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STATEMENT
OF THE
U.S. GRAINS COUNCIL

TO THE U.S. HOUSE WAYS AND MEANS SUBCOMMITTEE ON TRADE

REGARDING THE ECONOMIC IMPLICATIONS OF PENDING FREE TRADE AGREEMENT WITH COLOMBIA

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Thank you Chairman Brady, Ranking Member McDermott, and distinguished members of the Subcommittee on Trade. My name is Tom Dorr. I am President and CEO of the U.S. Grains Council (USGC). Founded in 1960, The Council is a private, non-profit corporation with 10 international offices and programming in more than 50 countries. Its unique membership includes barley, corn and sorghum producer organizations and agribusinesses from across the United States with a common objective in developing export markets.

The Council appreciates the efforts of subcommittee in holding hearings regarding the importance of ratification of the existing free trade agreements (FTAs) with Colombia, Panama and South Korea. All are important export markets for the coarse grains and important co-products (i.e., distiller dried grains, corn gluten feed, corn gluten meal) we represent and offer significant opportunities for growth and each of which the Council has had extensive involvement in capacity-building and increasing demand for these products.

I will confine my remarks to the subject of this hearing—the extraordinary challenges we face in Colombia with an increasing loss of market share in what is one of the strongest growth markets in our own hemisphere.

Colombia—Key Strategic U.S. Agricultural Export Market

Colombia is a key strategic market with exceptional growth potential. Colombia has the second-largest population in South and Central America and the Caribbean, and is the third-largest economy in the region. Colombia is experiencing strong economic growth, projected to exceed 4 percent annually over the next three years. Colombia's per capita income has grown steadily over the last decade, exceeding $9,000, and is projected to increase to nearly $12,000 by 2015. As a result, its middle class continues to grow and is projected to increase to more than 25 percent of the total population by 2020.

This higher growth income has resulted in more consumption of animal proteins with an increase in pork production (32 percent), poultry (32 percent) and eggs (12 percent) in the last five years. While Colombia is a net exporter of agricultural commodities, it imports over 80 percent of the corn it uses domestically. Similarly, it imports over 95 percent of the wheat and soybeans products it consumes.

Colombia is an important market for America's farmers and ranchers. Total U.S. agricultural exports exceeded $1.6 billion in 2008. Colombia is the fifth-largest market for U.S. coarse grains, eclipsed only by Mexico, Japan, Taiwan and South Korea.

Until 2008, the U.S. agricultural sector had been the beneficiary of Colombia's growing need for imports of agricultural commodities. U.S. market share of Colombia's total agricultural imports grew steadily from 2005 to 2008 reaching nearly 50 percent. However, since 2008, U.S. market share has declined rapidly to only 21 percent. Conversely, Argentina's market share of Colombia's total agricultural imports rose sharply from 8 percent to nearly 30 percent over the same time period.

For U.S. coarse grains, the decline has been even more dramatic. At its peak, U.S. exports of coarse grains approached $635 million and accounted for 83 percent of the total Colombian coarse grains imports. In 2010, U.S. coarse grains exports declined to $118 million and market share fell to 18 percent, a residual suppler level. The loss of market share can be attributed to major inroads by Argentina and Brazil. In 2008, Argentina held an 11 percent share of coarse grains imports, primarily corn. By 2010, Argentina's market share was 66 percent. Over the same time period, Brazil's market share of coarse grains imports to Colombia increased from 5 to 16 percent.

Tariff Constraints Erode US Competitiveness

Colombia protects its local production with a common external duty (15 percent) that includes corn (and other agricultural commodities). In addition, Colombia is a party to the MERCOSUR-Andean Community agreement, under which it has implemented bilateral agreements with Brazil, Argentina and Paraguay. Under that agreement exists a price band mechanism which levies additional duties on the 15 percent duty when international corn prices are lower than a preference and conversely reduces the basic duty when international corn prices are higher. This price band mechanism operates as a protective policy when international prices are lower by increasing the import duty, while high international prices act as natural protection for the local production.

Colombia's trade agreement with MERCOSUR allows member countries to receive a preferential duty treatment. Argentina and Brazil receive an annual duty reduction on corn imports to Colombia, which completely phases out the basic duty by 2018. Beginning in 2006, the duty preference on the basic duty (15 percent) granted for corn was 31 percent or a duty of 10.35 percent— a 4.65 percent advantage over corn import from the United States. By 2009, the duty preference reached 49 percent and then 54 percent in 2010. In 2011, the duty preference increased to 60 percent, which represents a 9 percentage point advantage over corn imports from the United States. Even with the duty preferences in place, the United States remained competitive until 2008. However, the increased duty preference to corn imports from MERCOSUR has virtually eliminated that advantage.

This is despite the fact that the United States, with its close proximity to Colombia, has a freight transportation advantage over Argentina and Brazil. According to estimates provided by Colombian feed importers, the lower import tariff by itself currently provides a $20/ton advantage over U.S. shipments.

Corn makes up a larger percentage of grain imported into Colombia, which leads importers to combine it with other grain imports, such as soybeans, wheat and other grain co-products to complete their grain cargo. As U.S. corn imports have declined, the same has occurred with other bulk products. The decline of U.S. imports has lowered the incentive to import other U.S. grains as well.

Equally troubling, the shift in grain flows from the United States to Argentina and Brazil has allowed those countries to include additional quantities of corn over and above the shipments to Colombia that are later shipped to Latin American countries such as Panama and the Dominican Republic. The lower tariff rates allow Argentina and Brazil to import corn into these markets despite the transportation disadvantage. These are markets where the United States has a clear competitive advantage and yet we are seeing them be eroded because of the pernicious effects of the lower duty preferences. Once trade flows become established and relationships are formed with other trading partners, it is very difficult to win back these markets.

In addition to the MERCOSUR-Andean Community Agreement, Colombia currently has free trade agreements (FTA) in place with Chile, El Salvador, Guatemala, Honduras, Mexico and Uruguay. It is also a member of the Andean Community Customs Union (Bolivia, Ecuador and Peru). In 2010, Colombia finalized FTAs with Canada and the European Union, and is presently negotiating new FTAs with Panama, South Korea and Singapore. Without the U.S.-Colombia FTA, U.S. coarse grains producers as well as the producers of other U.S. agricultural commodities will cede this market to our competitors.

USGC Capacity-Building Efforts in Colombia

The Council works closely with the Colombian feed, livestock and poultry industries to build capacity and increase efficiency to utilize U.S. coarse grains products. Several of the numerous Council programs include: Capacity-building to the poultry and dairy sectors in disease management and training in feed formulation; training in nutritional and price benefits associated with using distiller's dried grains and an introduction of U.S. sorghum into the Colombian livestock sector; and U.S. grain trade promotion through grain marketing and risk management training for major Colombian grain importers. The resulting productivity gains have greatly enhanced Colombia's ability to meet the needs of their growing middle class and supply high-quality protein products at low cost to their consumers.

Separately, the Council and the United Soybean Board participated in a technical cooperation agreement with the Inter-American Institute for Cooperation on Agriculture on a 2004 study on the impact of the elimination of Colombian trade protection on corn, sorghum and soybeans. That study revealed that with the elimination of Colombia's tariff barriers, prices of corn and sorghum would fall by 33 percent. Imports of corn and sorghum would increase by 92 percent with a value of $192 million. The lower feed prices would increase the demand for feed and the Colombian livestock and poultry sector would benefit through projected increases in the value of production of poultry (17 percent); pork (14 percent); and eggs (11 percent).

As a result of these ongoing efforts, the Council has established a strong partnership with Colombia's livestock and poultry sectors. U.S. producers gained their trust as a long-term, reliable supplier that provides consistent, quality products. As valued customers, the Council consistently provides technical support and outreach to meet their needs.

The Colombian feed, livestock and poultry industries want to retain and build on that relationship. Representatives of the Colombian feed milling, swine and wheat industries traveled to Washington, D.C., earlier this year and provided Congressional briefings to this Committee as well as the Senate Finance Committee and House and Senate Agriculture Committees. They explained that Colombia must import agricultural commodities at competitive prices to meet their growing demand for protein products. While the United States has been a reliable supplier, they stressed that duty preferences afforded to Argentina and Brazil has eroded the competitiveness of U.S. commodities and they have no choice but to import corn and other commodities from those markets. They stated that the U.S.-Colombia FTA would allow them the opportunity to acquire more U.S. commodities. However, price is paramount and if the United States cannot compete they will continue to source products from our competitors.

US-Colombia FTA Removes Tariff Constraints—Levels Playing Field

The benefits provided under the U.S.-Colombia FTA will eliminate the tariff constraints that are eroding the competitiveness of U.S. agricultural exports. Upon implementation of the FTA, the applied tariffs are eliminated, providing immediate duty-free access to coarse grains and more than 80 percent of current U.S. agricultural exports to Colombia. Colombia will immediately eliminate its price band system, which in addition to corn, affects more than 150 agricultural products.

For yellow corn, Colombia will provide immediate duty-free access through a 2.1 million tariff rate quota (TRQ) with 5 percent annual growth. Colombia will phase out its out-of-quota tariff of 25 percent over 12 years. For white corn, a staple product for Colombia's consumers, the agreement will provide immediate duty-free access through a 136,500 ton TRQ with 5 percent annual growth. Colombia will phase out the out-of-quota tariff on 20 percent over 12 years.

The Council has worked aggressively to promote the use of grain sorghum in feed rations in Colombia. Under the agreement, Colombia will provide immediate-duty free access through a 21,000 ton TRQ with 5 percent annual growth. Colombia will phase out the out-of-quota tariff of 25 percent over 12 years.

Tariffs on barley and barley products, with the exception of feed barley, will be eliminated immediately. Important co-products – distiller's dried grains, corn gluten feed and corn gluten meal – will also be provided immediate duty-free access.

Concluding Remarks

In summary Mr. Chairman, Colombia is a key strategic market with exceptional growth potential right in our own hemisphere. The United States is already losing hundreds of millions of dollars in annual exports and this is compounded by the loss or non-creation of thousands of U.S. jobs. If U.S. agriculture is to remain competitive and capitalize on this significant opportunity it must also maintain its leadership role. Without removal of these trade constraints, the U.S. coarse grains producer will lose this market.

If we are to collectively meet the critical objectives of the National Export Initiative, we see great opportunity and progress if there is ratification of the Colombia, Panama and South Korea FTAs. Equally important, should Congress ratify these FTAs it will enhance the credibility of the United States with its global trading partners on the overall trade agenda and increase its ability as the world's largest trading partner to marshal completion of the Doha Development Round and the Trans-Pacific Partnership agreement.

Again, Mr. Chairman, ranking member McDermott, and members of the subcommittee, I appreciate the opportunity to present the views of the U.S. Grains Council. I would be pleased to answer any questions of the Committee. Thank you.