



Statement of the American Farm Bureau Federation

**TO THE HOUSE WAYS AND MEANS COMMITTEE
REGARDING THE PENDING FREE TRADE AGREEMENTS WITH
COLOMBIA, PANAMA AND SOUTH KOREA**

January 25, 2011

**Presented By:
Bob Stallman
President**

My name is Bob Stallman. I am President of the American Farm Bureau Federation and a rice and cattle producer from Columbus, Texas. I appreciate the invitation to share Farm Bureau's views on the three pending Free Trade Agreements (FTA) and their benefits for U.S. agriculture. Farm Bureau is the nation's largest general farm organization, with more than 6 million member families, representing producers of nearly every commodity grown or raised commercially in all 50 states and Puerto Rico.

The American Farm Bureau Federation supports passage of the Korea, Colombia and Panama trade agreements with the United States. Below is a detailed description of each agreement. Combined, these agreements represent almost \$3 billion in additional trade for U.S. agricultural producers, but that is only if they are implemented. The U.S. is facing a proliferation of FTAs increasing the export potential of our competitors, while putting U.S. agriculture at a disadvantage. Due to the administration and Congress' inaction on these agreements, the debate is no longer simply about generating potential export gains but about how to prevent the loss of existing export markets.

These trade agreements are not only important to the bottom line of America's farmers and ranchers, but to the economic health of our rural communities and the overall U.S. economy. The Agriculture Department estimates that every billion dollars in agricultural exports supports 9,000 U.S. jobs. There is a long supply chain made up of American workers who get products from the farm gate to our foreign consumers. They are transportation workers, processors, packers, longshoremen, sales and marketing employees, and administrative and clerical staff. A decline in our exports means a decline in work for those that are a part of that supply chain. Given the state of our economy, we must do whatever we can to assure we are creating opportunities for work, not taking them away.

U.S.-KOREA FREE TRADE AGREEMENT (KORUS)

The KORUS provides a significant opportunity for the U.S. agriculture sector. When the agreement is fully implemented, increased exports of the major grain, oilseed, fiber, fruit and vegetable and livestock products are likely to exceed \$1.8 billion annually. The KORUS allows the United States to become a competitive supplier of agricultural products to South Korea by providing duty-free and reduced tariff access. Agricultural tariff rates in South Korea range from just over 1 percent to nearly 500 percent, depending on the commodity. Eliminating these tariff rates through the KORUS would be extremely beneficial to the United States agricultural sector. The United States currently has less than one-third of the market share and faces considerable pressure from other suppliers. Lower tariff rates on U.S. products will make the United States more competitive with the European Union, Australia, China, Japan and other agricultural suppliers to South Korea.

Benefits for U.S. Agriculture

Under the KORUS, almost two-thirds of current U.S. agricultural exports to South Korea will become duty-free immediately. Items that receive immediate duty-free treatment include wheat, corn, soybeans for crushing, hides and skins, cotton and a broad range of high-value and

processed products including almonds, pistachios, bourbon whisky, wine, raisins, grape juice, fresh cherries, frozen French fries and frozen orange juice concentrate.

The KORUS will provide an opportunity for the U.S. to expand exports. Unlike previous FTAs where trade gains have been focused in bulk agricultural commodities, the largest gains from the KORUS are focused in processed and semi-processed products. In addition to the usual livestock products, fish, fruits, vegetables and nuts all benefit substantially from the agreement.

Summary of KORUS FTA Benefits to U.S. Agriculture

(Values in Million Dollars)

Commodity	Current Imports from U.S.		2027 Imports from U.S.		2027 Difference
	2002-2006 Avg	2006-2008 Avg	Without KORUS	With KORUS	
Animal Hides	398.8	469.4	300	350	50.0
Beef	271.6	142.0	520.0	775.0	255.0
Corn & Feeds	324.9	1,233.0	600.0	825.0	225.0
Cotton	132.8	116.8	100.0	150.0	50.0
Dairy & Products	65.8	86.1	150.0	225.0	75.0
Fish	369.1	198.5	530.0	665.0	135.0
Fruits, Veggies & Nuts	251.2	263.7	360.0	475.0	115.0
Pork	101.6	219.7	300.0	450.0	150.0
Poultry	51.4	59.5	385.0	550.0	165.0
Rice ¹	16.8	50.3	29.9	38.1	8.2
Soybeans	225.2	190.4	400.0	550.0	150.0
Soybean Meal	13.7	45.7	50.0	150.0	100.0
Soybean Oil	21.4	47.1	50.0	150.0	100.0
Wheat	199.3	349.1	315.0	410.0	95.0
Estimated Impact of Selected Commodities	2,443.6	3,471.3	4,089.9	5,763.1	1,673.2
All Other Commodities	182.9	546.6	400.0	600.0	200.0
Total	2,626.5	4,017.9	4,489.9	6,363.1	1,873.2

¹ Trade gains for rice come from increased commitments through a WTO, rice-specific agreement and not from the FTA

Source: American Farm Bureau Federation Economic Analysis

Looking at some of the specific commodities of export interest to the United States, the agreement would put the United States in a strong position to capitalize on the following commodity opportunities in what will be a fast growing market:

- South Korea's growth in imports of **grains and oilseed products**, related both to growing food demand for wheat and vegetable oils and to growing domestic livestock demand for feed grains and protein meals, is likely to be substantial. With no wheat and oilseed production capacity, South Korea's dependence on imports is likely to grow steadily. The trade agreement puts the United States in a strong supplier position to compete on a level playing field with other trade partners.
- Expanding import demand for **livestock products** related to growth in population and per capita incomes, combined with rather limited domestic production potential, will also be important. Growth in domestic demand for livestock products is likely to outpace production, despite larger imports of feed grains and protein meals. The KORUS would allow the United States to use its cost advantages and its wide variety of beef, pork and

poultry products to fill a growing share of this market. Prior to the agreement, all U.S. beef had been shut out of the Korean market. Currently, the U.S. and Korean beef industries have agreed that the United States will export to the Korean market only beef less than 30 months of age. This is a worthy first step in allowing U.S. beef into the market and achieving consistency with the World Organization for Animal Health standards. Our beef sales to Korea have been increasing since the market was reopened in 2006. According to USDA, in 2009, U.S. exports of beef and beef products totaled \$216 million, which represented 34 percent of Korea's total imports. Australia's market share has fallen from nearly 80 percent in 2006 to 55 percent in 2009. While we urge the U.S. and Korean governments to continue to discuss further opening of the market, Congress should move ahead and pass the trade agreement.

- Gains in **cotton** import demand are smaller than one might expect. South Korea has been losing its advantage in the production of clothing and shoes, resulting in less cotton demand to produce these products. The KORUS would put the United States in a position to capture the remaining market share.
- Gains in **other agricultural products** could also be substantial. The United States exports a broad range of farm products to South Korea. The commodities specifically noted above account for two-thirds of the United States total exports. Other commodities or commodity groupings of importance include fruits, vegetables, tallow and other processed products.

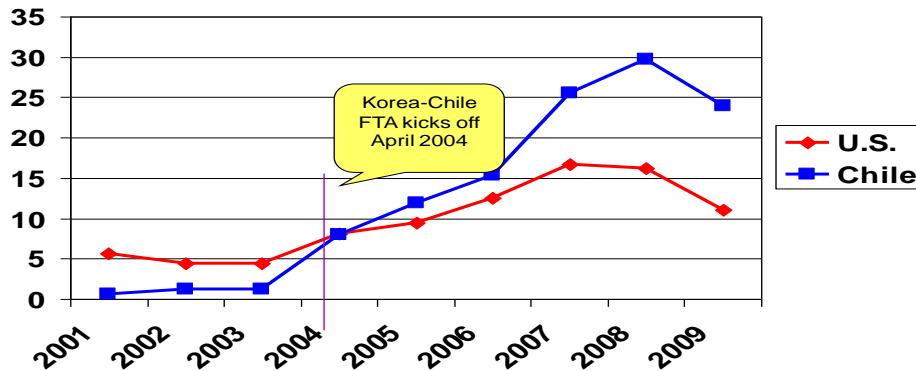
Lost opportunities

Korea has completed an agreement with the European Union (EU), which is expected to be implemented by July 2011. The Korea-EU FTA will immediately eliminate 82 percent of Korea's tariffs; in five years, the agreement will eliminate 94 percent of Korea's tariffs. In contrast, the KORUS would eliminate 94.5 percent of Korea's tariffs within three years of implementation; virtually all tariffs will be eliminated in ten years. If the Korea-EU FTA agreement enters into effect before the KORUS, European exporters will gain a significant competitive advantage over the United States in the Korean market.

Loss of market share in Korea because of U.S. competitors' preferential access has become a reality for some segments of U.S. agriculture. Korean wine imports were increasing sharply and peaked at about \$167 million in 2008. U.S. wine exports tripled from 2001 to 2008. During the 2000-2009 period, Chilean market share (by value) rose from 2.4 percent to 21.5 percent, while the U.S. share fell from 17.1 percent to 10.8 percent. This is believed to be the direct result of the 15 percent import duty which was eliminated on Chilean wine under the Korea-Chile trade agreement implemented in April 2004. While this is a single incident, there is a real potential for this to become a reality for a range of other agricultural commodities as Korea signs FTAs with our competitors. This would include Australia and Canada who are currently negotiating their own deals with Korea.

US vs. Chile

Korean wine imports in millions of dollars



Product: Wine (HS2204)
Unit: Million USD

Source: United States Department of Agriculture

U.S.-COLOMBIA TRADE PROMOTION AGREEMENT (CTPA)

The CTPA eliminates Colombian tariffs on U.S. agricultural products, correcting the current imbalance in agricultural trade between our countries created in part by congressional passage and extension of the Andean Trade Preference Act (ATPA). It is important to understand that the CTPA allows the United States to become a competitive supplier of agricultural products to Colombia. The United States will be able to land product duty-free and compete with Colombia's Latin American trading partners who currently supply a large percent of the Colombian food and fiber market through preferential trade agreements. This also levels the playing field by providing U.S. products exported to Colombia the same duty-free access already enjoyed by Colombian products imported to the United States.

Colombia has one of the highest tariff structures in South America. This is the major impediment to market access in many sectors, including agriculture. Colombian import duties on agricultural and processed food products are currently high, and the average tariff rate is roughly 30 percent. Elimination of Colombia's duties in the agricultural sector would create new opportunities for American farmers and ranchers in this market, particularly relative to other suppliers that already have trade agreements with Colombia.

Benefits for U.S. Agriculture

Under the CTPA, more than 80 percent of current U.S. exports to Colombia will become duty-free immediately. Agricultural items that receive immediate duty-free treatment include high-quality beef, cotton, wheat, soybeans, soybean meal, apples, pears, peaches, cherries and some processed food products.

Summary of CTPA Benefits to U.S. Agriculture

Year 2026

(Values in Dollars)

Commodity	Current Imports from U.S.		2026 Imports from U.S.		2026 Difference
	2000-2004 Avg	2006-2008 Avg	Without CTPA	With CTPA	
Beef	0.6	4.5	6.5	12.5	6.0
Corn	162.7	502.5	400.0	625.0	225.0
Cotton	31.4	64.3	115.0	190.0	75.0
Pork	4.5	5.3	10.0	19.5	9.5
Poultry	12.7	10.7	35.0	70.0	35.0
Rice	1.0	1.5	6.0	15.0	9.0
Soybean	25.4	84.1	125.0	185.0	60.0
Soybean Meal	12.2	91.5	150.0	200.0	50.0
Soybean Oil	4.3	26.7	30.0	45.0	15.0
Wheat	86.9	209.2	220.0	300.0	80.0
Estimated Impact of Selected Commodities	341.7	1,000.3	1,097.5	1,662.0	564.5
All Other Commodities	127.0	255.2	325.0	575.0	250.0
Total	468.8	1,255.5	1,422.5	2,237.0	814.5

Source: American Farm Bureau Federation Economic Analysis

As shown in the table, our analysis of the agreement suggests CTPA-related gains in exports over imports of \$815 million.

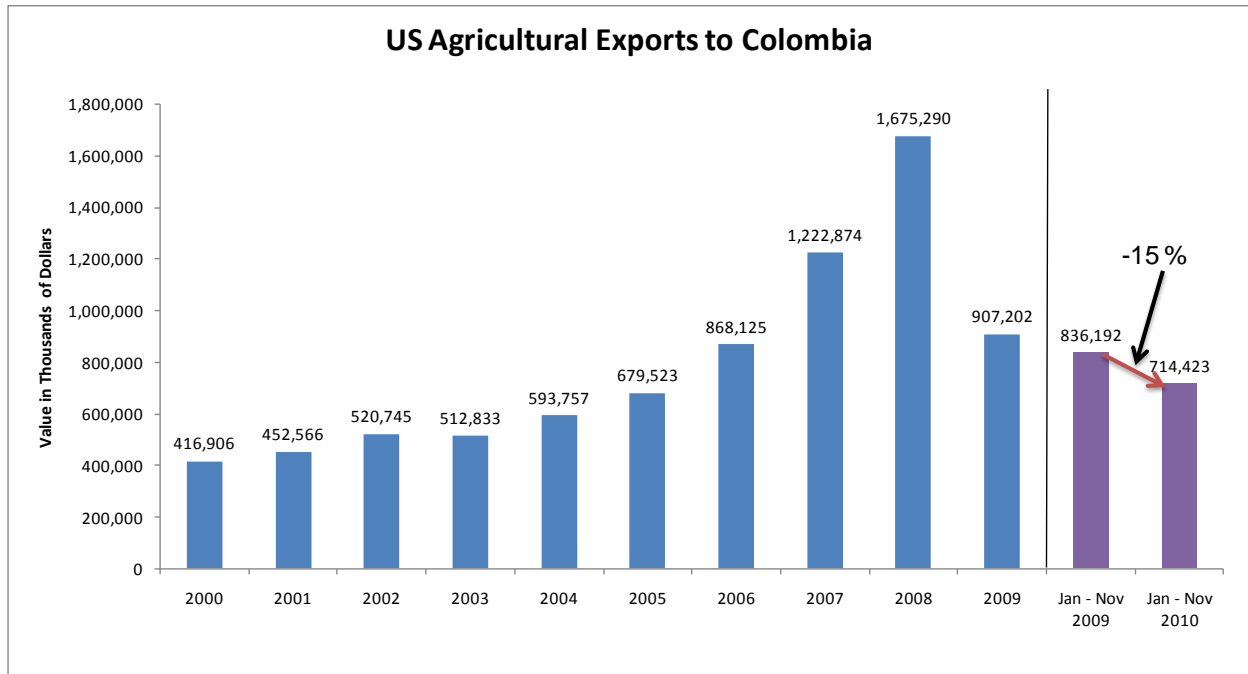
Looking at some of the specific commodities of export interest to the United States, the agreement would put the United States in a strong position to capitalize on the following commodity opportunities in what will be a fast growing overall market:

- Colombia's growth in imports of **grains and oilseed products** related both to growing food demand for wheat and vegetable oils and to growing domestic livestock demand for feed grains and protein meals is likely to be substantial. The trade agreement puts the United States in a strong supplier position to compete on a level playing field with other preferential trade partners.
- Expanding import demand for **livestock products** related to growth in population and per capita incomes, combined with limited domestic production potential, will also be important. Rapid growth in tourism should help to stimulate demand for meats in the hotel and restaurant trade, which could be significant on its own. Growth in domestic demand for livestock products is likely to outpace production, despite larger imports of feed grains and protein meals. The CTPA would allow the United States to use its cost advantages and its wide variety of beef, pork and poultry products to fill a growing share of this market.
- Gains in **cotton** import demand is also key, due to both increased domestic demand for cotton and import demand from the United States for finished textiles and apparel. The CTPA would put the United States in a position to price competitively and boost market share.

- Gains in **other agricultural products** could also be substantial. The United States exports a diverse basket of farm products to Colombia. The commodities noted specifically above account for two-thirds of the United States total exports. Other commodities or commodity groupings of importance include fruits, vegetables, tallow and other processed products.

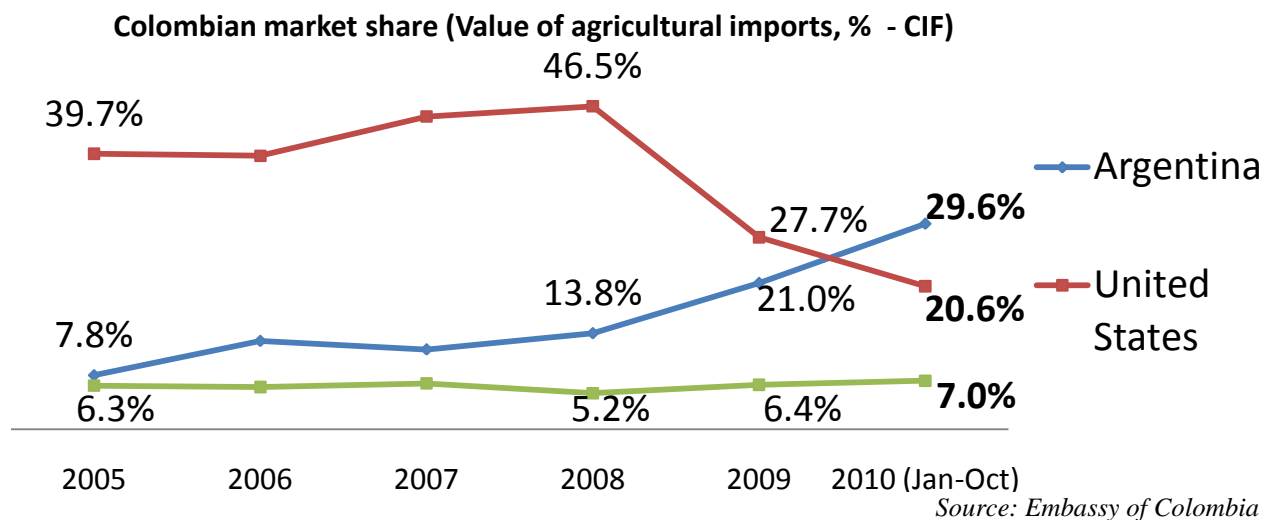
Lost opportunities

While U.S. agriculture continues to wait for passage of the agreement, U.S. market share has been slipping in Colombia due to our competitors implementing their own trade agreements. According to USDA trade data, between 2008 and 2009 we have seen almost a 50 percent drop in our exports from \$1.6 billion to \$906 million. In 2010 we continued to experience the decline in trade. USDA data from 2010 between the months of Jan. and Nov. compared to the same period in 2009 shows U.S. agricultural exports down 15 percent.

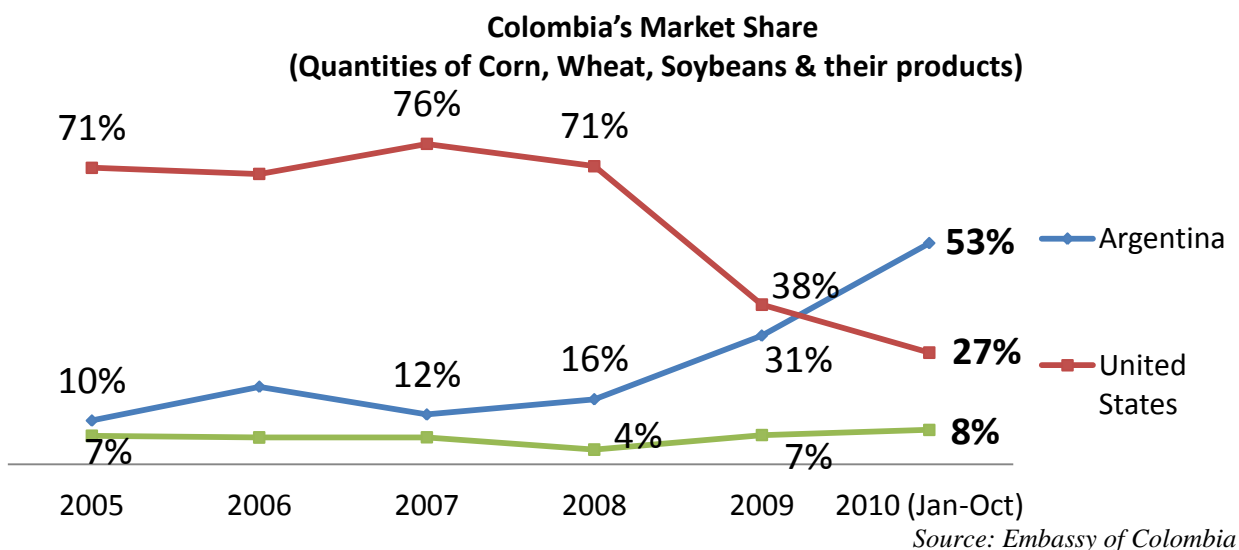


Source: United States Department of Agriculture

In addition to the reduction in the overall export value, the Colombian National Department of Statistics information regarding U.S. market share demonstrates significant slippage. According to this data, our peak market share was 46 percent in 2008, while in 2010 it dropped to 21 percent, being taken over by Argentina. In other words, the United States has already blown a major trade opportunity and will need to work hard to ever return to our earlier status.



As a further example, the United States has traditionally been the top supplier of corn, wheat and soybeans. In 2008 these products represented 79 percent of the total value of U.S. agricultural exports to Colombia. In 2009 this share fell to 60 percent, and as of Oct. 2010 the share has fallen to 56 percent. In terms of market share, the Colombian National Department of Statistics shows that U.S. market share of these products went from a peak of 76 percent in 2007 to just 27 percent in 2010, again being taken over by Argentina with some competition from Brazil. These losses are not because our competitors have a better product, but a stronger advantage given their reduced tariffs granted by the MERCOSUR trade agreement with Colombia.



U.S.-PANAMA TRADE PROMOTION AGREEMENT (PTPA)

The United States already has a very large share of the Panamanian agricultural market. In fact, averaged across all agricultural products, the United States already supplies 53 percent of Panamanian agricultural imports. For the commodities that the United States has the most

interest in, the share is more than 80 percent. However, the agreement will prevent other countries, specifically other Latin American suppliers, from taking some of the current U.S. share of the Panamanian market. The agreement also levels the playing field by providing U.S. products exported to Panama with the same duty-free access already enjoyed by Panamanian products exported to the United States through the Caribbean Basin Initiative (CBI).

While Panama's agricultural sector is very small, there are some segments that are protected from imports. For the most part, Panama's tariffs on bulk and intermediate commodities are low. However, high-valued and consumer-ready products, which tend to compete directly with local Panamanian producers, generally face higher tariffs. Agricultural tariff rates in Panama range from just 3 percent to nearly 160 percent, depending on the commodity. Eliminating, or even significantly reducing, these tariff rates through free trade agreement negotiations could be beneficial to the United States agricultural sector.

Benefits for U.S. Agriculture

Under the PTPA, more than half of current U.S. agricultural exports to Panama will become duty-free immediately. Items that receive immediate duty-free treatment include high-quality beef, mechanically de-boned chicken, frozen whole turkeys and turkey breast, pork variety meats, whey, soybeans and soybean meal, cotton, wheat, barley, most fresh fruits, almonds, walnuts and many processed products.

The PTPA will provide an opportunity for the U.S. to expand exports of grains, oilseeds, fiber and livestock products. The PTPA allows the United States to maintain its competitive supplier position for agricultural products to Panama. While the PTPA does not guarantee the United States expanded exports, the United States will be able to land product duty free, along with Panama's other regional suppliers. The increased total U.S. agricultural exports likely with a PTPA in place could exceed \$195 million if other agricultural and processed products grow at the same pace.

Summary of PTPA Benefits to U.S. Agriculture

(Values in Million Dollars)

Commodity	2001-2004 Avg	2027 Imports from U.S.		2027 Difference
	Imports from US	Without PTPA	With PTPA	
Beef	1.4	21.1	30.9	9.8
Corn & Feeds	35.1	64.2	101.1	36.9
Cotton	0.2	2.1	3.3	1.2
Dairy & Products	4.7	11.7	14.8	3.1
Horticultural Products	17.1	35.2	49.8	14.6
Pork	2.9	22.6	31.9	9.3
Poultry	4.9	28.6	52.2	23.6
Rice	3.4	17.8	33.1	15.3
Soybeans & Products	27.5	43.1	72.2	29.1
Wheat	16.5	39.8	47.9	8.1
Estimated Impact of Selected Commodities	113.7	286.2	437.2	151.0
All Other Commodities	65.2	137.9	181.9	44.0
Total	178.9	424.1	619.1	195.0

Source: American Farm Bureau Federation Economic Analysis

Lost opportunities

Panama has completed a trade agreement with Canada. If this agreement enters into effect before the U.S. agreement, Canadian exporters will gain a significant competitive advantage over the United States in the market for products such as beef, frozen potato products, beans, lentils, pork, malt and other processed foods.