STATEMENT OF AMBASSADOR ALLEN F. JOHNSON
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Introduction

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify today on the issue of agricultural trade in the Western Hemisphere. Before I get into the specifics on the Hemisphere, I thought it might be helpful first, to give you a sense of how trade benefits U.S. agriculture and the broader economy. Second, I will describe the Administration's overall approach on trade. Third, I will provide some detail on developments in the WTO agriculture negotiations and the trade talks we are pursuing in the Western Hemisphere, noting the opportunities and challenges for American agriculture. Finally, I will touch on our efforts to ensure that our hemispheric trading partners fully implement their obligations under existing agreements -- the North American Free Trade Agreement (NAFTA) and the WTO Agreements, in particular.

Benefits of Trade for Agriculture and the Broader Economy

Trade is important to American farmers, ranchers, and food processors. They must look overseas to generate sales and income growth, since U.S. population growth and consumption are relatively flat, and U.S. productivity continues to follow a significant upward trend.

Foreign markets already are critical customers for U.S. agricultural producers and food processors. Overall, one in three U.S. farm acres is planted for export. Twenty-five percent of all cash receipts for agriculture come from export markets. Nearly half of our wheat and rice crops are exported; about one-third of soybean production is shipped overseas; and we export 20 percent of our corn crop. Dollar for dollar, we export more wheat than coal, more fruits and vegetables than household appliances, more meat than motorcycles, and more corn than cosmetics.

Foreign markets will be even more important in the future if we are to sustain a vibrant agricultural sector. Ninety-six percent of the world's consumers live outside the United States. Population, income, and consumption growth is higher in overseas developing markets, than in the United States. Consumers overseas are turning to the higher value products the U.S. produces competitively.

Farm exports generate American jobs and additional economic activity that ripples through the domestic economy. According to USDA's Economic Research Service, every dollar of export creates another $1.47 in supporting activities to process, package, ship, and finance agricultural products. This means that agricultural exports -- over $53 billion in 2002 -- will generate an additional $78 billion in supporting business activities. Moreover, agricultural exports currently provide employment to nearly 800,000 Americans, on and off the farm. Finally, liberalized agricultural trade means lower food prices and more choices for all Americans.

<u>Administration's Strategic Plan on Trade</u>

In the past year, the Bush Administration has restored America's leadership on trade. We now are moving forward aggressively to secure the benefits of open markets for American families, farmers, ranchers, manufacturers, workers, consumers, and businesses.

With the Trade Act of 2002 in place, and trade negotiating authority re-authorized, the Administration is pressing ahead with trade liberalization globally, regionally, and bilaterally. We are building on the success of the NAFTA and the Uruguay Round Agreements. Together, these pacts provide the average American family of four with benefits of between $1,300 and $2,000 each year, and NAFTA alone provides annual benefits of $350 to $930 to each family.

Our strategy is to incite competitive liberalization by negotiating regional and bilateral trade agreements to complement our global strategy in the WTO. If others are ready to open their markets, America will be their partner. If some are not ready, or want to complain but not lower their own barriers, the United States will proceed with countries that are ready. This competition in liberalization strengthens the United States' already considerable leverage, including in the WTO.

The President has identified agriculture as the cornerstone of our international trade negotiations. We have made important progress in the last two years, but the "heavy lifting" is still before us.

<u>Overview of Trade Initiatives</u>

On the global front, we worked closely with our partners in the Western Hemisphere to launch new WTO negotiations in Doha. Our basic goals are in alignment: negotiate freer markets for agriculture, manufactured goods, and services. Indeed, our partners in the Hemisphere know that without U.S. efforts to support a strong agricultural mandate, Doha would not have been successful. We now are in the lead-up to the September WTO Trade Ministerial in Cancun and pressing others on our comprehensive and ambitious agriculture proposals.

This year, we also will work with Congress on legislation implementing our Free Trade Agreements (FTAs) with Chile and Singapore. In addition, we are advancing negotiations with 33 other countries on the Free Trade Area of the Americas (FTAA), and have initiated FTA negotiations with the five countries of the Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua). Outside the Western Hemisphere, we are negotiating FTAs with Australia, Morocco, and the countries of the Southern African Customs Union. In October, the President announced an important new trade initiative with the

Association of Southeast Asian Nations (ASEAN) providing a road map for ASEAN countries to move toward an FTA with the United States. Most recently, the President announced we will establish a U.S.-Middle East Free Trade Area within a decade by building on our FTAs with Jordan and Israel.

While pressing for more ambitious disciplines in the WTO and negotiating new FTAs, we also are working to ensure that our trading partners implement their existing trade agreement obligations.

Agriculture in the WTO

Progress in the WTO is fundamental to our trade agenda, particularly because of the importance of multilateral reform to agriculture. The WTO provides the opportunity to address each of the three problem areas in agricultural trade: market access, export subsidies, and trade-distorting domestic support. This was reflected in the core elements of the mandate established for the Doha negotiations in November 2001: "... we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reduction in trade-distorting domestic support."

We have taken an aggressive approach to implementing these goals, leading the way by submitting the first comprehensive proposal and setting an ambitious marker for the level of reform we aim to achieve. Our proposal calls for substantial reductions with a harmonizing result (narrowing the disparities between countries' trade barriers) on the way to elimination.

The key elements in the U.S. proposal are as follows:

Market Access: substantial reductions in tariffs in all WTO countries, bringing down the global average tariff by 75 percent over five years, using a formula that provides for deeper cuts in higher tariffs.

Export Competition: elimination of export subsidies and an end to single desk exporter privileges in five years; disciplines on export credit and food aid programs to guard against market disruption while keeping our programs viable.

Domestic Support: substantial reductions in all trade-distorting support in a way that harmonizes levels across countries, pointing toward the eventual elimination of this type of support. This proposal would cut over $100 billion in allowed trade-distorting support globally, with most of the reform coming from the European Union (EU).

We have had mixed reactions to our proposal. The EU and Japan have not been leading in reform, while we have had a good working relationship with the Cairns Group members and many developing countries, including those in Latin America. Recognizing that differences exist between reformers and conservatives, earlier this year, the chair of the WTO agriculture negotiations issued a draft of formulas and rules to implement the Doha objectives. While going further toward reform than the Uruguay Round, the chair's draft was not as ambitious as the U.S. proposal. Influencing future drafts to establish more ambitious disciplines will be our focus as we move forward in discussions.

The key to progress lies in what Europe does on Common Agricultural Policy (CAP) reform and how special and differential treatment is handled. We need to work with you and with American agriculture to do all we can to maximize the benefits of an agreement and then make a clear-eyed assessment of what is best for the United States.

Regional and Bilateral FTAs in the Western Hemisphere – Opportunities and Challenges

The markets of the Western Hemisphere are important ones for our agricultural exports. Many of the region's leaders have identified trade as a critical element in promoting economic growth and development in their economies. That said, U.S. farmers, ranchers, businesses, and workers still face many market access barriers in the Hemisphere, such as tariffs that are often five times higher than U.S. tariffs.

The U.S.-Chile FTA negotiations provided, and the FTAA and the Central American FTA (CAFTA) talks offer, an opportunity to tackle the high tariff and non-tariff barriers in the region "head on." More than three-quarters of U.S. farm goods will enter Chile tariff-free within four years, with all tariffs phased out within 12 years. The FTAA will increase our farmers' and food processors' access to markets in the Western Hemisphere by creating the largest free market in world – with a combined gross domestic product of over $13 trillion and 800 million people.

Under our statutory preference programs, the United States is largely open to Central American exports, although there are some exceptions for sensitive agricultural products. The CAFTA negotiations therefore should create new market opportunities for our agricultural exports with relatively few adjustments to our tariffs. This is true of market access negotiations with some of the sub-groups in the FTAA, as well, for example, the Andean and Caribbean countries.

Our bilateral and regional FTAs in the hemisphere – the U.S.-Chile FTA, the CAFTA, and the FTAA – also complement our trade objectives in the WTO. They set high standards for trade agreements and spur competitive liberalization. They provide a counterweight to the FTAs our Western Hemisphere partners have signed with other countries, including Canada, Chile, and the EU. Finally, U.S. trade pacts in the Western Hemisphere deepen our ties with individual and small groups of trading partners – alliances that could help us in the WTO.

Our efforts to eliminate export subsidies in the Western Hemisphere bolster our work in the WTO on these most trade-distorting of agricultural payments. In the FTAA and the CAFTA, we are pressing for provisions like those in the U.S.-Chile FTA providing that the Parties to these FTAs will not only work together in the WTO to eliminate export subsidies globally, but also will establish disciplines to address subsidies on imports from non-FTA countries.

In the FTAA and CAFTA tariff negotiations, we will see immediate benefits from the tariff cuts negotiated, since cuts will be largely from currently applied, rather than WTO bound rates. Developing countries usually have ceiling bindings that far exceed their applied rates.

Our approach in the FTAA and CAFTA negotiations is to maximize the benefit for our agricultural exports while taking into account our import sensitivities. The U.S. market access offers in these talks are comprehensive – all agricultural and industrial tariffs are subject to negotiation. The goal is free trade, but the tariff offers are organized into buckets assigned phase-out periods from immediate to more than ten years. The longer categories provide us the flexibility to deal with tariffs on our most sensitive products, such as orange juice, sugar, sugar-containing products, and peanuts. For our agricultural exports, such as beef, poultry, and grains, our objective will be to see early tariff phase-outs.

Among the challenges we face in the FTAA and CAFTA talks are less than forward-leaning offers – with product exclusions and too many items in the longest tariff phase-out buckets. Also, several countries are conditioning their tariff cuts on the negotiation of disciplines on domestic supports and export credits/food aid in the FTAA and CAFTA. Our unequivocal position is that any disciplines related to domestic support and export credits/food aid should be negotiated in the WTO.

Next Steps in the WTO, FTAA, and CAFTA Negotiations

WTO

Of course, the world will be watching what Europe does on CAP reform in June. A small group of WTO members are scheduled to gather in Egypt in June. Ministers from all members are slated to be in Cancun in September. These meetings will be important to achieve progress in agriculture, and other areas, and will set the tone for making progress toward our January 2005 deadline.

FTAA

At the 1994 Summit of the Americas, FTAA Leaders agreed to complete negotiations on the Agreement by 2005. The FTAA negotiating groups, including that on agriculture, now are preparing for the Ministerial the United States will host in Miami in November.

By June, all countries are to identify their requests for improvements in initial market access offers that countries tabled in February. In July, FTAA countries will begin exchanging revised offers.

We have agreed to the elimination of export subsidies affecting trade in the Hemisphere. Delegations now are discussing how to deal with subsidized imports from non-FTAA countries.

We will continue pressing for the reform of state trading monopolies and the elimination of differential export taxes – higher export taxes on commodities than on processed products (to support domestic processors). Barriers such as price bands and discretionary licensing also are on the table.

The United States and Brazil have assumed the co-chairmanship of the FTAA negotiations. We are coordinating closely with the Brazilians to determine a way forward in the run-up to 2005. Given Brazil's stature in the region, and its efforts toward closer integration with the global economy, cooperation between Brazil and the United States in the FTAA and on trade is crucial.

CAFTA

This negotiation is slated to finish by the end of the year. This is an ambitious time frame, given the complexities of the negotiation and the sensitivities, especially for the CAFTA countries.

Just last week, we had our first in-depth discussion of tariff offers. We have agreed that no product is to be excluded from the negotiations, but specific reform commitments still need to be negotiated.

We also have identified a number of non-tariff measures that we would like to see removed, including discretionary licensing, domestic purchasing requirements, and price bands. In addition, we have begun a process to rationalize sanitary and phytosanitary barriers.

Overall

USTR and USDA will continue to closely consult with Members of Congress, congressional staff, farm groups, and other U.S. agriculture interests in developing our negotiating positions.

Implementation of Existing Commitments

In addition to the new initiatives described above, we continue to press our Western Hemisphere partners for full implementation of their existing commitments on agricultural trade, including in the WTO and the NAFTA. Canada and Mexico, two of our three largest agricultural export markets, have presented some particular challenges on implementation. We also have implementation issues with Brazil.

On some of these implementation matters, we have made significant progress. On others, there is more to be done.

Canada

In December 2002, the United States won a WTO dispute settlement case in which a panel ruled that Canada was continuing to provide illegal subsidies to its dairy industry under its Commercial Export Milk (CEM) program. On May 9, we announced an important settlement of this case, which resulted in major revisions to Canada's subsidy programs for its dairy exports. Canada has eliminated the CEM program, and consequently, will no longer export subsidized dairy products to the United States and will significantly limit subsidized dairy exports to third countries.

To advance the interests of our wheat farmers, we are challenging the sales practices of the monopoly Canadian Wheat Board in the WTO. A dispute settlement panel has been formed, and we expect a decision later this year.

Mexico

Two-way trade for agricultural products between the United States and Mexico has increased from $6.4 billion in 1992 to almost $15 billion in 2002, a jump of nearly 120 percent. Mexico is the third largest market for U.S. agricultural exports. The United States is Mexico's single largest market receiving 78 percent of Mexican agricultural exports. Over the past couple of years, however, the Mexican government has taken a number of actions affecting a broad range of U.S. agricultural commodities – including pork and live swine, beef, rice, apples, dry beans, and sweeteners. We have tried to work constructively with our Mexican colleagues to resolve our concerns, but we have made it clear that our concerns must be addressed.

Undersecretary of Agriculture Dr. J.B. Penn and I went to Mexico in April to communicate a clear message that it needs to abide by its international commitments to the benefit of not only our bilateral trade relationship, but also for the economic well-being of Mexico's farmers and consumers. If we do not see an improvement in our agricultural trade relationship, we are prepared to take the necessary actions to protect our agricultural interests.

Brazil

Later this month, Ambassador Zoellick will be traveling to Brazil. During his visit, he will discuss the Brazilian government's recent decisions to ban new plantings of agricultural biotechnology products and to order the compulsory labeling of agricultural biotechnology foods. These decisions appear to be the result of mounting pressure from anti-biotech interests within the country, but the government has not produced any scientific evidence to justify its actions. In addition, we know that Brazil harvested Round-up Ready soybeans this year and agreed to certify to the Chinese government that these products are safe. Ambassador Zoellick will ask the Brazilian government for its scientific justification and risk assessments behind its recent actions, the reasons for the sudden reversal in policy, and how Brazil can justify its actions in light of its WTO obligations.

Conclusion

The Administration's trade initiatives in the Western Hemisphere – regional and bilateral – are pivotal elements in the President's strategic plan on trade. Agriculture is central to this plan. Our goal in the FTAA and CAFTA negotiations is to maximize the benefits of free access to Western Hemisphere markets for U.S. producers and processors. We have made solid progress in these negotiations, and are working closely with our hemispheric partners to achieve success in the WTO. We face significant challenges in bringing these negotiations to a successful conclusion, and look forward to working with you and other Members of Congress, and with American farm interests, toward this end. At the same time, we remain focused on resolving problems our farmers, ranchers, and processors encounter when our trading partners do not follow through on their existing commitments.

Again, thank you for the opportunity to testify.