Statement of the
American Farm Bureau Federation

**TO THE HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE**

REGARDING THE HEARING ON EXPANDING U.S. AGRICULTURE TRADE AND ELIMINATING BARRIERS TO U.S. EXPORTS

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Good morning. I am Kevin Paap, a grain producer from Blue Earth County, Minnesota, and President of the Minnesota Farm Bureau Federation. I also serve on the Board of Directors of the American Farm Bureau Federation and am chair of the AFBF Trade Advisory Committee. Farm Bureau is the nation's largest general farm organization, representing farmers and ranchers of all farm sizes, producing every commodity, using a large variety of production methods, in every state.

Farm Bureau strongly supports efforts to increase agricultural trade through comprehensive trade agreements. The $133 billion of U.S. agricultural exports in 2015 demonstrates the strength of U.S. agricultural productivity, the important contribution of trade to the economic well-being of farmers and ranchers and the ability of the United States to provide competitive food and farm products to markets worldwide.

Trade Promotion Authority

Last year's passage of the Trade Priorities and Accountability Act (TPA) was important to the completion and current consideration of the Trans Pacific Partnership (TPP) and is critical to the ongoing Transatlantic Trade and Investment Partnership (TTIP) negotiations.

For farmers and ranchers, TPA provides an opportunity for farm and commodity organizations and our respective members to work with you and our individual representatives to explain the necessity of expanding agricultural trade opportunities. The negotiating objectives of improved market access to foreign markets by tariff reduction and removal, along with the adoption of science-based standards for international agricultural and food trade, are critical to successful trade negotiation outcomes for agriculture.

Trans Pacific Partnership Agreement (TPP)

A major regional trade effort for the United States is the TPP Agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States. Our analysis of TPP (http:www.fb.org/issues/tpp/pdf/TPP%20Report.pdf) shows a significant positive impact on agriculture with an increase of net exports to the TPP countries of $5.3 billion annually and a boost to net farm income of $4.4 billion annually. Due to the agreement's overall benefits for our farmers and ranchers, the American Farm Bureau Federation strongly supports passage of the Trans Pacific Partnership.

There are many new opportunities for expanded agricultural trade in the TPP agreement. Japan is the fifth-largest agricultural export destination for the U.S. with more than $11.2 billion in sales in 2015. Despite the significance of this market, barriers exist that prohibit sales from reaching their full potential. Japan maintains several restrictive policies that inhibit U.S. exports, such as high tariffs on beef, pork, dairy, horticulture, rice and other products, along with various Sanitary and Phytosanitary barriers. Japan has agreed in the TPP to resolve long-standing trade barriers for agricultural products.

With TPP, there will be a reduction in Japan’s beef tariffs, reform of its gateway price system for pork, additional tariff-rate quotas (TRQs) for rice and reduction in tariffs on dairy products.

Under the TPP agreement Japanese tariffs on beef will decline from 38.5 percent to 9 percent over 16 years. For pork, Japan will cut its 4.3 percent tariff on fresh, chilled and frozen cuts to 2.2 percent immediately, going to a zero tariff over 9 years. Japan’s additional duty on pork under its “gate price system” will drop immediately to 125 yen per kilogram from the current 482 yen per kilogram and will drop to 50 yen in year 10. Rice imports by Japan from the U.S., under a duty-free quota, will be 50,000 tons annually, rising to 70,000 tons after 13 years. Japan will also eliminate many cheese tariffs over 16 years.

Canada will reduce import restrictions on dairy, poultry and eggs from the U.S. and will yield new access for U.S. farmers and ranchers into this market. New access will be 3.25 percent of the Canadian dairy market, phased in through TRQs over five years. For poultry, Canada will increase imports via duty-free TRQs for 2.3 percent of domestic production of eggs, 2.1 percent for chicken and 2 percent for turkey.

Vietnam will eliminate its pork tariffs over 10 years and its poultry tariffs over 13 years. Vietnam’s rice tariffs of 40 percent will be eliminated immediately when TPP enters into force.

Tariff reduction on fruits and vegetables in TPP will add more than $419 million in sales to the TPP countries.

The USITC (U.S. International Trade Commission) agrees, in its report, that U.S. agriculture is projected to gain significantly from passage of TPP. In fact, the USITC’s report found that agriculture and food would see the largest impacts from TPP in percentage terms. The USITC estimates that U.S. output and employment for the sector would both be 0.5 percent higher than the baseline estimate. Agriculture is expected to experience the largest growth because it will experience the broadest liberalization under the agreement. The USITC projects exports will grow 2.6 percent, while net exports are expected to increase nearly $4.5 billion.

Along with tariff reductions and market access gains, the TPP makes important changes to trade rules for agriculture, addressing the non-tariff barriers that reduce trade. The most important of these measures are the commitment to base Sanitary and Phytosanitary (SPS) measures either on international standards or on science-based decision making. Also crucial to exporters is a rapid-response mechanism that will notify them, within 7 days, when an inbound shipment is being restricted. This will help speed trade, reduce losses to perishable products and lower costs.

For biotechnology products, now so important in U.S. agricultural trade, the agreement commits the participating countries to increase the transparency of national laws and regulations. The potentially trade disrupting issue of the low-level presence of biotech material is addressed through information sharing by importers and exporters.

The concern over the use of geographic indications (GIs) on food products is handled in the TPP by provisions that have the parties making the process of approving GIs transparent and inclusive of other TPP parties.

The TPP Agreement provides an opportunity to increase markets for U.S. agriculture and establish science-based standards for agricultural trade within the TPP region. It is a measure that the Congress can accomplish that will assist a wide variety of farmers and ranchers for many years to come. A failure to lead in this region will allow other nations to make trade deals, reduce market opportunities for U.S. agriculture and set the standards for trade throughout the Pacific region. We have seen time and again that U.S. agriculture loses market share in important export markets when our competitors have trade agreements in place and we do not.

Transatlantic Trade and Investment Partnership (TTIP)

Farm Bureau supports efforts to increase agricultural trade flows and remove trade barriers that currently exist between the United States and the European Union.

The TTIP negotiations between the U.S. and the EU must deal with the many substantive issues that impede U.S.-EU agricultural trade, such as long-standing barriers against conventionally raised U.S. beef, ongoing restrictions against U.S. poultry and pork, and actions that limit U.S. exports of goods produced using biotechnology.

The U.S. and the EU are major international trading partners in agriculture. U.S. farmers and ranchers exported more than $12.1 billion worth of agricultural and food products to the EU in 2015, while the EU exported $20.1 billion worth of agricultural products to the U.S. last year.

The EU was the once the largest destination for U.S. agricultural exports. Today, it has fallen to our fifth-largest export market. The U.S. is losing market share in the world's largest import market for agricultural commodities and food. While EU agricultural imports have grown, according to USDA, U.S. market share has steadily declined to just 7 percent—half of the level achieved in 2000.

Over the last decade, growth of U.S. agricultural exports to the EU has been the slowest among our top 10 export destinations. If U.S. farmers and ranchers were provided an opportunity to compete, the EU market could be a growth market for them. However, regulatory barriers have become a significant impediment to that growth.

Unless these trade barriers are properly addressed within the TTIP negotiations, they will continue to limit the potential for agricultural trade. It is imperative that TTIP be a high-standard trade agreement that covers all significant barriers in a single, comprehensive agreement. Scientific standards are the only basis for resolving these issues.

Continuing barriers to the export of U.S. beef, pork and poultry, along with the slow approval process for biotech products, are major areas of interest to the U.S. in the TTIP negotiations. Both the U.S. and the EU adhere to the World Trade Organization's Agreement on Sanitary and

Phytosanitary Measures, which states that measures taken to protect human, animal or plant health should be science-based and applied only to the extent necessary to protect life or health.

The U.S. follows a risk-assessment approach for food safety. The EU is additionally guided by the "precautionary principle," which holds that where the possibility of a harmful effect has not been disproven, non-scientific risk management strategies may be adopted.

The use of the "precautionary principle" is inconsistent with the WTO SPS Agreement and is used as a basis for trade barriers that not justified by science. The TTIP negotiations must result in a modern, science- and risk-based approach, based on international standards that can truly resolve SPS disputes. SPS issues must be directly addressed as a part of the negotiations, and these provisions must be enforceable.

The EU approach for approving products of biotechnology combines a lengthy approval process with the ability of EU member states to ban approvals. The result is restrictive import policies and substantial reductions in U.S. exports of corn and soybeans to the EU.

The EU system of geographic indications for foods and beverages designates products from specific regions as legally protected for original producers. The U.S. has opposed recognizing geographical names for foods when it would inhibit the marketability or competitiveness of U.S. products. The TTIP must not become an avenue to erect a new barrier to U.S. agricultural exports through the use of geographic indications.

Negotiations on bilateral concerns move in both directions. There must be positive outcomes for all sides. The European Union has concerns about U.S. rules on EU beef and dairy products. An emphasis on finding trade-opening solutions to sanitary barriers will assist in resolving our many trade issues.

The TTIP negotiation proposal calls for working toward the elimination of tariffs. The average U.S. tariff on imported agricultural products is 5 percent, with 75 percent of our tariff lines at between zero and 5 percent. For the EU, the average tariff is 14 percent, with 42 percent of tariff of lines at zero to 5 percent. In order to expand market opportunities for U.S. agricultural products in the EU, tariff reductions will be necessary.

We call for an ambitious agreement that addresses the real barriers to the growth of agricultural trade between the United States and the EU.

<u>Biotech</u>

The American Farm Bureau Federation remains dedicated to resolving issues related to the approval of biotechnology products. Today we face myriad challenges—some old, and others a bit newer.

In the European Union, implementation of the regulatory procedure for approving the import of new biotechnology products has been slow and suffered from political interference. This has led to large disruptions in the trans-Atlantic trade in raw materials used by EU food and feed producers. It also has increased costs for producers, the agricultural supply chains and EU consumers. For example, it remains unclear when three soybean traits that are important to U.S. growers and that already have achieved EFSA (European Food Safety Agency) approval will receive final approval. Final approval is being held up by an unrelated debate on renewal of the pesticide glyphosate. Farm Bureau is working through the U.S. Biotech Crops Alliance for EU regulations that are consistent with the EU's obligations under the WTO SPS agreement.

In China, the timeline for biotech product approval for use as food, feed or processing has grown less certain and extended in duration since 2012. The divergences in U.S. and Chinese approvals have and will continue to put billions of dollars of U.S. exports at risk. At the December 2014 Joint Commission on Commerce and Trade (JCCT) meeting, the U.S. and China agreed to form the JCCT Strategic Ag Innovation Dialogue (SAID). Recent meetings, including President Xi's state visit last fall, yielded positive commitments that form the basis for improving U.S.-China relations. We hope that these commitments will soon translate into tangible outcomes. We commend the administration and Congress for their sustained high-level engagement on this issue. We hope that, through dialogue between our two nations, the important role that biotechnology plays in achieving food security, including timely approval of new products, will continue to be a primary focus.

World Trade Organization

As agricultural exporters, U.S. agriculture must continue to seek a commercially meaningful outcome through expanded market access from WTO negotiations. We must remain committed to advancing the goal of trade liberalization and increased opportunities for real trade growth.

Farmers and ranchers want an outcome to trade negotiations in the WTO that will open new markets around the world, produce new trade flows and grow the global economy. We can achieve this outcome by negotiating on the basis of a new agenda, not by reliving the failures of the past.

Farm Bureau supports a fresh approach in the WTO, with updated information and having market access as the most important part of any future agricultural discussions. Starting again with the previous failed agenda that focused on domestic support reductions that are not balanced by increased market access, especially to developing countries, will not achieve a positive market opening result for U.S. agriculture.

Cuba

There is a potential for substantial growth in U.S. agricultural sales to Cuba, but restrictions are hurting that growth. Under the Trade Sanctions Reform Act of 2000 (TSRA), agricultural products were allowed to be sold to Cuba. However, restrictions on trade financing, specifically the extending of credit, have hampered the growth of agricultural sales to Cuba. In 2015, our sales were less than $200 million into a $2 billion food import market.

The U.S food and agriculture industry is the only industry that must use third-country, non-U.S. banks for financing sales or have a cash transaction from a Cuban customer. These requirements increase transaction costs and limit the opportunity for sales into the market. Instead, Cuba buys from Brazil, Argentina, Vietnam, the European Union and Canada.

Allowing for sales of agricultural products using credit financing or, ultimately, removing the embargo will increase agricultural product access to Cuba.

Conclusion

Farm Bureau members all across our nation know that expanding opportunities for agricultural trade is necessary for their continued success. We appreciate your leadership in holding this hearing and look forward to working with the committee on advancing the progress of agricultural trade. During this time of declining prices for farmers and ranchers, expanding trade opportunities is an action that Congress needs to support.