

**TRANSCRIPT
OF
TESTIMONY BY
AGRICULTURE SECRETARY MIKE JOHANNNS
AND U.S. TRADE REPRESENTATIVE ROB PORTMAN
BEFORE THE U.S. HOUSE AGRICULTURE COMMITTEE
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SECRETARY MIKE JOHANNNS: I'm pleased to meet with you today, along with Ambassador Portman, to discuss the WTO agriculture negotiations.

A good place to start my testimony is to talk about the overall state of our farm economy. Our farmers continue to be the most productive, innovative, and competitive in the world, even as they deal with real challenges such as higher energy and input costs.

Production is near all-time record levels for some commodities such as corn and soybeans. American farmers have proven over and over again they can produce and I know we can compete.

The reality is that while our domestic market is big, it's growing very slowly. In order to prosper, we just simply need new customers. We must get our products into foreign markets because more than 95 percent of the world's potential consumers live outside the U.S.

A look at the numbers tells us the world wants what we have to sell. In 2004, we set a new record for U.S. Ag exports of \$62.4 billion. In 2005, we expect to reach \$62 billion. And, our forecast for 2006 anticipates yet another record of \$63.5 billion.

Our sales are strong now, but we cannot rest on our laurels because competition out there is growing. The world marketplace is becoming more dynamic and American agriculture must continue to adapt to compete. The solution is to keep our farmers and ranchers competitive in the global economy.

That is why the President, Ambassador Portman and I believe that trade liberalization will enormously benefit American agriculture. And frankly, the future of agriculture in this country depends on expanded trade.

It has been six weeks since we last met with members of this Committee. In that time, Ambassador Portman and I have traveled the globe and visited with other countries in an effort to move the Doha Round. I've taken an active role in the WTO talks and for that I appreciate the Ambassador inviting me, encouraging me to participate.

As you know, there have been some successes and there have been frustrations in this process. Now, with some 40 days remaining before the WTO Ministerial in Hong Kong -- the clock is really ticking. We have to pick up the pace. We are beyond the point where steps in the right direction will get us there. We need to see a pace more like a gallop if Hong Kong is to be successful.

That's the message we've been sending to the other parties and we'll continue to press forward in our meetings. And I might mention that both the Ambassador and I will be in London and Geneva next week on meetings relative to the WTO.

Recently in Geneva, the United States introduced a comprehensive proposal that clearly demonstrated our ambition in the three pillars. We have been credited with breathing new life into the negotiations for offering such a bold proposal. Here are some of the highlights:

We called for aggressive tariff cuts ranging from 50 to 90 percent and restricting to no more than 1 percent the number of products that could be termed "sensitive" and subject to smaller tariff cuts. We also proposed that no tariff could exceed 75 percent of value. This proposal indicated the level of market access that we were looking for in exchange for the cuts in distorting domestic support. We proposed to cut the amber box, AMS, by 60 percent. Our proposal addresses the primary concerns of our trading partners with significant cuts in the amber and the blue boxes.

When the other reductions in trade-distorting supports are included, overall U.S. levels of allowable trade-distorting domestic support would be reduced by 53 percent.

Ambassador Portman will go into detail in just a couple of minutes about the state of play on market access in export competition. I can tell you this much though. We have a pretty simple approach to a threshold for success. The U.S. expects other WTO members to match the level of ambition that we have put forward. We've shown our leadership, but of course this can't be done alone.

Last week the EU offered a new market access proposal that does not match the ambition of the U.S. proposal. Our negotiations continue, but time is clearly running out. This administration is determined to expand economic opportunities for agriculture. We're aggressively and strategically pursuing free trade agreements. In addition, we continue to vigorously monitor and enforce agreements that we have in place.

We have heard your concerns loudly and clearly, and we share your frustration that too often sanitary and phytosanitary trade barriers are used unjustifiably to block market access. I assure you that the USDA, both in Washington and our attache offices around the globe, place top priority on these issues.

As many of you know, I have been traveling throughout our great nation to conduct Farm Bill forums to hear directly from our farmers and ranchers. We've had

forums now in about 40 states; I've done 20 of those. I'll do a couple more this week -- one in Washington state tomorrow and then in Missouri on Friday. One theme continues - we need to develop a Farm Bill for the future.

The forums have demonstrated that we must be bold. Currently program crops represent a quarter of production value; yet they receive virtually all the funding. The farmers who raise other crops, two-thirds of all farmers, receive very little support from current farm programs. We must look to the future and focus more attention on research, promotion, increase sanitary and phytosanitary systems, and access to new markets.

U.S. agriculture cannot accept the status quo. Our farm programs have been found to be not compliant with the current WTO rules in the Brazil cotton case. We should not allow our policies to be dismantled piece by piece by one challenge after another.

We must use the WTO to force markets open. As I've said many times, I believe the 2002 Farm Bill was the right policy for the economic conditions of the time. Times are changing. As Secretary of Agriculture I'll work with you, do everything I can to offer you input in your crafting of a Farm Bill. A true safety net is much more than subsidies, however. It must also be about rural market access. It must be inclusive and predictable and beyond challenge.

So, in conclusion, our goal is fair trade. We would prefer to achieve this objective through a successful conclusion of the Doha negotiations. However, as we've made clear in Geneva we have no intention of unilaterally disarming. Our offer to reduce domestic support is tied to progress and market access. To do otherwise would not be fair trade.

In the meantime we'll continue to pursue our trade goals through free trade agreements and enforcements of agreements in place. We do appreciate your continued support and input. It's always appreciated. And I'll be glad to answer any questions once Mr. Portman has finished his statement. Thank you, Mr. Chairman.

AGRICULTURE COMMITTEE CHAIRMAN, REP. BOB GOODLATTE (R-VA): Thank you, Mr. Secretary.

Ambassador Portman, welcome.

U.S. TRADE REPRESENTATIVE AMBASSADOR ROB PORTMAN: Thank you, Mr. Chairman. It's great to be before the committee in public session. I appreciate the many conversations and input I've gotten from a number of the members in my first five months on the job. And I expect much more in the future, including some today.

I'd like the Chairman, if I could, to submit my written comments for the record; and instead go quickly through a presentation you should have in front of you which lays out some of the challenges we have on the WTO front. And it also goes through some of our bilateral and regional trade agreements and then some enforcement issues.

With your permission, Mr. Chairman, I will focus on the WTO today, given your opening comments. But at the very end of the presentation I would like to spend a moment on compliance and particularly to announce a WTO action that we're taking today.

Mr. Chairman, you started off this hearing by saying the WTO talks are essential to helping level the playing field for our farmers and ranchers, and that's what it's all about. There is no other way to achieve the same level of fairness other than through these global trade talks. And I appreciate the comments of my friend Mr. Peterson on his concerns about either the U.S. offer or our approach. But I'll tell you, the status quo is not good. And the status quo disadvantages American farmers and American ranchers.

And again the way to get at this is through free trade agreements on a country-by-country basis or maybe even, as we did with Central America, on a regional basis. But you're not going to be able to get at the global disparities without doing it through the WTO.

So I think it's a worthy undertaking. It isn't easy; it's difficult for 148 countries to have to get together and decide by consensus how they're going to move on. And, as you've seen with the European offer recently, countries are very good about defending their own interests.

But the U.S. goal ought to be, I think, to push as hard as we possibly can to try to get a WTO agreement that makes sense for our farmers and ranchers by basically lowering tariffs, lowering other trade-distorting subsidies like export subsidies, 87 percent of which is European, to be able to be sure that our subsidies are fair as Collin Peterson said, and therefore to give our guys a fair shake.

If you look at the beginning of the presentation, this is global trade talks, we are in the middle of this four-year process now of the Doha Round. It's supposed to end at the end of 2006 in part because our trade promotion authority expires in 2007. And there's something called a Farm Bill coming up in 2007, which means that, as Secretary Johanns has said very well, we're at a crucial point. There is a ministerial meeting at the end of the year in Hong Kong. I know a number of you are planning to come; you've told me about that. And I welcome you. As I just told Mr. Costa, if you come you'll be put to work. I think we don't utilize our members of Congress enough in advocacy for our farmers and ranchers, and if you do decide to come to Hong Kong I look forward to seeing you there and having you be part of this discussion.

There are three core negotiating areas in the Doha Round. As some of you have been involved in all of this, Mr. Pomeroy and others in the Ways and Means Committee, they are manufactured goods, services, and agriculture. I'm not going to spend any time on these except to say these are incredibly important to our economy, each and every one. Manufactured goods is 62 percent of our exports. And the manufactured goods area is

incredibly important to us because our tariffs here are about 3 percent on average, on manufactured goods; whereas, the rest of the world the average tariff is 30 percent.

So reducing tariff barriers to our largest export, and we are the world's largest exporter of manufactured products, is incredibly important to your districts and to our nation's economy.

Second is services. There again we have more trade in services than we do in ag, and we have a comparative advantage. We have about a \$48 billion trade surplus last year in services. Incredibly important to each and every one of your districts and incredibly important for our economy.

Agriculture is the third main pillar. And as we've talked about already today, this committee has a special interest in that of course, but it's also very important to our economy and very important to level that playing field.

The Secretary talked in the next slide about what our ag economy is today. Bottom line, it's dependent on exports -- 27 percent of our income comes from exports. Think about if we didn't have those markets out there, the effect on pricing, and think about the effect on the fact that one of every three acres in my home state of Ohio and in most states in this country are planted for export now.

It is true that our growth markets are overseas. Our markets are pretty mature here, and we have great opportunities if we can knock down some of these barriers to our agricultural exports. We've got some of the most productive land in the world and the most productive farmers in the world, and we ought to let them compete and compete fairly.

The Doha agenda is laid out here, building on this July 2004 framework. This is something that the United States and the other 147 members of WTO decided on a year and a few months ago, and that is in agriculture to divide it into three pillars as the Secretary has said. One is market access, two is eliminate export subsidies I talked about -- export subsidies as compared to domestic subsidies -- and third is to substantially reduce trade-distorting agriculture subsidies around the world.

The next slide puts us into WTO-speak. A lot of you have heard about the amber box and the blue box and the green box. Some of you are very familiar with it, some of you not so familiar. These are basically categories where you put subsidies. The most trade-distorting would be amber, the least trade-distorting would be green. In fact, we'd argue our green box payments are not trade-distorting at all. One type in there, as an example, would be the Food Stamp program.

Under the agreement again we have agreed to substantially reduce subsidies, and the focus has been on the amber box but also on the blue.

Here's a way to look at it graphically in terms of what's going on today. The first pillar being agriculture market access, you can see the U.S. tariff there at 12 percent as the Chairman said. You can see the average is 62 percent; that's the global average at the far right. And you can see what other countries do. The EU is at 31 percent here for example.

It's definitely in our interest to knock down barriers on the tariff side because we're already relatively open. On direct export subsidies, here the EU has about 87 percent of these direct export subsidies, over \$2 billion a year. This is something that again back in 2004 the members agreed to eliminate but didn't set a date. So we need to push for a date certain and to eliminate these export subsidies that unfairly again affect our farmers and ranchers.

Finally, the last pillar is domestic support. This is what's happening now, and Mr. Peterson talked about this. The gold is the allowed amount and the yellow is the actual used amount. Allowed is under the WTO. Under the Uruguay Round, the last round, we were all asked to reduce our subsidies depending on how much we have, and the Europeans were asked to reduce more than us. But they still have a lot more than us. As you can see here, it's four and a half times allowed. And they use three times what we use.

So they're allowed to use four and a half times more subsidies than we are under the current rules. And so is Japan, incidentally, because this graph of course is based on the absolute numbers as a percentage of their ag production. Japan has about four and a half times what we do also.

The next chart shows you what the Europeans are saying, which is "Hey we've already made our changes to our ag programs, we've already reduced our subsidies." And under their cap reform they have reduced some of their subsidies.

And you can look at this chart. This is the last 10 years. The black line is what the EU is allowed, the black bars are what they actually use, red is Japan, yellow is us. In the last 10 years we've increased our subsidies; whereas, Japan and the Europeans have reduced their subsidies.

That's what's happened over the next 10 years, but still the Europeans have four and a half times what we have in terms of what they're allowed to use, four and a half to one and three to one in terms of what they actually use.

We talked a moment ago -- Secretary Johanns mentioned the proposal we submitted on October 10. Three weeks ago we did make a bold proposal to break the deadlock in agriculture. It has helped to shake things up. It has helped to get us more focused on the real issues which is market access, subsidies, and, again, export subsidies. Here's what the proposal says just to be clear. Substantial reductions in trade-distorting support means that 60 percent cut for us and our allowed amber. We say there needs to be an 83 percent cut for the EU and Japan. That's fair. It takes us from 4.5 to 1 to 2 to 1.

And substantial reductions in tariffs with deeper cuts for higher tariffs. This is a WTO and a Doha principle that the higher tariffs will be reduced the most. Again you see there our cuts are pretty ambitious -- 55 to 90 percent cuts with no tariff cap by the way. We also limit the number of sensitive products. Under this framework agreement from 2004 it was agreed that some products could be kept out of the tariff formula and dealt with as sensitive products and therefore subject to a tariff rate quota. We've said we'll live by that but it's got to be a very small and a very limited number of products.

Our proposal is 1 percent of total tariff lines.

Then finally on the third pillar which is export subsidies, we set a date of 2010 for total elimination of all export subsidies.

Second stage, after 15 years we would phase out remaining tariffs and trade-distorting support as others do the same.

Next chart shows you kind of where these proposals are currently, in terms of the three pillars. First pillar: market access. Current is on the left; the U.S. proposal is next over. Then the G20 proposal. This interestingly is a group of developing countries led by India and Brazil but including a lot of other developing countries, some of whom have defensive, some have offensive interests in agriculture. They've got a pretty good proposal, not as good as ours but a pretty good proposal on market access and on sensitive products.

Then there's the EU proposal. As you can see they do call for reductions in tariffs, and that's why it's a step in the right direction. But much concern, which Mr. Peterson talked about, is that they provide a huge loophole in terms of these sensitive products -- 8 percent, which is 142 product lines in Europe.

This is not about our access to the European market alone although it's very important to us. It's also about the framework that will then be applied to the rest of the world. So sometimes the press accounts and so on have indicated this is a battle between the U.S. and the EU and us trying to get access to their market. That's part of it. But it's also about what will happen in these emerging developing countries where we see real potential for our agricultural products where you have extremely high tariffs and other trade-distorting barriers to our trade.

So we've got to be sure this framework works for us not just in Europe but around the world.

Second page here on the current proposal shows direct export subsidy. There again our proposal is elimination.

Third pillar there is domestic support. This is an interesting chart because it shows where we are now with the allowed, that's the gold; projected is our actual, yellow; and the brown is our proposal.

Again as you can see, the U.S. proposal is to reduce our trade-distorting domestic support, the amber box; but also to have the Europeans and Japanese reduce theirs more so you end up again with a 2 to 1 ratio rather than the 4.5 to 1 ratio currently allowed under the WTO rules after the Uruguay Round.

Next chart shows you the timetable. We talked about this a moment ago. But you might want to start at the bottom there which is the 2007 Farm Bill. That's when our Farm Bill expires, when it's to be renewed. Going up from there TPA, the Trade Promotion Authority, under which we can take trade legislation to Congress without amendments. Expires in July of 2007. This is why I believe we need to complete these negotiations by the end of 2006, send to you all in Congress early in 2007, have time to work through this before TPA expires and before the Farm Bill.

Mr. Chairman I said I'm going to skip over the Free Trade Agreement. Let me just say that whether it's CAFTA or other agreements we've recently completed, Australia, Chile, Morocco, Jordan, these have all been beneficial to our ag products and our ag exports. I believe the ones coming up are as well. Again I won't spend a lot of time on this because I know you want to focus on WTO-- except to say with regard to Bahrain, which could come up soon, this is a good agreement for agriculture.

If you look at page 14 you can see that it would be duty free immediately for 98 percent of U.S. tariff lines, 81 percent of ag products to Bahrain. Not a big market, but it's an important step in terms of developing more free markets in the Middle East. Bahrain would be another agreement to add to a Middle Eastern free trade area which would include over time, we hope, not just Morocco and Jordan and Israel which we already have free trade agreements with, but also countries like the United Arab Emirates, Oman, which we're close to completing, and even Egypt, which is a country we're talking to now about future trade agreements.

So I hope you'll support the Bahrain amendment. If you have any questions about that today or in the future I'd love to talk to you about that.

Potential free trade partners -- again I won't focus on this except to say there's some exciting new opportunities here for agriculture. Korea is a huge ag market for us, as is Egypt. We will only enter into the free trade agreements with them and launch the discussions that make sense for both of us by the way. So we haven't launched these yet because we're still working through some issues, on their side frankly, to be sure they can do what we require which is real market access in our free trade agreements. Our free trade agreements are tough. They're the toughest in the world. We require them to open their markets and we got to make sure they understand that before we launch these discussions.

Final one is enforcement. Again if you could go to page 17, we'll get into some of the recent enforcement measures. I want to talk about Turkey a second. We've had discussions with Turkey over the past couple of years. I personally talked to the trade minister there. We've had plenty of bilateral discussions telling them we have serious concerns about the way they restrict our rice exports. They have a licensing requirement that is frankly unfair for our exporters including requiring sometimes more than three times the amount of rice being exported, being purchased locally by someone who wants an import license. This is simply unfair, and that's why today we filed a WTO case against Turkey.

And I wanted to announce that here at the committee because I also want to say I think it's our job as USTR not just to negotiate free trade agreements and come up with a good Doha deal for our farmers and ranchers but also to be sure we're enforcing our laws and enforcing our national obligations which is what the WTO is.

So we will be aggressive with that. We have been. We filed a case against the Europeans recently on Airbus and Boeing which is the biggest WTO cases ever filed. Where we can work it outside litigation we will because I think often that makes more sense. But where it's necessary to litigate we will not hesitate to do so.

Some of these other cases, just quickly -- beef hormones. We won that case in 1996. We're retaliating now against the Europeans. Japan apples, we had a big victory in August of this year. Just a couple months ago Japan changed their regulations to conform to the WTO decisions. Again a lot of these are SPS issues that we talked about earlier. We need to use the WTO to our advantage with regard to SPS and other trade barriers.

The high fructose corn syrup case many of you have followed, and corn country follows carefully. We've got a victory there back in August of this year, a few months ago. We're working with the Mexicans on implementing that decision now. Even GIs -- geographical indications -- we have a victory in the WTO on that, that we remind the Europeans of when they bring up GIs as they did again in the context of their latest proposal.

Canadian dairy-- the U.S. won back in 2003. Canada eliminated their export subsidies on dairy above its WTO commitment level.

Mexican rice antidumping.

The EU biotechnology suit, I want to mention that because this is a case we brought in August of 2003. We are eager for that decision to come out. We expect the interim report to come out on January 6 of 2006. I wish it would come out even sooner. It's a tough case, case of first impressions. The panel's taking their time; I hope that's good news for us because we believe we have a very strong case. This is the GMO issue that many of you have been involved with, with regard to Europe. The first big decision point will be in January since that case was brought.

With that, Mr. Chairman, again I thank you for letting me come before the committee and give you an update on Doha and some of our other activities at USTR. I look forward to your questions.

REP. GOODLATTE: It's been described by them as a final offer. You say and I agree and I know the ranking member agrees and many members of this committee agree, that it's not sufficient market access for the United States among other things. If we're to have a successful WTO ministerial by U.S. standards, when must we see improved offers from the EU on market access? I'll ask the Secretary to answer that as well as the ambassador.

AMB. PORTMAN: Well, as the Secretary said, we will be in Europe on Monday meeting with the EU, also meeting with the Brazilian, Australian, Indian, and Japanese trade ministers and ag ministers. And Mr. Chairman, my frank assessment if we can't pull it together next week at our meeting in London or our subsequent meetings Tuesday and Wednesday in Geneva, then I think it's very difficult to see how we can pull together the other issues like services and the nonagricultural market access issues I talked about in time for a successful Hong Kong meeting.

So the pressure's on. I had a telephone conference call this morning with some of these same trade ministers and made that point as directly as we could. The clock is ticking, and again this is not just about U.S. access to Europe. This is about the promise of Doha which is reducing barriers all around the world, not just our products but everybody's products, which all the economists who have analyzed this show will have a tremendously beneficial impact on world economic growth. In fact those who look at it say this is the most likely way for us to see real gains in terms of economic growth globally, especially in the developing countries.

And the Europeans are talking about their interest in development. Well, this is a way to show their interest is to be sure that the Doha Round can be completed successfully. The World Bank economists have indicated 300 million people could be lifted out of poverty if we can reduce these barriers, not just in the developed countries but in the developing countries, for south to south trade.

So this is an opportunity we should not let pass.

REP. GOODLATTE: Mr. Secretary?

SEC. JOHANNIS: There isn't much I can add because I agree with the assessment. If we don't see this thing coming together by next week we start to run out of time. Now things can come together pretty quickly. When we put forward the proposal we did a few weeks ago, all of a sudden two out of three pillars were taking shape, not there, taking shape because it was contingent on market access. So it can happen, but it will require the really diligent effort by all members, and it will require a better proposal by the EU in my opinion. But it can happen.

REP. GOODLATTE: A number of critical market access issues appear to be off the agenda of the Doha Round -- for example, the EU approval process for bioengineered products, its failure to allow access for U.S. beef, pork, or poultry. Is there anything in the emerging Doha Round agreement that would facilitate resolution of these kinds of issues?

AMB. PORTMAN: Like you said it well earlier, Mr. Chairman, the Doha Round ought to have as one of its goals that we do stick with science and that we not allow ourselves to backtrack on these SPS issues. As you know there are proposals to do that. The U.S. has fought them. I think we'll fight them successfully. But on the other hand as you said, the Doha Round is about reducing tariffs and reducing trade-distorting subsidies. It's not about reducing these SPS issues which are bilateral issues. So we got to fight them country by country and issue by issue.

I mentioned the biotech case for that reason because it's right on point what you're talking about with regard to corn, soybean exports to Europe. As you know some of our corn is now going in. Some strains have been approved. But we still have a major problem, and we have a major problem with regard to beef hormones. We are retaliating on that. The EU has counter-sued us on that, but the retaliation continues. So they're absorbing the increased tariffs that we now have on their products because of beef hormones. We hope we can resolve that issue with them. We're talking with them about it, of course. And then on the processing issues you talked about with regard to pork and poultry, that's something the Secretary can probably address better than I can. But these are issues we are working very hard on because they do affect real market access.

Even if you reduce tariffs and other barriers to our trade that are directly trade-related, if you still have these sanitary and phytosanitary issues out there our farmers are only getting the --

REP. GOODLATTE: Let me put it a different way, Mr. Ambassador. Even if we achieved our goals in the proposal that you put forward in the negotiations, our five largest agricultural exports -- corn, soybeans, beef, pork, and poultry -- would have no significant access to the European market, the largest consumer market in the world of relatively affluent consumers.

Mr. Secretary, would you care to address our concerns on this because it's going to be difficult to marshal the kind of support we need in this committee and in this Congress from the agricultural sector from rural America for a WTO agreement if they don't have confidence that even with the agreement they're not going to get access to critical markets.

SEC. JOHANNIS: Mr. Chairman, to respond directly to your question, and this predates most of us, but when the Doha framework or concept mission statement, whatever, was put together it was about development. But SPS issues really were not part of the structure of the Doha Development Round.

Therefore, I'll just be very candid -- I don't see SPS issues being dealt with extensively in the Doha Round. Having said that, that doesn't -- I hope you don't take that as an indication that I am playing down these issues. These are huge issues.

As you point out with the European Union, five of our largest commodities don't have access in any meaningful way to this market. We do have tools out there. They are not as fast as we would like them, but we are retaliating relative to the European Union's action. We make an assessment as to whether we should file a complaint, if you will, through the WTO process.

Sometimes it makes sense just simply because there's no other approach. Other times we make a decision that we can negotiate and work our way through the process. We went through that with the issue relative to Japan in beef.

But my point is this. It's not like we're completely without tools; it's just that they're cumbersome. I won't promise that when we come back from Hong Kong even with a successful round that we'll have this massive breakthrough on SPS issues. We are going to have to continue to work those issues.

REP. GOODLATTE: My time has expired, but Mr. Ambassador I want to explore one other issue with you before I turn the questioning over to Mr. Peterson. I wrote to you in July regarding the need for a sectoral initiative in the Doha Round for the forest products industry including wood and paper products.

As you know, competitive pressures on this important industry are tremendous, and they're unlikely to benefit from a simple formula reduction in tariffs. I'd like to know whether you've made any progress in proposing a sectoral initiative for wood and paper industry and if not, why not.

AMB. PORTMAN: We agree with you, as you know. And we think the sectoral approach makes sense not just in wood and forest products but a number of other products as well. It would take a critical mass of countries to work with us where there is a mutual interest in this. We've done it before. We've done it in telecommunications. We are announcing something this week incidentally on the high tech front that's similar to this sectoral approach, and it is a way to make larger gains than you can make, I think, through just reducing the tariffs through a formula.

As you know this is something we hope to get to in a more constructive way once the agriculture issues are resolved. I mean frankly from the U.S. point of view, to get to industrial tariffs, to get to the NAMA issues -- non-agricultural market access issues -- it's very much in our interest, and we're pushing hard for that, and we are making some progress with regard to the sectoral approach including in wood and forest products.

But we also want to get to services because that's a huge interest of ours. But other countries are saying, we're willing to move on the issues where you have a big comparative advantage but let's also talk about these ag issues first and get those resolved

because many developing countries believe they have at least a future comparative advantage in agriculture. So that's one reason despite what the EU and the U.S. may wish in terms of moving on to some of these other issues in parallel, it is tough to get to them until we can resolve this ag issue.

And agriculture remains as it was at the outset as the Secretary said, central to Doha. And we need to resolve them. And we're close enough to resolve them.

Let me just mention one thing on SPS. You have spent a lot of time working on this precautionary principle idea of the EU. I just would warn you, there are other countries that want to go the other way on SPS. And that's what we will continue to fight, and I believe we'll be successful in fighting that. In the meantime we'll be very aggressive in dealing with these SPS issues one at a time, country by country, because they do affect market access.

But it puts all the more pressure on tariffs also, Mr. Chairman. If the EU is not willing on its own unilaterally to deal with these SPS issues and we have to go through these lawsuits and filing and all the hard work we're doing, all the more reason for them to keep these tariffs down because if they do we can get access to many of our important agricultural products and as you say, one of our very important markets around the world.

REP. GOODLATTE: Thank you. I have additional questions but I'll submit them to you in writing and ask you to respond. The gentleman from Minnesota is recognized.

REP. COLLIN PETERSON (D-MN): Thank you, Mr. Chairman. Ambassador Portman, reading your testimony you mention in there that exports have expanded -- I think, quoting you now -- an "astounding 29 percent from '94 to 2003." I don't know if that's astounding or not. It's about the same rate, it looks to me, as our economy is growing. But you know we had this discussion before. There's nothing in the testimony again about how many imports are coming into the country. My staff tells me that during that same period of time that we had the exports increase 29 percent, agriculture imports expanded 74 percent.

Is that correct? And why do we only always talk about how exports increased, and we never talk about the other side of things which we need to take into account, I think, if we're going to figure out how we're doing with these things.

AMB. PORTMAN: Yes, I agree with you. Although we do have a slight surplus in agricultural trade it's a very slight surplus, and next year we'll have another record level of exports of agriculture, but we'll also have more imports coming in. We still think there'll be a slight surplus.

I would just say two things. One, and this goes to your philosophy, and people will differ on this, but my focus is exports. I mean, if the U.S. consumer can get

something for a lower price and a better product, I'm not sure we should be standing in the way as long as it's fair, as long as we get a shot at sending our exports overseas.

What I don't like about the situation now, not to keep picking on Europe, but they have about a \$12 billion surplus with us. And it's primarily processed foods, wine, cheese, some of which you on the committee may enjoy from time to time. But you know, they ought to then be willing to open up to our commodities and value-added products like pork and beef and poultry. So I'm less concerned about those imports than I am about the exports. I think the key is to open up these markets to our products, and we can compete, and we can win, I believe, if we level this playing field. Our farmers and ranchers are the most productive in the world. I'm not afraid of that. But we've got to have the ability to have more access.

REP. PETERSON: Well, I just think we need to have all this on the table. At one time we had a pretty big surplus in agriculture. It's eroded away. And that concerns a lot of folks, at least in my area.

You know we've been talking about, some of us, about where this is all heading. I think it's hard to say exactly what's going to happen in this Doha Round or in Hong Kong and whether this thing is going to move ahead or not. Like a lot of folks concerned in my district, a lot of folks, commodity groups, that are concerned about this offer you put on the table and what happens if we get up to writing a Farm Bill and we still haven't got a deal. You know, are we going to have to write a Farm Bill without knowing what the potential outcome is going to be?

We've been putting together and are close to introducing a bill to say we should not rewrite the Farm Bill until we actually get the implementing legislation from the President so we know exactly what we're dealing with.

According to your timeframe here, maybe that's not going to be an issue because TPA expires and all that sort of thing. But I can see a scenario where we could be sitting here in the summer of 2007 and this thing could still be dragging on. I mean, the Uruguay Round dragged on way beyond what anybody thought it was going to. So if we did something like that, introduced a bill, is that helpful or hurtful to what you're trying to accomplish in Hong Kong?

AMB. PORTMAN: Again, you and I discussed this last night briefly, but I hope we'll keep to this timetable for a lot of reasons. One, as you said, is the fact that Trade Promotion Authority expires. As you recall, Collin, it took us nine years last time to reauthorize TPA. I hope that wouldn't happen it, hope we'd do it immediately, but it's a big risk frankly.

So my goal at this point is to keep pressure on all of us including USTR but also our foreign partners, trading partners, to say let's meet this deadline. We can do it. We know the general outlines of what has to be done here. It's a matter of leveling the playing field. So I'd hope that's what we'd do. I don't know if it would help or hurt if you

did it now. I think you have plenty of time to make that decision because a year from now we still will be in a position where we're still negotiating, I suspect.

REP. PETERSON: My time's running. What happens if we get to the end of TPA and we don't have a deal? Are we just going to say we're not going to do anything? What is the likely scenario?

AMB. PORTMAN: I don't know. There have been various approaches taken over the years. You could see a reauthorization of TPA as a whole right away. You could see it for a limited purpose. You do have to submit the legislation in advance, as you know, 90 days in advance. So the key is to be able to sign that agreement before TPA expires.

Again I'd hope we wouldn't get into that situation. I'd hope we'd be in a position of pulling this together. It's been four years.

REP. PETERSON: I hope everybody understands that at least people in my part of the world are very uncomfortable with this offer we made and they're very uncomfortable with the idea that they might be asked to jump into a new Farm Bill without knowing what the heck's going on. That's, I think, a legitimate concern, and we're responding to what we're hearing from our constituents. So I just hope you take that under advisement.

AMB. PORTMAN: Well, thank you. I will.

REP. GOODLATTE: Thank the gentleman. The gentleman from Nebraska, Mr. Osborne, is recognized.

REP. TOM OSBORNE (R-NE): Thank you. And Secretary Johanns, thanks for being here. Nice to see you again. Ambassador Portman, my workout partner, it's good to see you. I appreciate very much what you're attempting to do here. The question I have is this: When you look at the European Union and the United States, we're talking about roughly equivalent economies. I think the European Union's about \$9 trillion and we're about \$11 trillion. And given that situation, why should they be accorded any advantage? I know you're saying, we want to have European Union reduce trade subsidies, amber box, by 83 percent, and we're going to go down 60 percent. But as Mr. Peterson mentioned that's still a disparity of \$15 billion to \$7.5 billion. So it still seems they're carving out some protected products to a larger degree than we are.

And so I know where you're headed and I know what you're trying to do, but why not just say, hey, we want a straight across even break, and that's what we're shooting for?

AMB. PORTMAN: Well, it is what we're shooting for. As you know our proposal includes total elimination of all subsidies in the second stage after 15 years, and so it's in our proposal. But that first five years it will be nice to get them from 4.5 to 1 down to 2 to 1.

REP. OSBORNE: Um-hum.

AMB. PORTMAN: You know, you all are legislators, and you deal with the art of the possible every day. But my point to the farm community when I talk to them, and we've actually gotten a lot of support as you know from a lot of groups, farm groups, for our proposal-- in fact some enthusiastic support, because it's better than the status quo in a lot of ways.

One is, on the subsidy side that you mentioned. How else are you going to get the Europeans and the Japanese to reduce their subsidies to the point that there's more fair competition? I mean this is our forum to do it.

And as you know they don't want to go to 2 to 1. Their proposal is to go to about, as I read it, about 3.5 to 1. They're at 4.5 to 1 now but actually use 3 to 1.

But second is market access. How we going to get the market access if we don't do this? How are we going to get the export subsidies eliminated which is totally in our interest? We talked about that earlier-- 87 percent is used by the EU against us often and third country markets.

Finally, how are we going to get more protection for our farmers and our commodities on the litigation? We saw what happened with the cotton case. Some of you have been very involved in that. We need some protection. And so the status quo exposes us on litigation, doesn't get us market access, doesn't get us the subsidy cuts, doesn't get us eliminating the export subsidies. I'd like to take a shot at this. I mean this is something worth doing as the chairman said at the outset.

And I agree with you, we ought to have not just parity but elimination of these subsidies over time. And that is part of the proposal and part of the President's vision.

REP. OSBORNE: Well, thank you. And I understand what you're up against. We were in Europe. We dealt with those problems in the same degree you have.

AMB. PORTMAN: Thank you for your statement last night, by the way.

REP. OSBORNE: I did the best I could. I have a couple other questions. If we somewhat unilaterally disarm and the European Union would for some reason go along with us, what about Brazil, places where land, very comparable to our best land, is \$300 or \$500 an acre, labor is \$.50 an hour? I'd have a strong belief that they're very much in favor of seeing this happen to us and the European Union.

Then a follow-up question is: how do we ensure compliance? We've had a lot of agreements that look pretty good on paper, but in actual practice it hasn't worked out very good, and of course we've talked about the European Union and beef and all these things. So those are, I guess, my two closing questions, if either of you would care to comment.

SEC. JOHANNIS: Your observation about Brazil is correct. They are a world-class competitor, not just in soybeans but in other commodities also, and we can't hide from that. We raise a lot of soybeans in this country. And we have to take that issue head on. I think the Ambassador's comments generally are absolutely right on target. There are some who argue somehow this is going to turn out and the world will be fine if we'd just, if we don't get a result from the WTO process. But the reality is, the world isn't fine today. We are getting challenged on our programs. We saw that with cotton. Uruguay is looking at rice. Canada's looking at corn. The subsidies in Europe are about - - at least what they're authorized -- four times what we do, and what they're actually using is about three times.

It truly is the art of the possible, and it is moving a big step forward in the first five years. We take about five years to assess and reassess. And then we have another five years where we literally bring these subsidies down and tariffs down to open market access.

I maintain this: If we are given the opportunity to compete we'll compete with anyone. We are efficient, we have an ag system that really is truly second to none, Brazil or anyone. Our difficulty these days is that the playing field isn't very level in many parts of the world.

And so you'll only get to these issues through the World Trade negotiations. You don't get to subsidies in bilateral discussions. It's only by this global approach that we have a shot at this in really bringing about world reform in terms of how agriculture is treated in a different way, depending upon where you're at, what country you're in.

REP. GOODLATTE: I thank the gentleman. The gentlewoman from South Dakota, Ms. Herseth, is recognized.

REP. STEPHANIE HERSETH (D-SD): Thank you, Mr. Chairman. I'd like to thank the Secretary and the Ambassador for being here today. If I could begin with you, Ambassador Portman, I appreciate your commitment to taking a shot at this. I appreciate the points you made to me a few days ago about the Doha Rounds being really the only way we can get at the Canadian Wheat Board, the only way we can get at the state trading enterprises in Australia.

But if your meetings next week in London and Geneva do not result in an improvement of what the EU has put on the table, do we have the commitment of the Administration to withdraw the offer of a 60 percent cut in AMS or amber box support?

AMB. PORTMAN: Well, first of all, I differ a little bit from some of the observers on this. I don't think -- maybe this is not the right approach for negotiation, but I don't think it's so much waiting for another EU offer. I think it's getting the EU to come to a reasonable proposal that they agree to because most of the rest of the world is behind

us. In other words, building a consensus. My hope is not necessarily based on the EU coming up with a great offer. I don't know that that's possible, frankly.

But I think it is important that we continue to do what we have done, I think, very effectively over the last three weeks, which is to make the point that to meet the requirements of Doha -- not the U.S. requirements but the requirement of Doha which is significant improvement, substantial improvement, in market access, a substantial improvement in market access is not the EU offer. It's a 39 percent average tariff cut, so that's not high enough. But more importantly to me are these exceptions that Collin talked about earlier.

So the goal next week is to continue to work with these G-20 countries I talked about in the developing world with our trading partners around the world like Australia or Brazil or Canada or New Zealand, all of which have stuck with us with our proposal, by the way, and they should be commended for that. And to try to be sure the European Union and others who are blocking this understand they are risking the loss of tremendous benefits to their economies and to the world economy.

As long as there's a serious discussion out there and the U.S. proposal ought to be on the table, if at the end of the day we can't get an agreement that makes sense for our farmers and ranchers we won't agree to it.

REP. HERSETH: I agree and hope that the pressure coming from the other countries that have been behind our proposals results in what we all hope will be the outcome here as it relates to EU. But let's shift from the EU and if you might since Sec. Johanns in response to Mr. Osborne's question did address Brazil, if you could explain to the committee how developing country offers, on market access particularly, offers from the advanced developing countries of Brazil, China, even India -- do they meet the level of ambition called for by the United States in its October modalities proposal?

AMB. PORTMAN: Is that for me, Stephanie?

REP. HERSETH: Yes.

AMB. PORTMAN: You have to be careful about this because a lot of the developing country proposals aren't on the table yet, and our own proposal, we do not flesh out the developing country proposal the way we flesh it out for developed countries because under the WTO there is this rule about special and differential treatment and special products for developing countries.

I have said, I'm not sure publicly yet but I will now, that I am disappointed that the G-20 proposal which is the proposal you're talking about I believe, does not go far enough in terms of developing countries. I say that for the simple reason that these tariffs are extremely high in many of these developing countries. You saw this on the chart, 114 percent average tariff in India for instance. Then there is a lot of what they call water in

the WTO which means buffer between what they're allowed and what they actually apply.

So if you cut from the allowed rate which is what the WTO tradition has been and what Doha will be again whether it's subsidies or whether it's tariffs, often you will see no new market access for our products or for that matter for products from other countries around the world.

So to answer your question, I was disappointed with that offer. And I told you the other day, you follow this stuff closely, you also noticed on the G-20 proposal, on the developed countries, it was more ambitious. And that's the part of the G-20 proposal that we have said was a very constructive offer and we've said the solution we believe lies somewhere between that G-20 offer and the U.S. offer I talked about earlier.

REP. HERSETH: Thank you. Mr. Secretary, just one question here. I think my time's about up. Our negotiators have made it clear to their counterparts that the offer of the 60 percent cut in U.S. farm support would require fundamental changes in U.S. farm programs.

So to follow up on Mr. Peterson's questioning and the thoughts he shared with you about how those from his part of the country, that are similar to those from my part of the country, would support extending the current Farm Bill in the event that we didn't do that, Mr. Secretary, if you were writing the next Farm Bill what types of changes would you intend? Sharp reductions in marketing loan rates or elimination of those programs, or, you know, can you just maybe share some of your thoughts there at this time to the extent that from the listening sessions, which I commend you for hosting around the country, have shed some light on what types of fundamental changes you might recommend out of the Department?

SEC. JOHANNIS: Um-hum. We haven't made any specific proposals yet, and I would say we're still months away from that. We're assembling information from the Farm Bill listening sessions. But I did give a speech recently to the commodity groups here in Washington, and just outlined some general visions. I'll make sure that a copy of that is sent to you.

Here are some overall impressions I can offer as we've made our way through these listening tours. We've done now about 40 states. We'll do, when it's all said and done, I think, about 48 states. The only two we aren't going to do at this time is Louisiana and Mississippi for hurricane reasons. They've got their hands full.

We've been from coast to coast. It's an interesting debate that is going on out there relative to the commodity programs. And here's why. Here's the basis for that debate. Two-thirds of American farmers really receive no subsidy; 90 percent of our payments to the Farm Bill go to five crops. Five crops -- corn, soybeans, cotton, wheat, and rice. Five crops.

Now I won't say that when I was out in California those who grow fruits and vegetables want to become a program crop, but they are saying we have real needs here. We have needs for research, needs for emphasis on market promotion, needs for SPS enforcement. So they raise some very interesting issues.

If you examine the discussion about the safety net, that raises another issue. I made the statement recently that the risk is that staying with the current program is a greater risk than examining how best to approach the new Farm Bill.

I supported the 2002 Farm Bill as Governor. I believed it made sense for the economic times. But times do change. I would really strongly advocate to this committee, you are going to write a Farm Bill. We're going to do everything we can to offer our thoughts and proposals, maybe even a specific piece of legislation. But I hope that there is focus on writing a Farm Bill in 2007. Setting aside what we may or may not get done through the WTO process, we really, really owe it to agriculture in the United States to have a discussion about farm policy and where we should be headed and what best serves all of agriculture in the United States.

And then last thing I would mention, Congresswoman, is that how we address world trade should also be a factor. I'm not saying the WTO should write our Farm Bill or it should be written in Geneva or whatever. I'm just saying 27 percent of our ag receipts do come from trade, like it or not. Debate it, discuss it, and cuss it, but the reality is, 27 percent of our receipts come from trade.

How do we best deal with our support for agriculture recognizing that? And then if there was one very important point to make, as your Secretary I will always argue that an economic investment in agriculture makes a tremendous amount of sense for another whole half hour of reasons I could give you. How we do it I think is really important, and how we craft this Farm Bill and how we provide for that support I believe is just enormously important. But I will always make the case that investment in agriculture is a wise federal policy, but we have to be thoughtful about how we do it.

REP. GOODLATTE: Thank you. The gentleman from Louisiana, Mr. Boustany.

REP. CHARLES BOUSTANY (R-LA): Thank you, Mr. Chairman. Secretary Johanns, Ambassador Portman, good to see you again. And thank you for your prodigious work in trying to open markets for U.S. farmers and producers.

Ambassador, I was pleased to hear your announcement that we're filing against Turkey, WTO unfair restrictions on rice exports. Along those lines as well, I understand that Uruguay is considering a challenge to the U.S. rice program within the WTO, and it seems to me that challenging another commodity program so soon after the cotton case and so close to the Hong Kong ministerial sends a very negative signal or message to our U.S. agricultural sector.

So could you outline what steps you might be taking at this time to convince Uruguay not to file a case, or do you plan to address this in Hong Kong?

AMB. PORTMAN: Thank you first for your help on that case in helping us with the rice industry petition and your support of U.S. rice.

With regard to Uruguay, it's been helpful to have our proposal out there. In the last three weeks in my view there has been a change in attitude in Uruguay. We have had consultations with them on this very issue you raised. And the fact that we can say our trade-distorting support is on the table, not all of it but some of it, and that we're willing to make some reforms so long as the rest of the world goes along with the other two pillars -- export competition with which is the export subsidies being eliminated, and the market access we talked about -- has led them to take a different approach.

So at this point I will tell you that although I think they've preserved their right to move forward they've indicated they are not moving forward. But there is some exposure here obviously. And that's one reason I like the idea of resolving some of these issues in the Doha Round, not just on the export competition and market access side but also on the subsidy side and also on providing some more certainty to our farmers regarding the programs that we have.

REP. BOUSTANY: Thank you. I also understand that Korea has yet to implement its commitment to increase market access for rice that was already negotiated, while at the same time now Korea's asking to move forward with a free trade agreement. Could you give us an update on that situation?

AMB. PORTMAN: Thank you for that. Yes. We are in discussions with Korea about the possibility of launching a free trade agreement as I said earlier, and among the issues we're discussing with them are beef, BSE. They currently have a ban in place. We think it's important that ban be dealt with in a responsible way and in a science-based way. This is not something new. We've been advocating this ever since the ban was instituted. We're also talking to them about rice. I believe they're moving forward with some legislation, as I understand it, before the end of the year in that regard.

But I'll double check on that and get back to you, Charles.

REP. BOUSTANY: Thank you very much. That's all I have.

REP. GOODLATTE: The gentleman from California, Mr. Costa.

REP. JIM COSTA (D-CA): Thank you very much, Mr. Chairman, and thank you for holding the hearing this afternoon and the continuation of trying to ensure that Americans, farmers, and ranchers have the opportunity to weigh in as it relates to not only current trade issues but certainly the 2007 reauthorization.

Question, Mr. Secretary, and to the Ambassador. You described -- let me just make a comment on your previous statement. I don't think we should write the 2007 Farm Bill in reaction necessarily to our trade issues. But because of the very important aspect of those trade issues I think we would be derelict if in fact we did not take those into account. For those of us suggesting that possibly in the event these timelines that run concurrent are not met that in fact we give an opportunity.

So I don't necessarily --- maybe these are strategies, but certainly we have to write a 2007 Farm Bill that looks at the long term well-being of U.S. agriculture and not the short term.

Unfortunately we're not talking about, we won't have the testimony of specialty crop growers in here today, and I noted that to the Chairman. But hopefully in the future we will. As you know, Mr. Secretary, as a result of the success of NAFTA there has been a tremendous amount of export, especially in California, on fruit products, tree fruit products, to Mexico. Two years ago it was 2.3 million boxes, and then last year it dropped to 1.3 million. I know in your comments you talked about the rough tools you have to deal with, but as we all know in the case with Mexico it was phytosanitary standards that was the issue they raised.

I want to know to what degree the USDA is prepared to deal with, whether they are rough tools or not, in which fair trade is being bypassed for provincial reasons as I believe was the case last year with this export to Mexico.

SEC. JOHANNIS: We are prepared to do everything we can working with you, Congressman, working with your constituents, working with the trade associations to be as aggressive as we possibly can. The most visible case we've dealt with of course is the beef issue relative to Japan, but these issues as you know pop up in a given commodity on a fairly regular basis. And if I were to articulate a perfect world it would be that we would have good trade agreements and then the ability to aggressively enforce those agreements. I applaud the Ambassador's decision to pursue this rice issue. I just think that is exactly the kind of thing we need to do.

And with some countries the relationship is such that we can just deal with the issues informally, we can solve problems very quickly, we engage quickly, and many of these never rise to the surface. We get the problem handled even before maybe it comes to your desk. In other situations like the one you've mentioned it percolates and we just need to be as aggressive.

But we are absolutely committed. My direction is, don't let these issues fester. Get on top of them, deal with them, and do everything we can to enforce them.

REP. COSTA: I think whatever the country may be, in this case it was with Mexico and phytosanitary standards, but I think they have to understand that we are prepared based on sound science to stand up for American farmers and ranchers because if fair trade's going to work -- if free trade's going to work it has to be fair trade.

AMB. PORTMAN: Mr. Costa, just briefly on that one I was just checking with the team here because I remembered we'd had some discussion with Mexico on stone fruit, I think that's what you're talking about?

REP. COSTA: Right.

AMB. PORTMAN: That's the plums and peaches, and we do have, as you know, I think, a protocol now for next season, and we think we've fixed this particular problem.

REP. COSTA: Good.

AMB. PORTMAN: And the leverage we had included those tools in the toolbox. We didn't have to pull out and use litigation.

REP. COSTA: Mr. Ambassador, before my time runs out, quickly a question to you as it relates to the framework in the negotiations and it's a followup of Congressman Peterson's question on strategies -- and goals and strategies I think we all share the same goals, and that is to make sure free trade is fair trade, and that in fact we look at the longterm interests of American agriculture.

As it relates to the strategies, what is the harm? It seems to me outside the Congress and Congress being meddlesome and of course I suspect when you were sitting here with us you'd think probably we're being meddlesome, but in terms of the good cop, bad cop strategy to let those folks know whether it's in Europe or in Hong Kong that these folks in Congress are very serious and they're frustrated, and they don't like being taken advantage of when they have to go home and talk to their farmers and ranchers. In delaying and not putting the cart before the horse and saying we want to see what you're going to do, we've made our offers, we want to see what you're going to do?

AMB. PORTMAN: I think it can be quite effective, and I think it's sincere. I think you all do have legitimate frustrations that you hear back home and you bring to Washington, and sometimes express for a resolution or a bill. Jerry Moran's done this on beef in Japan; it's been helpful to me frankly I believe. So I appreciate that. I know you've got a special interest in this and you said no specialty crop folks are testifying. You're testifying, so since you're a grower --

REP. COSTA: In lieu of.

AMB. PORTMAN: In lieu of the experts, you know you can represent them. But you've got a lot of experience and background in this, so when you make a statement -- I talked to you earlier about coming to Hong Kong and working on some of these ag issues -- it does make a difference. I represent your point of view all the time by saying; "Congress is serious about this, and they will respond in kind unless something happens." I'm sincere about it, you're sincere about it.

I think it's the way our system works. We have a very representative government. Not all countries have that. You know, some countries don't understand the power of our legislature. I would point to China as an example where sometimes they don't appreciate the ability of Congress to take action and the inability of the Administration to stop some of the action.

So I think it can be very effective.

REP. COSTA: Thank you, Mr. Ambassador. Thank you, Mr. Secretary. Mr. Chairman, I will submit questions later on for the record for the witnesses. Thank you.

REP. GOODLATTE: I thank the gentleman. And in response to the gentleman's observation about the witnesses on the ensuing two panels, let me just say to the gentleman that the hearing has been on the calendar since October 13, nearly three weeks, and during the time we did not ever hear from anybody in the fruits and vegetable industry requesting to have a hearing on either panel. We certainly value their input.

And in future hearings if they would like to participate they simply need to let us know. Both the majority and minority's panel of witnesses did not include them but that certainly is not a reflection of any feeling on what kind of contribution they could make. It's just that there are scores and scores of different commodity groups that are interested in trade. And we can include them in the future, but they do need to speak up and let us know when they see something.

REP. COSTA: Well, thank you, Mr. Chairman. We hope in the future we will be able to include them. They do play an important role in America's exports.

REP. GOODLATTE: I thank the gentleman. The gentleman from Michigan, Mr. Schwartz, is recognized.

REP. JOHN "JOE" SCHWARZ (R-MI): Mr. Secretary, Mr. Ambassador, thank you very much for being here this afternoon. Members of the committee received a letter of communication dated October 25 from the Ambassador of Japan regarding beef exports and talking about what I interpret as saying there's no greater danger from bovine spongiform encephalopathy from American beef than there is from domestic beef in Japan. And then a list of six caveats which, having lived in Asia for almost five years, I understand that lists of caveats are sometimes nuanced ways of stalling.

So I would like your comments, Mr. Ambassador and Mr. Secretary, on whether or not you feel the letter -- and I believe you've seen the letter, have you not? -- whether the letter from His Excellency the Ambassador of Japan is a positive step, is just kind of holding the line, or they're finally going to break through and allow American beef to be exported to Japan -- which I believe is, what, about \$1.5 or \$1.6 billion a year in business for American beef producers.

SEC. JOHANNIS: First thing I'd say just again to be very direct in my response to your question, it is a positive step. Japan has signaled that after months of analysis that our beef is equivalent to theirs relative to BSE safety issues. That statement alone is worth a lot, a good first step. The conditions, I don't have the letter right in front of me, but the conditions raised in that letter we feel we can work with Japan. I've reviewed the letter. I really do believe that finally we're seeing the light at the end of this tunnel. We're in a comment period here I think for 30 days. But then a decision can be made as I understand the process.

I will also use your question to tell you that our discussions have gone well with Korea but with other countries around the world. So I continue to be encouraged by our progress here although as you know it's been painfully slow.

I would also just offer a comment, and the Ambassador referred to this, your efforts are appreciated. The President's efforts are appreciated. We know this was going to have to involve everybody, and it has. And I think we are making a step here that sends a signal that we're going to trade beef.

Last thought, keep in mind right before I arrived we agreed to 20-month-old-and-under product. And so that's going to be somewhat limiting, more than somewhat limiting, but it's a place to start. And we'll continue to engage Japan on moving that to the international standard of 30 months, but very definitely I will celebrate the day that we start moving beef into these markets and looks like we're getting there.

AMB. PORTMAN: I would add very little to what the Secretary has said very well except to say that we have raised this repeatedly and I've been very critical of the Japanese timing and process. And I think they've run out of time. They've now set in motion, through the approval of the Food and Safety Commission of the Subcommittee Report today, a public comment period and then, as the Secretary said, some conditions that the Secretary believes can easily be met, which means this market should open by the end of the year.

If that does not happen, then we have a real problem. And I think it's overdue, but I do think it's good news. And then as the Secretary said, the next thing we start working on is over-20-months. But this is a good day after a lot of frustration that we're seeing progress in the right direction.

REP. SCHWARZ: I can conclude and the committee can conclude that in sum we have reason to be encouraged. Thank you. Thank you, Mr. Chairman.

REP. GOODLATTE: Thank the gentleman. The gentleman from Washington, Mr. Larsen, is recognized.

REP. RICK LARSEN (D-WA): Thank you, Mr. Chairman. Mr. Ambassador and Secretary, thanks for being here today. Mr. Ambassador, this month, is going to Korea

for APEC if I'm not mistaken. Do we expect a position from APEC with regards to the Hong Kong ministerial? And what do we expect that position to be, perhaps?

AMB. PORTMAN: Good question. I hope we'll get a strong statement from the APEC countries through their trade ministers. As part of this meeting there will be a meeting of the trade ministers of the 21 countries. As you recall three months ago we had a similar meeting and came out with a very strong statement on these nonagricultural market access talks saying we ought to adopt what's called a 'Swiss formula' which reduces highest tariffs the most and is the proposal, frankly, the U.S. has been advocating for the last few years. So it could be very constructive to have the APEC countries once again undertake that kind of an initiative. We will certainly be promoting that.

Secondly, at the last APEC meeting we made some progress on intellectual property protection. As you know that region of the world APEC, which is the Pacific Asian region, is the most dynamic economic region in the world. Over half the trade in the world is conducted by these 21 countries. And yet it's also a region of the world where there's a lot of piracy.

And I'm hoping that, in addition to the Doha focus, we can also make another strong statement with regard to intellectual property protection -- and getting the countries in that region more focused on this could have a major beneficial impact to our exports because our knowledge-based exports in my view are disproportionately affected by the theft of intellectual property that's currently going on in that region.

REP. LARSEN: I need more specific than -- do you expect an APEC position on the agricultural proposals?

AMB. PORTMAN: That's a good question. I'm not sure.

REP. LARSEN: I must be full of good questions.

AMB. PORTMAN: Yeah. Yeah. You know, we didn't push for that last time in part because you have such divergent interests at that meeting. As you know you have Japan and China and Korea and Malaysia. It's a group of countries, some of which have more defensive interests in agriculture like Japan. And others like Korea, as Dr. Boustany raised, have defensive interests in terms of rice.

So I will say that those countries in APEC in my view understand the bigger picture perhaps better than some countries. In other words, they are supportive of Doha to a country and supportive of the idea of enhancing trade, in part because they have made a lot of progress in their economies over the last couple decades in doing precisely that. They have in some cases unilaterally and other cases through bilateral regional agreements reduced their barriers, and it's worked for them.

Korea's a great example. People talk about should the United States pull up the ladder, and should we be more protective, and I can point to two very contrasting

examples. One is, North Korea that has done the ultimate in that, and they don't trade with anybody. And it's a country that's been impoverished. And look at South Korea: in the last two decades they've gone from truly being a lesser-developed country to I would argue very close to a developed country, although for their purposes they still like to be considered developing countries for the WTO definition. But truly it's an incredible story and it's based on trade.

So that area of the world's been helpful, and I think we can make a strong statement on Doha. Whether we can come up with a consensus on agriculture would be difficult but possible. I'll work on that now.

REP. LARSEN: Thank you. I want to understand just a few things. The cuts that we're proposing, the cuts that EU's proposed, are basically from allowed levels as opposed to actual levels? You said that's sort of the standard procedure?

AMB. PORTMAN: That's correct. That's why the 83 percent cut, we think it's important for the European Union because it's coming from their WTO-allowed amount.

REP. LARSEN: That would, the 83 percent cut then would get them down to a 2 to 1 ratio with the United States, given actual money?

AMB. PORTMAN: Yes. Good point. Another good point. You're on a roll, Larsen.

REP. LARSEN: I tell you. It's just a great day. Just to clarify on my last -- I want to hit the amber box here. Last thing. With regards to the developing countries, the G-20 proposal. I think it -- just clarify Stephanie's point for me -- you said it's a positive with regards to south to south relationship? Not so much north to south, south to north relationship?

AMB. PORTMAN: Well, what I said was with regard to the developed countries the formula we think is a positive and constructive step. With regard to the developing countries we don't think it's ambitious enough. As you know in the Doha Round there is a distinction between developing countries and developed with regard to these tariff reductions in all areas. And our interest is not just in these more mature markets like the European market as important as it is, but it's also in being sure that we have a fair shake in these emerging economies in the developing world. India and China and Brazil might be good examples.

REP. LARSEN: Thank you very much. I'll quit while I'm ahead. Thanks.

REP. GOODLATTE: The gentleman from Texas, Mr. Conoway is recognized.

REP. MICHAEL CONAWAY (R-TX): Thank you, Mr. Chairman. Secretary and Ambassador, thank you all for being here today. Appreciate that. China, we can export about 4 billion bales of cotton each year to China with about a 1 percent tariff.

Anything over that, as up to a variable rate of up to 40 percent, can we expect any kind of help with China through this round of negotiations in that regard?

AMB. PORTMAN: Yes. I mean this would be within the overall framework we're talking about, China would be required to reduce tariffs. They would be able to select some sensitive products as we said earlier. The United States would like to keep that sensitive product exception very limited. The G-20 proposal by the way on developing countries with regard to sensitive products we think is a very good proposal. It only has 1.5 percent of tariff lines.

So it's more of the tariff issues I was talking about on sensitive products. It's actually a very positive. Then China would be subject to that. They could choose to take cotton and use it as one of their sensitive products but still they'd have to base it on a TRQ that would be relatively generous, so we're hopeful there. China, I think, is the world's biggest importer of cotton now, so that would be important for our market access.

REP. CONAWAY: Can you talk just a little bit about the specifics on the U.S. proposal in terms of perhaps moving the countercyclical payments out of the amber box and realistically pushing the EU to give up their export subsidies by 2010?

AMB. PORTMAN: We're still negotiating on all these issues, but in 2004 there was an agreement to describe the blue box type payments in the framework agreement itself. And that was quite helpful to us in terms of identifying where countercyclical payments might be appropriately lodged. I talked about the three boxes before. Because it described the program we have on countercyclical to the point of talking about how the price structure works. So our view is that it's eligible for blue box treatment.

Right now it is technical not an amber. It's in one of the two categories outside of amber called 'diminimus,' and specifically it's in the area of nonproduct-specific 'diminimus' where we have the ability to have up to \$10 billion worth of subsidies today under the WTO. We don't use that, all of it. We use about \$7.6 billion in countercyclical payments, but it would move from there into a blue box. The blue box would be limited. So the Secretary can speak to this much better than I can, but there would have to be some changes in order for countercyclical to operate as it does today.

REP. CONAWAY: The EU is getting away from their export subsidies by 2010? They've agreed?

AMB. PORTMAN: This is again a decision that's already been made that we will eliminate these export subsidies. I often refer to the comments of Prime Minister Tony Blair who has said that they ought to be eliminated by 2010 which is the U.S. proposal. It's not the EU proposal at this point. Again we commend the G-20 proposal because they call for elimination of those export subsidies by 2012 which is a -- again, assuming this agreement gets going in 2008 -- that would be relatively soon also. And we commend them for that. We think 2010's a better date. But European Union has yet to come up with a date, and that's one of the things that would come out of a comprehensive

agriculture agreement if we were to establish a date. And it should be done sooner rather than later.

REP. CONAWAY: One final question. Any progress on naming an agricultural negotiator for your shop?

AMB. PORTMAN: Yes. We've got a great negotiator behind me, Jason Hafemeister, who does a great job for our farmers and ranchers and is a terrific advocate for us. But we've also got somebody coming through the process being cleared who is a very senior level person who's had agriculture experience before, has actually been a negotiator before, had this job before when it was at USDA. And I think you'll be very pleased. He's also associated with one of the commodity groups now, has a good feel for our commodity programs and how they work and how they could work even better under trade rules that are more to our benefit.

REP. CONAWAY: Thank you, Mr. Chairman. I yield back.

REP. GOODLATTE: The gentleman from North Dakota, Mr. Pomeroy.

REP. EARL POMEROY (D-ND): Thank you, Mr. Chairman. I want to observe that it's been a very timely and important hearing, and we appreciate very much the senior leadership and the articulate presentations made by the panel this morning. I think I'll start with you, Ambassador Portman. Peter Allgeier, who has recently taken over as U.S. Ambassador to the WTO, was quoted -- we all know sometimes these quotes don't come out quite as you mean them. This is a very disturbing quote, and I want you to respond to it. He indicated that, "In looking at having discussions that look across all negotiating areas," he states, "members will not make compromises in areas that will cause them pain like agriculture or the United States unless they know they will be gaining in other key areas such as services." Unquote.

Now this looks to me an awful lot like a replay of prior trade rounds where we in agriculture feel that we have as a sector been taking it in the neck to advance the trading position of the United States in other sectors. Now the Doha Round, by our view, was supposed to be the agriculture round. This is the one where we were supposed to get our due.

So to say the least, that quote is disconcerting. Does it reflect the position of the U.S. trade representative that once again agriculture will be swapped off in order to secure gains in other sectors?

AMB. PORTMAN: No. And I'm sure he's misquoted. But let me just say, if you're from the perspective of a country that does have high tariffs and high subsidies 25 come to mind which is the EU -- not all 25 of them but many of them, Japan comes to mind --

You may view it that way because there's not much in the agriculture that's going to be beneficial to your political constituency. I would argue it is beneficial to the economy to have more free trade actually. But it's a touchy decision, isn't it? I mean you look at the Doha Round if you're from Europe you can have fewer subsidies, take a hit there in terms of your political constituency, fewer tariffs, lower market access and export subsidies. So I think his statement is accurate in the sense that some other countries in the world are looking at it that way.

REP. POMEROY: The quote made it appear as though he was talking about U.S. agriculture taking a loss.

AMB. PORTMAN: But that's not our approach. I mean we are I think blessed in the sense that I can see gains for us in all areas, every single one of the areas including agriculture whereas I said earlier we have tremendous opportunities here to expand market access, which is the key to us being able to expand our agriculture exports. And a relatively mature market here in the United States is great, but our growth is going to be in these other markets. And so if we don't have the Doha Round we don't get that.

Second, reducing other countries' subsidies more than ours. We're not going to get that without Doha. I think we have some real benefits here.

REP. POMEROY: Mr. Ambassador, I am your Democrat fan club in the U.S. House, so this isn't personal at all, but you know we've been on a free trade track that has us almost a net importer for agriculture for the U.S. as you noted. And it strikes me that Europe possibly could use their weakness presently as a negotiating position of significant strength. You posed significant cuts to U.S. agriculture in the anticipation of significant market access gains. Europe is all over the place. They're having great trouble coming to some unified resolution. We need to have a clear signal from you I think to have any comfort at all as this round commences, if it commences, that if we don't get the access your position on the cuts is reconsider immediately.

AMB. PORTMAN: As I said in response Ms. Herseth's question my feeling is we need to figure out a way not to look at a particular country to provide the solution here, but there is a group of nations, 148 nations, and provide what makes sense. As long as that process is continuing in good faith and as long as it's sincere when we're trying to get there, the U.S. ought to take a leading role. Cutting tariffs? Our proposal is the most aggressive out there as you know. Eliminating export subsidies as soon as possible? Our date is 2008. Knocking down the barriers that currently exist with regard to not just agriculture but these other products we talked about -- services and nonagricultural products. And then on trade-distorting subsidies having these other countries like the EU and Japan reduce relatively more than us-- that's a good combination.

I guess all I can say is, I believe so strongly in the benefits of Doha to our farmers and ranchers at the end of the day that I wouldn't want to do something premature to pull the U.S. proposal back and say we're going to pack our bags and go home. It's too important. And it's not just important to us; it's important to the world economy, it's

important to the developing countries as we talked about.

But this is an opportunity. It's not easy to get there. But it's an opportunity we should not pass up. So as long as people are negotiating in good faith and as long as we've got people at the table being willing to talk about these tough issues like providing more market access in their countries -- and the G20 proposal is a good step in that direction as I said earlier -- these are countries like India that have a tough time sometimes with these market access issues, and yet they're part of the G20 proposal. I think we are making some progress, and we ought to stay with it and do everything we can as the United States to try to bring it to a successful conclusion.

REP. POMEROY: I can't imagine the pressures on your shoulders as this round would commence. But it seems to me to be basically the operating principles of any small town lawyer ought to be foremost on your mind. Sometimes you can want a deal too badly. And getting a deal doesn't mean you've advanced your interests. And I really think that in this case we need to have that very clearly communicated to those with whom we'll be negotiating. I think we look a little too hungry for this deal-- my own opinion.

Mr. Secretary, taking the chairman's leave, and I know I'm going to have to be quiet here, but it strikes me that unilateral disarmament in advance of the trade rounds is probably a bad idea. I have not observed any of our significant trading partners or negotiating partners heading into the WTO round making unilateral cuts in their farm programs just as we're going to ask our ambassador, trade representatives to negotiate these matters.

Friday this committee voted to cut spending in agriculture more than \$3 billion. To me if that's not unilateral disarmament, I don't know what is. Does the administration have a view of the budget reconciliation package that the House Agriculture Committee voted on on Friday?

SEC. JOHANNIS: Here's what I would offer in that regard. We really support your efforts to try to bring reconciliation about. We might debate with you on some of the details. As you know we put a proposal out there in January. But just in terms of the effort that has gone into this to try to bring reconciliation forward, we applaud you. We sincerely do.

I will also share with you that my discussions with foreign countries about the budgetary process-- everything that the United States has done in this Doha Round has been received as a real positive forward-leaning leadership statement by the United States. And there were questions about the budget issues, but I have to tell you not along the lines of being negative. It was along the lines of them seeing us as forward-leaning and committed to a Doha Round that would be successful.

If I might offer one other point, Mr. Congressman, in reference to your last question to the Ambassador. I think it's unprecedented that a secretary was busy but I

hope he can be there, but most importantly without exception the Ambassador turns to me for my thoughts on agricultural issues. And I will just tell you, I've been very impressed. Your cheerleading is well-placed because this gentleman to my left is very, very capable and competent. And he has stood up for agriculture over and over again.

Now we may debate the final agreement in this and that. That's the nature of the democratic process. But I will tell you, I've been very, very impressed with the Ambassador.

The other thing I will tell you, he brings a sensitivity to the issues here in the House and Senate that I think is very important. So he didn't need me to say that on his behalf, but I wanted to offer it because I do appreciate being at the table.

REP. POMEROY: He's always enjoyed high praise. I've noticed that.

S: Yeah.

[laughter]

REP. POMEROY: Thank you both very much.

REP. GOODLATTE: The gentlewoman from Ohio, Ms. Schmidt.

REP. JEAN SCHMIDT (R-OH): Thank you, Mr. Chairman. And I do agree with Mr. Pomeroy that this ambassador is one of the best ambassadors we could hope for because he comes from a great state and a great district. And as Ambassador Portman well knows and brought up in our home state of Ohio fully one-third or one out of every three acres planted is exported. And I believe this holds true nationwide as well.

And Ambassador, I'd like to talk nuts and bolts with my voters back home. Could you please expand on the importance of the Doha to not just our nation's farmers but those farmers in Adams and Brown County? And at the same time talk about the global economic growth that would occur?

AMB. PORTMAN: Well, thank you, Congresswoman Schmidt. And welcome to this committee and to the Congress. Jean Schmidt's doing a much better job than Rob Portman did representing the second district of Ohio. And it's interesting because now I'm in this job and learning much more about agriculture than I ever thought I would because it's been so central to these talks. I do think about how it affects the folks back home in second district. And it's mixed because most of our farmers back home don't receive any subsidies as you know. The beef farmers, the cattlemen back home, the pork producers are not on the subsidy side.

So for them it's a matter of opening markets and talk about a win/win. If we can get a deal here that creates new opportunities for them to sell their products abroad they're going to see real markets for their products, but significantly they're going to see

their prices increase because others, their competitors will also have these new markets.

For the corn and soybean farmers -- and there are some not so much in Adams and Brown but in Warren County as you know and Clermont County. But what they can see here is again three significant things. One is, a more level playing field with regard to subsidies. The Europeans, Japanese have more than we do and they compete with us in some third country market. Second, they'll get the market access we talked about. And Mr. Pomeroy was talking about his state and I think wheat now, more than 50 percent of wheat is exported. And with our corn and soybeans in Ohio, said about a third of our crop is exported, it's a significant opportunity for them.

Then with regard to the export subsidies, again there's a direct competition out there where the European product after having high tariffs and relatively high subsidies then gets a boost on the export subsidies because the prices are so high -- they won't have to deal with that.

So there's a benefit that directly contributes to the ag economy in Southwest Ohio.

But there's a bigger issue here, and that is having a strong economy generally. And all the studies indicate this could have a very positive impact. There's one out recently that shows that since 1945 the free trade of imports and exports has resulted in \$1 trillion of additional income to American families. And if the Doha Round were wildly successful we'll make the kind of reductions that the President would like to make, the analysis shows we add another \$500 billion. And it won't necessarily be a total reduction of tariffs, but if we can make substantial progress, even one-third, there's a University of Michigan study out there showing the average family in America will get a couple thousand dollars per annum income.

So this is because trade is a win-win proposition in the sense that it helps our economy here at home, helps the economies abroad, and helps to create a healthier economy generally which helps of course our ag consumption and also our ag producers.

So it's an opportunity. And Mr. Pomeroy said you need to be sure it's a good agreement, but to walk away from an agreement like this, to pack up our bags and say, unless everybody else does exactly what we want we're not going to stick with it, is in a sense the easiest thing to do, but it's short-sighted. I think we need to stick in there and the United States ought to take a leadership role and try everything we can to make this work. And at the end of the day when it all comes together one way or the other, you all have a vote. You're going to be able to decide whether you think it's a good agreement or not. But in the meantime we're going to work hard to try to pull together an agreement that works for America's farmers and ranchers.

REP. GOODLATTE: The gentleman from California, Mr. Cardoza, is recognized.

REP. DENNIS A. CARDOZA (D-CA): Thank you, Mr. Chairman. At the outset

I just want to associate myself with Mr. Costa's remarks with regard to the participation of the specialty crop industry. I think the committee would in fact benefit from hearing from the industry with regard to trade matters as my questions I think will illustrate.

I want to start off as well saying welcome to Ambassador Portman who's a great friend and I think a very capable negotiator. We don't always agree, but I think he does a fabulous job for the country, and I am pleased the President chose him for the position.

I want to start off by telling a story because you mentioned, both of you mentioned Brazil. And I was recently in Brazil, and I was at the consulate there, and I was talking to the trade representative at the consulate. He's a very capable individual, and he was talking to me with regard about what a good job the consulate was doing in promoting and assisting your office promote trade with Brazil and exports to Brazil. He showed me, he said I'm sure your district has quite a bit of production that's coming to Brazil. I said, I don't think so. He said, Oh I think so, and he showed me the list of all the congressional districts. Then he said, Now what congressional district are you? I told him Congressional District 18. And he couldn't find anything on the list from Congressional District 18. Then I said why don't you try Mr. Costa's district? He's number 20. And in fact he couldn't find anything on the list for 20. So I went down the list of all the agricultural districts in my area, and we couldn't find anything in the agricultural regions that was going to Brazil.

In fact, I asked him to give me the list, and he did, and when I went through the list I looked at what was being exported to Brazil, and it was the means for production. It was tractors, it was assembly lines, irrigation systems. We're basically helping them which is fine -- but helping them to compete against us. I think we have significant challenges with regard to Brazil and other countries. I think the equation is a little bit different than what we're talking about. I don't think we can just look on the export side. But we have to look at what we're importing, and the challenges to American farmers and the playing field for American farmers.

And I just make that observation to you. If you'd like to respond I'd be happy to give you the time to do that.

AMB. PORTMAN: I think that's a good point. I wanted the Secretary to respond. He said earlier Brazil is a first-class competitor and they are. If we have these market openings we're talking about there will be plenty of room for Brazil and American exporters because you'll see market openings that will give both of us opportunities.

With regard to imports, I couldn't agree with you more. I thought I made that clear earlier talking about the fact that we need to see a level playing field and fair trade, and that means aggressively enforcing our own laws against unfair imports.

But my point to Mr. Peterson was, if you're looking at trade just in terms of the import/export side and not in terms of our growth in exports then I think you may miss a good story there, which is the fact that yes we're bringing in more imports-- I mentioned

the European example; there are other examples where we bring in again products that we don't even produce here. I know India has a trade surplus with us in agriculture. And it's in spices and teas and stuff like that that we don't produce.

My focus on India is not so much to ban their imports of spices and teas if they're being traded fairly, but it's to open that market to us in India for our soybeans and for some of our value-added products including beef and pork and poultry. So I just say it's a different philosophy I suppose depending where you come out on that, but I think our focus ought to be fair imports, fair trade absolutely I couldn't agree with you more. But let's open up these markets. You know, they have far higher tariffs than we do. I said the average tariff there is 114 percent. That's not their applied. Their applied is lower than that. But we got to start somewhere, and the WTO starts it at 114 percent and works it down. That ought to be our goal.

But that's an interesting point about Brazil. Brazil does provide preferential access to other Latin American countries as you know, including Argentina and the MERCOSUR countries, and we don't get that same access because we don't have that free trade arrangement with Brazil.

SEC. JOHANNIS: Trade is complicated business. You know, there's somebody out there probably in some smaller community in Iowa who has a job with John Deere who maybe benefits from those tractors or whatever they're manufacturing.

REP. CARDOZA: I'm not criticizing the exports.

SEC. JOHANNIS: Congressman Peterson makes a point, and that is that yes we have seen a rise in imports. But when you start slicing through it, part of it is what Americans are hoping to get in terms of their diet. When I grew up you got watermelons in the summer. Come September or October you didn't see watermelons until next June or July or whatever it was. Now people want fresh fruit year around. They want access to that. They want access to foreign wines and specialty meats.

And so we have seen a rise. But in some of the commodities that we grow in bulk here, we're doing very well. We are doing well in soybeans. We are doing well in corn.

You know, there's some very, very good stories to be told there too. But the diet of Americans is more diverse than it was when you and I were growing up. And that's likely to continue.

REP. CARDOZA: Mr. Secretary, if I could follow up because that's where I'm trying to go with this is that the specialty crop industry is very important where I come from. It provides I think 25 percent of the exports of agriculture from our area and I want to ask a question with regard to the Doha Round and Mr. Portman I want to understand if I heard you right earlier. I believe you said that the SPS issues would not be considered in that round. The phytosanitary issues in particular and the trade barriers, those bring about two specialty crops are of grave concern to my farmers because what happens is

that's where the unfair competition is very hard for them to challenge those. In fact, currently California is monitoring access issues with plums and garlic in China, apples in Taiwan, stone fruits in Mexico. And any particular day you may see new ones pop up, and it's really the crux of the issue in large degree for the specialty crop industry.

AMB. PORTMAN: It's an excellent point, and as I said earlier I don't want to mislead members to think Doha is about SPS. It's primarily about cutting tariffs. I mean that's the idea. And trade-distorting domestic support and then this export competition. That's how it was laid out. That's how the Uruguay Round proceeded as well.

I will say the U.S. has its own SPS issues. And legitimate ones. And I do hear from our trading partners a lot about how they can't get their specialty crops or fruits into our market. And other countries in my view sometimes unfairly use that. I made the Mexican statement earlier that I believe we have resolved that particular issue on stone fruit by going to them and consulting and negotiating and working through the issue. Next season we expect that to be the market that it used to be and it should be now. But they will continue to crop up, and every time they do crop up we've got to be right on and we've got to deal with it. Sometimes we'll have to go all the way to litigation as I said. Sometimes we've been successful. The Japan apple case I talked about we won this summer. Took us, what, about a year and a half? About four or five years start to finish, but in the litigation probably about a year and a half, and we won it now. And now Japan has to open up on this SPS issue with apples which will help us.

So I just don't want to mislead you to think that the Doha Round, this World Trade Organization round is about SPS. To the extent it is about SPS frankly the United States is in a position to try to keep other countries from going away from science-based analysis. That's what I talked about earlier and the chairman has been very active in this area for a lot of good reasons include his own poultry production and being sure SPS doesn't keep out our poultry exports. But we're, I think, doing well in that regard. We are focusing on science, we're providing good data to our colleagues, we are being sure that we do not backtrack in terms of the WTO standards as it relates to SPS because this round is about a once-in-a-generation opportunity to reduce trade barriers. It's also about setting the rules for the next generation, and we want to be sure those rules stick to a science-based approach. Just as we, and the Secretary can speak to this much better than I can, open up our border to Canada recently on beef. The United States is going to follow science, and other countries need to do the same thing. When they don't we need to be able to take them all the way to the WTO as we are doing with regard to Turkey today and as we have done on some SPS cases.

REP. CARDOZA: Finally, Mr. Portman, I know I've gone over my time, but if I could I know you're traveling to India on the 11th of November, and while you're there I'd just ask you to work with the Indian government on California almonds. \$100 million export from our area to that country, and we want to make sure that California almonds had access to that market.

AMB. PORTMAN: I thank you very much, Mr. Cardoza. I have no choice to do

that because your colleague Mr. Costa just presented me with these California almonds to remind me of this.

REP. CARDOZA: We are a powerful team.

AMB. PORTMAN: You're a powerful team. As an almond grower himself he's up to speed on that. I will raise it. I'll raise some other issues too frankly because that's a great potential market for us, and again I think it can help Indian in terms of its economic development in terms of providing lower priced, higher quality goods to Indian consumers.

REP. GOODLATTE: Time of the gentleman has expired. The gentleman from Kansas, Mr. Moran is recognized.

REP. JERRY MORAN (R-KS): Mr. Chairman, thank you very much. Mr. Secretary, Ambassador, than you for your testimony today. I'd be remiss if I didn't take this opportunity to express to Secretary Johanns my real faith in his leadership at the Department of Agriculture. I'm pleased with the direction that things are going, and I feel very comfortable with having you as the Secretary of Agriculture, and I appreciate you having one of your listening tours at Kansas State Fair in my district earlier this year.

I also want to thank both of you, and Mr. Portman let me thank you, Ambassador, for the role you're playing. I held you in high esteem as a member of the House of Representatives, and in many ways you serve as a role model for what I think is a wonderful public service. But I've been extremely impressed with the way that you have hit the ground running as the trade ambassador. I think the issues that level of knowledge required in your position is amazing, and I'm greatly impressed by your ability to fill that role and provide leadership at USTR at a very critical time. So it's coming. That's why --

AMB. PORTMAN: Here we go.

REP. MORAN: And both of you, thank you very much for your help with me and other members of Congress as we worked in regard to Japan and U.S. beef issue. Mr. Secretary, thank you particularly for the consultation I've been able to have with Secretary Penn during this long time in which we are waiting for action by the Japanese.

Having said that, I do have -- I'm discouraged about the situation we face in the world. I look at trade, I listened to Mr. Osborne last night on the House floor, and he reminded me of all the things the Europeans do to eliminate competition with the United States and keep our products out of their markets. Yes, we've had the good news, a good first step, maybe second step in regard to Japan. But I look at the future and think we're still a month or two away from actual export of U.S. beef. And then I'm uncertain as to what happens next in regard to beef that's 24 months old, 28 months old, 30 months old, and what happened to the market that should be there in totality?

And then I look at the European reaction to Ambassador Portman's proposals in

WTO talks, and their total rejection last -- I recognize they're in negotiating mode and so I wouldn't say they necessarily mean everything they say, but their reaction is very discouraging as far as our ability to accomplish something in the round scheduled in Hong Kong.

A couple questions. We will be in Hong Kong in a short period of time, a matter of weeks. I am interested in knowing what your thoughts are that should there not be success in Hong Kong what's the game plan then? What's next? What do we do to operate in this world where trade is so important to agriculture?

And secondly, a more perhaps philosophical question, but as I look at and our subcommittee's work on the next Farm Bill, obviously trade is important for the price my farmers in Kansas and American farmers and other producers receive. But what happens if we would have total market access? What is the effect upon commodity prices?

I think there's absolutely nothing wrong in negotiating trade agreements that increase market access and reduce tariff barriers. But what is our plan over time? How do we compete in this world in regard to labor, land value, chemical cost, environmental rules and regulations? Do we have a longterm strategy that keeps American agriculture not only efficient but technologically advanced and capable of competing in today's markets?

I was in California visiting with specialty crop producers, and when they tell me that 80 percent of their costs are labor how is it that American agriculture, American producers can compete in this world if 80 percent of your costs are labor?

My question is a broad one as I tried to think about what the next Farm Bill should look like. Perhaps my concern is highlighted today with Kansas Association of Wheat Growers Delegation in my office reminding me of what circumstances we face a producers in light of ever-increasing input costs related to fuel, fertilizer and natural gas. How do we compete in this world? What do we do if it fails in Hong Kong? Secondly, the broader question of what's the strategy for us to be a competitive agriculture producing and exporting country into the future? Thank you.

AMB. PORTMAN: I'd be interested to hear the Secretary's answer to this longer range question. I just let me give you my thoughts. And they're not again as well informed as his will be. But I'm actually very optimistic about it for three reasons. One is, we're blessed with some great land in this country. We have some of the most productive land in the world as I said earlier. That's not true everywhere. Some countries that have very large population to feed don't happen to have the arable land to be able to feed those populations.

And the United States I think has wisely turned to innovation and research in a way that leads the world, and that's the second advantage that we have. Not only do we have great land to be able to farm; we've put a lot of resources and time and effort into being sure we are on the cutting edge. And we still are by the way. Other countries pick

up our innovations pretty quickly, but I was out in the Dakotas. I told Congresswoman Herseth this a couple weeks ago, actually in Mr. Pomeroy's state, and you know the innovation just keeps on coming. And in terms of the labor costs, you're right, the labor costs are relatively high, although the rest of the world is starting to catch up to us. But the labor costs in the specialty crops may be that high. It's certainly not that high in terms of our major commodities that we export because labor costs are being taken out, which is a problem in terms of farm employment, but it makes us more productive.

So I guess in terms of the land, the research and innovation that we have and in terms of our productivity I'm very hopeful that we can get our fair share of these growing markets around the world. The world's population is increasing dramatically -- 95 percent of the consumers live outside the United States. Their diets are improving. They like our products, they want our products. In Japan when that market opens up thanks to your efforts, Mr. Moran and others, even for 20 months and under, you're going to see people flocking to the steak houses as they did when that one steakhouse opened with its inventory of American steak that was left. People like our products because they're high quality, relatively low-cost.

So I think we have a future here, and I think it's a very hopeful future if we have a more level playing field. So that's my view.

Hong Kong, all I can say is, it's a milestone in this Doha Round. It's not the end of it, never was meant to be. We still have another year to go. In my view we should end by the end of 2006 for all the reasons that Mr. Peterson and others talked about. But this is an important milestone because you will have the opportunity for I believe all 148 countries to be represented, some of you to be represented, and so we need to make the most of it. I think we need to meet with the USEF frankly to put pressure on the system right now so that in the next couple weeks even we can make some quantum leaps in terms of agriculture and then get on to these other areas I talk about.

But if Hong Kong is not as successful as we would hope it would be, we just keep pushing. I think we set other deadlines, I think we keep pushing the process, I think it's worth it to our farmers and ranchers and I think it's worth it for our economy.

SEC. JOHANNIS: To address your second question, these Farm Bill forums have been a great opportunity for me to see American agriculture and to hear from farmers and ranchers really from coast to coast. It's been great, and I appreciate you hosting me in your district. It was a great forum. As you know it was standing room only. We've had unbelievable turnouts at these forums.

I'd offer this thought. We tend to think about the Farm Bill every five years as defining farm policy. And it is important. Believe me, it's important; I know how important it is. But good farm policy is so much more than a piece of legislation that is passed typically every five years. It is good tax policy. I appreciate the debate on the tax cuts, but it left \$4 billion in the pockets of farmers and ranchers in the United States each year. Environmental policy. You don't have to go very far into cattle country before

somebody's talking to you about federal environmental policy as you can imagine. How we manage our environment, how we invest in conservation programs-- very, very important to agriculture.

Our trade policy. Just because the facts are fairly obvious, 27 percent of the receipts do come from trade. We ignore it at our peril. We condemn it at great risk. It is very, very important to our farmers and ranchers. I'll just give you one example that I love to cite. We tend to think of the whole cow as going to Japan or Korea. It doesn't. It is when the cow is processed it is a bunch of components. And so 70 percent of the hides go into the export market. What if you don't have the export market for that 70 percent? It's not good.

So trade is very, very important.

The Farm Bill of course is important. The right farm policy can make a huge difference. Research, technology, the investment in those programs has paid dollars over time. They will pay dollars in the future. When I grew up, 100 bushels an acre was a big crop in corn. Today that's a failed crop from where I come from, where I grew up.

Roads and bridges and waterways. Anybody doubt the importance of trade? Interrupt the flow down the Mississippi for 10 days and see how it ripples across all of America right into your district and other congressional districts across the country.

Renewable fuels. 12 percent of our corn crop goes to ethanol now. Biodiesel I think is only getting started. I see a good future for biodiesel. You start putting these things together in good, thoughtful agricultural policy and there's a great future here. There is really a great future.

But that's the kind of discussion I think is important as we address the Farm Bill. If this Farm Bill were just simply reenacted, I think you'd miss a great opportunity to really have a longterm vision for agriculture. So I'm optimistic. You know, I often end speeches with that FFA pledge -- I believe in the future of farming. Now they say I believe in the future of agriculture. But I do. I see a lot of good things going on out there.

And then the last thing I want to mention because I believe in this so much, our producers are unbelievable. And I've had an opportunity to meet them in state after state. They are just very good people. They are just really good people. That's a difference-maker over the long term.

REP. GOODLATTE: The gentleman from Texas, Mr. Neugebauer, is recognized.

REP. RANDY NEUGEBAUER (R-TX): Thank you, Mr. Chairman. First Mr. Secretary, thank you for coming to west Texas. I thought we had a very well-attended, very productive listening session. I'm also pleased to hear and want to compliment both

you and Ambassador Portman about the fact that you are working together through this process because I think that is a very beneficial thing for these negotiations and beneficial to agriculture in general.

Before I get too far I want to associate myself with the gentleman from Kansas. I am encouraged by the news from Japan, but I've been encouraged before. And I think sometimes our friends over there know just about the time to drop a little encouragement into the mix to keep the dogs I think from barking too loud. But I do want to say to you that I want your resolve to continue, and I know it has been, to send a message to the Japanese government that we've jumped through about as many hoops as we are going to and can, and it's now time for them to open up their market back to U.S. producers.

Along those same lines we've had discussions I think with both of you about the importance of -- through this process -- of keeping our agricultural groups in the loop here and letting them know where you're headed. I know we have a number of groups here today that will be on the panel.

It's my understanding that in the next week or two that you are going to have some dialog with the African countries. I have to assume because of the cotton being a part of the framework that cotton may be a part of those discussions. I'd like to hear from you two things. One is where you see those discussions going, and have you been in touch with the cotton folks to kind of let them know where you're headed with this framework as it relates to cotton and African countries?

AMB. PORTMAN: Thank you, Congressman Neugebauer, and thank you for your help on these issues. I talked to you about this when we were in executive session and the fact that you'd been staying up to speed on the cotton issues and helping give me some input that's been helpful to work through the Brazil case.

I'd make one general comment and then I want to hear Secretary Johanns' thoughts on it. Again after the October presentation on our part, of our aggressive proposal in all the pillars of agriculture, we got a different response from some of those African countries that have been very concerned about our cotton program and also got a different response from Brazil, frankly, on retaliation under that cotton case they won.

And it's because we're now showing that we're serious about dealing with trade-distorting domestic support overall which does affect cotton, particularly the marketing loan program, the countercyclical program. But we're doing it only if we get the access we talked about. As you know we talked earlier about the cotton market in China and elsewhere, and there's a big export market out there for cotton still. So I feel things are going better with regard to those discussions. We'll stay in very close touch with the cotton industry. I met with the Cotton Council as you know.

As you also know they've been really helpful in dealing with this issue. They have not taken the position that we ought to ignore these concerns because they know this could lead to real problems in the WTO. Instead they've been very proactive and have

worked with us and directly with these countries like Benin and Mali and Chad, Senegal, Burkina Faso, which are the five countries most interested. They have said to these countries, we want to help you in terms of technology, marketing. That's been helpful frankly to USTR.

So I commend them. I commend the industry for being proactive and not just sitting back and being defensive but rather taking the offense. I think in the end it could be a solution that because of our overall proposal could be more beneficial than many of us feared a few months ago. So that's my thoughts on it. I'd like to hear the Secretary's.

SEC. JOHANNNS: We have met with the cotton countries just recently. The ambassador and I had a meeting. I think they call themselves, is it the C-4? And the discussions have been good as the Ambassador has indicated. The meeting was not to hammer out any kind of agreement; it was just simply to continue the dialog. And it was good. And they seemed committed to seeing the Doha Round to a successful finish.

Our ongoing discussions with the cotton industry in the United States have been positive. They're good to work with. As a matter of fact I'm informed that they are actually going to be at the USTA again tomorrow. The ruling from the WTO, needless to say, no one was celebrating that, but our discussions with them were good. We explained to them what we were going to do administratively and legislatively and again I think the relationship there is a good and strong relationship.

And we consult with them a lot. And again I do want to thank you for your hospitality when I was in Texas. We had a great Farm Bill Forum. So many people were there to testify, as you know we couldn't get through the whole group. But it was a good forum.

REP. GOODLATTE: Thank the gentleman. Mr. Secretary, I thank you. I thank you for your nationwide listening to our farmers and ranchers. That's valuable not only as we look ahead but also valuable in these trade negotiations. Your being there to listen to them is important. I want to thank both Secretary Johanns and Ambassador Portman for their testimony today. They've both been very generous with their time, more than two hours. And I expect that these consultations will continue and will be in greater depth as the time for the WTO ministerial comes closer. Trade is important to U.S. agriculture, but reaching an agreement in the Doha Development Rounds is not so important that the U.S. should dismantle its programs entirely and stop helping our farmers and ranchers. I believe the Ambassador wanted to say another word.

AMB. PORTMAN: Well, I just thank you, Mr. Chairman, again for giving us the opportunity today to talk about these issues. I want to thank Secretary Johanns publicly for what he has endured with me, which is countless hours of difficult trade discussions and negotiations. I do call him up and ask him to come whenever I'm going to talk about agriculture because I want his expertise. As you know, USTR is a relatively small, lean but mean outfit. We depend on USDA to provide us technical help. That's also been very helpful. So I want this committee to know that your USDA is very actively

involved and being very helpful in terms of being sure we have the best case to put forward. Thank you, Mr. Chairman.

REP. GOODLATTE: I thank the gentleman. We'll thank and excuse both the Secretary and the Ambassador.