

**Ways and Means Subcommittee on Trade Hearing on  
Advancing The U.S. Trade Agenda:  
Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers To  
U.S. Exports**

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**Statement of**

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Chairman Nunes, Ranking member Rangel and members of the subcommittee: Thank you for the opportunity to speak on agricultural trade. Thank you also for focusing on this issue at such a critical time. The US is currently negotiating free trade deals with countries across the Pacific and with the EU. These negotiations, if successful, will have a profoundly positive impact on US agriculture.

I will begin with an intuitive explanation of how trade creates wealth and why economists almost universally favor free trade. I will then explain why trade with land scarce countries will impact US agricultural trade patterns

and how this trade will benefit the United States. I will finish with a couple of concerns about the way the negotiations have evolved to date.

The most rewarding part of my job is teaching economics 101 to incoming students. In the very first class I contrive to get two copies of my text book into the hands of one student and I then find a student who has yet to purchase the text. The students in class quickly realize that the second copy is worth almost nothing to the first student and they know that it is worth \$100 to the second student. I then ask the two students to trade. The book typically changes hands for \$50, leaving both students better off by \$50. This \$100 in wealth is created simply by moving the text from a student who places a low value on it to one who values it highly.

The step from the text book example described above to international trade is straightforward. Countries with the resources to produce large quantities of certain goods will place low value on these goods because they will be in plentiful supply. These countries are similar to the student with two copies of the text. Countries that have limited supplies of key resources will place a large value on products that require these scarce resources. Trade benefits both countries by moving product from an area where it has low value to an area where it has high value. Wealth is created in this fashion much as it was created when the text book changed hands.

The US has an abundance of land, capital and skilled labor and will typically benefit from exporting products that require large amounts of these inputs. Corn wheat barley and soybeans require large amounts of land relative to other inputs, and therefore, the US is a natural exporter of these commodities along with derived products such as beef, pork, poultry, dairy products and eggs. My home state of Iowa is an extreme in this regard with approximately 10 acres for every person. Asia has about one fifth of an acre per person. Therefore Iowa benefits disproportionately from agreements that open markets with land scarce countries.

Singapore has almost no natural resources and must even import nearly all of its water. Yet, its per capita income is 20% greater than in the US. Singapore has achieved this level of prosperity because it takes full advantage of free trade. Other countries that have adopted a similar approach include Hong Kong, New Zealand, Chile, and South Korea. Argentina was once a very wealthy country, but in the latter part of the last century it adopted antitrade policies. Argentina fell from number seven on the per capita income ranking to number seventy five today.

### **Why Bilateral Trade Negotiations have become so important**

As the number of countries participating in the multilateral negotiations at WTO increased, the negotiations became more and more difficult. In contrast, bilateral agreements are contagious because the more countries that participate, the greater the incentive for other countries to participate.

Countries see that they will be left out of important markets unless they have the same access as countries that sign agreements.

With the failure of WTO sponsored multilateral trade negotiations, there has been an explosion of interest in bilateral and regional agreements. The US, South Korea, Australia, New Zealand, Canada, and Chile have been particularly aggressive in this regard. More recently, China, Japan, and the EU have jumped on this bandwagon. There are dozens of bilateral negotiations underway. For example, Chile is in negotiation with, or, has finalized free trade agreements with sixty countries. If the US does not have the same success rate as other countries, we will lose market share to countries with better access.

### **How Trade liberalization Benefits Rural Areas**

Most agricultural trade barriers are used against value added agricultural imports such as dairy products, beef, poultry, pork, and eggs. Countries typically allow free access to feed-grains so that their domestic livestock industries can grow. In the absence of these barriers, transportation economies would favor the export of value added products instead of bulky feed-grains. Therefore, any liberalization of agricultural trade will involve an increase in meat, poultry, dairy (and possibly fish) production in the US.

As I am sure you all know, many rural areas have been losing population as technologies have allowed farmers to increase the number of crop acres they cultivate. A dramatic increase in value added agricultural production,

such as would occur if current negotiations are successful, will allow a repopulation of rural areas.

Livestock manure is a valuable fertilizer. It improves soil tilth and carbon content. An expansion of US Livestock production will allow us to recycle soil carbon via manure instead of exporting this carbon to countries where it has no value.

Value added production is much more than simply feeding cattle, pigs and chickens. Other sectors include genetics, veterinary services, feed supplements, animal medicine, housing, feeding and handling equipment, commodity trading, banking, finance and even economics. On the output side companies buy livestock products to produce cheese, yoghurt, ice cream, packaged meals, cured meats, soups and medical products. These secondary sectors tend to locate headquarters, marketing and research facilities in close proximity to their main customers or suppliers. As is true in other sectors of the economy, when several firms working in the same industry locate in a particular area, others tend to follow. This is a phenomenon known as agglomeration. If the US can use trade agreements to attract the value added industries that rely on US feed grains, these sectors will thrive and rural areas of the US will become world leaders in some of the input and output industries just described.

Now I would like to turn my attention to the two main negotiations the US has underway; the Trans Pacific Partnership (TPP) and Transatlantic Trade

and Investment Partnership (T-TIP) agreement. These provide huge opportunities, and if implemented correctly, have a very positive impact on US agriculture. My comments will focus on concerns about the way negotiations appear to be heading.

### **TPP**

The Trans Pacific Partnership (TPP) involves the United States, Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. This is a group of countries with almost 800 million consumers and 40% of world GNP. Japan, Mexico, and Canada were not part of the original group and were accepted as late entrants. China, South Korea, and Taiwan have expressed interest in joining at a later date.

Prior to the entrance of Japan, the focus of the negotiations was to eliminate all duties and other non-tariff barriers. Progress towards a high standard free trade deal was surprisingly successful. Unfortunately, Japan has recently hijacked the negotiations by insisting on permanent protection for its beef and pork, dairy, wheat, rice, and sugar sectors. To date, Japan has insisted on the use of import duties on these products on a permanent basis. It has announced its intention of using the money generated by these duties to subsidize the relevant sectors. For example, duties collected on imported US pork would be used to subsidize Japanese pork producers.

I sincerely hope that our negotiators will hold out for an agreement that results in eventual free trade in these products. I do so for the following reasons.

1. Japan's current offer in the TPP, if accepted, would be managed trade deal and would not deserve to be called a free trade agreement. The difference between what Japan is proposing in order to protect its "sensitive" sectors and what the U.S. would get if Japan eliminated tariffs on all these products is very large.
2. The benefits from trade described earlier come from the reallocation of resources. In attempting to protect these sectors and stop any reallocation of resources, Japan is fighting the fundamental economics from which benefits are derived. It is as if Japan is prepared to allow the two students described earlier to trade so long as one student ends up with two text books.
3. Japan has insisted on this outcome because of food security concerns. This logic is flawed because Japan imports all of its feed grains.
4. If Japan, a wealthy developed nation, gets away with a distortion of this sort, then other nations such as China will request a Japan type deal. The value of all future free trade agreements for U.S. agriculture likely will be diminished and the U.S. will lose future exports and jobs. The importance of this issue dwarfs other trade issues faced by US agriculture.
5. If Japan is provided special treatment and the tariffs on these products are not eliminated, then the incidence of the tariffs will

be felt by Japanese consumers who pay a higher price for imported products and by US exporters who receive a lower price for exported products. This means that US livestock producers will be paying a tax to subsidize their competitors. It will be difficult to get them to support the TPP agreement with such an unfair outcome.

### **TTIP and the Importance of Equivalence**

The US corn market is currently being disrupted by the refusal of Chinese quarantine agency to allow shipments of US corn and distillers grain into China because of the likely hood they would contain a genetically modified variety of corn called MIR 162. This problem would not exist if Chinese regulators recognized that the US scientific-regulatory system as equivalent. In order to reduce problem of this type the US has usually included equivalence in trade deals.

T-TIP is a proposed trade agreement between the US and EU. It was launched less than a year ago and viewed as a way to kick start the EU and U.S. economies. As is true for TPP, I see enormous opportunity for US agriculture, particularly in exporting livestock products to densely populated countries such as the UK, Italy and Germany. My own work has shown that U.S. meat can be delivered into these countries at a price below EU production costs.



It has become clear to me that the U.S. and EU have very different attitudes to food safety and the regulation of new technologies. I am concerned that this difference will derail the agreement. Equivalence works because scientists can eventually form a consensus on what is safe. The process breaks down if non-scientific arguments are introduced. The EU has allowed this to happen and has imposed bans on genetically modified crops and growth enhancers in livestock that scientists all over the world view as being perfectly safe. I realize that some consumers in the US oppose these technologies but under the US system these consumers have a choice. The EU system eliminates this choice. It is as if the consumers who shop at Whole Foods had a veto power over the rest of society.

As you can tell from my accent, I grew up in Ireland and I am very familiar with the EU approach to agricultural technologies. Europe has a fragmented regulatory system. Each country has its own approval process and regulations. Compounding this problem is the practical requirement that scientists be able to speak the language of the country in which they work.

When compared to the U.S., the EU regulatory system has let the consumer down. Examples of failures include; Thalidomide, BSE, Dioxin, illegal Diethylstilbestrol (DES) use in the Italian veal industry and more recently the fraudulent comingling of horsemeat and ground beef.

As a result of these failures, many consumers in the EU lack trust in regulatory authorities and have begun to insist on non-scientific approaches to regulation. EU law has codified an anti-technology philosophy with a legal concept called the Precautionary Principle. This is a “guilty until proven innocent” approach that states that so long as there is **any** scientific uncertainty about the safety of a new technology, the technology is restricted. Under this standard, the milking machine and microwave oven would never have been approved. The EU imposes these non-scientific standards on agricultural imports.

The rest of the world has added millions of additional crop acres to compensate for lower productivity of EU agriculture. Some of these new acres are in environmentally sensitive areas. This environmental problem will grow if the EU influences its trading partners to halt technological adoption via trade deals.

Somehow the media in the EU has cultivated a belief that the EU system, born of poor regulatory performance, is better than the science and market based US system. These negotiations provide an opportunity to debate the merits of the two systems and the science that lies behind them.

In an ideal world, the US and EU systems will be viewed as equivalent and EU consumers will have a choice among safe alternatives that they currently lack. Unless these deals result in regulatory equivalence, countries will be able to impose new subjective barriers to replace those that have

been eliminated. With equivalence, the US will be able to avoid the type of trade disruption currently roiling the US corn market due to Chinese refusal of ships containing a particular type of genetically modified corn.

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