U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Statement of Senator Chuck Grassley
Senate Agriculture Committee Hearing on
The CAFTA-DR: Potential Impacts on Agriculture and Food Sectors
June 7, 2005

I'm pleased to submit this statement for today's hearing on the potential impact of the United States-Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) on the U.S. agricultural and food sectors. As a member of the Committee on Agriculture and as a senator from Iowa, I have a major interest in seeing that U.S. agricultural policies benefit American farmers. Moreover, as Chairman of the Committee on Finance, the Senate committee with jurisdiction over trade legislation, I pay particularly close attention to trade issues affecting agriculture.

I consulted frequently with the U.S. Trade Representative during negotiations of the CAFTA-DR as part of the trade promotion authority process. I know that U.S. negotiators went to great lengths to see that the CAFTA-DR would be a good agreement for American farmers. Their efforts were successful, and the negotiations resulted in an agreement that is particularly strong for U.S. agriculture. I'm fully convinced that implementation of the CAFTA-DR by the United States is in the best interests of U.S. agricultural producers, and I urge my colleagues to support it.

Agreement Will Level an Uneven Playing Field

U.S. farmers and ranchers are well aware that the international playing field for agricultural exports is far from level. Average tariffs of other countries on imports of U.S. agricultural products are, in the case of most commodities, significantly higher than those imposed by the United States. This unequal situation is clearly demonstrated when examining the current trade relationship between the United States and the CAFTA-DR countries. Over 99 percent of agricultural imports from the CAFTA-DR countries currently enter the United States duty-free. In contrast, the average tariff applied to U.S. agricultural products by the CAFTA-DR countries exceeds 11 percent, and the average bound tariff of the CAFTA-DR countries is over 44 percent.

So the current trading relationship between the United States and the CAFTA-DR countries is not only an unlevel playing field, but also a one-way street: CAFTA-DR farm products don't pay tolls to enter the U.S. market, yet U.S. agricultural products are charged hefty tolls to enter the CAFTA-DR market.

The CAFTA-DR will change this. A downhill one-way street will become a level two-lane road. Under the Agreement, the CAFTA-DR countries will eliminate tariffs on virtually all products. U.S. tariffs will remain largely unchanged – after all, the vast majority of agricultural products of the CAFTA-DR countries already enter the United States duty-free.

The treatment under the Agreement of the following four major U.S. commodities, which are of importance not only to Iowa but also to other states, demonstrates how the CAFTA-DR will remove disadvantages faced by U.S. agricultural producers.

Pork: the CAFTA-DR countries currently apply tariffs of up to 47 percent on imports of U.S. pork, and their bound rates reach as high as 60 percent. Under the Agreement, these tariffs of the CAFTA-DR countries will be reduced to zero.

Beef: the CAFTA-DR countries currently apply tariffs of up to 30 percent on imports of U.S. beef, and their bound rates reach as high as 79 percent. Under the Agreement, these tariffs of the CAFTA-DR countries will be reduced to zero.

Yellow Corn: the CAFTA-DR countries currently apply tariffs of up to 45 percent on imports of U.S. corn, and their bound rates reach as high as 75 percent. Under the Agreement, tariffs of the CAFTA-DR countries on yellow corn – the predominant corn variety grown in the United States – will be reduced to zero with the exception of the Dominican Republic, in which case duty-free access will be locked-in.

Soybeans: the CAFTA-DR countries currently apply tariffs of up to 5 percent on imports of U.S. soybeans and meal and up to 20 percent on U.S. soybean oil, and their bound rates reach as high as 91 percent for soybeans, 60 percent for soybean meal, and 232 percent for soybean oil. Under the Agreement, tariffs of the CAFTA-DR countries on U.S. soybeans, soybean meal, and soybean oil will be reduced to zero.

Increased Access Means Increased Sales of U.S. Commodities

The leveling of the playing field with regard to the CAFTA-DR countries will result in real gains for U.S. agriculture. According to the American Farm Bureau Federation, the CAFTA-DR could increase U.S. agricultural exports by $1.5 billion in the year following the end of the Agreement's full implementation.[1]

Following is a breakdown by the American Farm Bureau Federation of gains for several U.S. commodities in the first year following the CAFTA-DR's full implementation:

Beef $47,074,500

Butter $1,297,800

Cheese $16,998,400

Corn $58,374,100

Cotton $27,602,100

Pork $107,950,800

Poultry $178,042,900

Rice $91,510,700

Soybean meal $56,572,000

Soybean oil $28,389,600

Wheat $62,186,900

So the CAFTA-DR will result in dollars in the pockets of U.S. farmers and ranchers.

Wide Support for CAFTA-DR in U.S. Agricultural Community

Recognizing that the CAFTA-DR will profit their members, numerous agriculture and food organizations have expressed their support for the Agreement. I have attached a list of almost 80 such groups that back the Agreement. These organizations represent producers of diverse commodities produced in various regions of the country. The listed organizations include the American Farm Bureau Federation, the American Soybean Association, the National Association of Wheat Growers, the National Chicken Council, the National Corn Growers Association, the National Cotton Council, the National Milk Producers Federation, the National Pork Producers Council, the National Potato Council, the National Turkey Federation, the U.S. Apple Association, and the USA Rice Federation. As the attached list demonstrates, even though some agricultural groups oppose the CAFTA-DR, it's a stretch to claim that U.S. agriculture is divided over the Agreement: there's clearly strong support behind it.

Moreover, six former U.S. Secretaries of Agriculture – Republicans and Democrats – have announced their support for the CAFTA-DR. Former Secretaries Ann Veneman, Dan Glickman, Mike Espy, Clayton Yeutter, John Block, and Bob Bergland noted in a recent letter to Members of Congress that they back the CAFTA-DR "because the benefits are very significant and the costs are minimal." I've attached this letter to my statement.

Treatment of Sugar in the CAFTA-DR

While most sectors of U.S. agriculture support the CAFTA-DR, I realize that one – sugar – doesn't. Yet U.S. negotiators went to great lengths to see that the final agreement addressed concerns of the U.S. sugar industry, and they were successful in their efforts.

For example, U.S. tariffs will not go to zero on just one product, sugar.

While tariff rate quotas will expand for sugar imports from the CAFTA-DR countries, these increases will be small. In the first year of the Agreement, increased additional access will amount to little more than one day's U.S. sugar production or 1.2 percent of current U.S. consumption, which will grow after 15 years to 1.7 percent of current U.S. consumption. Prohibitive tariffs – of over 100 percent – on over-quota imports will remain intact under the DR-CAFTA.

Under the CAFTA-DR, only net surplus exporting countries will obtain increased access to the U.S. market. Accordingly, the Dominican Republic, currently the largest of the CAFTA-DR country sugar exporters to the United States, would not even initially qualify to ship additional sugar to the United States upon implementation of the CAFTA-DR.

It is contended by some that the CAFTA-DR will lead to the suspension of marketing allotments for sugar, and thus to disruption in the U.S. sugar market. But the U.S. International Trade Commission (ITC) states that it's unlikely that increased CAFTA-DR imports will trigger the suspension of marketing allotments.

In the unlikely event that the U.S. sugar program is threatened by imports from the CAFTA-DR countries, the Agreement includes a compensation mechanism that will permit the United States, at its option, to restrict sugar imports from those countries while providing an alternative type of compensation. This arrangement is unprecedented in U.S. trade agreements.

Moreover, some have claimed that the CAFTA-DR might result in U.S. sugar growers shifting production to different commodities, and thus depressing prices of other commodities. But the American Farm Bureau Federation has determined that "the DR-CAFTA would not be devastating to the United States sugar industry, nor would there be any noticeable effects of sugar producers shifting to other crops."[2] The Farm Bureau further states that the potential impact of sugar farmers switching to other principal crops would be "imperceptible."[3]

CAFTA-DR Countries Sought Numerous Exclusions from Agreement

I realize that the U.S. sugar industry sought to exclude sugar from the Agreement. At the same time, the CAFTA-DR countries requested exclusions from tariff reductions for several commodities -- beef, pork, corn, poultry, rice, dairy, vegetable oil, beans, and onions -- all of which are major U.S. products. If, in the end, the United States had insisted on a sugar exclusion for the benefit of the 0.3 percent of U.S. farms that grow sugar crops, the CAFTA-DR countries would've undoubtedly insisted on the same for their products. Such an outcome would likely have resulted in less access in the CAFTA-DR markets for U.S. agricultural products such as beef, pork, corn, poultry, rice, dairy, vegetable oil, beans, and onions.

While the United States, correctly, did not seek an exclusion for sugar, it's worth pointing out once again that the United States did obtain provisions in the CAFTA-DR that address concerns of the U.S. sugar industry. These provisions will result in very limited increased access for CAFTA-DR sugar in the U.S. market. At the same time, by not excluding sugar, the Agreement resulted in gains for the bulk of U.S. agriculture.

This raises a question. If the United States, while going short of seeking a sugar exclusion, had negotiated for even *more* provisions designed to limit the amount of additional access for CAFTA-DR sugar, would the U.S. sugar industry have supported the Agreement? It appears to me that the answer would be no, and that short of an exclusion, U.S. sugar producers would oppose the Agreement. So what should we do in the future? Should we penalize agricultural exporters in future trade agreements by excluding sugar, or should we obtain even better access for them by significantly expanding tariff rate quotas for sugar, by accelerating sugar tariff phase-outs, and by agreeing to go to zero duties on sugar, and further, by not including sugar compensation mechanisms in agreements? The opposition of U.S. sugar producers to the CAFTA-DR, despite significant efforts of U.S. negotiators to accommodate their concerns, raises these and other questions.

CAFTA-DR and the WTO Doha Round

While the CAFTA-DR is important in itself for U.S. agriculture, the failure to implement this agreement could deal a setback to U.S. efforts to liberalize agricultural trade around the world. If the CAFTA-DR fails, and other countries note that the United States is unwilling to implement a trade agreement that clearly benefits the vast majority of its agricultural producers, our trading partners will question whether any new trade agreement will be acceptable to the United States. This situation could jeopardize the completion of agricultural negotiations in the Doha Round of the World Trade Organization, negotiations in which the United States is seeking to cut tariffs, harmonize levels of domestic support, and eliminate export subsidies.

Conclusion

The CAFTA-DR is a straightforward win for the bulk of U.S. agricultural producers. A current one-way trading relationship will end. The CAFTA-DR countries will dismantle their tariffs to U.S. agricultural products while the United States will provide little additional access for CAFTA-DR commodities. This will result in increased sales for U.S. agricultural exporters, sales of up to $1.5 billion a year by the end of the Agreement's full implementation. Not surprisingly, the CAFTA-DR is widely supported in the U.S. agricultural community.

The CAFTA-DR is good agricultural policy and good trade policy. I urge my colleagues to support it.

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[1] The American Farm Bureau Federation provides this year as 2024.

[2] American Farm Bureau Federation, *The DR-CAFTA and Sugar*, at 3.

[3] *Id*.