premium under the program represents the difference between the minimum guarantee price and the price buyers are willing to pay. In 2014, the Brazilian Government authorized purchases of 905 thousand tons, or almost 60% of the 2014/15 crop, under PEPRO.[7] Depending on exchange rates, the minimum guaranteed price ranges between $0.55 and $0.70 per pound.

Brazil also provides support to cotton production through production financing at subsidized interest rates. Credit subsidies to cotton producers in the form of subsidized interest are estimated at $75 million per year. At current acreage levels, that equates to approximately $30 per acre of cotton.

Turkey

In recent years, Turkey has been the second largest export customer for U.S. cotton. The textile industry in Turkey is a critical segment of the overall economy, providing jobs at textile mills and export revenue through trade in textile products. With the assistance of government support averaging approximately $0.25 per pound (as estimated by ICAC), Turkish cotton farmers produce only about ½ of the cotton required by the textile industry. In addition to a lack of quantity, Turkey's cotton production also fails to meet the quality specifications required for certain textile production. As a result, Turkey has been a reliable customer of U.S. cotton.

However, U.S. cotton farmers and merchandising firms are currently facing a challenging situation due to an investigation launched by the Turkish Government. For the past year, Turkish authorities have been investigating U.S. cotton exporting companies to determine if U.S. cotton is being dumped into the Turkish market. According to international trade rules, dumping occurs when product is sold into a market at below costs of production or at a price below that being sold in other markets. An affirmative finding by Turkish officials would mean that an anti-dumping duty would be applied to U.S. cotton imports, while imports from other countries would remain duty free. Turkey has historically been the second largest export customer of U.S. cotton. A duty would undermine the competitiveness of U.S. cotton and directly impact prices received by U.S. cotton farmers. The uncertainty of the ongoing investigation is already dampening interest in U.S. cotton by Turkish mills, as current sales for this marketing year are just ⅓ of year-ago levels.

The Turkish Government self-initiated the investigation shortly after the U.S. announced anti-dumping/countervailing duty (AD/CVD) investigations of Turkish steel pipe. The Minister of Economy was quoted in Turkish press as saying Turkey would launch three investigations for every one the U.S. aimed at Turkish products. The document produced to support the initiation of the investigation is largely redacted, so the information upon which the allegation of dumping is based is not available for parties to rebut. Many observers believe that Turkey seeks to damage the U.S. cotton industry by using the AD investigation not to benefit their domestic industry but out of retribution for the U.S. steel cases. This is just as much in contravention of the WTO as using trade barriers out of protectionist intent.

Comparing U.S. Support with Other Countries

U.S. cotton policy underwent fundamental changes in the 2014 Farm Bill in order to resolve the long-standing trade dispute with Brazil. Fixed support levels under the Counter-Cyclical Payment program and Direct Payment program were eliminated beginning with the 2014 crop. The marketing loan was retained but with modifications necessitated by the resolution of the dispute. As a result, upland cotton's only fixed support price is the marketing loan set at $0.52 per pound. However, even the marketing loan can adjust across years, moving as low as $0.45 per pound should the cotton market enter a sustained period of low prices.

Set well below the costs of production, the marketing loan provides only a basic safety net to producers as a source of cash flow shortly after harvest. The marketing loan is not set at a level that will induce a farmer to plant cotton. In the U.S., cotton farmers are making planting decisions based on market signals of cotton and competing crops.

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[6] International Cotton Advisory Committee. *Production and Trade Policies Affecting the Cotton Industry.* November 2014. Washington D.C.

[7] U.S. Department of Agriculture. Foreign Agricultural Service. *Brazil Cotton and Products Annual: Domestic Economic Factors to Affect Cotton Planted Area.* April 2015. GAIN Report Number BR0965.

With reduced support in the 2014 Farm Bill, U.S. cotton farmers are competing with cotton producers in other countries that are benefiting from higher support levels. Two recent reports illustrate the comparative support rates across selected cotton producing countries. In June 2015 testimony to the House Agriculture Committee, Dr. Darren Hudson with Texas Tech University noted that the marketing loan in the United States was below support prices in China, India, Pakistan, Brazil, and Uzbekistan.[8]

In a November 2014 report,[9] ICAC reported that average direct assistance to cotton production across all countries was $0.26 per pound. However, for the United States, ICAC estimated the average support at $0.07 per pound. Direct assistance to U.S. cotton producers was well below levels provided in other countries. It should be noted that the ICAC study was based on the 2013 crop year, which was the last year before the significant changes implemented by the new farm legislation.

The studies underscore the challenging conditions facing U.S. producers. Unfortunately, current proposals submitted within the World Trade Organization (WTO) would lead to a further imbalance in the situation.

Cotton's Concerns within the WTO

Notifications and Transparency

The WTO establishes a rules-based trading system that relies on timely and accurate notifications by each member and a transparent reporting process. This includes being responsive to questions and information requests from other WTO members and the WTO leadership. Unfortunately, there continues to be a lack of timely notifications from several major cotton producing and exporting countries. Specifically, neither China nor India have notified their domestic support for cotton (or other commodities) since 2010.

Cotton Dedicated Discussions

As a result of the Bali Ministerial decision on cotton in December 2013, biannual dedicated discussions are held regarding trade-related developments for cotton. The most recent meeting occurred on July 9, 2015. These discussions are seen as a way to help improve transparency and monitoring of WTO member notifications. It was recommended by Chairman Adank that the continuation of these dedicated discussions be considered as part of the outcome of the WTO's 10th Ministerial Conference (MC–10) in Nairobi, Kenya.

At the most recent meeting, the WTO Secretariat provided a revised background paper with Members' responses to questions posed regarding cotton policy, however several Members noted that other Members need to either provide and/or improve their replies and to bring their notifications up to date to allow for a more extensive discussion in relation to domestic support. Chairman Adank also noted that the domestic support pillar of the WTO agriculture negotiations is the most difficult and it would be difficult to envision a specific outcome on cotton in that pillar until a broader outcome became clear.

WTO Ministerial in Nairobi

The drive to further alter U.S. cotton policy in the December 2015 10th Ministerial Conference is flawed on several fronts: Neither the 2005 Hong Kong Mandate nor the 2013 Bali Declaration require further compromise on cotton; U.S. policy changes in recent years exceed any expectation for a "final solution"; and the current state of agriculture markets has rendered the "cotton problem" obsolete.

As Ambassador Michael Froman noted before the Senate Finance Committee this past January, a defensive posture regarding U.S. cotton support is outdated and justifies a shift in focus to other countries' status regarding their WTO obligations.

U.S. cotton policy has evolved dramatically since the Hong Kong Mandate and Bali Ministerial Declaration. As a result of a negotiated agreement between the U.S. and Brazil resolving the WTO dispute on certain agriculture subsidies and trade promotion programs, the Step 2 program was terminated in 2006, and the Direct and Counter-cyclical programs were terminated and the Marketing Loan program modified in the 2014 Farm Bill. The U.S. also implemented new rules for the GSM 102 program affecting fees and tenor, bringing the program into WTO compliance. Additionally, this past June, legislation was enacted and recently implemented extending the Generalized System of Preferences (GSP) benefits and eliminating import duties on cotton imports from LDCs for five additional tariff lines. This meets the U.S. commitment to provide complete duty free/quota free access on cotton to

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[8] *http://agriculture.house.gov/uploadedfiles/hudson_testimony.pdf.*

[9] International Cotton Advisory Committee. *Production and Trade Policies Affecting the Cotton Industry.* November 2014. Washington D.C.

LDCs. All of these changes to U.S. cotton policy result in a significantly different U.S. cotton industry than that of 2005. U.S. cotton policy criticisms enshrined in the Hong Kong Mandate and Bali Declaration are outdated and no longer apply.

However, at a conference in Geneva, the International Centre for Trade and Sustainable Development (ICTSD) released a report alleging that cotton policies in the 2014 Farm Bill cause significant distortions in global cotton markets, leading to economic damage to cotton producers in other countries. The paper describes itself as an "impartial, evidence-based assessment" intended to provide a "fruitful contribution" to the ongoing debate on agricultural subsidies. However, a review of the analysis and assumptions suggests that the paper misses on both accounts and accomplishes nothing more than spreading misinformation.

In contrast to other economic studies regarding the 2014 Farm Bill, the paper asserts large cotton production and price impacts through manufactured and arbitrary adjustments to a mathematical model. In deriving the alleged effects, the authors are recycling arguments previously rejected by the original panel in the WTO dispute between the U.S. and Brazil.

In addition to standing in stark contrast to other studies, the ICTSD report:

- fails to accurately model current cotton policies;
- imposes crop insurance purchase decisions on the model that are not in line with historical experience; and
- inflates impacts by overestimating expected benefits from insurance.

Specifically, the report presents findings that are inconsistent with other economic studies; misrepresents the U.S. marketing loan program for cotton; exaggerates crop insurance usage by producers; inflates crop insurance benefits; and attempts to dismiss previous findings of the WTO panel in the Brazil case.

In summary, the ICTSD study is grossly misleading and misrepresents the structure and market impacts of U.S. cotton programs. Unfortunately, the report serves only to inflame rather than inform any discussion of cotton programs. It does not capture the realities of today's cotton market or global cotton policies. The reality is that current U.S. cotton policy represents a dramatic shift in the agriculture safety net, which serves to bring U.S. policy in line with WTO commitments.

The African, Caribbean and Pacific (ACP) Group of countries submitted a document to WTO negotiators on July 30, 2015, that proposed possible areas of agreement within the Doha Development Agenda. Among these proposals is a final solution on cotton per the 2005 Hong Kong Mandate. Most recently, on October 12th, the Cotton 4 (C–4) countries of Benin, Burkina Faso, Chad, and Mali circulated their draft decision for cotton in advance of the 10th Ministerial. The C–4 proposal calls for developed countries to provide duty free and quota free access for cotton from LDCs by January 1, 2016; to implement export competition obligations by January 1, 2016; and to reduce amber box domestic support by 50% in 2016 leading to a full elimination by 2018.

The National Cotton Council firmly opposes both of these proposals, as there is no basis for further agreements on cotton while the primary conditions agreed to in the Hong Kong Mandate and the Bail Ministerial Declaration of 2013 remain unmet. The Hong Kong Mandate states:

> "Without prejudice to Members' current WTO rights and obligations, including those flowing from actions taken by the Dispute Settlement Body, we reaffirm our commitment to ensure having an explicit decision on cotton within the agriculture negotiations and through the Sub-Committee on Cotton ambitiously, expeditiously and specifically as follows:
>
> - All forms of export subsidies for cotton will be eliminated by developed countries in 2006.
> - On market access, developed countries will give duty and quota free access for cotton exports from least-developed countries (LDCs) **from the commencement of the implementation period.**
> - Members agree that the objective is that, as an outcome for the negotiations, **trade distorting domestic subsidies for cotton production be reduced more ambitiously than under whatever general formula is agreed and that it should be implemented over a shorter period of time than generally applicable.** We commit ourselves to give priority in the negotiations to reach such an outcome."

According to this text, reduction of trade distorting subsidies is contingent on a "general formula (that) is agreed," and that it is implemented in less time "than generally applicable," both prerequisites that rely on a general agriculture agreement establishing such formula and implementation timeline. Market access commitments are also contingent on their being a known implementation period, which can only be established through a general agriculture agreement.

Under the Bali Declaration, countries continue to meet in effort to "enhance transparency and monitoring" of cotton trade policy. These meetings underscore the lack of transparency as countries continue to refuse to provide timely notifications of domestic support and a lack of transparency in the administration of tariff rate quotas (TRQs). There should be agreement regarding the content and timing of notifications, and effective enforcement mechanisms. This most basic requirement of providing notifications must be met by all countries before there can be further meaningful dialogue on cotton.

It is our understanding that the U.S. is seeking a limited agreement for the 10th Ministerial in Nairobi and then an agreed to path to move beyond the Doha declaration. We support such an approach and believe that the actions already taken to date by the U.S. with respect to cotton policy should be more than sufficient to allow the U.S. negotiators to resist any further calls for concessions on cotton. Those that are continuing to call for U.S. policy changes fail to recognize the actions and impacts of other major cotton producing countries. We stand ready to assist U.S. negotiators in any way possible to make this case within the WTO membership, as we also continue to inform U.S. policymakers of the significant industry concerns about any further concessions regarding U.S. cotton policy.

Our industry greatly appreciates the work of Ambassadors Froman, Punke and Vetter as they continue their efforts toward U.S. agriculture being able to compete in a fair global market. We especially thank Ambassador Punke for his efforts in Geneva to hold other countries accountable for their lack of notifications and transparency within the WTO.

I repeat our concern and steadfast opposition to any proposals considered in the lead up to or during the December Ministerial that further commits the U.S. to additional changes in cotton policy. I encourage this Committee and our negotiators to hold firmly to the position that agriculture markets have changed since 2005, and that the U.S. cotton industry has evolved in ways that far exceed the demands of the Hong Kong Mandate. A cotton specific "solution" in the WTO negotiations is no longer necessary.

Summary

In closing, I would again like to thank the Committee for providing an opportunity to offer views on the current economic situation and policies impacting the U.S. cotton market. Current economic conditions are characterized by lower prices, weak demand, a strong U.S. dollar, and competition from polyester priced at 50¢ per pound. U.S. growers have responded to the current market situation by reducing area by almost 20% in 2015.

To those groups that continue to criticize U.S. cotton support, our message is simple: U.S. programs are not having a detrimental impact on world markets or producers in other countries. Under the new farm law, U.S. cotton farmers are even more attuned to market conditions than under previous farm legislation. For the U.S. cotton industry to sustain production and infrastructure into the future, it is imperative that production and trade policies in other countries not put U.S. farmers at a disadvantage. It is also important to reiterate that the scope of policies affecting U.S. cotton farmers is not limited to direct cotton support, but also encompasses policies and support for manmade fibers.

Thank you, and I will be happy to answer any questions at the appropriate time.

The CHAIRMAN. Thank you, Dr. Adams.

Mr. Roney.

STATEMENT OF JACK RONEY, DIRECTOR OF ECONOMICS AND POLICY ANALYSIS, AMERICAN SUGAR ALLIANCE, ARLINGTON, VA

Mr. RONEY. Thank you, Mr. Chairman, Mr. Peterson, Members of the Committee, for convening this important hearing.

I am Jack Roney, Economist of the American Sugar Alliance. The ASA is a national coalition of sugarbeet and sugarcane growers, processors, and refiners. We grow sugarbeets in 11 states, and sugarcane in four, and overall we generate 142,000 good-paying jobs in 22 states.

The U.S. sugar industry is a major player in the world sugar market. The U.S. is the world's fifth largest producer, fourth largest consumer, and second largest importer. We provide guaranteed import access to 41 countries. This makes us one of the world's most open markets for sugar.

We are good at what we do. The U.S. is the twentieth lowest cost among the 95 largest sugar-producing nations. Most of these are developing cane producers with far lower government-imposed costs for worker, consumer, environmental compliance than we face.

So if we are so efficient, why do we need a U.S. sugar policy? The answer is in the tremendous distortion of the so-called world sugar price. This chart tracks the world average cost of producing sugar over the past 25 years. The cost has averaged about 18¢ per pound over those years. If I added world average sugar prices to this chart, what would you expect? Certainly, we would expect prices averaging above the cost of production; high enough to keep producers in business. But here is the reality. The so-called world price, the red line, has averaged just 12¢; almost always well below production cost. The 25 year average production cost is 50 percent higher than the average price. With prices so far below cost, how can any sugar producer survive? The answer is in the domestic markets where most sugar is produced and sold. Governments maintain much higher prices than the world price so their farmers can stay in business. Only about ¼ of sugar is sold at the world dump price. The remaining ¾ is sold at much higher levels.

This chart shows world dump market refined sugar futures prices over the past decade. This red line, it averages about 21¢. The green line shows the actual wholesale prices at which most sugar is sold; much higher, 31¢, nearly 50 percent higher than the dump price. And the purple line shows the developed country average prices, averaging 41¢, are nearly double the world dump market price. This then, with price protection from the governments, is how sugar farmers stay in business. None can survive at the so-called world price.

How does the U.S. compare? The U.S. wholesale refined sugar prices are currently about 33¢ a pound. That is right at the world average, and well below the average in other developed countries.

As you would expect, with our wholesale prices at or below world levels, U.S. consumer prices are also well below world levels. As this chart shows, the world average retail sugar price, the green bar, is 20 percent higher than the U.S. price, the red bar. The developed country average consumer price for sugar, the yellow bar, is 29 percent higher than ours. With sugar policy in place, American consumers get a great deal on sugar.

What keeps the world dump market prices low are the subsidies around the world that encourage over-production and the unloading of surpluses on the world market. This chart shows the world's major sugar exporters, all subsidized to some degree, some more than others. The prime examples, Brazil, with about $3 billion per year of support via cane ethanol program and massive government debt relief programs. Thailand, which has quadrupled its exports in the past decade to hide government-set prices and other inducements that over-produce and export. India, which is violating WTO rules by subsidizing its producers to export their surplus sugar problem onto the world market. Mexico, whose government-owned mills have long dominated their market. Mexico exploited its free trade access to the U.S. market under NAFTA to flood our country with subsidized dump sugar and collapsed our market in 2013. The U.S. Government responded with subsidy and dumping duties at high levels. The U.S. and Mexican Governments have since worked out agreements to suspend the duties and resume sugar trade with Mexico. We hope these suspension agreements will remain in place and maintain market stability.

What is the solution to this historic low of the sugar market? Multilateral reform. All countries, all subsidies. We strongly support Congressman Yoho's zero-for-zero resolution. We pledge to eliminate U.S. sugar policy when foreign countries eliminate theirs. With a level playing field, we can compete and compete well, but to weaken or surrender our sugar policy before global reform, as some sugar-using corporations have proposed, would be unilateral disarmament; sacrificing good American jobs in favor of imported, subsidized foreign sugar. We must maintain the successful U.S. sugar policy as it is until foreign sugar subsidies can be reined-in.

Thank you, Mr. Chairman and Members of the Committee, for convening this hearing, and for your support for efficient American sugar farmers.

[The prepared statement of Mr. Roney follows:]

PREPARED STATEMENT OF JACK RONEY, DIRECTOR OF ECONOMICS AND POLICY ANALYSIS, AMERICAN SUGAR ALLIANCE, ARLINGTON, VA

Global Sugar Subsidies on the Rise

Summary

American sugar producers are among the world's most efficient, and most socially and environmentally responsible, but, without a sound U.S. farm policy, they cannot compete in a world sugar market badly distorted by foreign subsidies. So called "world market" prices are running barely ½ the world average cost of producing sugar. Foreign sugar subsidies are expanding as governments seek to protect their industries against the sharp deterioration of world prices, which itself is mainly the result of such subsidization.

American sugar producers support the goal of multilateral elimination of global sugar subsidies. Absent government intervention, the world sugar price would rise to reflect the cost of producing sugar, and American producers could compete well on a level playing field. We have endorsed a Congressional resolution to eliminate U.S. sugar policy when foreign countries eliminate theirs.

But unilateral weakening or elimination of U.S. sugar policy, as some policy critics suggest, would sacrifice jobs in an efficient, dynamic American industry in favor of foreign jobs in countries that are less efficient, but heavily subsidized.

Background

The American Sugar Alliance (ASA) is the national coalition of sugarbeet and sugarcane growers, processors, and refiners. The U.S. sugar-producing industry generates 142,000 jobs in 22 states and $20 billion in annual economic activity.[1]

The U.S. sugar industry is a major player in the world sugar market. The United States is the world's fifth largest sugar-producing country and is among the most efficient.

The U.S. is the 20th lowest cost among the 95 largest sugar-producing nations. Most of these are developing countries with far lower government-imposed costs for

[1] LMC International, "*The Economic Importance of the Sugar Industry to the U.S. Economy—Jobs and Revenues,*" Oxford, England, August 2011.

worker, consumer, and environmental protections. U.S. beet sugar producers, mostly in northern-tier states, are the lowest-cost beet producers in the world.[2]

The United States is also the world's fourth largest sugar-consuming country and the second largest sugar importer. We provide guaranteed, essentially duty-free, access to 41 countries. This makes the U.S. one of the world's most open markets to foreign sugar. The amount of duty-free access is determined under the various trade agreements the United States has entered into.

The just-concluded Trans-Pacific Partnership (TPP) negotiations potentially open our market still further, with additional access to the U.S. sugar market granted to Australia, Canada, Vietnam, Malaysia, and Japan.

Justification for U.S. Sugar Policy

Since U.S. sugar producers are among the lowest cost in the world, one might ask why the industry requires a sugar policy at all. The answer is in the distorted, dump nature of the world sugar market.

Foreign governments subsidize their producers so egregiously that many of these countries produce far more sugar than the market demands. Rather than store these surpluses, or close mills and lose jobs, as the United States has done, these countries dump their subsidized sugar onto the world market for whatever price it will bring. This dumping threatens further harm to American farmers.

As a result of these dumped surpluses, the so-called "world price" for sugar has been rendered essentially meaningless. Rarely in the past few decades has the world price reflected the actual cost of producing sugar—a minimal criterion for a meaningful market price.

The world price is so depressed by subsidies and dumping that, over the past 25 years, the world average cost of producing sugar has averaged fully 50% more than the world price (*Figure 1*).[3]

The world sugar price has dropped by more than ½ since 2010/11—from more than 32¢ per pound to less than 11¢—and is now barely ½ of the current estimated world average cost of production. One would expect such low prices to put many producers out of business, and signal planting reductions to all. Yet, despite the price collapse, world sugar production has actually risen, up 7% in the past 5 years.[4]

Sugar producers are responding not to world market signals but rather to domestic market prices and the government programs that sustain those prices.

One European market expert summarizes: "The world market price is a 'dump' price . . . (it) should never be used as a yardstick to measure what benefits or costs may accrue from free trade in sugar."[5]

But how can a world sugar industry exist if the price received for the product is just a fraction of the cost of producing it? The answer is twofold:

1. Only about 20–25% of the sugar produced each year is actually traded at the so-called "world price."
2. The other 75–80% of sugar is consumed in the countries where it is produced, at prices considerably higher than the world price, and higher than production costs.

The International Sugar Organization (ISO) recently surveyed 78 countries to learn actual wholesale prices—the price producers in those countries receive for their sugar. The ISO documents that, globally, actual wholesale refined sugar prices have averaged 46% higher than the world price over the past decade. Prices in developed countries have been nearly double the world dump market price—averaging 94% higher (*Figure 2*).[6]

This, then, explains how we can have a vast world sugar industry: Governments shield their producers from the world dump market sugar and maintain prices high enough—above the dump market and above production costs—to sustain a domestic industry and generate and defend jobs.

Further, this explains why we require a U.S. sugar policy—even with American sugar producers among the lowest cost, and most responsible, in the world. Generous domestic pricing encourages over-production in many countries, whose govern-

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[2] LMC International, "*Sugar & HFCS Production Costs: Global Benchmarking,*" Oxford, England, August 2011.

[3] LMC International, "*Sugar & HFCS Production Costs: Global Benchmarking,*" Oxford, England, July 2014.

[4] U.S. Department of Agriculture, *http://apps.fas.usda.gov/psdonline/*.

[5] Patrick Chatenay, "*Government Support and the Brazilian Sugar Industry,*" Canterbury, England, April 2013.

[6] International Sugar Organization, "*Domestic Sugar Prices—a Survey,*" MECAS (15)06, May 2015.

ments then seek to export their surplus. Absent U.S. sugar policy, those dumped, subsidized surpluses would sink the U.S. market and displace efficient American sugar farmers.

American Consumer Benefits

With U.S. wholesale prices at or below world average levels, one would expect American consumer prices, too, to be low. They are. World average retail sugar prices are 20% higher than U.S. prices; developed-country prices are 29% higher (*Figure 3*). With a stable U.S. sugar policy and industry, American consumers get a great deal on high-quality, safe, responsibly-produced sugar.

Zero-for-Zero

U.S. sugar producers recognize that subsidies and other market-distorting polices must be addressed in order for the world dump market to recover and better reflect free market principles. Therefore, American producers have publicly pledged to give up U.S. sugar policy when foreign producers agree to eliminate their subsidies.

The American Sugar Alliance has endorsed a Congressional resolution introduced by a Member of this Committee, Representative Ted S. Yoho of Florida. This "zero-for-zero" resolution explicitly calls for the U.S. to surrender its sugar policy when other major producers have done the same.[7]

However, to weaken or surrender sugar policy without any foreign concessions, as some critics of U.S. sugar policy have called for, would amount to foolish unilateral disarmament. We would be sacrificing good American jobs in a dynamic, efficient industry in favor of foreign jobs in the countries that continue to subsidize.

The Nature of Foreign Sugar Subsidies

The sugar futures markets, particularly the raw sugar #11 ICE contract, are mathematically the most volatile of commodity markets. This is because it is relatively thinly traded and, historically, has been a dumping ground for surplus sugar. It is also the market to which consumers turn for residual supplies when weather problems have left world sugar supplies tight.

Over the past 40 years, monthly average prices have ranged from less than 3¢ per pound to more than 57¢. Just in the past 4 years, prices have dropped to less than 11¢ from a temporary peak above 32¢ (*Figure 4*).

More than 100 countries produce sugar, and the governments in all these countries intervene in their markets in some way, to defend their producers, or their consumers, or sometimes both. A world market this volatile necessitates some buffer for domestic sugar sellers and buyers.

Government interventions among the largest producers and exporters have the most profoundly distorting effects on the world market. LMC International, in a 2008 study, examined market-distorting practices among eleven of the largest players in the world sugar market. LMC discovered a wide range of trade-distorting practices and categorized them as "transparent"—fitting into recognized World Trade Organization (WTO) categories of intervention; and, "nontransparent"—less obvious interventions not specifically subject to WTO disciplines, but still trade distorting.[8]

Figure 5 provides a snapshot of government interventions in the world sugar market in 2008. Since that time, the extent of government intervention has increased considerably.

Countries that have long intervened in their sugar markets have, for the most part, continued to do so, with many expanding their programs. Other countries, including advanced developing countries that are becoming larger players in the world sugar market, have achieved their expansion largely through government intervention. Developing countries are not subject to the same WTO disciplines as developed countries, and some take advantage of this special treatment to perpetuate subsidies that developed countries are committed to reducing or avoiding.

Major Exporters, Major Subsidizers

Figure 6 provides examples of some of the elaborate forms of government intervention that enable major producers to continue to export sugar, even when world prices are running ½ the world average cost of production—as they are now.

The following provides some more detail on the trade-distorting practices of some of the biggest exporters, and subsidizers—Brazil, Thailand, India, Mexico, and the European Union.

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[7] *https://www.congress.gov/bill/114th-congress/house-concurrentresolution/20/text?q=%7B%22search%22%3A%5B%22%5C%22zero+for+zero%5C%22%22%5D%7D.*

[8] LMC International, *"Review of Sugar Policies in Major Sugar Industries: Transparent and Non-Transparent or Indirect Policies,"* Oxford, England, 2008.

Brazil. Brazil is a prime example of a "developing" country with an advanced, modern, and, in this case, massive agricultural industry. Brazil is the largest sugar exporter by a huge margin, dominating with nearly ½ of all sugar exports. But the Brazilian sugar industry would be a fraction of that size were it not for a Brazilian Government decision in the early 1970s to fund a huge sugarcane ethanol industry.

With subsidies to plant more sugarcane and build mill/distilleries that could convert the cane to sugar or ethanol, with ethanol consumption mandates and ethanol and gasoline price controls, the Brazilian cane industry exploded. Brazil came to be the world's largest cane ethanol producer, and sugar exporter, by far.

After its "Pro-Alcool" program was unleashed in 1975, Brazilian cane ethanol production soared from small amounts to 28 billion liters, sugar production from 6 million tons to 38 million, and sugar exports from 1 million tons to 28 million. Cane planting decisions have been driven primarily by government ethanol policies, with more than ½ of cane going to ethanol, and the remainder to sugar.

With the cane industry propped up by ethanol subsidies, Brazil could continue its reckless sugar export expansion, even as world sugar prices dipped as low as 3¢ per pound in 1985.

The value of this indirect subsidy of the Brazilian cane sugar industry, by way of the subsidy of the cane ethanol industry, along with related government benefits, has been placed at $2.5–$3.0 billion per year. Unfortunately, since these subsidies do not fit neatly into WTO subsidy categories—direct supports, import tariffs and direct export subsidies—they are largely immune to WTO disciplines.

Sugar market expert Patrick Chatenay has noted that, in addition to direct payments, the government aids Brazil's cane industry with low-interest loans, debt forgiveness, ethanol usage mandates and reduced tax rates. He estimates the value of these subsidies alone at $2.5 billion per year, and notes that unreported debt restructuring probably puts the actual total much higher.[9]

Since Chatenay published his $2.5 billion per year Brazilian sugar subsidy estimate in 2013, the government has provided an additional $450 million in tax relief and made available $3 billion in soft loans.[10]

Unfortunately, because most of Brazil's sugar subsidies are considered indirect, they are not subject to the WTO disciplines to which most developed countries adhere.

The impact of Brazilian subsidies on the world sugar market has been exacerbated by the sharp drop in value of Brazilian real, which has enabled Brazilian producers largely to maintain returns in domestic prices despite the sharp drop in the world (dollar) price.

Thailand. Thailand is the world's second largest sugar exporter. It surged into that position by quadrupling its exports within the past decade—from 2 million metric tons in 2005/06 to 8 million tons this past year.

Thailand is not a particularly efficient sugar producer. But government programs enabled its stunning expansion, oblivious to remarkably low world prices.

In a recent study, Antoine Meriot estimates the value of government subsidies to the Thai industry at no less than $1.3 billion per year. The $1.3 billion includes direct payments and indirect export subsidies, but does *not* include Thai sugar producers' substantial benefit from soft loans and input subsidies the Thai Government makes available to all its farmers.[11]

Meriot points out that world sugar prices dropped by 40% from 2010 to 2014, yet Thai sugar exports rose by 70% during that same period. He explains that Thai sugar producers were cushioned from the world price drop by much higher guaranteed prices for sugar sold within Thailand. This is the type of indirect export subsidy that the WTO found to be illegal in a 2005 ruling against European Union sugar exports.

Meriot reveals a number of other ways the Thai Government assists its sugar industry, including: Direct payments and input subsidies to cane growers; soft loans, at a fraction of market interest rates; guaranteed prices for growers and millers; sales limits; import tariffs; and cane ethanol subsidies.

Even with low world sugar prices, the Thai Government is showing no signs of letting up. It is switching from encouraging rice production to encouraging sugar production. Its goal: a 50% increase in sugarcane production in just the next 5 years.

[9] Patrick Chatenay, *op. cit.*

[10] *http://www.sugaralliance.org/brazils-sugar-subsidies-expand-as-global-prices-fall-4399/*.

[11] Antoine Meriot, Sugar Expertise, *"Thailand's sugar policy: Government drives production and export expansion,"* Bethesda, Maryland, June 2015.

Meanwhile, Brazil and Australia, which had successfully challenged the European Union's indirect export subsidy scheme, are questioning the WTO on Thailand's similar scheme.

India. In 2010, world sugar prices were approaching a 30 year high and India was one of the world's largest sugar importers, with net imports of 2.2 million metric tons. Since that time, world prices have dropped by ½, but India has become a significant net exporter.

How has India achieved the transformation from sugar importer to exporter, though world sugar prices were declining? Government decisions to set prices and encourage production and to flaunt WTO rules with blatant export subsidies.

India has blatantly ignored complaints from other WTO members that these export subsidies violate their WTO obligations and, in the face of such criticism, has actually increased them. Generous Federal, and even state, subsidies have enabled India to export an estimated 2 million tons of sugar last year and this year—contributing to the global surplus and the sharp decline in world sugar prices.

A recent article summarized the most recent Indian Federal and state government support for its sugar industry with these points:

- $90 million in WTO-illegal export subsidies from the Federal Government;
- $22 million in WTO-illegal export subsidies from a state government;
- $320 million in additional interest free loans to sugar mills and $140 million in tax debt forgiveness from a state government;
- A doubling of import taxes to block foreign sugar;
- Elimination of an excise tax on ethanol to promote sugar-based fuels.[12]

Thailand, though currently under WTO scrutiny for its own sugar subsidies, is questioning the WTO about the legality of India's export subsidy programs.

Mexico. When the NAFTA went into effect in 1994, the Mexican sugar industry was struggling financially and an occasional exporter of small volumes of sugar. In 2001, the government expropriated ½ of all Mexican sugar mills, rather than allowing them to go out of business. With government help, Mexican sugarcane area exploded—up 66% since NAFTA was signed—and Mexico became one of the world's largest sugar exporters. Virtually all those exports have been aimed at the U.S. market—fully open to Mexican sugar since 2008 under NAFTA rules.

Until very recently, the Mexican Government was Mexico's largest sugar producer and exporter, accounting for ⅕ of production and mills. Government-owned mills still account for 10% of Mexican sugar production (*Figure 7*). In addition to government ownership, Mexican producers benefit from Federal and state cash infusions, debt restructuring and forgiveness, and government grant programs to finance inventory, exports, and inputs.[13]

In 2012/13, Mexican sugar production soared to an all-time high, a stunning 38% higher than the previous year's production. Yet, despite the huge domestic market surplus, Mexico was able to sustain sugar prices higher than in the U.S. How did they manage to balance their market? By dumping their subsidized surplus on the U.S. market.

The subsidized and dumped Mexican surpluses collapsed the U.S. sugar market and caused the first government cost for U.S. sugar policy in a dozen years, American farmers struggled to repay loans they normally repay fully, principal plus interest.

The U.S. sugar industry last year filed unfair trade petitions. In response, the U.S. Department of Commerce imposed preliminary countervailing and antidumping duties on Mexican sugar averaging 56% in 2014; last month, the DOC calculated final subsidy and dumping margins that totaled a stunning average of 79% (*Figure 8*).[14]

Late last year, the U.S. and Mexican Governments negotiated agreements to suspend the collection of duties, resume sugar trade with Mexico, and eliminate the threat of injury by dumped and subsidized Mexican sugar. The U.S. International Trade Commission, meanwhile, proceeded with its final injury investigation.

European Union. Decades of generous subsidies transformed the EU from a net importer of sugar to, in the 1990's and early 2000's, the world's second largest sugar exporter. In 2005, the WTO ruled that EU exports were benefiting from WTO-illegal indirect export subsidies, and the EU subsequently revamped its sugar program. As a result of its unilateral sugar policy changes, 83 EU sugar mills closed, an esti-

[12] *http://www.sugaralliance.org/living-off-subsidies-and-still-3-billion-in-the-hole-5293/.*
[13] *http://www.sugaralliance.org/mexican-export-subsidies-injuring-u-s-sugar-producers-4990/.*
[14] U.S. Department of Commerce *http://enforcement.trade.gov/download/factsheets/factsheet-mexico-sugar-ad-cvdfinal-091715.pdf.*

mated 120,000 jobs were lost, and as sugar production plunged and the EU became a net importer of sugar, EU consumer prices for sugar soared.[15]

Still, the EU remains the third largest sugar producer in the world, with about 16 million tons of production. The EU plans further changes to its sugar policy in 2017, but the government's role in the industry will remain substantial. A recent study estimated that, by 2019, EU Government support for sugar producers will total about $665 million per year and that "the EU may well return to being a significant net exporter." [16]

So, despite changes in their sugar policy, the EU remains a subsidized sugar export threat.

Conclusion

In a world awash in subsidized foreign sugar, the U.S. is the world's second largest importer. We are obligated to provide access for sugar from 41 countries under WTO and free trade agreement concessions. All of these countries subsidize their producers in some way, but there have been limits on how much sugar we must take from all except one—Mexico. When Mexico used its subsidies to damage the market, the U.S. Government responded, and we are hopeful the reasonable solution the U.S. and Mexican Governments negotiated will stay in place.

Meanwhile, the rest of the world continues to subsidize its sugar producers, and at growing volumes. The U.S. sugar industry supports elimination of all these direct and indirect subsidies, multilaterally. We are among the lowest cost producers and could compete in a world free of subsidies, where the world price for sugar reflects the cost of producing it.

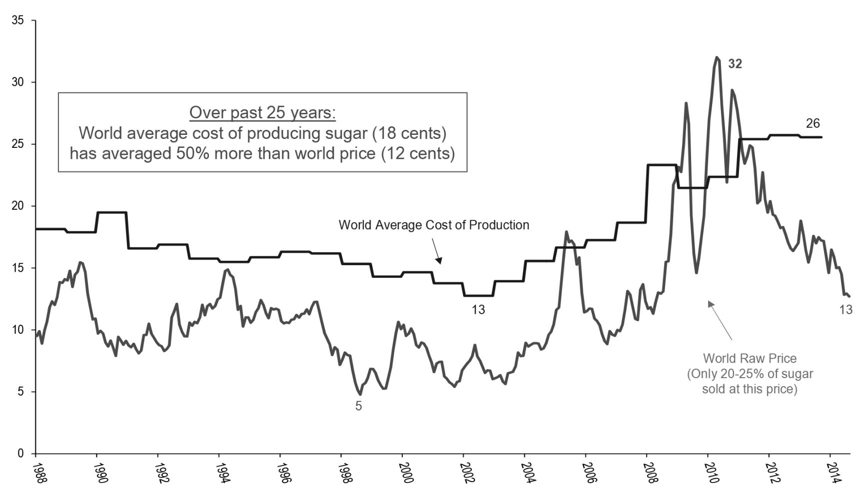
We cannot, however, endorse efforts to weaken or eliminate U.S. sugar policy without any foreign concessions. This would amount to unilateral disarmament and the sacrifice of American jobs in favor of foreign countries where governments continue to subsidize.

FIGURES

Figure 1

World Raw Sugar Dump Market Price: Historically Does Not Reflect Actual Cost of Producing Sugar

—*Cents per pound*—



Sources: World Price: USDA, #11 raw contract, Caribbean ports. monthly average prices, 1970–2015.

Cost of Production: "*Sugar Production Cost, Global Benchmarking Report,*" LMC International, Oxford, England, July 2014. (31–P)

[15] Patrick Chatenay, "*Lessons from the 2006 EU Sugar Regime Reform,*" Canterbury, England, August 2012.

[16] Patrick Chatenay, "*European Union Sugar Industry Support,*" Canterbury, England, August 2015.

Figure 2

World Average Wholesale Refined Sugar Price Nearly 50% Higher than World Dump Market Price; Developed-Country Average Nearly Double

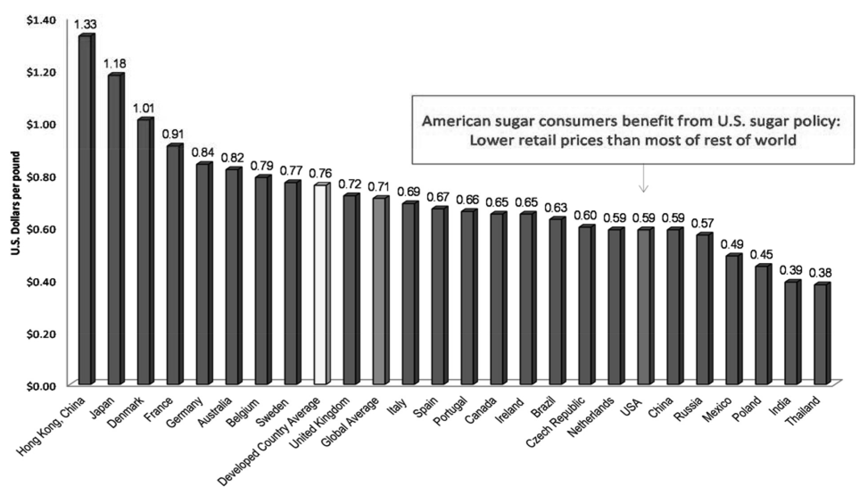
—2005–2014, cents/lb—

Source: International Sugar Organization (ISO), "*Domestic Sugar Prices—a Survey*", MECAS(15)06, May 2015. A survey of 78 countries, representing 79% of world sugar consumption; 2014 preliminary. U.S. 10 year average: 37¢; September 2015 price: 33¢.

[1] EU–28 and other OECD countries in ISO survey.

Figure 3

Developed Country Average Retail Sugar Price: 29% Higher than U.S.; Global Average: 20% Higher than U.S.



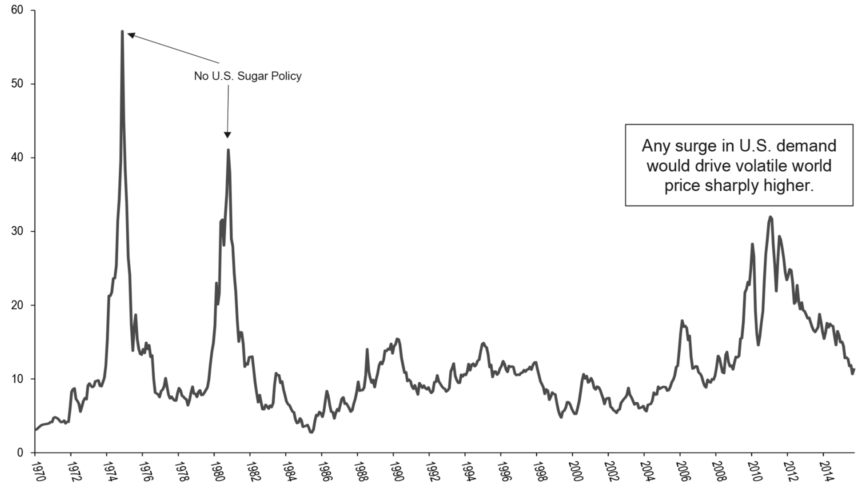
Source: SIS International Research, "*Global Retail Sugar Prices,*" July 2015, from Euromonitor, International Monetary Fund; 2014 prices.

Surveyed countries represent 67% of global sugar consumption. Developed countries include OECD member countries and Hong Kong.

Figure 4

World Sugar Dump Market Price, 1970–2015: World's Most Volatile Commodity Market

—Cents per pound—



Source: USDA, #11 raw contract, Caribbean ports. Monthly Average prices, 1970–2015.

Figure 5

Table SUM. 1: Summary of Support for Sugar Industry in Selected Countries, 2008

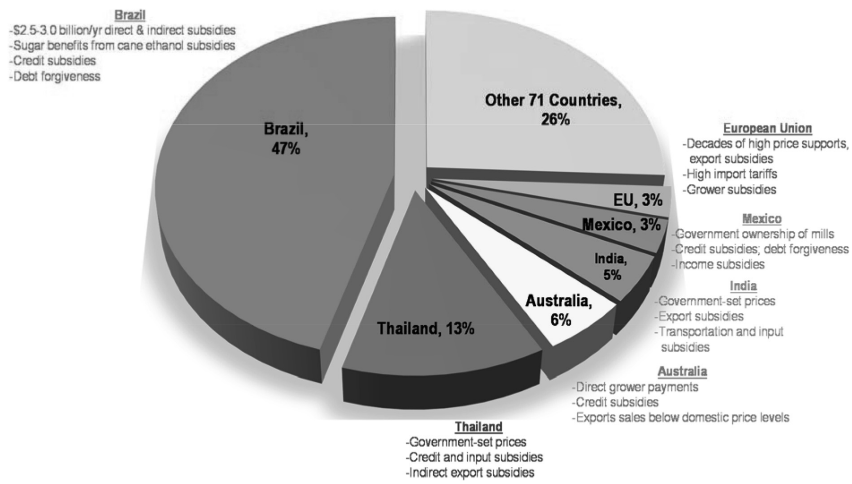
	Australia	Brazil	China	Colombia	EU	Guatemala	India	Indonesia	Mexico	S. Africa	Thailand
Transparent Support											
Domestic Market Controls											
Guaranteed Support Prices			✔		✔		✔	✔			✔
Supply Management/Controls			✔		✔		✔				
Market Sharing/Sales Quotas						✔			✔		✔
Domestic/Export Revenue Equalization Measures				✔						✔	
Import Controls											
Import Quota/TRQ			✔		✔			✔		✔	✔
Import Tariff		✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Import Licenses	✔		✔					✔			✔
Quality Restrictions						✔					
Export Support											
Export Subsidies					✔		✔				
Single Desk Selling						✔				✔	
Non-Transparent Support											
Direct Financial Aid											
State Ownership								✔	✔		
Income Support	✔				✔						✔
Debt Financing	✔	✔					✔				
Input Subsidies							✔	✔	✔		
Indirect Long-Term Support											
Programs to Improve Efficiency	✔							✔			
Ethanol Programs (mandates/tax breaks)		✔		✔	✔						
Consumer Demand Support			✔								

LMC International, 2008.

Figure 6

World's Largest Sugar Exporters: All Subsidize

—2010/11–2014/15 Average—



Source: Export data—USDA, FAS May 2015; Subsidies—FAS attaché reports, press reports, country studies.

Figure 7

Remaining Government-Owned Mexican Sugar Mills: Share of production, 2013/14

	Metric tons tel quel	Share of national total
El Modelo	116,546	2.0%
El Potrera	192,424	3.3%
La Providencia	92,141	1.6%
Plan de San Luis	137,754	2.3%
San Miguelito	55,042	0.9%
Total	**593,907**	**10.1%**
National Total	**5,892,333**	

Source: CONADESUCA.

Figure 8

DOC Dumping and Countervailing Duties on Sugar Imports from Mexico

		Dumping Margins			Subsidy Rates			Total		
		FEESA	GAM Group	Others	FEESA	GAM Group	Others	FEESA	GAM Group	Others
Preliminary Determination	26-Aug-14				17.01%	2.99%	14.87%			
	28-Oct-14	39.54%	47.26%	40.76%				56.55%	50.25%	55.63%
Final Determination	16-Sep-15	40.48%	42.14%	40.74%	43.93%	5.78%	38.11%	84.41%	47.92%	78.85%

Source: U.S. Department of Commerce. FEESA is the group of nine government-owned mills, which accounted for 23% of Mexican sugar production in 2013/14. The GAM Group is a private company.

Note: Duties were suspended as a result of agreements the U.S. and Mexican Governments reached in December 2014. These suspension agreements are currently being appealed.

The CHAIRMAN. Thank you, Mr. Roney.

Mr. Castaneda.

STATEMENT OF JAIME A. CASTANEDA, SENIOR VICE PRESIDENT, STRATEGIC INITIATIVES & TRADE POLICY, NATIONAL MILK PRODUCERS FEDERATION, ARLINGTON, VA

Mr. CASTANEDA. Thank you, Chairman Conaway, Ranking Member Peterson, and Members of the Committee. Thank you for inviting me to testify today on foreign subsidies in the dairy sector.

My name is Jaime Castaneda, and I am a Senior Vice President of the National Milk Producers Federation. I work closely with the U.S. Dairy Export Council in defending the dairy industry interests on trade matters.

Mr. Chairman, as you will see in our written submission, a wide range of programs are used to support dairy sectors around the world. Some involve direct aids to producers, but many are more indirect; using input protection or regulatory measures to give domestic producers an advantage over competitors in their own market and globally. This is important to our industry because we are now competing in that global market. The U.S. has gone from exporting less than $1 billion in dairy products in the year 2000, to exporting a record $7.1 billion in 2014; an increase of 625 percent. An important part of this success has been trade agreements that have lowered and removed barriers to our exports. However, they have done little to constrain the use of domestic supports in the dairy sector. The negotiations in this type of support takes place in the WTO, such as the Doha Round, but those talks have been on life support since 2008.

Although many developing countries provide direct support to their dairy sectors, their greatest protection often takes the form of restrictions on import access. But developed countries are the biggest providers of both direct and indirect supports to the dairy sectors, and the EU is certainly the largest. All EU farmers, including dairy producers, are supported through the EU's Common Agricultural Policy which represents over ⅓ of the total EU budget. And specifically, the EU dairy programs include, among others, a direct or basic payment previously known as the single payment, an *ad hoc* system providing subsidies for the private storage of dairy products, a price support program for butter and skimmed milk powder, and most recently, a substantial package of emergency aid provided to EU dairy farmers due to low domestic prices, and other supports under the auspices of rural development.

Taken collectively, EU subsidy programs in the dairy sector provide a substantial assistance package aimed at ensuring profitability of European dairy farmers. But such aid to dairy is not enough for the EU. In recent years, the EU has undertaken an effort to block the use of many commonly used product names. What better way to impede or prevent imports of a given product than to ban the use of its name. An American producer of feta or parmesan cheese, for example, can no longer sell such products in the EU and in some foreign countries, despite the fact that those names have been widely and generically used around the world for many years.

Now, let me switch to our trade partner from the north, Canada. Canada maintains one of the most tightly guarded dairy markets in the world, by imposing astronomically high tariffs on imported products. Canadian dairy tariffs typically range from 250 percent to 300 percent. The purpose of such tariffs is to protect Canada's supply managed price support system. The support program and the tariff regime are inseparable, and highly effective forms of domestic support. Yet what is more disturbing is the fact that Canada has also found ways to restrict even the limited amount of access it has already agreed to provide through its NAFTA and WTO commitments, which we enumerate in our written testimony.

When talking about foreign subsidies and protection, India stands out too. One of the biggest problems with Indian's subsidies is the support through various methods, but more importantly, India's support through regulatory barriers that prevent the importation of dairy products.

Finally, a key support that hurts us in global markets is the monopolistic structure of New Zealand's dairy industry, where one company controls approximately 85 percent of the milk produced in that country, and until recently, up to 90 percent. This monopolistic structure grants an immense advantage to New Zealand dairy product exports, and it is of significant concern to the U.S. dairy industry. Very few companies in any economic sector in the world have the level of market share that New Zealand has obtained through domestic policies.

We have provided information on other countries in our submission, but in the interest of time, I will stop here and thank you for the opportunity to provide our views on this important subject.

[The prepared statement of Mr. Castaneda follows:]

PREPARED STATEMENT OF JAIME A. CASTANEDA, SENIOR VICE PRESIDENT, STRATEGIC INITIATIVES & TRADE POLICY, NATIONAL MILK PRODUCERS FEDERATION, ARLINGTON, VA

Chairman Conaway, Ranking Member Peterson, and Members of the Committee, thank you for inviting me to testify on foreign subsidies in the dairy sector. My name is Jaime Castaneda and I am a Senior Vice President of the National Milk Producers Federation (NMPF).

In addition to my role for NMPF, I also lead trade policy issues for the U.S. Dairy Export Council in order to pursue policies that help advance the interests of the broader dairy industry. In this capacity, I serve as a cleared trade advisor for Ambassador Mike Froman and Secretary Tom Vilsack.

NMPF develops and carries out policies that advance the well-being of dairy producers and the cooperatives they own. The members of NMPF's 31 cooperatives produce the majority of the U.S. milk supply, making NMPF the voice of more than 30,000 dairy producers on national issues. International trade is one of those issues and in recent years it has been one of the most important to our industry.

Our nation has gone from exporting less than $1 billion in dairy products in 2000 to exporting a record $7.1 billion in 2014, an increase of 625%. It is not a coincidence that the enormous growth over this period occurred as the U.S. began negotiating market-opening free trade agreements. These agreements lowered and ultimately removed tariff barriers to trade, and in many cases gave our products an advantage over other dairy exporting countries. In many cases, they also helped remove technical and regulatory barriers to our trade.

However, these agreements have done little to constrain the use of domestic or export subsidies in the international dairy sector globally, or the agricultural sector as a whole. The reason is obvious: reducing domestic supports in an FTA would be a concession to an FTA partner country and to all other countries competing in the global market without any reciprocal benefits. The non-FTA countries would get a free ride. The negotiation of limits to such subsidies has and should only occur as part of multilateral trade deals, the most recent of which is the Doha Round of trade negotiations in the World Trade Organization.

Regrettably, the Doha Round, which began 14 years ago, has been essentially comatose since 2008. Recent negotiations on how to revive the talks have focused largely on domestic supports in agriculture. Several important developing countries have pushed for an agreement in this area based on the state of play in 2008.

Those terms call for substantial reductions in supports, mainly by the United States. They fail to take into account the declines in U.S. agricultural subsidies since 2008. At the same time, some developing countries are seeking to protect their own growing domestic supports. In addition to direct domestic subsidies, many developing countries, including Brazil and India, use non-tariff barriers to keep foreign dairy products from reaching their markets. Additionally, less transparent subsidies are used to bolster domestic dairy markets. Developed countries also remain heavy supporters of their dairy sectors.

All this is an important backdrop to our testimony on trade-distorting forms of support to dairy sectors around the world. We appreciate the Committee holding this hearing. It is clear that, while the United States has reduced its dairy subsidies and support mechanisms, other countries have maintained and expanded theirs.

Let me begin with the European Union.

Structure of EU Support

Milk is one of the most important agricultural products in the EU, accounting for approximately 15% of agricultural output. Around 148 million tonnes of cow's milk was delivered in 2014 across all EU Member States. The milk quota regime introduced in 1984 to address surplus production expired on April 1. Despite this, several publicly supported safety net measures remain.

For example, all EU farmers, including dairy farmers, are supported through the EU's Common Agricultural Policy (CAP), which accounts for 37.8% of the EU budget and is equivalent to €362.8 billion through 2014–2020.[1] For each EU Member State, the total value of all allocated direct payments entitlements and rural development payments are shown in *Table 1.*

Table 1: Amounts Assigned to Member States for the CAP

(in million Euro)

	Common Agricultural Policy ** (6)		Total CAP
	Direct Payments (1) (2) (3) (4) (5)	Rural Development (7)	
Belgium	3.603	648	4.251
Bulgaria	5.106	2.367	7.472
Czech Republic	5.985	2.306	8.291
Denmark	6.044	919	6.963
Germany	34.534	9.446	43.980
Estonia	839	823	1.663
Ireland	8.507	2.191	10.697
Greece	14.808	4.718	19.526
Spain	34.634	8.297	42.931
France	51.354	11.385	62.739
Croatia	1.482	2.026	3.508
Italy	26.850	10.444	37.294
Cyprus	351	132	484
Latvia	1.452	1.076	2.527
Lithuania	3.104	1.613	4.717
Luxembourg	234	101	335
Hungary	8.932	3.431	12.362
Malta	37	97	134
Netherlands	5.223	765	5.988
Austria	4.850	3.938	8.787
Poland	23.313	8.698	32.010
Portugal	4.105	4.058	8.163
Romania	11.638	8.128	19.766
Slovenia	960	838	1.797
Slovakia	3.016	1.560	4.576
Finland	3.662	2.380	6.042
Sweden	4.866	1.764	6.630
United Kingdom	22.283	5.200	27.483

*Amounts are subject to change due to the flexibility to shift amounts between direct payments and rural development payments.

Source: EU Multiannual Financial Framework (*http://ec.europa.eu/budget/mff/preallocations/index_en.cfm*).

As referenced above, the European Union subsidies to its dairy sector under the Common Agricultural Policy (CAP) include (1) direct payments or "basic payments" (previously known as the Single Payment), (2) *ad hoc* subsidies for the private storage of dairy products, (3) dairy price support programs, and (4) most recently, a substantial package of nearly €500 million in emergency agricultural financial aid. In addition, there is support under the auspices of Rural Development, due to low domestic dairy prices.

Taken collectively, EU subsidy programs for dairy farmers provide a substantial assistance package aimed at ensuring profitability. For instance, it is estimated that

[1] In 2011 prices; EU Budget period runs for 7 years, current period 2014–2020.

⅓ of the total income for British dairy farmers comes from subsidy programs.[2] With the EU made up of 28 nations, all of which produce milk, the scope of the support is substantial.

Despite this high level of support, these subsidies are not likely to result in a WTO domestic subsidy violation because the EU's limit on domestic subsidy spending is a massive €72 billion ($84 billion), with notified subsidy levels below €7 billion ($8.2 billion).

The Basic Payment Scheme

EU farmers, including dairy farmers, are provided a basic payment (prior to 2015 referred to as "The Single Payment") based on their historical farming area. Since these payments are not directly tied to the type of agricultural production or to prices, the EU treats these subsidies as non-trade distorting "Green Box" subsidies for purposes of its subsidy notifications to the World Trade Organization. The receipt of the basic payment is contingent on farmers complying with environmental, sanitary, and animal welfare requirements. In 2014, the European Union provided €40.5 billion ($47.6 billion) in basic payments to EU farmers.

Dairy Premium

In addition to basic payments, EU dairy farmers are eligible for a dairy premium based on historical production quantities. In its most recent WTO subsidy notification, covering marketing year 2011/12, the EU reported the subsidy level for this program at €176 million ($207 million).[3]

Although the EU shifted away from production aid to per hectare payments, some products, such as dairy, can still be supported by coupling payments to production. This means that the profitability of producing milk does not depend only on the price, but also on the amount of the direct payment that is paid for milk. Nineteen out of 28 Member States are supporting the dairy sector in this way, particularly in areas with difficult economic or environmental factors (*e.g.,* mountain farming). For instance, France allocated €135 million of its CAP payments in 2015 to coupled support for dairy farmers, Poland €152 million, Spain €94 million, Italy €89 million, Romania €78 million.[4] Voluntary coupled support can amount to only up to 8% of the Member State's envelope. Just the payments to these five member states this year under this specific program amount to €548 million.

The EU also allocates a payment system for **small farmers,** with payments of up to €1,250/year/farmer.

Private Storage Aids

The EU operates an *ad hoc* system of private storage aid (PSA), which is activated when dairy commodity prices are low. The subsidy levels are based on storage costs, quality, depreciation and any relevant market price increases. The PSA system operates for butter, cheese, and skim milk powder and many GI products. Stocks under the PSA program at the end of 2014 were 32,000 MT for cheese, 22,000 MT for butter, and 17,000 MT for skim milk powder. PSA subsidy levels were established at €18.9 per MT ($22.2 per MT) for butter, €8.86 per MT ($10.4 per MT) for skim milk powder and €15.5 per MT ($18.2 per MT) for cheese.

EU Support Price Programs

The EU operates a price support program for butter and skim milk powder. The price support for butter is set at €2,217.5 per MT ($2,608 per MT), and for skim milk powder at €1,698 MT ($1,997 MT). EU price support levels for butter and skim milk powder have been lowered in recent years, and as a consequence the program has been less active. However, because of recent lower market prices, the EU did begin to intervene by purchasing skim milk powder in 2015. The EU notifies these price support programs as trade distorting "Amber Box" subsidies to the WTO, and correctly uses full production rather than the amount of product procured under the program as the basis for the price support subsidy calculation.

Special Subsidy Programs

Due to low domestic prices for dairy and meat products in 2015, the EU Council agreed to provide dairy farmers and livestock producers with a €500 million ($588 million) package of subsidy assistance in the fall of 2015: €420 million ($494 million) of that total was slated to go to EU dairy farmers. In addition, EU Member States

[2] "Quick Facts: Dairy Subsidies", AF News Agency, March 9, 2015.

[3] EU WTO Subsidies notification for MY 2011/12, October 22 2014. G/AG/N/EU/20.

[4] Information from European Commission on voluntary coupled support—*http://ec.europa.eu/agriculture/direct-support/direct-payments/docs/voluntary-coupled-support_en.pdf.*

have the opportunity to provide matching funds under the program, providing potential total subsidies of over €800 million ($941 million) to EU dairy producers.

Baltic Region Aid

Following the Russian ban on imports of EU dairy products in 2014, the EU in 2015 provided $36 million in special subsidy assistance to dairy farmers in Lithuania, Latvia and Estonia.

EU Export Subsidies

The EU is allowed under WTO rules to subsidize the export of up to 411,000 MT of butter, 323,000 MT of skim milk powder, and 331,000 MT of cheese. The total permissible level of subsidies in value terms is over €1 billion ($1.18 billion). When the EU makes use of export subsidies it causes massive distortions in world dairy markets.

Geographical Indications

It would be negligent not to mention the matter of geographical indications (GIs) in this discussion. Support to farmers can take many forms, including the use of import barriers to minimize competition and prop up prices. Tariffs and tariff rate quotas are sanctioned under international rules, but when they fail to provide sufficient protection, or when they have been removed in trade agreements, governments sometimes resort to novel approaches to provide compensating protection to their producers.

This is what the EU has undertaken in recent years in its effort to block the use of many commonly used product names by any producer outside prescribed areas of the EU. What better way to impede or block imports of a given product than to ban the use of its name? An American producer of feta or parmesan cheeses, for example, can no longer sell such products in the EU, despite the fact that those names have been widely and generically used around the world for many years. There is no question that the EU's effort to "claw back" the use of such names is a form of support to its producers.

To make matters infinitely worse the EU is insisting in its free trade deals that its trading partners prohibit the use of such names except by EU producers. The EU's actions therefore also serve as a form of export support that puts at risk hard-won U.S. market access opportunities in markets around the world. Products employing Geographical Indications also benefit significantly under the EUs promotional programs (referenced below), thereby employing EU policies not only to block competition but also to help support the replacement product from the EU.

Milk Programs

Other subsidies in the dairy sector include a School Milk Scheme, through which preschools as well as primary and secondary schools can claim subsidies if they supply their pupils with dairy products. The EU and the national governments jointly fund this scheme. The EU is limited to a maximum of 0.25 liter of milk equivalent per pupil, per day.

The Commission also earmarked €30 million to fund the distribution of dairy products to refugees. This money will come out of the €500 million package to support European dairy and livestock farmers which was agreed upon in September 2015.

Delayed Penalty on Dairy Quota Payments

As part of the quota regime that was in place until March of this year, EU milk producers had to pay a surplus levy when exceeding the national dairy quotas. However, in view of the end of the milk quotas on the 31st of March 2015 and at Member States' request, the Commission adopted new measures to allow the EU milk producers, who will have to pay a surplus levy for 2014/2015, to make their payments over a maximum of 3 years in zero interest installments. The measure aimed to alleviate the financial burden on those producers that exceeded their quota threshold as they struggle with cash-flow problems amid a drop in prices. This was not a traditional subsidy, but '*de minimis*' aid,[5] compatible with WTO rules, which applies to aid granted to undertakings active in the primary production of agricultural products, including dairy products.

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[5] The total amount of '*de minimis*' aid granted per Member State to a single undertaking shall not exceed €15,000 over any period of 3 fiscal years, provided that the global amount of such aid does not exceed 1% of the annual agricultural output as provided in Regulation No. 1408/2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid in the agriculture sector. Link (*http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1408&qid=1425313435298&from=EN*).

State Aids

Member States have the possibility of providing national funding under the ***de minimis* rules** (below €15,000 for agricultural primary production or €200,000 for marketing and processing activities over 3 years). Even outside Rural Development Programs, Member States may use **state aids,** for example: aid for investments, agri-environment-climate or animal welfare commitments, organic farming, and the participation in quality schemes, *etc.* Under certain conditions, state aids can also cover promotion, the closure of production capacity and, under strict conditions, rescue and restructuring aid for companies in severe financial difficulties.

EU Promotion Programs

The Commission has developed a promotion policy,[6] which was last reviewed in 2014. Its objective is to enhance the competitiveness of the EU's agricultural sector. More specifically, the information provision and promotion measures aim to increase consumers' awareness and the consumption of EU agricultural products, raise their profile both inside and outside the Union and increase the market share of those products. In the event of serious market disturbance, loss of consumer confidence or other specific problems, those measures should help restore normal market condition.

Under the promotion policy, the EU approved different programs to promote agricultural products. **In 2015, there are six new information and promotion programs for the dairy sector. All six are targeting third country markets—worth nearly €12.2 million from the EU budget over 3 years.** They are 50% co-funded by public or private funds. These new programs come in addition to 14 ongoing multi-annual programs for the dairy sector, which were launched between 2011 and 2014.

Starting December 1, 2015, the new rules agreed upon in last year's reform of the EU promotion policy will enter into force. In addition to a gradual increase in the EU budget contribution to €200 million per year, the new regulation will adjust the co-funding rules (no national co-financing and higher rate of EU-funding), and introduce simpler procedures such as a single approval process, wider scope of beneficiaries and eligible products, annual work program and calls for proposals.

Rural Development

The EU's rural development policy[7] is a policy that aims at co-financing of Member State budgets. France (€11.4 billion), Italy (€10.4 billion), Germany (€9.4 billion) and Poland (€8.7 billion) are the four biggest beneficiaries of the rural development policy (see *Table 1* for more details). If national contributions from co-financing are included, the funding available under the second pillar of the CAP amounts to €161 billion over the period as a whole.

Each Member State develops its own rural development program taking into account four out of six of the EU's priorities for rural development, which focus on knowledge transfer and innovation; competitiveness of agriculture; food production chain; animal welfare and risk management in farming; agricultural and forest ecosystems; efficient use of resources and a low-carbon economy; and finally social inclusion, poverty reduction and economic development.

While the European measures for rural development do not cover specifically the dairy sector, there are more general measures, which can be applied to dairy. For instance: physical investment, such as processing of farm products, which can be dairy products, investment in infrastructure, and improving the performance and sustainability of holdings can be applied to the dairy sector. There are also measures on setting up producer groups and organizations to increase the competitiveness of the dairy sector. There are also payments to areas facing natural or other specific constraints, such as mountain regions or protected areas (*e.g.,* Danube Delta). Other measures include subsidies for organic farming, environmentally friendly practices, and animal welfare.

The measures also include a risk management toolkit, which includes **insurance premium subsidies** for crops, livestock, and plants (financial contributions to premiums for crop, animal and plant insurance against economic losses to farmers caused by adverse weather events, animal or plant diseases, pest infestation, or an environmental incident); a **mutual fund** to respond to adverse weather events, ani-

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[6] Latest revision of the Regulation on promotion measures of agricultural products was adopted in 2014 and it will apply as of 1 December 2015. Link (*http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R1144&from=en*).

[7] Regulation No. 1305/2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD). Link (*http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1305&qid=1445005900450&from=EN*).

mal and plant diseases, parasite infestations and environmental incidents (with a view to the payment of financial compensation to farmers for the resultant economic losses); and an **income stabilisation tool,** in the form of financial contributions to mutual funds, providing compensation to farmers following a severe drop in income. This income stabilization tool supports farmers facing a severe drop in income (minimum 30% loss compared to the 3 previous years). Nevertheless, only a few Member States (*e.g.,* Italy, Hungary and Spain) have activated and allocated sufficient resources to make the instrument workable, probably due to its complexity and lack of available historical income data, as well as the rigidity of the threshold of the drop in income.

Canada Structure Support

Many of the world's largest dairy consuming countries maintain high tariffs on imported dairy products. Canada, for example, maintains one of the most tightly guarded dairy markets in the world by imposing astronomically high tariffs on imported products. Canadian dairy tariffs typically range from 250% to 300%.[8] A 300% tariff means the price of an imported good is quadrupled when imported. The purpose of tariffs of such magnitude is to protect Canada's supply managed price support system. The support program and the tariff regime are inseparable and Canada has maintained them through the Canada-U.S. FTA, North American Free Trade Agreement (NAFTA), and now the Trans Pacific Partnership.

As in the case of GIs in the EU, Canada has found ways to restrict the limited amount of access it has already agreed to provide through its NAFTA and WTO commitments to date. Collectively, these reflect an effort by the Canadian Government to use regulatory tools to provide further protection to its dairy support regime. Here are several examples:

- Politically-driven legislation to change an objectively-determined customs classification ruling to prohibit imports of a food preparation product containing mozzarella (and pepperoni, oil and spices). The effect of the action was to commercially nullify all imports of the relevant food preparation products from the U.S. by reclassifying the cheese portion of them into a category where they would be subject to a commercially nonviable duty of more than 200%.
- Creation of new milk classes designed specifically to thwart imports: One of the more troubling developments in the past few years has been an increasing level of creation of new special milk classes that are specifically targeted and designed to compete against imports of products that have made in-roads into the Canadian market, such as chocolate milk.
- Implementation of revised cheese standards that restricted opportunities for U.S. dairy imports of both cheese and dairy ingredients. The revised standards permit the use of dried dairy ingredients (which tend to be imported) only after the minimum casein content established in the regulations is met with fluid milk products. Internal discussions leading up to this change made it clear that the revisions were intended to limit the growth in the use of imported ingredients, particularly those from the U.S., in Canadian cheese-making.
- Consideration of additional restrictions on the use of ultra-filtered milk in Canadian cheese-making. Reports suggest that the Canadian Government may be contemplating additional regulatory steps that would negatively impact U.S. sales of this product.

These are just a few examples of the continue attempt by Canadian officials to prevent exports of U.S. dairy products into Canada.

Japan

Japan is a relatively small dairy producer, but has a disproportionate impact on world markets, because it is one of the world's largest dairy importers.

Japan provides direct payments to dairy farmers for production within government designated production quotas. In 2015, the direct payment was set at ¥12,800 ($107.62) per farm for production falling within the national quota of 1.8 million metric tons. This translates into nationwide dairy payments to farmers of ¥22.9 billion ($193 million). While the production quota has decreased over time, the direct payment to dairy farmers has increased over time. Ten years ago, in 2005, the direct subsidy level was ¥10,400 per MT.

Japan notifies the direct payment as a trade distorting "Amber Box" subsidy to the WTO. In its last available WTO notification, for 2012, Japan notified direct subsidy payments at ¥27 billion. Japan's has a WTO Amber Box spending limit of ¥3.9

[8] World Trade Organization notifications.

trillion, and total notified spending, including dairy and other agricultural products, was ¥608 billion in 2012, far below the ¥3.9 trillion subsidy ceiling.

In addition to the direct subsidy payment, the Japanese Government subsidizes insurance for Japanese farmers, including dairy farmers, through partial payment of insurance premiums. In its 2012 WTO notification, Japan notified the insurance program as a non-product specific subsidy (meaning it covers a range of agricultural products) at a level of ¥19.3 billion ($162 million).

Another major component of Japan's support to its domestic dairy farm and processing sector stems from a tariff-rate quota for natural cheese used for further processing. In this TRQ, Japan suspends its sizeable tariff for natural cheese only if it intended to be used as an ingredient for domestic manufacture of processed cheese in a prescribed ratio with domestic natural cheese. Through this TRQ, combined with a high *ad valorem* tariff for processed cheese (0406.30), Japan creates an implicit subsidy for its domestic manufacturers of natural cheese, processed cheese, and the farm milk serving that market.

India

India is the world's second largest producer of fluid milk, behind only the European Union, and the world's largest producer of butterfat. Given the size of the Indian dairy market, Indian subsidies to the dairy sector are capable of having a significant impact on world markets.

The National Dairy Development Board

The National Dairy Development Board (NDDB) was established by the Indian Government in 1965, and has been credited with helping India become one of the world's largest dairy producers. On its website, NDDB says that it was created by the government to "promote, finance and support producer owned and controlled organizations." The NDDB derives its funding from government sources.

The NDDB, in partnership with the Government of India, has developed a National Dairy Plan to increase dairy productivity, enhance links between dairy producers and processors, and assist in the development of dairy cooperatives. The first phase of the plan has allocated $416 million to fourteen dairy producing states in India, which account for 90% of milk production. Elements of the project include improving cattle genetics, replacing 20 million low producing dairy cows with genetically superior animals, addressing animal diseases, and improving the artificial insemination industry. (Source: FAS GAIN reports)

National Bank for Agriculture and Rural Development

The National Bank for Agriculture and Rural Development (NBARD) is a state supported bank established by the Indian Parliament in 1982. Its role is to provide credit and subsidy programs in rural areas. NBARD will cover 25% of the costs in the form of "back end" credit subsidies, related to (1) startup outlays for small dairy producers, (2) costs associated with rearing small heifers, for up to 20 calves, (3) outlays for milking machines, and (4) outlays for cold storage facilities. (Sources: India Department of Animal Husbandry, Dairying and Fisheries, India Filings, "How to Get NBARD Subsidy for Dairy Farming")

Non-Tariff Barriers Sheltering Market from Competition

In addition, the U.S. dairy industry has faced significant and long standing non-tariff market access barriers in the Indian market. Since late 2003, the vast majority of U.S. dairy exports have been blocked from the Indian market due to unjustified India's dairy certificate requirements. This significant non-tariff barrier has historically operated in a way that shields India's dairy industry from the full extent of outside competition.

New Zealand

The monopolistic structure of New Zealand's dairy industry, where one company, Fonterra, controls approximately 85% of the milk produced in that country, poses a significant concern to the U.S. dairy industry. Both producers and a number of processors believe this situation poses a serious challenge to fair trading relationships both between the U.S. and New Zealand and in dairy markets throughout the world. This monopolistic structure grants an immense advantage to New Zealand dairy product exports. Moreover, very few companies in any economic sector have the level of market share that New Zealand has obtained through domestic policies. Such concerns present a serious challenge to our industry as we strive to compete against this international dairy powerhouse in world markets.

Conclusion

In closing I would like to thank this Committee for the opportunity to testify today on this important issue and hope this information has been informative.

The CHAIRMAN. Well, thank you, gentlemen.

The chair would remind Members that they will be recognized for questioning in order of seniority for Members who were here at the start of the hearing. After that, Members will be recognized in the order of arrival. I appreciate Members' understanding.

And with that, I recognize myself for 5 minutes.

Gentlemen, I represent an awful lot of cotton farmers, so I will ask Dr. Adams to expand on his testimony.

Can you talk to us about what the impact is on the ground of the reduction of the number of acres planted this year? Can you talk to us about the broader impacts on rural communities, and other economic things that are going on out in the real world as a result of these distorted foreign policies that have been hampering our crop producers?

Dr. ADAMS. Yes, sir, Mr. Chairman. Thank you for that question. And I did mention the impacts that we have seen on the area, with it being the lowest since 1983. But the other thing to keep in mind when we look at cotton production in rural communities is, it is, in many areas, in many locations, and your district certainly being one of them, it is a cornerstone of the rural economy. When it gets to the farm gate, they are still warehousing the processing and distribution of cotton, as well as the cottonseed that comes from the production, that generates a tremendous amount of economic activity. I know there was a study by Louisiana State University that looked at the impacts on the rural economy in the loss of infrastructure that can occur when you see reduced cotton production. And we know that every dollar that gets turned over in the rural economy is increased by another four to five times that amount. So it is certainly a tremendous impact on the rural economy when we see that revenue from cotton production fall. We have already seen some very significant impacts in some parts of the Cotton Belt in the mid-South region around Memphis, we have seen a decline in infrastructure and a decline in production. Out West, we have seen similar declines.

Certainly, our concern is, when we look at the returns from cotton production today and we compare that to cost of production, we understand why an area adjusted lower this year. Our concern as we look into the future is just going to become increasingly difficult for cotton producers as they look at where prices now sit relative to cost of production.

The CHAIRMAN. You walked us through a litany of the price supports, but you also mentioned input subsidies. Can you equate that to a per pound subsidy for cotton producers for fertilizer and other things, such as seeds? Do you have that number by chance?

Dr. ADAMS. Well, what we have are some numbers that—perhaps not on per pound, but we can talk about some things on a per acre basis. And I mentioned a couple of the input subsidies. One in Brazil would be on the interest rate subsidies and getting lower interest rates than the current market rates, and have seen estimates that would put that at roughly $30 per acre in interest savings. And then when we look at India, for example, they are the largest producer, they are a significant competitor in the export market to U.S. cotton. And then we look at the numbers that have been associated with their fertilizer subsidies across their cotton production, we were estimating numbers that were approaching $100 per acre in input subsidies. So again, it is very significant in terms of effecting the cost or production side, efforts that just continue to keep India more competitive in markets.

The CHAIRMAN. You were pretty clear on your statements about the ministerial conference coming up in Nairobi. Would you reiterate one more time, just for the record, what NCC's position is, and is it shared by a broader group of ag interests?

Dr. ADAMS. Well, certainly, when we look at cotton—and I do think when we—not to speak for the broader ag group, but I certainly think that U.S. negotiators and the U.S. Government position has been that as we look at agricultural markets in general. The world is much different today than it was going back to 2008 when we had the last, really meaningful text that was developed. And in that text, there were, frankly, too many concessions for countries that qualified or want to qualify themselves as a developing country. We know that progress has been difficult in the broader ag negotiations, and our concern is that that just turns the attention more and more to cotton, and that if there can't be a broader ag agreement, then efforts will be to look for some cotton-specific agreement. That is not an outcome that we want to see because our concern is it is going to disproportionately try to impact policies in developed countries such as the United States. First, we have to step back and really look at how developed countries compare to developing countries, and really rethinking that playing field as we head into this ministerial conference.

The CHAIRMAN. All right, thank you. I yield back.

Mr. Peterson, for 5 minutes.

Mr. PETERSON. Well, thank you, Mr. Chairman.

Mr. Roney, I agree that it would be wonderful if we could get to a zero-zero subsidy situation in sugar. And I applaud you for what you guys did with the Mexico situation and that successful outcome. And having worked through that with you, my question is, I am a little bit skeptical about how we would ever get to a situation where we actually could be sure that these countries got rid of their subsidies. There is so much disinformation put out there, and you did a great job here today laying out the reality, but you have people in the sugar industry or sugar users putting out disinformation—propaganda. You have people in ethanol doing it, and then you have Brazil which takes those two and uses that situation by lowering the price of ethanol when they can to subsidize sugar, and *vice-versa,* and all the other stuff that is going on.

So the question is how would we ever be able to assure if—say that everybody agreed tomorrow they are going to get rid of their subsidies, how could we be sure that they have—given their manipulating currency in Brazil and, all of this stuff. Do you think we could ever be sure that these countries weren't pulling something minor back and we would be able to root it out?

Mr. RONEY. Thank you, Mr. Peterson. I appreciate your skepticism, which is very well placed.

I think it will be extremely difficult to get foreign countries to roll back their agricultural subsidies in general, sugar in particular. The only way to potentially achieve that is at the WTO, where you have all countries at the table and all programs on the table, developed countries and developing countries. Certainly, there will be some problems with enforcement down the road.

I think it is a noble goal to work in that direction. The U.S. sugar industry supports that. We could compete on a level playing field if we got there. But you are right, that level playing field is very hard to attain, and that is why we make our argument to Congress, and why we appreciate Congress' support, that until we get that level playing field, we need to retain the U.S. sugar policy we have in place now.

Mr. PETERSON. How realistic is it to get rid of the developing nation status for countries like Brazil?

Mr. RONEY. Well——

Mr. PETERSON. They are not a developing nation when it comes to agriculture.

Mr. RONEY. Yes, that is a real problem at the WTO that the countries are self-designating. They regard themselves as a developing country, and yet they have one of the most advanced agricultural systems in the world. And that is another disadvantage that we have to tackle in that multilateral process.

Mr. PETERSON. Is there anything on the table to get rid of that in the WTO process? Is anybody working on that?

Mr. RONEY. I am not really aware that there is, Congressman, but it is certainly something that we have to keep pushing for at every opportunity.

Mr. PETERSON. Mr. Castaneda, the Canadian situation, this TPP, the thing that really sticks in my craw is that we are letting them keep this supply management system. And my question is: I see what they are doing and they are protecting their market and, apparently, we are allowing them to do that. But, my concern is the Canadians are now becoming big players in our processing market. They are now buying up all kinds of companies and they have moved up, one of them is second in processing in the United States. Right? So is this happening because they have the supply management system and they have a guaranteed profit, and they can't reinvest it in their industry in Canada, is that why they are coming to the U.S.?

Mr. CASTANEDA. Thank you for the question, Mr. Peterson.

I can't for sure say that is the reason that they are coming to the United States. One of the things that I can assert is the fact that they do have a guaranteed margin in Canada, and also the fact that they don't have any opportunity to grow in Canada. We have seen not only Canadian companies coming to the United States but European companies, and you can see that actually they expand and they grow in the U.S. as opposed to in their own countries.

The problem that we have with Canada is, as I have stated in my written testimony, is the fact that they are constantly changing the play of the game. They constantly are changing the rules in how we export into Canada. That is something that we consistently insist to the U.S. Government to have an agreement with Canada can prevent that from happening.

Mr. PETERSON. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired. Mr. Trent Kelly, of Mississippi, is recognized for 5 minutes.

Mr. KELLY. Good morning, Dr. Adams. I flew in with you yesterday and got to meet you on the plane, and of course, Mississippi has a lot of cotton so most of my questions will be directed to you.

In your testimony, you talked about the situation in India, and how they have grown as a producer and an exporter and subsidizer of cotton production. Can you talk more about how their support is structured, how that compares to the support in the United States for cotton, and what the resulting impact is on U.S. producers?

Dr. ADAMS. Okay. Yes, sir. Thank you, Congressman, for that question.

And when we look at India specifically, we look at how they convey support to growers. They do it through a minimum support price program. Essentially, think about it as acting as a floor on the market. So the Government of India, through an agency, will essentially step in and purchase cotton off of the market at that minimum support price in order to create a price guarantee back to their growers. In some ways, that is a key difference in terms of comparing it to support in the United States that generally allows market prices to go where they are going to go. This is much more of an intervention into the market to try to set a floor so they keep that support as the minimum. And that, as I mentioned in my testimony, has been a price support that has increased over time, certainly, to ensure that they continue to keep production at a level that right now is approximately 30 million bales. Essentially, in the world crop, 1 out of every 4 bales are produced in India, and they are an exporter anywhere between 5 and 7 million bales per year. I think that is the impact, in times of low prices, we don't see their acreage adjust because of that price floor. We continue to see them being a presence in the export market. And in times of low prices, it is due to the presence of that support program.

Mr. KELLY. And I failed to thank you, Mr. Chairman, and the witnesses for being here. Sometimes I get excited to be asking these questions, since people have such knowledge in the area.

And this is to any of you. Dr. Hayes or any of the other witnesses. How do you feel about the TPP, from your point of view, do you feel like it is good for your industry, do you think it is good that Congress support the TPP, and if you can explain why please?

Dr. HAYES. I haven't seen all the details of the agreement, but those I have seen are good for the commodities that are produced in Iowa. In particular, the Japanese gate price system practically disappears over a long period of time, and we get access into 19 million consumers in Vietnam for beef, pork, and the products of corn and soybeans. So it is unambiguously good for a state such as Iowa that has a lot of land because the deal is with countries like Japan and Vietnam that are land scarce.

Mr. KELLY. And my final question: Dr. Adams, China's cotton subsidies that you described are egregious and damaging to the

United States and world producers of cotton. What is the outlook for those subsidy programs being reduced or eliminated?

Dr. ADAMS. Good question. And I will say we certainly continue to see evolution in the way China is structuring their policies, because they went from 2011 through 2013, essentially, purchasing cotton off the market, putting it into government reserves, and establishing a price floor. That has evolved now in 2014 to be a target price program applied to a portion of their country. It is continuing to evolve in 2015. It is still in place. It went through some adjustments. Frankly, they are continuing to seek out ways to provide support to producers. I had the pleasure to attend a conference in China back in June, and this was a key topic that was talked about within their industry is, how do they evolve support over time. And the other question they have is what do they do with the 50 to 60 million bales of cotton stocks that they have amassed over that period of building reserves? They are still struggling with how to move that cotton back into the market, or what do with it because it is, right now, hanging over the market.

Mr. KELLY. Mr. Chairman, Ranking Member, and witnesses, I thank you for your time. And I yield back, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

Ms. DelBene, for 5 minutes.

Ms. DELBENE. Thank you, Mr. Chairman. And thanks to all of you for being with us today.

Mr. Castaneda, you talked about the EU and some of the challenges there, and I wondered if you could compare the level of support the EU is providing to its dairy producers to support we are providing under the new U.S. dairy programs.

Mr. CASTANEDA. Thank you so much, Congresswoman. And thank you for your support of the dairy industry at all times.

I would offer to give the Committee an extended comparison, but today, I can tell you that you can see how much the EU has been doing in the last couple of years, including this year, in supporting their dairy industry with the emergency aid and storage aids, and a number of other elements, compared to our programs in which the U.S. dairy farmers have only two programs. One is the Margin Protection Program, and a Donation Program, the Donation Program has not been implemented. In the Margin Protection Program, in fact, if you look at the number of—it is not official, but it seems to be that the U.S. dairy farmers pay to the government over $50 million under the Margin Protection Program. And the other element that the U.S. dairy farmers have is a self-support, cooperative, working together, which has nothing to do with the government.

So as you can see, while the United States dairy industry and dairy farmers community is supporting themselves for the most part, the EU is heavily, heavily subsidized by the EU Government.

Ms. DELBENE. And you talked about kind of *de facto* support with geographical indicators. Can you quantify that in some way or give us some examples?

Mr. CASTANEDA. We are working on an economic analysis and we hope to actually have that soon, but at some point, the Grocery Manufacturers of America, several years ago, and our analysis seems to actually—we could actually see up to billions of dollars in losses, not only from the direct producers of these cheese products, meat products, but also on producers who actually sell the milk to the processors.

Ms. DELBENE. And are there other countries outside of the EU that also are providing kind of similar, or other types of *de facto* support or other things that support——

Mr. CASTANEDA. There are many, many countries, as stated, Canada is one of them, India certainly, and many countries like Brazil, Ecuador, Turkey, they are always finding ways, through regulatory or through other methods, to protect their dairy industry. So it is a constant battle to try to prevent these countries from encouraging new barriers against U.S. dairy products.

Ms. DELBENE. And you talked about this a little bit with Mr. Peterson. In your initial review of the Trans-Pacific Partnership, and you talked about Canada specifically, but if you look at it more broadly, what is the impact in terms of leveling the playing field potentially for our domestic producers?

Mr. CASTANEDA. Thank you so much for that question. We still think that the jury is still out. We haven't seen all the details. Dairy, unlike other commodities, we have hundreds of tariff lines, so we are not 100 percent sure yet what is the outcome with every single tariff line in Japan, as well as what the last-minute concessions were given to other countries. But we certainly have determined that this is not an agreement that the dairy industry would oppose, but we are still trying to figure it out as to what grade we give them at the end.

Ms. DELBENE. Okay, thank you.

Dr. Hayes, one of the things that we hear frequently is underreporting or lack of reporting, in some cases, of domestic supports that other countries are providing, lack of reporting to the WTO. That underreporting is having a big impact and may be inconsistent with WTO rules. And so I wondered if you could tell us whether you think this is a widespread problem or not, and kind of your overall view of what needs to be done to address that.

Dr. HAYES. I think economists in developed, rule-of-law countries do a good job of reporting. Turkey has not reported recently at all. Brazil and India have reported, but there are flaws in how they did that.

Let me give an example. If China were to buy 20 percent of the corn crop to maintain high corn prices, then they attribute the support only to the 20 percent, rather than acknowledge that that brought up prices for the other 80 percent of the crop. So there are issues in both the timing of reporting and the quality of the numbers.

Ms. DELBENE. Yes. My time has expired. I thank you, Mr. Chairman.

The CHAIRMAN. The gentlelady's time has expired.

Ms. DELBENE. I yield back.

The CHAIRMAN. Mr. Benishek, for 5 minutes.

Mr. BENISHEK. I thank you, Mr. Chairman.

Mr. Roney, I have a couple of questions for you. As you know, sugar is pretty big business in Michigan and this International Trade Commission just voted to affirm that these Mexican subsidies were really causing the U.S. sugar industry to suffer.

So can you tell me about how that affects my district, specifically, and Michigan? What, exactly, is the result of that?

Mr. RONEY. Thank you, Congressman. That is an extremely important result for us, for all sugar producers in the United States, Michigan and elsewhere, really for two reasons. Number one, it reaffirmed our contention that Mexico is responsible for collapsing the U.S. sugar market in 2013. We are not surprised by that result because the Department of Commerce, in its final determination on the extent of subsidizing and the extent of dumping by the Mexicans, they came up with combined margins of 80 percent. It is just mind-boggling the extent to which Mexico is taking advantage of NAFTA to subsidize and dump on our market.

The second way that this is very important is what it leaves in place are the suspension agreements that the U.S. and Mexican Governments negotiated to restore trade with Mexico, duty-free, but now we are going to balance the amount of sugar that Mexico can send with how much we need. It is very simple, the commonsense type of approach.

Mr. BENISHEK. Yes, but I guess I don't understand, tell me in simple terms so I understand what this actually means. What is this going to mean? What are you going to be able to do about it?

Mr. RONEY. Well, what it means, Congressman, is that we can now expect—as long as the suspension agreements stay in place, and they are undergoing appeal that will be decided in 2016, as long as those stay in place, we can expect a stable market in the United States. We can expect to be able to avoid more dumping on the U.S. market by Mexico. So it is very important for the financial horizon for our producers looking forward, and for the lenders to know that as long as we have sugar policy and we have the suspension agreements, we are looking at a stable market for years to come.

Mr. BENISHEK. Let me ask a question about the TPP. Is this going to change the way these kind of trade subsidies work in the future in the world sugar market?

Mr. RONEY. Congressman, the problem with FTAs with the bilateral and regional free trade agreements is that they don't address subsidies in those countries; they are purely focused on market access, tariffs and quotas, and so they are not a vehicle to address subsidies in those countries. In some ways, that is the biggest flaw in the bilateral regional approach. And it makes sense because if you are doing a bilateral agreement with one other country, you are not going to eliminate all your price supports for any commodity just relative to that country because then everyone is going to take advantage of it.

Mr. BENISHEK. Well, what is the solution to that problem?

Mr. RONEY. Well, the only solution, Congressman, is in the WTO, the World Trade Organization. The Doha Round has been stalled for some time, but it is trying to address all subsidies around the world. And even within that framework, as we were discussing before, developing countries are often able to sidestep the disciplines that the WTO is meant to impose. But that is the only approach. You have to get all countries at the table, and all programs on the table.

Mr. BENISHEK. Is there any sign that these kind of subsidies are slowing down on their own, or market forces are making that happen, or what is actually going on in the world?

Mr. RONEY. So in the world of sugar, the opposite is happening. As the world sugar price is dropping, we are seeing countries stepping up their subsidies. They have to keep their farmers afloat. As I tried to show earlier, the world price for sugar is running about ½ the world average cost of producing sugar. So for any country to stay in business, they have to subsidize their producers, and they are doing it more and more generously the more the world price drops. So I am afraid the opposite is happening. We are not seeing any diminishment in foreign subsidies.

Mr. BENISHEK. Thank you, Mr. Roney.

I will yield back the remainder of my time.

The CHAIRMAN. The gentleman yields back.

Ms. Adams from North Carolina, 5 minutes.

Ms. ADAMS of North Carolina. Thank you, Mr. Chairman. And thank you, gentlemen, for your testimony.

Dr. Adams, I appreciated the opportunity to meet with cotton farmers from North Carolina earlier this spring. Cotton is grown throughout my state, including the twelfth district that I represent.

Since U.S. cotton has been the subject of much litigation with Brazil at the World Trade Organization over the last decade, what recommendations would you have for how to approach the upcoming WTO session from a U.S. cotton perspective?

Dr. ADAMS. Thank you for that question. I think as we look at the ministerial conference and the focus on cotton in the WTO, certainly, there is an opportunity there to really focus on making sure the countries are current in their notifications and also transparent in the support they are provided. There are what is referred to as dedicated discussions that were established out of the last ministerial conference; dedicated discussions on cotton, that were an opportunity for countries to dig in, so to speak, and evaluate what is being done in countries. And, frankly, as I can tell, there hasn't been a lot of progress on that front. So there is still work to be done there just to understand and get everybody to the point where they are talking in the same terms, and they are notifying and they are transparent.

I think though, until that is done, we don't want to see any additional concessions on cotton until we have that stepping-off point. And certainly, as we plan toward the next ministerial conference, we don't see that there is any need for any cotton-specific outcome within that ministerial conference.

Ms. ADAMS of North Carolina. Okay, thank you. As a follow-up, what is the National Cotton Council's view on the finalized agreement of the TPP, both from a grower's and a manufacturer's perspective?

Dr. ADAMS. Thank you. Yes, when we look at TPP, and as the negotiations went along, we always understood that really the focus of any outcome of TPP would be much more on the textile manufacturing side probably directly so, more so on the growers. Most of the trade that occurred in cotton between the countries involved was generally occurring with very low duties and no quotas.

But on the textile side it can be a much different story, particularly with Vietnam being a participant in the TPP negotiations. That has always been a concern of the industry. We certainly appreciated that as the negotiations went along, U.S. negotiators talked to the textile association, talked to the cotton industry so they understood our concerns.

In terms of our view of the final agreement, right now, we are just still a bit in a wait-and-see mode until we see all the specific agreements, and all the specifics, particularly from the textile side. We do understand there is a yarn forward rule-of-origin which we find to be very important. So it is moving in a positive direction, but there are some details that we need to see on the final agreement before establishing the final word.

Ms. ADAMS of North Carolina. Okay. Finally, Dr. Adams, your statement covered some of the current challenges facing U.S. cotton producers, would you please elaborate on the economic condition of the U.S. cotton industry and what the outlook is, given the current prices and production levels?

Dr. ADAMS. The market situation we are in right now, we are seeing futures markets trade in the low-to-mid 60¢ range, and that is certainly much lower than where we were 2 or 3 years ago. Returns for cotton production are off about 25 percent from where they were 2010 to 2013. Most of the producers that I talked to, that unless they have above-average yields, this crop is not going to meet their cost of production. I think that is the challenge they face. And unfortunately, right now, until we can see some recovery in demand, some adjustment in the supply and demand situation, it looks to us like the pressure is going to be there as we head into 2016. We are setting up for a challenging environment on the cotton side for the next year or 2. And that just underscores some of the financial pressures that are out there.

Ms. ADAMS of North Carolina. Thank you, sir.

Mr. Chairman, I yield back.

The CHAIRMAN. The gentlelady yields back.

Mr. Crawford, 5 minutes.

Mr. CRAWFORD. Thank you, Mr. Chairman. And I thank the members of the panel for being here today.

Dr. Adams, you alluded to China's cotton subsidies, and I would agree that they are egregious and damaging to U.S. and world producers of cotton. What is the outlook? Do you see that being reduced or eliminated at any point?

Dr. ADAMS. I don't see it being eliminated. I think China is going to go with—they are probably going to take the view that they want to provide support to their agricultural producers. Now, will it be modified over the coming years? I think that is a question they are still dealing with, because they have gone through some fairly significant changes in their policy, but I don't see it being eliminated. I think they will continue to want to provide support to their producers. Hopefully, it will be done in a way that does not provide distortions to the markets.

I think the big question that they have to deal with too, in addition to how they support their producers is, what do they do with that 50 to 60 million bales that are sitting in stocks, because that comes at a cost and it is overhanging the market.

Mr. CRAWFORD. Let me ask you about that. Sixty-three million bales in government-owned stocks in China, and expected to rise to 68 million bales. Are we pretty sure on those numbers, because I am a little concerned about their reporting and how that may impact the market? And then also, have we seen those levels before? And please talk about what the market impacts are going to be.

Dr. ADAMS. Yes, the short answer is we have not seen those levels before. But, going back to your first question. There is always an uncertainty around any of the data estimates that come out of China. I think the data is better than it was a few years ago, and we have some sense of how much was purchased, or reports of how much was purchased into the reserves, and some idea of how much was auctioned. So I think there is a better idea there. Now, is it 60 million bales? Could it be off by 5 or 10 million bales? Possibly so.

I think one of the uncertainties that is also associated with that is not only the quantity of the cotton but the quality of the cotton.

Mr. CRAWFORD. Right.

Dr. ADAMS. Some of it has been there for 4 or 5 years. But nonetheless, it is leading them with those reserves basically there to come on the market. It makes them withdraw and be a smaller importer of cotton than they were a few years ago. That is one of the most significant impacts.

Mr. CRAWFORD. You said maybe a 5 to 10 million bale variance there. That is pretty significant.

Dr. ADAMS. That is——

Mr. CRAWFORD. How does that manifest in terms of market?

Dr. ADAMS. I think what it manifests itself into is uncertainty in terms of, can you put a dollar value on it? I think that is a challenge, but certainly, as the market participants look at the conditions, they are always trying to assess what is going on in China and what will happen. So yes, those are big numbers when we talk about it, and it is an uncertainty just in terms of how they choose to manage that, going forward.

Mr. CRAWFORD. Let me ask you this. I want to get into a deal with Turkey, but what would you advise that we might be able to do here from a policy perspective that might force China to report more accurately? Is there anything that we can do?

Dr. ADAMS. Well, if we just continue to urge U.S. negotiators and those in Geneva that represent the U.S. at the WTO to continue to push. And I know they have been over this past year. In fact, there was just recently a press story out earlier this week on some of the discussions that went on between the U.S. and other countries; namely, China and India. I still see that as the first step, is to continue to push there and get an explanation on the table so that we at least have a better understanding of where we are.

Mr. CRAWFORD. Let me ask you this about Turkey. This antidumping, countervailing duties investigation that Turkey initiated against U.S. cotton exporting companies. And I understand it is rare for a government to self-initiate a case, and there may be some political motivation for that in retaliation for U.S. antidumping and countervailing duties on Turkish steel. If you wouldn't mind, give us an update on what is going on there and how the cotton industry has been involved, what this Committee might do to help resolve the case favorably.

Dr. ADAMS. Thank you. Yes, we are a year into that investigation. It was self-initiated. The first time that Turkey has self-initiated an investigation. Turkish officials have sent requests of two questionnaires to our exporting companies. So our exporting companies have had to submit a tremendous amount of data on all of their transaction-by-transaction data for a certain period of not only their sales to Turkey, but their sales to other markets as well. So it has been a burden from that standpoint.

We, as an association representing the industry, we have status as an interested party. We have made three submissions into the process, really trying to rebut any of the economic arguments that the Turkish Government put forward. I had a chance to be in Turkey just the week before last to have meetings with ministry officials.

Their evaluation is still ongoing. We know there is some political underpinnings in this investigation. There is still a tremendous amount of uncertainty. Our understanding is that this investigation will likely go on for another 6 months or so. The challenge it creates is that textile mills in Turkey are reluctant to buy U.S. cotton because they don't know if, by the time they make the purchase decision to have it landed in Turkey, will there be a duty applied in that interim. So as a result, they are backing off their purchase of U.S. cotton.

I think we have to, and perhaps for this Committee, continue to just make sure that Turkish officials know that this has a high profile within the United States, and that they are being watched from a standpoint of how they conduct the investigation, the transparency, and are they following the guidelines for these investigations that are established within the WTO.

Mr. CRAWFORD. Thank you, sir. I yield back.

The CHAIRMAN. The gentleman's time has expired.

Ms. Plaskett, 5 minutes.

Ms. PLASKETT. Yes, hi. Thank you, Mr. Chairman. And thank you, panelists.

Mr. Crawford, we were on the same wavelength because the same issues that you are interested in were the questions that I was going to ask the witnesses, so I will be very brief and really trying to drive those questions to specific purposes.

With regard to the first issue that Mr. Crawford talked about; that being the WTO's and the Chinese Government and Turkey, and when it comes to cotton, if you could tell me, Dr. Adams, or even, Dr. Hayes, for small producers of cotton such as Haiti and the Dominican Republic, how do the markets like the Chinese, who do not follow the rules of the WTO quite often, how does that affect them in terms of their production and their pricing?

Dr. ADAMS. I think that certainly, if you talk about some of the smaller producers, it certainly creates a challenge for them getting into the market. One of the things that I hadn't really talked about much in this oral testimony, that is worth noting, and I made mention of it in the written testimony, is that when we talk about some countries that are looking at a cotton and/or textile industry, one of the challenges that come up is not just what happens within cotton markets, but cotton is one fiber that competes within a global fiber market. And so you really have to look at also what is going on in manmade fiber, and specifically polyester. That is another one of those factors that come in and its reach and its effects are going to be extensive, particularly when you look at the fact that the polyester market globally is about 2½ times the size of the cotton market, and right now, we see polyester prices at about 50¢ a pound in China. So we don't want to lose sight of all those potential implications as well when we particularly talk—if you talk about some countries that are trying to get a cotton and textile industry up off the ground.

Ms. PLASKETT. Well, what about other natural fibers, do they face the same impediments or have the same issues?

Dr. ADAMS. I think it gets tough when you talk to some of the other natural fibers, are those more specialized uses, for example, if you talk about wool or silk, it may be more difficult to say to the extent those are affected, but we certainly know, when we look at a lot of the uses of cotton, that in many cases polyester comes in and is a direct competitor when we talk about the textile production. That has an impact, especially on the demand side.

Ms. PLASKETT. Okay. The other question I had was regarding this antidumping case by the Government of Turkey. And we talked about this and there is a theory that this is potentially a retaliation against trade cases and the U.S. market and how we operate, particularly when it comes to cotton. But I know that my own district, the Virgin Islands, is constantly getting threats from other Caribbean Nations with regard to rum and how we utilize rum, and the subsidies and the support that the U.S. Government gives us. My question is really focused on, with the WTO cases that come forward, do you find, any of you, Dr. Hayes or others, Mr. Roney, has the U.S. Government been supportive of protecting U.S. markets and U.S. industry when other countries attempt to use the WTO as kind of a way to strong-arm U.S. markets because of the subsidies that the United States is able to provide? I stumped you guys. I love this.

Mr. RONEY. Well, in sugar, we have not brought cases against the many countries that subsidize because we do have import quotas that prevent them from damaging our market. When we did go to our government with complaints about Mexico, the U.S. Government came through very well in finding that there was injury from Mexico, and in finding that there was a major amount of dumping and subsidizing there. So our experience has been positive.

I think that we have consistently found the U.S. Government to be very receptive to what our concerns are. There are limits on how much they can achieve in the international arena, but we have always found—whatever Administration is in place—to be very receptive.

Ms. PLASKETT. Okay, thank you.

I yield the balance of my time. Thank you, Mr. Chairman.

The CHAIRMAN. The gentlelady yields back.

Mr. Rouzer, 5 minutes.

Mr. ROUZER. Thank you, Mr. Chairman.

I have a couple of questions. One follows up on the first. And my first one is this: A lot of times we operate under the theory that if America moves to a complete total free market, other countries will follow suit. My question for each of you is, do we have any indication that that has ever translated into reality? Dr. Hayes? Dr. Adams? I am just curious about your response.

Dr. HAYES. I can try. As Mr. Roney mentioned, the issue with bilateral trade agreements is that they do not influence domestic support policies. So under a free trade agreement, it is possible that those countries could reduce barriers as part of the agreement, and then ramp-up their domestic supports. And that is why this meeting is so important. If those agreements are policed properly, as is occurring right now, their ability to do that is far less.

Again, back to the TPP, Japan does not have enough AMS available to protect its producers unless it violates their WTO agreement. And the same would be true for Vietnam. So the policing is as important as the agreements themselves.

Mr. ROUZER. Yes. Dr. Adams?

Dr. ADAMS. Excuse me. I think too when we look at it from cotton's perspective, we are not seeing that. I mean as U.S. support has declined, we don't see it declining in other countries. We always look at the WTO as being a multilateral effort to try to level that playing field. And this has been alluded to in some of the previous discussion. One of the challenges we have is that as we look at some of the text that is on the table, the requirements of developed countries are more stringent than the requirements on developing countries. So even to live up to the letter of those agreements would still probably allow the developing countries to provide more support, and it doesn't bring them down to the same level as developed countries.

Mr. RONEY. Mr. Rouzer, thank you for that question. And it is important to note there is in trade policy, this notion of moral suasion that if we would just eliminate our subsidies, other countries would get in line and follow suit. There is absolutely no evidence that that has ever happened. If we give up our policies unilaterally, it is just a signal to take advantage of us, to send subsidized goods in to replace ours. So that is why we emphasize that it has to be done multilaterally and simultaneously. If we tried to lead the way, we would just be destroyed in the process.

Mr. CASTANEDA. I just want to echo, and thank you for the question, Congressman, we see ourselves in that same place in which we are asked on a regular basis to do a unilateral disarmament, whether it is lowering our tariffs through this TPP agreement, but we don't necessarily receive the same treatment from other countries. And certainly, we have actually moved away from price supports, and we have a much more market-friendly programs. We are not seeing that in other countries.

Mr. ROUZER. And my follow-up is for cotton and for sugar. If you can, it is your discretion, pick your primary competitor or the one that you have the most concern about at this point in time, and explain to us what their support structure is and how it is different from ours, and how it has adversely affected our producers here at home. I will start with Dr. Adams.

Dr. ADAMS. All right, thank you. Well, as we went through the testimony, I highlighted a few of those, and I will just go back and reiterate a couple. And if we talk about it specifically from the standpoint of a competitor to U.S. cotton, the competitor that is out there on the U.S. cotton is India. They are an exporting country. They are the largest producer. They are maintaining that minimum support price that equates to somewhere between 70¢ and 80¢ per pound in order to keep that land in cotton production, and it allows them to be an exporter.

The other thing we have seen is they will be very aggressive in pricing. So they will come in and you will see similar qualities offered, 2¢ or 3¢ or 4¢ less than U.S. cotton. That creates a number of challenges just from that standpoint.

We have talked about China. China is a significant customer of U.S. cotton. Certainly, how they manage those stocks, going forward, is going to be a challenge. Their focus on manmade fiber is a challenge as well.

And then in the near term, going back to just Turkey, creating basically a trade barrier that there is no economic rationale for is something that is dampening the market right now.

Mr. RONEY. And just quickly, on sugar it would be Mexico is our competitor under NAFTA for our market. And what we have seen in Mexico as recently as 2001, that the Mexican mills were in a lot of trouble. They were threatening to go out of business, and the government stepped in and expropriated ½ the mills in Mexico. And that government ownership has continued until today. It is small now; they would be able to sell off some of those mills, but for years and years, particularly once NAFTA phased-in, the biggest sugar producer and exporter in Mexico was the Mexican Government. That is not exactly ideal free trade. We are trying to compete. And the Department of Commerce has shown that about 40 percent of Mexican grower revenues are based on government support in the cases that we just brought.

Mr. ROUZER. Thank you, Mr. Chairman. My time has expired.

The CHAIRMAN. The gentleman's time has expired.

Mr. Aguilar, 5 minutes.

Mr. AGUILAR. Thank you, Mr. Chairman. I want to thank all of you for your research that clearly demonstrates that other countries are subsidizing many of their agricultural industries above the WTO limits.

Dr. Hayes, in response to a previous question you were talking about the policing ability in this kind of investigative—what I am going to say, kind of investigative efforts. Is there more that this Committee and the government can do to support the investigative efforts to make a strong case to the WTO that American farmers are at an economic disadvantage?

Dr. HAYES. Well, this hearing is a huge effort, as was the hearing in June, so we all appreciate that. The next step would be to take one of these countries to the WTO, and that is a decision that will be made elsewhere, but I think that the people who will make that decision would be influenced by your opinions.

Mr. AGUILAR. Any other comments about kind of investigative next steps and things that we can do to help these efforts?

Dr. ADAMS. Well, again, you are right, as Dr. Hayes said, this hearing raises the profile and speaks to what is going on in other countries, because sometimes there becomes an impression that agricultural programs are only present in the United States, or predominantly present in the United States, but they are basically present in essentially every country that has an agricultural program.

Mr. RONEY. Yes, it is clear, Congressman, that food is important, every country is going to try to maintain food security, and they are going to become very protective of their farmers and their consumer food supplies, and that is why I believe the countries are most reluctant to reduce their agricultural subsidies because of the importance to them of their rural communities and food supply to their people. It is a very tough problem.

Mr. AGUILAR. I appreciate it. One more question. You have talked a little bit about kind of EU from the dairy perspective, could I ask you to expand a little bit more on the dairy certificate requirement that India has in place? I understand that it has created substantial barriers to U.S. dairy exporters. And do you have any insights on what we can do to support our farmers and to help them meet these requirements?

Mr. CASTANEDA. Thank you, Congressman. Absolutely. In addition to actually finding a number of problems with the EU subsidization, they also are changing a number of different rules on SPS. With respect to India, this Administration has actually tried a number of times, even the President discussed this issue with the Prime Minister of India, and India still refuses to bring on a specific issue with respect to some of the elements that are not sound science, that are presenting on this health certificate. Some of them are related to their own culture and how they treat cows, and basically we are trying to find a solution. There is a new Administration in India. The U.S. Government is trying to address this issue, but we certainly need the support and we ask this Committee to help us with the Food and Drug Administration and USDA and USTR to find a solution with respect to how we can export to India.

Mr. AGUILAR. Any others? Thank you so much. I appreciate it. I yield back, Mr. Chairman.

The CHAIRMAN. The gentleman yields back.

Mr. Abraham, 5 minutes.

Mr. ABRAHAM. Thank you, Mr. Chairman. I apologize for my tardiness.

U.S. sugar policy has historically been attacked by groups that buy the sugar, often because they want access to foreign subsidized dump sugar. Does this mean that they generally embrace the foreign subsidies in dumping?

Mr. RONEY. Yes, thank you, Mr. Abraham. It is very odd. The nature of multinational food companies that oppose sugar policy claim to be free traders, and yet you are absolutely right that when they oppose U.S. sugar policy, or they call for unilateral disarmament of U.S. sugar policy, what they are essentially arguing is that they should have access to dumped subsidized foreign sugar. And that seems to be antithetical to genuine free trade.

Mr. ABRAHAM. Has this hurt the U.S. sugar industry?

Mr. RONEY. Yes, sir, I believe that it has because they have brought constant pressure on us, on Congress, to minimize U.S. sugar policy to the greatest extent they can. They have been successful in keeping our support level at about the same level as it has been since the mid-1980s. So there is constant pressure that we have to try to withstand.

Mr. ABRAHAM. Thank you.

Dr. Adams, what is China going to do with all their cotton stockpiles that they are holding, and what is going to happen if they decide to sell off in a bunch?

Dr. ADAMS. That is a big question. And, in fact, at a meeting earlier this year in China, at a conference I had the pleasure to attend, there were several speakers from China that openly, frankly discussed that question, and just the challenge it creates for them. They did offer, what was it—they made available roughly 6 to 8 million bales through an auction process earlier this year. That occurred in July and August. The challenge was though that at the end of the auctions, they had managed to sell only about 260,000 bales, after making available 6+ million bales. The price they were offering it at was, frankly, it was a combination of a price being still in the upper 90¢ range, and the fact that it was cotton that was from either 2011 or 2012. So you had old cotton offered at a high price. Textile mills were not willing to purchase it. So they basically came out of those auctions in much the same place they were before the auctions occurred. I don't know if there is an answer yet because it does depend on the timing of the sales, the eventual price, and are there textile mills in China that want to purchase that cotton. It is a challenge they have to deal with that, unfortunately, it is going to be with us for a while.

Mr. ABRAHAM. Okay. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman yields back.

Mr. Ashford, 5 minutes.

Mr. ASHFORD. Thank you, Mr. Chairman.

Dr. Hayes, a question for you first of all, then I will get into more substance. I am wondering if you can guarantee that my freshman son at Iowa State is in class this morning. If you could check and get back to me on that, I personally have been not able to verify it, but thank you.

Excuse me, Mr. Chairman, for that. It was just something I had to get off my chest.

Anyway, in my state, Nebraska, obviously, we export a lot of corn, soybeans, and beef. The criticism that—there are many positives that we hear in Nebraska about the benefits of TPP, and, quite frankly, of NAFTA, and our ability to export additional grain products and beef products throughout the NAFTA area. To those who say, basically, that NAFTA really hasn't been a benefit to our grain farmers and our beef producers in Nebraska, and that TPP won't either, I realize it is a relatively general question but what would be your response to that?

Dr. HAYES. I don't track the sugar market or the fruit and vegetable market, and I suspect that if I did, my answer would be different, but it has been unambiguously good for the kind of products we grow in the Corn Belt. Mexico is a huge importer of U.S. meat. Probably 30 to 40 percent of the meat consumed down there is imported. And that has skyrocketed since NAFTA. And even in eastern Canada, we actually export quite a bit of meat there. So we learn in our introductory freshman courses that free trade is good, and I tend to believe in that. And NAFTA was a solid, well-structured free trade agreement.

Mr. ASHFORD. Right. And then as we look forward to TPP from our area, from Nebraska, and I agree with you that NAFTA has been a significant benefit to our producers, how do you see that TPP impacting what already has evolved in NAFTA?

Dr. HAYES. Well, Japan has import duties of 45 percent on beef, and depending on how you measure it, maybe 30 to 40 percent on pork, and they go to ten percent, and then for beef, close to zero. The Japanese beef and pork industries simply cannot survive if they are competing against U.S. product. And as they reduce production and as their consumers eat more, the U.S. is in a really good position to meet those markets. The other competing country is Europe, and it does not have the ability to ship chilled product into those countries. So Japan is there, and then Vietnam is a pork country, but they are eliminating all of their duties under products of relevance to the Midwest over about 10 years. And that is 90 million hungry people who are entrepreneurial and I sense disagreement will make them wealthy, and instead of developing their own value-added livestock industries, a lot of that will be imported if these agreements are enforced as designed.

Mr. ASHFORD. All right, thanks very much. And one last question from an economics perspective. And this is, I am sure, difficult to speculate on necessarily, but on the price side, the feedback, of course, the question we get is, Brad, is this going to help us on the price of our product, and what is your general comment on that, of the TPP now?

Dr. HAYES. I watch the futures markets and I can tell when we are going to have a good month for exports, by the way, our export statistics are 2 months out-of-date, but the futures market is up-to-the-minute because the people in those companies taking the orders need to buy the product. And I can tell when we are exporting a lot because the futures markets and the cash markets are up.

Even though the U.S. is huge in terms of demand and supply, a small division caused by a new export order can significantly influence price.

Mr. ASHFORD. All right. That is all I have.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman yields back. And good luck with that son going to class. Thanks.

Mr. King, 5 minutes.

Mr. KING. Thank you, Mr. Chairman. And I thank the witnesses for your testimony and time, and the commitment you make to these issues.

I would first reflect on the statement made by Mr. Peterson with regard to countries that have emerged declaring themselves to be developing nations. And I wanted to point out a little narrative. Sitting down in Brazil with the Brazilian Minister of Trade, who said to us in a square diplomatic seating, with the Members of the House and Senate there, he said, we have won the agricultural trade war with the United States. It will be quite impossible to compete with us. That told me a couple of things, but one of them was they don't understand Americans. You don't tell us it is quite impossible to compete with us. I want to make that point, and perhaps that will echo its way down to Brazil and maybe help in a little way to start to remove that label.

But I wanted to also say to Mr. Roney, your presentation on the portions of the sugar markets I thought was excellent, and it is some of the things I have looked at for some time reinforced here. And it tells us how difficult it is to compete in a global market when you have state-sponsored subsidies taking place in that way. It brings me around to this question. If people are hungry in the world, and that has always been the case and likely always will be the case, what is the interest in governments in subsidizing products that diminish the availability of the nutrition available to their citizens?

Mr. RONEY. Well, Congressman, it is certainly problematic because countries do take their food supplies seriously, one would certainly expect, and so they are extremely generous in their ag subsidy supports. Their rural infrastructure depends on it and their domestic food supplies depend on it. So I think that makes it very difficult for us to persuade them to reduce their policies and their subsidies.

Mr. KING. Could you anchor that back in the effort on the part of their ag producers within their countries lobbying for their trade protectionism?

Mr. RONEY. I am—say that again, Congressman. I didn't quite——

Mr. KING. Okay. Could you anchor this back in countries that are strongly subsidizing their food production, could you anchor that in the lobbies of their farmers and their ranchers and lobbying for trade protectionism for their particular trade?

Mr. RONEY. Yes. Certainly, their lobbying efforts are very strong, and it would seem very successful, and it is hard for us to compete on that level. It is hard for us to compete against those foreign subsidies. I totally agree with you that we could compete—our American farmers could compete with any country on a level playing field, but the ag lobbies in those countries are strong and effective.

Mr. KING. Let's say if we got to that place that you put out there that maybe characterizes an ideal situation for trade to abolish the subsidies for sugar globally, if that happened, what—let me take it another way. If that happened in the United States and not in the rest of the world, what would happen to that land that is in sugar production in the United States today?

Mr. RONEY. We would be knocked out of production. I think a limited amount of that land could shift to other crops. Our beet producers tend to be diversified in wheat, corn, and soybeans, but then it is a question of whether—we need wheat, corn, and soybeans—more acreage of that. Our cane areas tend to be a monoculture, and in the State of Hawaii, for example, three of the four islands there have gone out of sugar because of flat pricing over the years, and for the most part, there is nothing on that land.

Mr. KING. I wanted to hear that. Thank you. I appreciate that.

And then, Dr. Adams, I will ask you a little bit different way. I used to have this discussion with some of the now-retired Members of this Committee, and I ask this question of you. We are subsidizing food production in many categories in the United States, but if the cotton operations in the United States were shut down in a similar fashion, say, lack of subsidy in a world market that over-subsidizes, so your cotton producers could no longer compete, what crops would those fields go to?

Dr. ADAMS. I think when we look, we can just take it regionally, when you look at the southeastern United States, most of our cotton producers are diversified there. Primary competing crops are where you would see those acres likely shift to, with probably peanuts as the first place. You would pick up maybe some soybeans and corn. In the mid-South or Delta region, those acres would most likely shift into corn, soybeans, maybe a little bit of wheat.

Mr. KING. Is the Corn Belt growing down into the cotton regions?

Dr. ADAMS. We have seen, following down the Mississippi River, you see a lot more corn and soybeans in those areas than you did several years ago. I think a challenge comes in Texas where you have so many of the acres that are devoted to cotton, they are not as suitable to other crops, there are fewer alternatives, maybe a little bit of grain sorghum or wheat, but it would be a real challenge on them because you might just see those acres go out of production.

Mr. KING. Thank you. And if the Chairman would indulge me with a short question for Dr. Hayes?

The CHAIRMAN. All right.

Mr. KING. Thank you, Mr. Chairman.

Dr. Hayes, your review of the Trans-Pacific Partnership, could you tell us in summary the market access that we would gain *versus* the market access that we would grant with regard to ag products?

Dr. HAYES. Well, I can only speak for the ag products I am familiar with. And we don't really restrict the importation of those products into the U.S. We are natural exporters.

For beef, the duties go from about 45 percent down to ten percent, and stay there for Japan for pork. The the current gate price is the equivalent of about a 35 percent import duty, and it goes to practically zero over a 15 year period. Then in Vietnam, which is very land-scarce, both of those duties go to zero over 10 years. And for Malaysia, it is immediate access for our products.

Mr. KING. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

Ms. Lujan Grisham.

Ms. LUJAN GRISHAM. Thank you, Mr. Chairman. I too want to thank the panel for being before the Committee today. And I am going to actually do, unfortunately, what too many of us do, and fortunately both, focusing on the issues in our districts, which means that sometimes we are repeating some of the information that you have heard already, and asking you to delve in a little bit deeper on some of the issues.

So I want to go to Mr. Castaneda, and I want to talk a little bit more about dairy. And I want to highlight for you that in my state, the dairy industry, which you probably already know, New Mexico, is a huge economic driver and the leading agricultural economic driver, with export sales reaching about $125 million in 2012. According to the New Mexico State University, the total economic impact of the dairy industry in my state is about $1.8 billion, and that is a 2014 number. We are currently ranked ninth in the nation for milk product, and fifth in the nation for cheese production. We have about 150 dairies, and we have the largest average herd size; about 2,300+ cows, which is, as you know, significantly higher than what the average is; about 187. In your testimony, and you have highlighted in some of the questions and answers, that it is becoming more difficult for U.S. dairy producers to compete in the international market when other countries are subsidizing and continue to ramp-up their dairy subsidies. So it is not only the old problem that we were dealing with in terms of the subsidies so that they can unfairly deal with the price of milk in the international market, but they continue to ramp that up, or further hampering our ability to support our own dairy exports in a meaningful way.

So I want you to talk a little bit more about that, but I want you, if you can, is there any differentiation about herd size, and is there something that we can do as policymakers that looks to those benefits for states like New Mexico that helps us compete more effectively, perhaps?

Mr. CASTANEDA. Thank you so much, Congresswoman, for that question. And as you stated perfectly, the industry in New Mexico has been a very good example. We are growing in most of the states in the United States, and one of the reasons is because trade agreements that have done a good job in being a fair trade agreement, a balanced trade agreement, have promoted that. And NAFTA, as to the question of Mr. Ashford, has been a tremendous success from the Mexican side of the United States. Mexico is today our number one market. And New Mexico is taking advantage specifically the plants in New Mexico that actually are exporting a lot of cheese to that country. In general, our number one problem that we are encountering is border protections, and, of course, increasing additional aid in Europe. We are now very dependent of international markets. So every single impact, or every single action by other governments to prevent imports of our dairy products, it certainly goes back, ultimately the price that it is paying to dairy farmers. And that certainly is impacting the size of farms. Farmers want to grow. In New Mexico in particularly, there has been a lot of expansion as well as in Texas, and those farms are actually producing primarily for the export market. So this is why it is so critical. And what the Committee can do——

Ms. LUJAN GRISHAM. But then they are also really at risk, these large herds and large farms if we don't——

Mr. CASTANEDA. Absolutely.

Ms. LUJAN GRISHAM. Okay.

Mr. CASTANEDA. Absolutely.

Ms. LUJAN GRISHAM. I am going to ask you, with the time I have left, that in the border security, border protections, in New Mexico in particular, we have created kind of a trade center, it is called Santa Teresa, that really helps us in the context of moving our exports and imports across the border. Are there things specific to that investment that you see that would make a difference for us to continue to compete and solidify that export market with Mexico?

Mr. CASTANEDA. Specifically, supporting our work with the different regulatory agencies in the United States, like APHIS or the Food and Drug Administration is the way to go. The Food and Drug Administration is an agency that has jurisdiction over dairy, and part of the problem is that they don't have an export angle. They are, obviously, reminding us that their role is not to necessarily look at export side. So anything that the Committee and others can do to help us enhance the budget of the Food and Drug Administration to support more exports, because as we have discussed before with respect to India and other countries, a lot of times we have issues and problems with respect to finding the right time and the right resources to negotiate these health certificates.

Ms. LUJAN GRISHAM. All right. Thank you very much.

I yield back, Mr. Chairman.

The CHAIRMAN. The gentlelady's time has expired.

Mr. Yoho, 5 minutes.

Mr. YOHO. Thank you, Mr. Chairman.

And I want to pick up where Congressman King left off, when he was talking about what happens to that land, whether it is sugarbeets or cane or cotton, or one of the other commodities, it goes fallow on a lot of those cases, but more importantly, what is after that. The infrastructure that produces or refines those products, like the sugar mills or the cotton gins, they go out of business. And we have seen that happen with the UK when they got away from their subsidy programs, their market collapsed, it killed jobs, and it weakened their economy. Everything we do from this point from the Federal Government should be making America stronger, not just militarily but economically. And if we are strong economically, people benefit in this country. So we have always got to keep that in mind.

And, Dr. Hayes, you brought up something that often gets overlooked in the debate, when the U.S. decoupled the farm policies from production back in 1996, and we have been working to get more and more away from that, and I have talked to my producers, whether it is in some type of crop or dairy, they have said, man, we would love to get the Federal Government out of this as much as we can. And this goes back to Mr. Roney, and I appreciate your presentation. I think you are spot-on. You know where I stand on that zero-to-zero. And I had the good fortune of being in Mexico, November of 2014, and we were with the Minister of Finance, who negotiated NAFTA, and we got him to admit they did dump sugar on our market. And Chairman Royce was there and it was a wonderful time. And I am glad to see that you guys have stood strong. And there is so much misconception about what the sugar subsidy is. And we understand it is the loan program, and it is not paid out a dime, zero, zilch, nada, until they dumped that sugar on the market. And that is something we need to take and let people understand.

And so I guess my question is, when we get into these multinational trade negotiations, and we are going through that now, and, Dr. Hayes, you hit on this with Japan and our beef production. We have to get in there so we can lower the tariffs over 10, 15 years, depending on what country, but in the meantime, Australia is negotiating with Japan unilaterally. Do you see it would be more beneficial for America, for our competitiveness, to work more on unilateral or bilateral trade agreements with other countries *versus* getting tied into this big quagmire with all these other countries, and just, instead of waiting to get it perfect, just move on and start making these negotiations? I guess that is open for everybody.

Dr. HAYES. Well, I will respond first. I am pessimistic about the WTO. You have over 100 countries——

Mr. YOHO. I am glad to hear you say that.

Dr. HAYES.—and it just takes one or two countries to ruin the situation. But take a bilateral. Let's say the bilateral we have with Korea, we were lukewarm about actually implementing that until we realized that if we didn't, the Europeans were going to take our markets away. And suddenly we woke up and we were interested in not losing that market. And TPP, I mean we could walk away from that, but that doesn't stop the Europeans from having a free trade agreement with Japan, which is very close, and it certainly doesn't stop Canada using the TPP to access our markets in Japan. So in a sense, the bilaterals are the smaller agreements and they are almost viral. If somebody signs one, then just to keep your market you have to sign it, or if you don't sign it, somebody else will take your market share away. So the competitiveness works in favor of these smaller regional agreements and against the multilaterals.

Mr. YOHO. Dr. Adams, you want to weigh-in on that?

Dr. ADAMS. Well, I would say too, from the WTO's perspective, obviously, there would be benefits if there was a multilateral negotiation, but it is a challenge with it working under a consensus rule and essentially one or two countries can block up any negotiations. I think you look historically at the track record for the U.S. cotton industry, probably some of the greatest benefits have been more in the unilateral or regional trade agreements. Those have probably had more tangible benefits over the last 2 or 3 decades than trying to do something under a broader perspective.

Mr. YOHO. Well, and that is what I see is, and we focus on the big picture of TPP, but in the meantime, you see other countries like Australia negotiating with Japan, and I am not hearing any trade agreements working on the side and say, "Well, let's get this done until we can work these other things out."

And let's see here. Mr. Roney, you want to weigh-in on any of that?

Mr. RONEY. Well, yes. Thank you, Congressman. And thank you for your support for U.S. sugar farmers. We really appreciate that. The problem with the bilateral and regional agreements, while they can gain some market access by reducing tariffs or increasing quotas, what they never address are the subsidies in those countries. So when we are looking at a world market as distorted as sugar, these bilaterals, they don't make any progress on those levels of distortion. So as difficult as it is, and I certainly acknowledge it is very difficult, but the only way to approach that is at the WTO where you do look at domestic supports and export subsidies, as well as import access. So it is very difficult, but it is the only way to make genuine progress on global subsidies.

Mr. YOHO. Thank you. I am out of time.
The CHAIRMAN. The gentleman's time has expired.
Mr. YOHO. Thank you, Mr. Chairman.
The CHAIRMAN. Mr. Allen, 5 minutes.
Mr. ALLEN. Thank you, Mr. Chairman.

And, of course, we have talked a lot about cotton, and I appreciate your input on that. Of course, that is the largest crop in our district. And it seems to me, because I am always looking for solutions, that we have talked about the WTO and we need a solution on how to deal with that. And I would appreciate hearing from you on that because I will tell you what the American people are really getting tired of, and our farmers are really getting tired of, is, we have to export 80 percent of our cotton in my district. The world market now is around 60¢. You can't make it on 60¢. We have to send it to China. We have to mix it with their lesser grade of cotton. They are paying their farmers like $1.40. And then we walk into a retail store in this country and we buy a shirt for $35, and we are the gorilla in the room as far as consumer products are concerned. How in the world do we deal with that? I mean it looks like to me that if we don't get—our exposure is the fact that we are out of the textile business——

Dr. HAYES. Yes.

Mr. ALLEN.—and we are out of the shirt-making business. I mean somehow we have to address the end product and the fact that we are buying, what, 80 percent of the world's goods and services, but yet we are getting killed on the raw product. That is not good business sense. Not a good business deal. Any comments? I would like to just go down through the panel. And, Dr. Hayes, I will start with you. Can we think of the beginning with the end in mind and say, okay, wait a minute, this is the way to fix this?

Dr. HAYES. Well, your comment about 60¢ here and $1.40 there, that is what this hearing is about is to tell the Chinese, first, you committed not to do that; and second, you should stop doing that. Now, if you went back to 60¢, their cotton producers would cut back on production, which would expand our price.

Mr. ALLEN. But then we can't seem to get them to understand the fact that, okay, if you don't do something about this, you can keep your shirts in China.

Dr. HAYES. That is a good point.

Mr. ALLEN. Dr. Adams?

Dr. ADAMS. Well, I don't know that I have any magic answer for you, but you do raise an issue that when we look at the potential economic activity and the economic impact, it goes beyond the farm gate, particularly when we talk about the cotton and textile industries. Excellent point in terms of just the changes that we have seen, the elimination of import quotas over the last—went through a multiyear period of eliminating import quotas on textile products, and probably not having the attention to detail as we looked at some of the changes that have occurred in textile policy, both within a multilateral agreement. And unfortunately, we lose that end-use manufacturing and then you see market share going to not only countries like China, but countries like Vietnam stepping in and gaining market share as well.

I think what we have—I don't know if there is an easy way to undo that other than trying to work to somehow level that playing field and realize it is beyond the farm gate; it is also on the manufacturing side, particularly, on the textile side.

Mr. ALLEN. Mr. Roney, you have any solutions on this?

Mr. RONEY. Well, Congressman, I wish I did, but I don't. We just have to be really fastidious about how we look at these agreements. And for us, and sugar being an import crop, it is awkward, it is difficult, because the U.S. is doing these agreements to try to gain access for information technology and so on. But what do those countries want? Well, they want access to our agricultural market. And so we are always kind of on the chopping block there. So, yes, we certainly don't want to stand in the way of trade agreements to get more access to foreign markets for our country, but we don't want to be the sacrificial lamb in that process.

Mr. CASTANEDA. I would only just add that one of the ways that we can try to resolve this is to provide more funding and resources. We used to be able to go USTR, and we used to be in a time in which we enforced these trade agreements and we have actually a number of cases in the WTO, and we actually are not seeing a lot of that, and we certainly would like to have the U.S. Government take more of the cases that will help all of us.

Mr. ALLEN. Well, anything that this House can do to provide a strategy so we can deal with this issue where we are getting the short end of the deal. And like I said, the American people are a little tired of that, and we are seeing that everywhere. Please come to us and let us know how we can help you in your negotiations to deal with these problems.

I yield back.

The CHAIRMAN. The gentleman's time has expired.

Mr. Goodlatte, 5 minutes.

Mr. GOODLATTE. Thank you very much, Mr. Chairman. I appreciate you holding this hearing, and I appreciate the testimony of all of these witnesses.

Mr. Roney, I wanted to direct a question to you. Your written testimony and your testimony earlier in the hearing highlighted that many of the top sugar exporters are also top sugar subsidizers, and you have been rightly critical of those subsidy programs. However, one country I noticed to be missing from your list and that is Australia. According to the USDA's Foreign Agricultural Service, Australia is the world's ninth largest producer of sugar and the third largest exporter. However, in recent discussions regarding trade and sugar policy around the world, the assertion has been raised that Australian supports for sugar are quite minimal in comparison to the rest of the world. So I wondered if you could comment on this claim, and then furthermore, could you give an opinion as to how Australia is able to compete in the world market without these subsidies if they are, in fact, minimal?

Mr. RONEY. Thank you, Congressman. Australia's subsidies have been relatively small, relative to other countries, but their government has come to their rescue at times when prices were low or there has been weather damage, and they have also had a single-desk seller which is of some question under WTO rules for safe trading and enterprises. But we also look at how Australia has fared with its relative exposure to world prices, and they have not fared well. Their production has been struggling, it has been down in many years. Their role in the world market has been diminished by countries that have continued to subsidize. They have lost out on the market share, for example, they used to be the world's second biggest sugar exporter. Now Thailand is the world's second biggest sugar exporter by far, and that was entirely through the Thai Government decisions to set high prices and to encourage exports onto the world market. So Australia, for not coming to the rescue for its producers more than it has, has really suffered from that.

Mr. GOODLATTE. Right, but they are also the third largest exporter.

Mr. RONEY. Still declining but, yes, still third.

Mr. GOODLATTE. Third. Third is still pretty high. Especially when they are obviously exporting a very large quantity of their sugar if they are ninth in production but third in exports.

Mr. RONEY. Yes.

Mr. GOODLATTE. The other question I would like to follow up on with regard to Mr. Peterson is, if you think you have any practical ways to apply pressure to other countries to come to the table to negotiate down the subsidies.

Mr. RONEY. I think in the world of sugar, the promise or the hope would be that as these countries reduce their subsidies, that world prices would rise, that the least efficient producers would fall out of the business, and as world prices rise to reflect the cost of producing sugar, then the most competitive would survive. For some countries, like ourselves, we are—who are relatively competitive by world standards, we would welcome that approach. The problem and the obstinacy comes from the countries that are not relatively efficient, but are really, really committed to their sugar industries and will be reluctant to reduce the supports for them.

Mr. GOODLATTE. Thank you.

Let me just ask briefly each of you with regard to the TPP. I know we haven't seen the language yet, but I am just going to go down, and I will start with you, Dr. Hayes, your general reaction to how it will treat American agriculture, getting access to these markets or giving up too much access to our markets, do you have a favorable or unfavorable—I don't need you to go into details but——

Dr. HAYES. Favorable.

Dr. ADAMS. I think on cotton fiber, fiber trade, it should be favorable there. The question mark for us will be what happens with the textile trade, and that is a question yet to be seen in terms of some of the details.

Mr. GOODLATTE. Sure. Mr. Roney?

Mr. RONEY. We are still waiting for the details, as are the others, but at this point, we are optimistic that the amount of additional access granted will not jeopardize the no-cost operation of U.S. sugar policy.

Mr. GOODLATTE. Thank you. Mr. Castaneda?

Mr. CASTANEDA. Yes, I think that actually we echo Mr. Roney. I think it may be slightly unbalanced if you see what we grant to other countries with what we got, but at the end, we hope, once we see all the details, that perhaps it may be a net positive on the economic overall, but we don't know yet.

Mr. GOODLATTE. I know you were very concerned going into the final negotiations, but were some steps taken there that help dissuade some of your concerns?

Mr. CASTANEDA. I think that a letter from many Members of Congress and many calls from Members of Congress help us at the end to prevent a really bad agreement. I think that going into the final—and I have heard that dairy was one of the last issues to be discussed at 5:00 in the morning on Monday of the conclusion of the agreement. So I think that we avoided a really bad agreement. Again, the jury is still out to see how good it is, but it doesn't look like we have this great access into Canada or Japan which we were looking for.

Mr. GOODLATTE. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

Mr. Newhouse, 5 minutes.

Mr. NEWHOUSE. Thank you, Mr. Chairman. Thank you for having this hearing, and I appreciate all of you being here.

I am going to try to get to each one of you, so if you could help me with keeping your answers at least within my time period of about a minute or so.

Mr. Roney, Ronney, I am sorry, I got your name——

Mr. RONEY. Roney.

Mr. NEWHOUSE. Roney? You kind of breached this subject so I wanted to follow up with you first. Could you talk a little bit about how domestic support programs used in other countries generally impact commodity production in those countries? Do they go up, do they go down? And then what would you see the effect of that on global production and prices?

Mr. RONEY. Well, classically what we have seen in the world of sugar is support prices that are generous enough to keep farmers in business, and in many cases, to expand their production. And the problem then becomes when their production expansion goes beyond what their market needs, what do they do with that surplus.

Mr. NEWHOUSE. Okay.

Mr. RONEY. Well, they have tended to dump it on the world sugar market for whatever price it would bring.

Mr. NEWHOUSE. Okay.

Mr. RONEY. So you have, for example, the European Union, for many, many years, had price supports of around 30¢, 35¢ per pound, that induced a tremendous surplus in the European market, and then you were witness to the spectacle of their dumping sugar onto the world market at 10¢ per pound. But their farmers were able to stay in business——

Mr. NEWHOUSE. Okay.

Mr. RONEY.—because they were getting such a generous amount for the sugar they were selling within the EU.

Mr. NEWHOUSE. Yes, it seems like a vicious circle, and——

Mr. RONEY. Yes.

Mr. NEWHOUSE.—you just can't get out of it——

Mr. RONEY. Yes.

Mr. NEWHOUSE.—and that seems to be where we are.

Dr. Hayes, I appreciated your testimony. Could you name foreign countries and the commodities they produce that cause us the most problems? In your report, you talked about the wheat study and the potential billion dollar impact to U.S. farmers. In naming those foreign countries and commodities, also talk about what effect that has on our producers?

Dr. HAYES. I believe it is China first and then India. And I will use corn as an example. The current support price in China is about $9.25 a bushel, which is about double the cost that our corn could go in there at. So we have market prices for corn are falling. And if the Chinese consumer could see lower corn prices, they would buy more. If the producers saw lower corn prices, they would produce less. And so that creates a distortion, and it is true for corn and it is true for wheat. And then India, which is more opaque, but very similar programs——

Mr. NEWHOUSE. Corn also in India?

Dr. HAYES. No, wheat in this case.

Mr. NEWHOUSE. Wheat? Wheat? Okay.

Dr. HAYES. Yes. And one quick comment. You may notice I have a funny accent. I was born in Europe and farmed there, and it is true that those policies were enormously distorting, but pressure from the U.S. and pressure from economists has gradually resulted in the Europeans backing away from——

Mr. NEWHOUSE. Okay.

Dr. HAYES.—those distorted programs.

Mr. NEWHOUSE. Thank you. Well, that leads to my next question, thank you.

And, Dr. Adams, could you talk a little bit, and I know just in a minute, it is going to be tough, but what actions we as a country could take in response to subsidies by foreign producers to help U.S. farmers compete in these world markets?

Dr. ADAMS. Well, as we look at it from cotton's perspective, the WTO is going to be the area where those discussions—that is the venue for where those discussions take place. And in the case of cotton, out of the Bali ministerial, there were dedicated discussions that were specific to cotton, and that is an opportunity, for the discussion to occur to really try to understand what is happening in other countries. And again, other countries have a long way to go in terms of their notifications being as current as the United States and as transparent. But in the case of cotton, that is the venue to start those discussions and to really try to level that playing field.

Mr. NEWHOUSE. Yes, it seems to have some impact, if Dr. Hayes' observations are correct.

Mr. Castaneda, no surprise that our two most important trading partners, as it relates to dairy, Canada and the EU, have significant price supports. Can you talk a little bit about how that impacts our dairy farmers?

Mr. CASTANEDA. Sure. Thank you so much for the question.

Just as an example, Russia, when they banned all their imports from the western world, it impacted Europe the most because we were still working on a health certificate to see our products into Russia. But what that did is have over 6 billion pounds of milk equivalent that were actually going into the Russian market, in Europe have to actually find a different market. All that was pretty much dumped into the international markets through aids by the EU. So that gives you a context of how bad the markets can be distorted by situations, primarily from aiding by the EU. And low milk powder prices have actually been all over the world, and has impacted, to a certain extent, dairy producers that focus on Class IV and on the powder side. But for the most part, we are doing better here than anywhere else in the world that has a pretty much open market. We are not Canada, we are not North Korea, but actually, if you look at countries, if you look at the different prices, the U.S. actually is doing better than most other countries.

Mr. NEWHOUSE. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

One quick question. Obviously, some of the focus of my opening comments, as well as some of the others, is that enforcement of our deals, whether within the WTO or within a bilateral FTA, is an important issue. The anti-dumping, countervailing duty cotton case that Turkey brought against the U.S., while I don't think there is any empirical evidence at this point, followed very closely on our suit against Turkey dumping their steel. It appears to be a retaliatory tactic. Is this a new tactic, or has this been used before—where America has tried to enforce an agreement, and the respondent country triggered an unrelated case in retaliation?

Dr. ADAMS. Well, I will speak to in this case, I am not aware of, necessarily past situations, where we have had this much back-and-forth, but in the case of Turkey, there was a Turkish official who was quoted publicly back in September of 2014 as saying that for each investigation that the U.S. launched, that Turkey would, in fact, launch three investigations. And then not a month after that, we saw the investigation launched for cotton. And so now we, unfortunately, are caught in the cross-hairs of what has become just a back-and-forth of investigations.

The CHAIRMAN. Are any of the other witnesses aware of retaliatory things like that?

I want to thank our panel for being here today. It has been really informative. We have had great, succinct answers. I appreciate my colleagues sticking to the 5 minute rule. The earlier question about whether you support TPP, I appreciate that you all responded in the affirmative, but we also have the caveat that we don't have all the language yet and that we are going to look at the full deal. Rice, tobacco, and some other things may not end up going as well, and all of us are anxiously awaiting the language to make sure we understand how the process unfolded.

I appreciate each of you highlighting the negative impacts that foreign subsidies are having on U.S. agriculture. Farmers and ranchers across this nation are competing on an unfair, unlevel global playing field. Part of the responsibility of the Agriculture Committee is to help the American people understand the need for our farm safety net. We ratcheted down our safety net in the 2014 Farm Bill, and we are seeing the direct impacts. This is especially evident in the cotton industry where they have next to nothing in terms of a safety net. I want to thank each of you for your statements, and the work that you are doing to support this narrative that each of my colleagues and I need to be a part of. Unfair competition is just that—it is unfair, and people who cheat need to be held accountable. Cheating by foreign countries should not be tolerated. It hurts American producers, and ultimately our consumers.

Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplemental written responses from the witnesses to any question posed by a Member.

The hearing of the Committee on Agriculture is adjourned. Thank you.

[Whereupon, at 12:00 p.m., the Committee was adjourned.]

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