S. Hrg. 111–1026

PROMOTING AGRICULTURAL EXPORTS: REVIEWING U.S. AGRICULTURAL TRADE POLICY AND THE FARM BILL'S TRADE TITLE

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

AUGUST 4, 2010

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

Available via the World Wide Web: http://www.fdsys.gov/

U.S. GOVERNMENT PRINTING OFFICE

66–274 PDF WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
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C O N T E N T S

PROMOTING AGRICULTURAL EXPORTS: REVIEWING U.S. AGRICULTURAL TRADE POLICY AND THE FARM BILL'S TRADE TITLE

Wednesday, August 4, 2010

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC

The committee met, pursuant to notice, at 9:39 a.m., in Room 328–A, Russell Senate Office Building, Hon. Blanche Lincoln, Chairman of the committee, presiding.

Present or submitting a statement: Senators Lincoln, Baucus, Stabenow, Klobuchar, Gillibrand, Chambliss, Lugar, Cochran, Roberts, Johanns, Grassley, and Thune.

STATEMENT OF HON. BLANCHE L. LINCOLN, U.S. SENATOR FROM THE STATE OF ARKANSAS, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman LINCOLN. Good morning. The Senate Committee on Agriculture, Nutrition, and Forestry will now come to order.

This is the third in a series of hearings to help this committee prepare for the next farm bill. Today's focus will be on the state of our agricultural exports and the export promotion programs included in the farm bill.

I want to thank my very good friend, Senator Chambliss, the Ranking Member of the committee, for helping me organize this hearing and for being such a great partner on the committee and for being a steadfast advocate for our nation's farmers and ranchers. Senator Chambliss and I both recognize how important trade is to U.S. agriculture.

I also want to thank many other distinguished colleagues for their attendance today and for all the work that they do on behalf of rural America. I am proud to chair a committee which has always been bipartisan and where we put people above partisan politics, and I am glad that everyone is here today and I know there will be others joining us.

As we work to get our economy back on track, we must focus on creating jobs in our rural communities. In President Obama's State of the Union Address, his comment that one of the best ways to create jobs was to increase our exports. He made a commitment to put our country on a path to double U.S. exports within five years. I applaud this commitment and believe that U.S. agriculture can truly lead the way.

Today, we will focus on how we create that demand and give our farmers and ranchers access to markets that will ensure their success and the success of our rural communities.

We are blessed to have a bounty of food produced here in the United States. Our farm and ranch families provide this bounty with greater respect for the environment than anywhere else in the world. And we are fortunate that we live in an age where we can share this bounty with the world, a world that is growing rapidly and desperately in need of safe food.

We have a number of excellent witnesses that we will hear from today. I would like to extend a very special welcome to Ambassador Ron Kirk, U.S. Trade Representative, and I would also like to say a welcome to fellow Arkansans Joe Mencer and Duane Rhodes. I appreciate everyone's attendance and input on this very important issue.

Agriculture is a sector of our economy where we are proving that we can successfully meet the export demands that will help rebuild our U.S. economy. For every additional $1 billion of agricultural products we export, we can create 9,000 jobs. These are long-term jobs that we desperately need. Agriculture is one of the few U.S. sectors where we have a trade surplus, and we actually export more than we import. In 2009, our net trade surplus was a very impressive $27 billion.

American farmers and ranchers tell me every day we must continue to look for other ways to grow our exports. My immediate response is that we don't have to look any further than the 90 miles south from our own borders in the U.S., and that is Cuba. Relaxing trade restrictions on travel and trade with Cuba represents a tremendous opportunity to grow our economy. Even with the current restrictions in place, U.S. agricultural exports to Cuba have averaged about $470 million over the last five years, accounting for about a quarter of Cuba's food and agricultural imports. A recent study by Dr. Rossen of Texas A&M University found that passage of a bill relaxing trade and travel restrictions with Cuba would nearly double that amount annually and generate increased business activity valued at $1.1 billion, creating 6,000 new jobs.

While the benefits would reach all parts of the U.S. economy, Arkansas, my home State, is uniquely prepared to meet Cuban demand for rice and poultry, both of which land in the top five of overall Cuban agricultural imports. Throughout my career, I have cosponsored legislation that will open up this market once and for all, and I am grateful to Chairman Baucus for his work in those areas and in all the trade areas and we are pleased that he is here today.

I will continue to fight to see Congress take this up this year, and as the trade embargo on Cuba approaches its 50th anniversary without having had a measurable impact on the behavior of the government of Cuba, it is high time that we consider alternative approaches. Everyone should agree that 50 years of a failed policy is unlikely to yield a different result than it already has.

We can also increase exports by pursuing more Free Trade Agreements. The first step along that road must be to expeditiously consider the three pending FTA negotiated agreements more than three years ago with South Korea, Colombia, and Panama, and put them into effect. Aside from lingering concerns over beef access into South Korea, these three FTAs are broadly supported by U.S. agriculture and could add up to several billion dollars of overall U.S. agricultural exports, creating thousands of jobs in the process.

Such action would also allow U.S. products to maintain a competitive balance with other major agricultural exporters, such as Canada and the EU. We have also negotiated FTAs with these countries, who threaten to jump ahead of us in terms of tariff preferences, not to mention having the added benefit of keeping our word with our friends in the global community that has steadfastly stood by our side in sometimes hostile regions of the world.

If we succeed in these initial steps, these actions could provide important momentum for launching negotiations with new sets of trading partners. That effort will require providing the President with the Fast Track authority he will need to move forward.

I hope that in this next stage, we can focus on countries with robust markets. Of our existing FTA partners, only Mexico, Canada, and Morocco have populations exceeding 30 million. And even if we add the pending FTAs to those lists, those markets would account for only about 380 million foreign consumers, or less than six percent of the world's population outside the United States.

Our highly productive farmers deserve the chance to compete and sell their products in a free market. I am convinced that if we are given unhindered access to the world's markets, they will rise to that challenge. We cannot afford to stay on the sidelines. The costs of doing so are so far greater.

I want to thank Ambassador Kirk for the hard work he has undertaken at USTR and his colleagues at USDA in knocking down unfair barriers to U.S. food and agricultural products. The sooner we identify and target these barriers as they emerge, the sooner trade flows can resume.

One prominent example was the Russian ban imposed on U.S. poultry. I was very pleased to see the administration's positions in response to concerns that I and many of my colleagues have expressed. The Russian market is worth $100 million annually to Arkansas producers, and the decision to lift the ban will help save 89,000 poultry jobs that are critical to Arkansas's economy. I am certainly proud to report that first shipments of U.S. poultry are hoping to arrive in Russia in the coming months. We know that you are continuing to work on that issue with us, Ambassador Kirk, and we are looking forward to a positive outcome and how we can be of assistance to you.

This committee authorizes and funds an array of trade promotion programs under the trade title of the current farm bill, including the Market Access Program, Foreign Market Development Program, the GSM 102 Export Credit Guarantee Program, and Technical Assistance for specialty crops. Each of these programs help U.S. companies market their products in foreign countries.

USDA and the U.S. Agency for International Development also operate international food assistance programs, such as Food for Peace and the McGovern-Dole Food Education Program, which we are indebted to Senator Lugar for all of his hard work in those areas. These programs will be a central focus as we begin debate on the provisions of the next farm bill, and I certainly welcome the second panel's feedback on how well they do work and how they might be improved.

Again, thanks to all of you all for being here today and I will now turn to our Ranking Member, Senator Chambliss, for his opening statement.

STATEMENT OF HON. SAXBY CHAMBLISS, U.S. SENATOR FROM THE STATE OF GEORGIA

Senator CHAMBLISS. Well, thanks very much, Madam Chairman, particularly for holding this hearing today. I think this may be the most important oversight hearing that we hold as we move into the writing of the next farm bill, because as we see our budget in agriculture, and particularly for farm bills, decline as they have over the last several years and as we see the influx of policy demands coming out of the WTO, trade issues become more and more critical, and the future of American agriculture, I think, lies in our ability to export the finest quality of agricultural products of anybody in the world. Your leadership on this has been very strong and we appreciate your interest from a farmer's standpoint in ensuring that we have good trade agreements in place and that we monitor those agreements as we move forward.

Earlier this year, the President announced the National Export Initiative and I support the plan and goal of doubling U.S. exports of goods and services over five years. But the Initiative must have a clear vision and the proper support from the administration in order to be successful. I remain skeptical this is the case, since the Initiative lacks tangible metrics that will measure the results, and I wonder if a substantial downpayment is not simply achievable by implementing the pending Free Trade Agreements and working with key partners that share a common interest in lowering tariffs and other barriers to trade.

U.S. agriculture exports remain one of the few bright spots on the domestic economy, with a positive balance of trade, as you noted, Madam Chairman, noting almost $27 billion in 2009. Agriculture products make up over ten percent of all U.S. exports and despite the global economic crisis, exports last year were up by almost $13 billion compared to the year before the global economic crisis. This success is due in no small part to the demand for high-quality agriculture products and the continuing efficiency and productivity of farmers and ranchers in the United States.

Despite this success, competition for new and existing markets continues to grow as other agriculture exporters aggressively negotiate Free Trade Agreements. In order to increase agriculture exports, the administration must do more than pay lip service to initiatives that lull us into a false sense of action.

As we await the first report on the NEI, the administration continues to sit on the South Korea, Colombia, and Panama Free Trade Agreements. These FTAs are ready and represent real and tangible gains for the agriculture sector in the United States. If we are serious about promoting exports, the President should submit all three and press Congress for their immediate approval.

While opening up new markets is essential, maintaining existing ones and providing stable access to growing demand is of equal importance. It is here where I have much praise for Ambassador Kirk and his team, along with his counterparts at the Department of Agriculture and the Foreign Agriculture Service. The growing prevalence of sanitary, phytosanitary, and other technical barriers to trade threaten to erode key export markets and proliferate in the new ones.

The recent bilateral talks between the United States and Russia to resume poultry exports is just one example of a litany of disputes that confront our farmers and ranchers around the world. And when President Medvedev was here the other day, I had the opportunity to mention this personally in a meeting that I was involved in with him, and actually, the announcement had already been made, Mr. Ambassador, that Russia was going to start accepting our poultry products again and I was very complimentary of him and thanked him for the effort that had been made by both he and President Obama to get that negotiation concluded.

Then in the last few days, we find out that we have hit another stumbling block there, and we had the opportunity to visit with you earlier today to talk about this. I know it is very much on your radar screen and the Agriculture Trade Minister in Russia is being a little difficult to deal with. Now, Senator Roberts and I had an encounter with that gentleman several years ago and I would suggest if you need some help, send Senator Roberts in as your shotgun rider——

[Laughter.]

Senator CHAMBLISS. —because I assure you, he made himself known to the Russian Trade Minister when we were discussing imports into Russia several years ago. He has been banned from Russia since then, but——

[Laughter.]

Senator CHAMBLISS. Not really. Not really.

In addition to the proliferation of these barriers, there is the challenge of negotiating a multilateral agreement in the World Trade Organization Doha Round. This is no simple task, as the talks move into the ninth year of negotiations. The current impasse is due in no small part to what Ambassador Kirk rightly notes is the continued resistance of some members to engage in sustained and meaningful negotiations.

Let me state unequivocally that the deal on the table is insufficient and unbalanced from the perspective of Congress. While other countries look to the United States to give more in order to reenergize the round, I would suggest unilateral action will harden views in the Senate, and particularly in this committee, that the Doha Round is fatally flawed. A successful Round is possible, but only when Brazil, China, and India recognize that their rising influence in the international economy requires shared sacrifices in order to achieve individual and shared gains.

Let me conclude by noting the importance of the farm bill trade programs and to express my disappointment that we could not have with us today a representative of the Department of Agriculture. The Department is a key partner in expanding U.S. agricultural exports and their perspective is critical to the future success of the sector.

Madam Chairman, thanks again. I look forward to the hearing and to hearing our witnesses today.

Chairman LINCOLN. As always, thanks to our Ranking Member, Senator Chambliss. I agree with you that opening those markets is absolutely critical to our agricultural producers.

[Whereupon, at 9:54 a.m., the committee proceeded to other business.]

[Whereupon, at 9:55 a.m., the committee resumed.]

Chairman LINCOLN. Again, thanks to Senator Chambliss, and again, I am very grateful that we have Chairman Baucus and Ranking Member Grassley from the Finance Committee as we have got much expertise in the trade arena from so many of our members here in the committee, but certainly with that jurisdiction in Finance, we are glad they are here.

We have two panels today and we are eager to hear from our witnesses and get to questions, so in the interest of time, I am going to ask members' opening statements be submitted for the record and say a very hearty welcome to Mr. Ambassador.

Thank you for coming to the committee. Thank you for your testimony today on behalf of your agency. Your written testimony will be submitted for the record, so we hope that you can keep your remarks to five minutes. But once again, a very hearty welcome to the Senate Agriculture Committee and thank you for coming.

STATEMENT OF AMBASSADOR RON KIRK, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador Kirk. Chairman Lincoln, Ranking Member Chambliss, and members of the committee, I really appreciate the opportunity to come and share with you this opportunity to talk about what we are doing to advance trade in agriculture. As both the Chairman and Ranking Member noted, this is one area of our exports in that we have a surplus and the administration is working aggressively every day through our enforcement efforts and others to do all we can to assist our farmers and ranchers and others.

I would like to say before I begin my remarks, in response to the Ranking Member's comment about Senator Roberts, considering the fact, and I always take every opportunity to remind you, at USTR, I think you get absolutely the biggest bang for your buck in that we are the smallest staff, and I think give you an incredible return. But, Senator Roberts, if you or any other member will raise your right hand, I am privileged to deputize you——

[Laughter.]

Ambassador Kirk. —as U.S. Trade Ambassadors pro bono. We need all the help we can get. But I don't know that I am any more welcome in Russia than you are, Senator Roberts.

[Laughter.]

Ambassador Kirk. Well, it is modest, trust me. But we do have those rights and privileges and appurtenances thereto.

So much of what I will say in my remarks, the Chairman and Ranking Member have said, but it does bear repeating. With 95 percent of the world's population outside of the United States, not just the growth and long-term vitality of our American agricultural industry, but I think the future of our American economy is very much dependent on our ability to access these markets and the world's consumers.

Despite the recent global economic downturn, as has been noted, U.S. agricultural exports have continued to expand, more than doubling since 2000, from $50 billion to over $100 billion in the current year. And has been noted, last year, we exported $97 billion in agricultural products, supporting a $27 billion surplus in agricultural trade and supporting roughly 8,000 jobs in the United States.

The Obama administration is committed to strengthening American agricultural exports and supporting the good jobs that come with them. As you noted, Madam Chair, in the President's State of the Union Address, the President set a goal for us to double America's exports over the next five years with the inherent understanding that it could create up to two million additional jobs in the United States. To that end, he created the National Export Initiative to leverage all of the resources across the administration to help American farmers, ranchers, businesses, manufacturers, or service providers and their workers succeed through global trade.

At USTR, we are taking the lead in pursuing new opportunities, but with a special focus on the world's fastest growing markets through initiatives with our individual trading partners, across economically significant regions, and in other multilateral fora. We are also seeking to resolve issues on many of our pending Free Trade Agreements and are working to bring to you as soon as possible the pending Free Trade Agreements with Korea, Colombia, and Panama. All of these agreements hold significant economic promise for our farmers and ranchers. For example, in 2009, Colombia was among the fastest growing among the Central and South American markets for American farm exports, and Korea is currently our fifth largest agricultural export market.

As you know, at the just-concluded G–20 summit in Canada, President Obama expressly directed me to intensify our negotiations on Korea in particular with the goal of being able to conclude that by the President's visit for the G–20 summit in November. Likewise, a week later when we announced our National Export Promotion Council, the President also encouraged us to move forward and try to conclude the agreements with Colombia and Panama.

In the Asia Pacific, we are leading the negotiation towards a new high-standard 21st century agreement through the Trans-Pacific Partnership that will ensure America's farmers and ranchers have access to this incredible dynamic and growing market.

Globally, we remain committed to an ambitious and balanced conclusion to the Doha Round, but as I said to many of you when I visited with you during my transformation and others, Senator Chambliss, you are right. What is on the table is not sufficient. It won't get us there. And the President and all of us have been very clear that no three economies have benefitted more from trade liberalization than China, Brazil, and India. We think it is only right that they now accept responsibilities commensurate with those blessings.

As we pursue these new markets, the Obama administration will also work to ensure that our farmers and ranchers benefit from our existing Free Trade Agreements. We now have greater access to many markets around the world, I am proud to say, because I worked over the last 18 months to resolve the outstanding disputes.

For example, after the H1N1 scare, we worked very quickly with Secretary Vilsack and Secretary Napolitano and throughout the administration to reopen markets in Russia, China, Ukraine, Honduras, Korea, and many others to U.S. pork products. Last year, three months after I took office, we resolved a 20-year dispute with the European Union that allowed us to resume exports of U.S. beef to Europe, and we are now exporting about $48 million in beef to the European Union through the end of May. And as has been noted, we are working with Russia to try to reopen their market for our poultry exports.

I see that I am over my time, and Madam Chair, I will submit the balance of my comments for the record. But we do look forward to working with this committee to open new markets and advance the interests of America's agricultural exporters, and I look forward to entertaining your questions. Thank you.

[The prepared statement of Ambassador Kirk can be found on page 40 in the appendix.]

Chairman LINCOLN. Thank you, Mr. Ambassador, and we certainly appreciate your testimony and your presence with us today.

I will just start with a few questions and would like to begin with an issue of particular importance to me and my State of Arkansas. That is the terms of our trade with Cuba. Cuba is located less than 100 miles from Florida, and with a large population and a strong demand for U.S. agricultural products. Yet our government continues to maintain barriers on U.S. exporters who want to meet that demand in Cuba.

I will certainly use one of my largest commodities as an example, rice. As recently as 2004, U.S. rice exports to Cuba were valued at $64 million. However, an unfortunate interpretation of a specific provision of the Export Enhancement Act in 2005 by the Treasury Department caused Cuba to seek other sources of rice. And last year, the U.S. shipped no rice to Cuba, and I think that is certainly a critical part of what we are looking for, is opening markets that are close and that bring value to our workers and the job creation that we need to see happen in this country.

A bill that I have cosponsored along with Senator Baucus and others aims to clarify that provision so that agricultural exports can flow more freely to Cuba, and I hope working with Senator Baucus we can move forward swiftly on something in that bill, or reporting out that bill. It will still only capture part of the great potential that the country holds for producers, but potentially valued in the hundreds of millions for rice for our State and other rice growing States, as well.

So maybe you can help us by explaining the administration's position in continuing to deny really our exporters the ability to compete for and recapture the Cuban market, which they are quickly and surely losing to China and Vietnam and to other countries at this juncture.

Ambassador Kirk. Senator Lincoln, as you know, President Obama has made it clear that he believes that now is an appropriate time to examine our policy in relationship with Cuba. As you know, last year the President by Executive Order released some of the travel restrictions for families on Cuba, and like you, we see that even under our current constraints, our agricultural exports to Cuba are not insignificant, just shy of $700 million, and I think we have calculated almost $3 billion over the last several years. So we agree that this represents a very important market opportunity.

But those of us in the administration also recognize and respect the prerogative of Congress to weigh on this and welcome the debate that has begun under your leadership and Chairman Baucus and others, as well as, you know, Chairman Peterson had a hearing on the House side, I guess just several weeks ago. So we await some direction from Congress on this, but do believe this could be an extraordinary opportunity, in particular, for our farmers and ranchers, particularly those in rice and grains.

Chairman LINCOLN. Thank you. Also, three years ago, I visited Colombia and witnessed firsthand the great transformation that country has undergone. And yet, today, we still have not ratified the FTA which the country signed in 2007. I just think it is a huge missed opportunity. We have spent tremendous resources in getting to this point, but quite frankly, really, the main losers are not the Colombians but more so our farmers and our manufacturers. Colombians enjoy a duty-free access to our markets for nearly 100 percent of their products, as you well know, yet every single one of our exports suffers from tariffs that go as high as 200 percent. Even worse, the Canadian Parliament has just ratified an FTA with Colombia giving them a major competitive edge over U.S. producers.

So enacting this FTA would not only boost U.S. exports by $1.1 billion annually, creating about 10,000 jobs and sustaining many, many more. I certainly want to urge the administration to advance this agreement as quickly as possible and to submit it to Congress for approval for multiple reasons—the job creation, the potential for our economy, but also the fact that we are going to lose out to other countries who are in there and quickly by the first of the year are going to have some preference that we are not going to enjoy.

Ambassador Kirk. Well, Madam Chair, as I know you were kind enough to acknowledge your fellow Arkansans, but Texas thinks of ourselves as at least a friendly cousin. In our part of the world, honestly, we would say that yours is not so much a question as an answer. There is nothing you have said that I don't agree with. The President agrees with you.

There have been concerns about the labor and justice provisions, which we have worked diligently with the Uribe administration, and like you, I would say I believe the progress that President Uribe and his administration have made in addressing violence is significant. It is real. And it is important to note that even the ILO now recognizes the progress that Colombia has made and have downgraded them in terms of their listing of countries with unacceptable violence. And we look forward to working with the new administration—I believe they will be sworn in, I think, Friday or Saturday of this week—to see if we can't conclude our outstanding issues with the Colombians and we can bring this agreement to you as soon as possible.

Chairman LINCOLN. Well, I hope we can move swiftly, and I think it is very important in terms of our economy and putting people back to work and, again, creating for ourselves in the global economy and the global marketplace greater opportunities, particularly in this hemisphere. So I look forward to working with you to help make that happen.

I see my time is up, so I will turn to my colleague, Senator Chambliss.

Senator CHAMBLISS. Thanks very much, Madam Chairman.

Mr. Ambassador, on behalf of America's farmers and ranchers and the policy makers here involved in agriculture, I want to thank you for continuing the effort that I really think started with Ambassador Portman, continued by Ambassador Schwab, and now by you in being very active and very definitive and vocal about the profile that American agriculture needs to have with respect to trade agreements. I think in times past, we may have been the sacrificial lamb, but you have been a real stalwart and I appreciate the dialogue that we have had and the efforts that you and your staff have gone to with respect to agriculture.

With respect to the Doha Round, General Lamy recently stated, and I quote, "There are signs of a new dynamic emerging," in the small group discussions and he has called on negotiators to build on this with a mid-October discussion to evaluate progress. At the same time, it seems that negotiations remain at an impasse with no breakthrough emerging from the main negotiating countries.

Now, you recently told reporters that you feel more encouraged about the Doha Round and that real progress may be possible this year if advanced developing countries are willing to come to the bargaining table. Have the small group discussions produced any changes in the negotiating positions of key countries, such as China, India, and Brazil?

Ambassador Kirk. Well, Senator, first of all, thank you for your acknowledgment of our team and our efforts on behalf of agriculture. It is central to our work at USTR. But I would like to note that one of the things I am most proud of is just the seamless relationship we have built with the Department of Agriculture and Commerce to make sure that we are using all of our resources effectively.

With respect to Doha, I can't tell you how welcome Director General Lamy's statement is, because it has taken us a while to get him to a point to acknowledge, frankly, that, as we say, getting on that same old bicycle they have been on for the last nine years wasn't going to get us there. And if I might, I think the credit for the change in the negotiating environment in Geneva is singularly due to the insistence of the United States, from President Obama on down, that there had to be a reality check among all of the partners of Doha and we had to begin to look at the world the way it is now versus ten years ago.

And so we have moved to understand that they had to supplement our negotiations in Geneva with these bilateral discussions, frankly, trying to get Russia, Brazil, India, and China. And I want to make it careful, when I was asked about my outlook, I don't know that I would say I am overly encouraged. I am less discouraged than I was before.

I would say that our efforts have led to an acknowledgement that there needs to be more on the table. I think the poorest countries now believe us when we tell them we aren't asking for any additional contributions from them, but that, frankly, it is in the poorest countries in the world's interest to make sure that these three growing economies, like China, India, and Brazil, give them access to their markets just as, frankly, the United States and the European Union have done.

And so that is where we are beginning to see the change, and even though it is subtle, for the first time, you have some countries other than the developing economies, like the U.S. and Canada, beginning to say to Brazil, India, and China, why don't you come to the table and negotiate, because that is where we are going to be able to close the gap.

So we have had a number of bilateral meetings with each of those partners. India, at least, has been the most open to dialogue with us. China has been wonderfully Chinese. I will leave it at that. But we continue to believe that now that we are beyond the elections in Japan and hopefully with Brazil, that if we can sit down and do the tough negotiations that have to be made, we might.

But I just want to emphasize, because I said it to you all when I came before you, and President Obama made it plain in Canada, what is on the table is insufficient and we would not bring that to this Congress and the American public. But what we are seeking is not just for America. We think it is in the interest of the developmental nature of Doha to have a much more balanced and ambitious package and that is what we are going to work for.

Senator CHAMBLISS. Great. Yesterday, you were quoted as saying that the success of the African Growth and Opportunity Act should not be tied to the export of textiles and apparel, that countries under the Preference Program should look to grow their economies through other trade, including in value-added exports made from the continent's new raw materials. You correctly note that textile production is crowded, with multiple centers of production around the world.

At the same time, here in Congress, trade preference legislation for developing countries often focuses exclusively on textiles. Is this a short-sided approach, and should we look to other development models that build around indigenous industry rather than attempt to create new ones?

Ambassador Kirk. Well, Senator, I don't know that I was much of a legislative aide when I worked for Senator Bentsen, but I learned enough not to ever describe any efforts by Congress as short-sighted, so I won't say that.

[Laughter.]

Ambassador Kirk. I will say this, that in the case of AGOA, we are pleased with the progress we have made in the last ten years, but we are extraordinarily frustrated. Through the generosity of this Congress, 97 percent of products produced in Africa can be exported to the United States duty-free, and there are almost 6,500 individual products that you have given us the privilege to extend duty-free preference, yet less than 400 products are utilized.

So rather than just insisting on more textiles, we have encouraged them to begin to look at the value-added stream, and working with partners through U.S. AID and others, beginning them to understand, you don't just have to sell all your cotton to China. Why don't you contract with U.S. companies and make the T-shirts, or shoe leather, or the wood products, and begin to look at their extracted materials, as well, and particular partnerships with U.S. interests and our advances in technology to build the income stream from that, as well. And I think if that model works in Africa, we are going to encourage our other partners to do so.

The American public, this Congress, I think, have been wonderfully generous in extending preferences to the poorest countries in the world. But with the budgetary constraints we have now, we have been very honest with them. They can't just look to us to expand those. They are going to have to work harder to diversify, I think, within their countries, which would be to their benefit and, we think, hopefully for our exporters, as well, as they develop more consumptive capacity.

Senator CHAMBLISS. Thank you very much.

Chairman LINCOLN. Thank you, Senator Chambliss.

I would just like to take a very quick moment of personal privilege and welcome two very special individuals. Mr. Atwood Bell and Abigail Messier. Mr. Bell is from Jonesboro, Arkansas, and a retired educator and a veteran of both the Korean War and World War II. He is joined by his granddaughter, Abigail Messier, of Saratoga Springs, New York. I just wanted to welcome both Abigail to the Agriculture Committee and Mr. Bell, give him a good welcome and a very big thanks for his service to our country.

[Applause.]

Chairman LINCOLN. Senator Johanns?

Senator JOHANNS. Thank you, Madam Chairman.

Mr. Ambassador, it is good to see you. Let me, if I might, start my questions by reading something to you that I think you are very familiar with. I was sitting at the State of Union and the President said this. He said, "So tonight we set a new goal. We will double our exports over the next five years, an increase that will support two million jobs. We have to seek new markets aggressively, just as our competitors are," which they are.

Since that time, have you started any new bilateral discussions that might lead to negotiations of a trade agreement with any other countries out there?

Ambassador Kirk. Not in a bilateral sense. We have begun perhaps the most ambitious effort that we have undertaken in the last several years when the President announced at last year's APEC Summit that we would move forward with the negotiations under the Trans-Pacific Partnership. As the Chairwoman noted, we have a number of bilateral agreements, and some would say there are economies that would question whether their economy is significant enough to really make a difference. The Trans-Pacific partnership, I think, provides us a unique opportunity to have market access for all American exporters in what is going to be, by the estimates of all economists, the major center for economic growth over the next ten to 15 years, and that is the entire Asia-Pacific region, so——

Senator JOHANNS. So other than that, no new efforts within any other countries?

Ambassador Kirk. Well, we have a number. In terms of FTAs, no. We are working to conclude bits with several economies, but I——

Senator JOHANNS. Okay. And Mr. Ambassador, I think you would agree with me, no country is going to seriously negotiate with you without Trade Promotion Authority. I mean, at some point, they lay all their cards on the table, all face up, they shake hands, they have got a deal. And without TPA, you say to them, now you get a chance to try to convince 535 others who are free to amend the agreement. So you are kind of powerless in this regard, aren't you?

Ambassador Kirk. Well, I wouldn't say I am powerless, but it would certainly—it would be very much to our advantage for us to address the issue of new Trade Promotion Authority in the very near future.

Senator JOHANNS. So why—I have talked about this on the floor. This expired during the Bush administration, as you know. Congress at that time made it very clear they weren't going to extend it for President Bush. Why now, when you have such control over the House and the Senate, why hasn't the President said, Ambassador, go over there to Congress and let us start working on TPA?

Ambassador Kirk. Well, one, we have had quite a bit on our plate. Second, you all have been a little bit busy the last 18 months, and the reality is, I mean, obviously I advocate for that, Senator, and will continue. But I believe with the work we have to come in and, frankly, begin to restore the American public's confidence in the value proposition of trade and the balance of trade, the focus we have made on enforcement that a number of you have referenced, our efforts to conclude the pending Free Trade Agreements, there will be a time in the near future that we will come and initiate discussions with Congress for Trade Promotion Authority, certainly with respect to the Trans- Pacific Partnership, and if we can get a package that we think merits your consideration, we will have to address that for the Doha Agreement, as well.

Senator JOHANNS. Well, wouldn't you agree with me, though, that you are not going to be successful with any effort, Trans-Pacific Partnership or anything, without TPA, because you can't promise them that there is ever an end to the negotiations unless you have EPA.

Ambassador Kirk. I mean, Senator, unquestionably, we will have to have Trade Promotion Authority. But I would say it has not been a hindrance, at least to the first two rounds of our negotiations under the Trans-Pacific Partnership.

Senator JOHANNS. Let me share some statistics with you, changing focus to the three pending agreements. According to the Ways and Means Committee, in 2009, U.S. agriculture exports to Colombia decreased by 48 percent. Failure to implement the agreement has resulted in an 87 percent decrease in U.S. wheat exports, Ways and Means report. Between 2008 and 2009, American companies exporting to Colombia lost $811 million in sales of corn, wheat, soybeans, and soybean oil, same report. Already in 2010, U.S. agriculture exports have fallen by another 45 percent.

I cite these statistics to point out that in my judgment, and I work these issues just like you have, we are losing this market because we can't assure Colombia we are serious about ever submitting their trade agreement. But the biggest concern for me is one of our key partners out there from an international standpoint is South Korea, and I am worried that in that part of the world, folks are going to reach the conclusion that this administration is powerless to get the South Korean Trade Agreement approved. Could you comment on that?

Ambassador Kirk. Well, first of all, I share your concerns very much about our loss of market share in Colombia and others. It is one of the reasons I have invested so much time in not just the agriculture communities, but frankly, those communities that are most concerned about the issues of violence and justice in Colombia, because the reality is we are going to have to be able to build strong bipartisan support in the House to move that. And so the time we have invested over the last year in going around the country to places like Detroit and Pittsburgh and the Carolinas and leaving for Maine tonight is time that I think is going to pay off in having us have that balanced argument that we are going to have to have in the House to be able to move these forward.

Secondly, I think the relationship between the United States and South Korea could not be stronger, as evidenced by the recent commitments under President Obama to President Lee on a number of fronts. And while occasionally I get comments from our partners about the domestic environment in the United States, frankly, Senator, I push back hard on that, and I am kind of tired of our trading partners who always hide behind and worry about the attitude in Congress. And I remind them that there is never the right time, in my estimation, to bring a bad deal to the American public. But notwithstanding what people may perceive to be the environment and Congress, when we get a deal right, we always find a way to get it passed.

As Senator Bentsen liked to say, I have got a well-worn face. I am not quite as old as I look, but I was around, was Secretary of State to Governor Ann Richards when we went through the fight with NAFTA. That wasn't an easy battle. I was Mayor of Dallas and helped to argue for granting China PNTR status. Every trade agreement in this United States has been a major battle except for when we have a compelling case to present to the American public, not only in terms of market access, but fairness in reflecting our values. And when we get to that point, I believe we can pass them.

So I am not going to let the Koreans or any of the members in the WTO hide behind our domestic environment. The bottom line is they need to come to the table, give us real market access, reform their behavior, give us the same rights as we have granted to them, and if we do that, I think the political environment in Congress and the United States changes dramatically for the better.

Senator JOHANNS. Thank you.

Chairman LINCOLN. Thank you.

My Chairman, Senator Baucus.

Senator BAUCUS. Thank you, Madam Chairman.

Mr. Ambassador, I am just a little concerned that when the President visits Korea November 20, he is going to be under tremendous pressure to deliver a deal. And you alluded to and others in this room alluded to some of the reasons why, that is, the relationship the United States has with Korea and the importance of Korea to the United States.

I am very concerned that what he might want to deliver might not be in agriculture's best interest. I am quite concerned that Korea will not submit an agreement that lives up to what the President knows he promised back in 2007, that Korea will live up to OIE standards, all beef, all ages, all cuts. I must remind you that no deal is better than a bad deal, and a bad deal would be Korea not living up to its agreement to live up to OIE standards, all ages, all cuts.

So can you promise me here today that any agreement that the President brings on November 20 will include the requirement that Korea opens up its markets to U.S. beef, all ages, all cuts?

Ambassador Kirk. Senator, I would love to be able to make that hard promise. I can tell you this. This issue is of the highest importance to us. I would remind you that not only at the recent G–20 Summit in Canada, but when President Obama met with President Lee last year, that publicly in every case that he has referenced our commitment to getting Korea done. He has always put it in the context of our ability to resolve the outstanding issues on autos and beef.

So I understand your concern for the interests of your cattlemen and ranchers, but this administration has never equivocated on the need for us to reach and move toward that full OIE compliance. You know that is currently the standard in the agreement. It was, frankly, our cattlemen and others that reached a separate protocol with Korea to accept a standard of beef 30 months or less. And the good thing is our beef exports to Korea are rising rapidly. They are up almost 50 percent over last year. We are almost to 40 percent of market share. But I want to give you my assurance that we are working for full OIE compliance, and that is one of the two main issues we will be discussing with my counterparts.

Senator BAUCUS. Well, the trouble is that we have lost market share considerably in Korea. It is very similar to the point that Senator Johanns made. For example, in 2003, the United States had 70 percent of the market, Australia and New Zealand, 30 percent. That has flipped. Now Australia and New Zealand have 70 percent. Yes, you say 40. It is 30 or 40 percent, just like we are losing market share to other countries because of our failure to conclude trade agreements. Other countries are doing deals for their own benefit, at our expense. I am quite concerned, in fact, I am flabbergasted almost, that we are not working harder getting deals done.

Ambassador Kirk. Senator, we are——

Senator BAUCUS. And I mean results. I don't mean just work. I mean results. If this administration really wanted a Free Trade Agreement adopted by the Congress, it could do it. It could do it if it wanted to. I hear a lot of words. I don't hear a lot of results.

Ambassador Kirk. Well——

Senator BAUCUS. And I don't know why I should schedule a hearing on a Korean FTA if it does not include all beef, all ages, all cuts. I don't know why I should hold a hearing on FTA. It will have to come before the Finance Committee and I don't know why the Finance Committee should even have a hearing on that if it doesn't include those provisions.

Ambassador Kirk. Well, Senator, we share your concerns, but with all due respect, we have worked as diligently as we can to resolve the issues to allow us to bring this forward. The administration has a strong commitment to this. But as you know, there are very strong opinions within this Congress on both sides of the aisle about the equities involved in the accessibility of the Korean market for U.S.——

Senator BAUCUS. Oh, I think there is pretty much agreement that we should——

Ambassador Kirk. —ranchers and——

Senator BAUCUS. I don't think there is much disagreement. I know there are some who say, don't rock the boat, but the fact that the producers say they want the bill to export into Korea. And I just say, Mr. Ambassador, I am going to be looking at this very carefully and I want to see it all there.

Ambassador Kirk. Well, we want to see it, as well.

Senator BAUCUS. If not, I don't know why I should schedule a hearing.

Ambassador Kirk. Well, we want to see it, as well, and we are going to——

Senator BAUCUS. The proof is in the pudding, Mr. Ambassador. We will see, see what you produce.

Ambassador Kirk. We look forward to working with you.

Senator BAUCUS. Thank you.

Chairman LINCOLN. Senator Cochran?

Senator COCHRAN. Madam Chairman, we know that in June, China's Central Bank announced plans to allow a more flexible exchange rate. China is both a major customer of the U.S. agriculture products and a major supplier of products. What are the potential impacts of the decision in China to change its currency values? What would the impact be on agriculture trade and our economy?

Ambassador Kirk. Well, Senator, thank you. As you know, this has been an issue of paramount concern to both members of Congress and to the administration. We have urged China in every fora, bilaterally, through the G–20 and others, to allow their currency to float to market rates, and we think having the yuan rise to a level that is more acceptable obviously would help to mitigate that delta between the cost of U.S. exports to China and others and it would be of great value to agricultural interests, as China is a very, very important market, particularly in soy and grains and poultry and others. And, obviously, that would be a benefit to our farmers and ranchers, as it would for all U.S. exporters into that market.

Senator COCHRAN. In connection with Colombia's Free Trade Agreement, it has been documented that that agreement could provide very positive benefits to the U.S. cotton and cotton textile sectors. What is your assessment of the need for implementing legislation to promote Congressional approval of this new regime of trade? Could you update the committee on the administration's position?

Ambassador Kirk. Yes, Senator. As you know, the good news is, obviously, a number of you have spoken to the importance of that market for our agricultural interests. Our challenges in moving forward principally have been related to concerns expressed by a number of members of Congress and the labor community over what some believe has been an unacceptable level of violence against labor leaders and the government's failure to protect, put in place legislative changes and judicial changes to protect them.

We have been working with the Colombians on that, as the Chairman has noted and many others. I think the Uribe administration has made significant progress. We have been working with all stakeholders to try to move, frankly, in some cases, to fact beyond fiction and come up with an acceptable package that we can present to our partners in Colombia that will allow us to move forward, and we have noticed this in the Federal Register to get public comments. We have begun that interagency process. And with the President's direction now, we are moving as quickly as we can to try to complete that so that we can bring an agreement to Congress for your consideration.

Senator COCHRAN. Well, I congratulate you on the job you continue to do to represent our interests and to try to move forward on these special troublesome areas, like China and Colombia. Thank you.

Ambassador Kirk. Thank you, Senator.

Chairman LINCOLN. Senator Lugar?

Senator LUGAR. Thank you, Madam Chairman.

Ambassador Kirk, I am just simply eager to get your analysis as to specifically why the Panama Trade Agreement has not occurred. This would seem to be a very much simpler matter than either Colombia or Korea. Is it objections in the Congress that you are working with or what problems specifically hit you there?

Ambassador Kirk. Senator, in some respects, we were a bit advantaged in the case of Panama in that when we came into office, much of the process that I referenced with Colombia, the noticing and the sort of stakeholding had been done. Frankly, we had a little bit of—and we were able to present to our partners in Panama a very defined list of changes we would like to see them make.

Initially, I will be honest with you, the previous administration balked very much at the notion of having to change their tax code to address issues raised not by the U.S., but within the OECD in terms of there being a tax haven. Fortunately, we worked with them over the summer. That has now changed. We have a new administration in the Martinelli administration. We have addressed a number of the legislative changes that we sought in terms of labor and justice and are now, frankly, waiting on the Martinelli administration and our Treasury to conclude their negotiations on what will be an acceptable response to the tax issues raised.

Senator LUGAR. Do you anticipate that our Treasury is moving forward rapidly? Is this a priority for——

Ambassador Kirk. It is a priority for us. Our Treasury is engaged. But some degree, some of the work is in the hands of Panama. But we hope that we will be able to conclude those in the very near future, as well.

Senator LUGAR. With Colombia, you have discussed this extensively, but it would appear, looking at it just from a foreign policy standpoint for a moment as opposed to our domestic politics, that the Uribe government has had extraordinary challenges and right now a transition is occurring to a new presidency of Colombia.

While that is appearing, the FARC, who have been difficult, to say the least, in terms of difficulty in Colombia, are apparently housed across the border in Venezuela, that this has led to Venezuela withdrawing its ambassador to Colombia and asking really for the OAS and others to almost go into a state of war against Colombia.

In the midst of this, I appreciate the sentiments in Congress that have been expressed endlessly with regard to whether Colombia has been sufficiently rigorous with regard to protection of labor unions in Colombia. But I would suggest, and perhaps you would agree, that for the government of Colombia, the problem has been existential with regard to simply maintaining the sovereignty of the country against the hostility that Venezuelans and everybody else that are around. That is still the case.

This is, it seems to me, in terms of our own foreign policy and the security of Colombia, essential to get on with the Free Trade Agreement. You may have come to the calculation that labor interests in the United States are still so hostile to the situation, but notwithstanding the foreign policy problem or whether the Colombian state exists or not, that this treaty somehow cannot make it through.

But I would encourage you to give it a try. It just seems to me that the patriotism in the American people generally and the understanding of the Colombian predicament is likely to overcome what have been these, not quibblings, they are criticisms that are based on human rights of other countries, but still a small part, really, of the picture of our relationship.

Ambassador Kirk. Senator, in the broad sense, I would concur with most of what you have said. I am mindful of the fact that I only sit here as U.S. Trade Representative because it was the wisdom of this Congress almost 40, 50 years ago to create a position within the administration separate from the State Department to only look at the commercial issues. And so, one, I am careful not to wager into—wander over into Secretary of State Clinton's territory. But your macro analysis is correct. Colombia is a critical ally and partner for the United States in South America for all the reasons you articulated.

And if I would only just briefly say to you what I said earlier to Senator Grassley, I want to make it plain. Labor does not have a veto power over the trade policy of the Obama administration. But I do think we are greatly enhanced that we have invited labor back to the table and given them a voice to express their concerns so that we have a way to resolve these and move just from some, in many cases, rhetoric that is based on what may have happened ten to 15 years ago and at least give them an opportunity to play a constructive role. And that is the reason I believe we are much closer now to being able to move forward with a resolution of the issues on Panama and Colombia, is the time we have invested in bringing labor back into our Trade Advisory Groups. But I appreciate your encouragement and support.

Senator LUGAR. Well, my time is up, but I appreciate, likewise, your bringing labor back and your attempt to work, as you say, in a macro situation. You are right that the State Department and Commerce and Treasury are different, but the President still is the President. He has apparently given pretty strong instructions to get South Korea done before he goes to South Korea, and I would strongly agree with that and I am hopeful he has at least enough control over the various Cabinet officials to have this macro approach that will be helpful to you.

Ambassador Kirk. Well, I am certain he will be pleased to hear your acknowledgement that he is still the President——

Senator LUGAR. Yes.

[Laughter.]

Ambassador Kirk. and I don't know how much control he has over the rest of the Cabinet, but he has quite a bit over this one, so——

[Laughter.]

Ambassador Kirk. He has given me a job to do and I am going to do everything I can to get it done.

Senator LUGAR. Thank you.

Chairman LINCOLN. Thank you, and I would like to associate myself with Senator Lugar in the fact that I do think Panama and Colombia are certainly very doable. I would also add to the Ambassador that the esteemed President of Panama is, I believe, a graduate of the University of Arkansas. And although we no longer play Texas, we might be of some service there with you in working on that issue, so——

Ambassador Kirk. But he has told me a number of times that he could have gotten into the University of Texas——

[Laughter.]

Chairman LINCOLN. Senator Gillibrand?

Senator ROBERTS. Can we go back to that Texas-Arkansas Big 10, Big 12 stuff? I would like to——

[Laughter.]

Ambassador Kirk. Senator, I would say, I think our friends in Kansas are pretty happy with Texas right now leaving the Big——

Senator ROBERTS. I wouldn't quite describe it that way, but I will talk later about that after you deputize me to handle things with Russia.

Ambassador Kirk. Yes.

[Laughter.]

Chairman LINCOLN. Senator Gillibrand?

Senator GILLIBRAND. Thank you, Madam Chairwoman.

I would like to turn our attention to the dairy industry and in particular our relationship with China. New York's dairy industry is working very hard to continue to rebuild our dairy producer profitability which is a challenge many of the farm families in my State are still struggling with every single day. Given that the horrendous drop in demand for U.S. dairy products last year was primarily driven by a steep drop in our exports, rebuilding overseas markets for our quality dairy products and maintaining access to them is critical to ensuring that this process does not reverse itself. Our third-largest export market, as you know, averaging about $168 million over the last three years, is China, and so it is very important to this process.

I appreciate the work that you have done to devote maintaining access to this market for U.S. dairy products in light of changes this spring to China's dairy certificate requirements. However, it is disturbing that we have yet not resolved the issue. Can you tell me what USTR is doing to prioritize the issue and ensure that it is swiftly addressed so that the U.S. exports to China are not impeded?

Ambassador Kirk. First of all, Senator, thank you for all of the information that you and your dairy farmers have provided to our office as we have engaged China on this. This is one of the top issues in which we have engaged China directly through our JCCT, principally because a lot of the information the industry provided, which is the good news, when they brought us the concerns over the new certification process, we were able to intervene very early. We don't have a complete resolution, but we are encouraged that at least China did agree to pause and not move forward with the implementation of those while we worked to come up with an acceptable resolution of it.

So as opposed to many other cases where we haven't been able to get any response, at least in this case, we do have a time out in the implementation of that latest certification process that was of so——

Senator GILLIBRAND. Do we have a time line for that process?

Ambassador Kirk. We will—we have a team, I think that may be going to China in September——

Senator GILLIBRAND. In September, yes.

Ambassador Kirk. —and prior to our JCCT formal meeting, and so hopefully we will—I mean, I will get a readout from that and we will make sure we keep you up to date on our progress.

Senator GILLIBRAND. Thank you. My second question is about the U.S.-New Zealand dairy trade. If it is included in the TPP, it is my worry that all the benefits of that trade relationship would accrue to New Zealand's dairy industry and that it would be very devastating to the U.S. dairy industry and New York's markets. In exchange, America's dairy producers and processors would face tremendous pressure for job loss and reduction in exports, resulting truly in the loss of billions of dollars to the U.S. economy and to that sector.

And to further worsen the situation, our dairy exporters do not even have the prospect of focusing on other significant new opportunities that the agreement would open up, given that most of the other TPP participants are already U.S. FTA partners or else have relatively limited tariffs and offer only small market opportunities for the dairy industry.

So I appreciate the administration's use of both bilateral and regional approaches on this, and it is my understanding that the USTR's approach is to allow countries with existing FTAs to retain the market access provisions for those trading partners and that new market access negotiations allow parties without existing FTAs to be negotiated bilaterally. What is the status of bilateral U.S.-New Zealand negotiations, and do you believe that this approach will be successful in protecting the U.S. dairy industry?

Ambassador Kirk. Well, Senator, first off, let me say we are acutely aware that perhaps of all of the many barriers and complex issues that we have to address within our negotiations in the Trans-Pacific Partnership, dairy is certainly the one that has gotten the most attention for that reason. We have spent an extraordinary amount of time with representatives of the dairy industry.

I have met with dairy farmers from Wisconsin, Milwaukee, and New York. I have met with members of the caucus and yourself. So we understand your concern. I would remind you, my interest is not to represent anyone but U.S. farmers, ranchers, agriculture.

We believe that it is still worth the effort, given the explosive potential to expand market access not just among this original nine tranche of countries, but throughout Southeast Asia, that we ought to continue to look at every opportunity to create market access for there.

Now, you are correct that it is most likely, in terms of the existing FTA partners, will retain those tariff lines. Most of those are about at the end of their expiration period anyway. But we will not go forward with an agreement that we believe disadvantages our dairy interests to the advantage of those in New Zealand.

We have had two rounds. We are scheduled for a third round in Brunei. We aren't quite to the point that we are negotiating exact sectoral lines, but I promise you, we have had more extensive consultation with Congress and industry on this than ever and we will keep you apprised as we move forward.

Senator GILLIBRAND. Thank you, Mr. Ambassador. Thank you, Madam Chairwoman.

Chairman LINCOLN. Senator Stabenow?

Senator STABENOW. Thank you, Madam Chair.

Chairman LINCOLN. Just before you begin, there are two votes, and Senator Chambliss and I are going to tag-team so we can keep our hearing going.

Senator STABENOW. Great. Thank you very much, and welcome, Ambassador Kirk. It is good to see you.

I wanted to just first comment on a couple of things others have said. I want to reiterate what Chairman Baucus said, that no deal is better than a bad deal, and so we need to be opening our markets, but we need to make sure they are good deals for us, and I would concur. As I have talked to you about North Korea, we have got a ways to go before that is a good deal. So we have got some work to do and I am hopeful that the deficiencies will be corrected.

I also want to piggyback on what Senator Cochran said and just chime in on currency manipulation in China. It is happening. We know it is happening. We need to say it is happening and we need to do something about it. So I send back that message to the administration, as well.

I wanted to follow up. Senator Gillibrand talked about dairy, and I, too, have a tremendous interest in enforcement as it relates to dairy around the world, and specifically in India. As you have been talking about, Russia, Brazil, India, and China and what they need to be doing. For far too long, India has not been playing by the rules with dairy. There are many ongoing issues where they are, frankly, ignoring science. One of the most troubling is the situation with dairy, a situation that a number of us wrote you about earlier this year.

For over six years now, India has used dairy certificates to block legitimate U.S. dairy exports and refused to negotiate in good faith to find a resolution. This certification requirement is not based on sound science. India knows that it is not based on sound science. While our dairy exports are being blocked, India has exported an average of $77 million worth of dairy products to the U.S. over the last three years.

So my question is, given the lack of progress with India over many years, what is the USTR doing to examine legal alternatives?

Ambassador Kirk. Well, first of all, Senator, I have to tell you, I agree completely with your assessment of the situation in India. As frustrating as China has been, I would say I think one of the values of them being in the WTO, we do have the opportunity to move forward on other foras. And we have on occasion with our structure with the JCCT and others to engage them and at times get them to comply or at least take a step back.

As I referenced to Senator Gillibrand, we are not there with them yet. We are exceptionally frustrated. I will tell you, it is generally not our practice to comment publicly as to whether we are going to take legal action, but I will tell you, we are exploring every alternative and every enforcement tool available to us to get India to open up their markets on a number of agriculture issues.

I mean, we have raised—I was in India twice. Last year, I met with them directly about it. Ambassador Marantis just came back. Ambassador Islam Siddiqui, who is our Chief Agriculture Negotiator, we have used every tool of diplomacy we have, but we are going to be examining everything else in our toolbox to see if we can't get them to behave differently.

Senator STABENOW. Well, I would encourage you to use the tools that need to be used.

One other area as we look at barriers, and this relates to maximum residual levels as it relates to pesticides. This is an area I have raised, as well. For example, Michigan's cherry exporters face an arbitrarily low MRL, again, not based on science. I have heard a number of stories that our trading partners block our exports, requiring certain pesticides be used in areas where we have banned them in the U.S., but they are requiring that they be used when we export. We have approached Japan about cherries directly, my office has. When we look at resolving these types of issues, it is absolutely critical to have involvement from all of our food agencies, as well, the FDA, FSIS.

As the lead agency on trade, what are you doing to work with those partners to resolve these challenges, because this is a very significant type of barrier for our specialty crops right now as it relates to pesticides and we need to address that.

Ambassador Kirk. Senator Stabenow, first of all, thanks for bringing this to our attention. We have worked with your producers, because you do have a very discrete, I think, fly infestation that can only be treated by one insecticide——

Senator STABENOW. Right.

Ambassador Kirk. —and we are working with you on that. The good news is we have, because of your bringing this to our attention, we have gotten Japan to adopt a protocol on these inspections similar to the one we are using. The difficulty we have is you have a very discrete challenge. The good news, we are working both with USDA and, in this case, the EPA. The EPA has looked at the issue of the product used in your case and we are working with them to submit that data to Japan to see if we can't get them comfortable with the application of that.

Senator STABENOW. Thank you. I see my time is up. Thank you, Madam Chair.

Chairman LINCOLN. Senator Klobuchar?

Senator KLOBUCHAR. Thank you very much, and thank you very much, Ambassador Kirk, for being here.

My State is the seventh largest agriculture export State in the country, and in 2009, our farmers exported nearly a third of what they produced, which brought in $4.3 billion to our State. And when I look at our economy in Minnesota, the fact that our unemployment rate is only at 6.8 percent, a lot of it has to do with our rural economy, but also the value of exports across the board. And that is why I have been very focused on the export issue, head up the Export Subcommittee in the Commerce Committee.

And I wondered, first, on a broader way, could you update us on the President's initiative to double exports in the next five years, what has been happening? Senator LeMieux and I have been trying to get a bill with the small business bill to help out with the Foreign Commercial Service, but in a general way, what is the status of that?

Ambassador Kirk. The good news, Senator, is exports this year are up almost 17 percent over what they were last year——

Senator KLOBUCHAR. Although they were at an all-time low last year.

Ambassador Kirk. Well, but they were at an all-time low all around——

Senator KLOBUCHAR. Okay. All right. Okay.

Ambassador Kirk. —if you look at that base, we are trending up.

Senator KLOBUCHAR. Okay.

Ambassador Kirk. Exports accounted for the highest percentage of our GDP growth ever, at 13.7 percent, and economists are telling us that we contribute now to the underlying economy. This is consumer spending. Now, that is not enough. We are doing a number of things through the Export Initiative, including what you referenced, the President asking for more resources, counselors for the SBA, in particular, to help small businesses begin to engage in exporting. He has asked for more Commercial Services Officers through the Department of Commerce. We are looking to add——

Senator KLOBUCHAR. And that is what our bill is in the Small Business Committee.

Ambassador Kirk. Yes, and that would be most helpful. We will be submitting a more formal report to the President in September that he asked to map out some of the matrix that Senator Baucus and others have referenced.

Senator KLOBUCHAR. Thank you. People have talked a lot about China. I wanted to focus on what happened in April 2009 with the H1N1 virus and then the closing of the market to U.S. pork. As everyone knows, the H1N1 virus, there was never proof that it was spread through contact with pork and blaming the virus was a blatantly unscientific excuse, as China's Agriculture Minister was even quoted saying that consumers can't contract the virus from pork products.

What recourse and authority does the U.S. have when a country blocks a product for such a clearly fraudulent reason, and is this kind of action lawful under China's Free Trade Agreement and WTO rules?

Ambassador Kirk. First of all, Senator, the action was not lawful. It was not China. I think 28-some countries moved to block U.S. pork products, both prepared and otherwise. In this case, we knew we had an actionable case in the WTO. I would tell you, in terms of your previous question about our working across government, I think this was an example where we moved very quickly, from President Obama down to Homeland Security Director Napolitano, Secretary of Commerce Locke, Vilsack, and myself. We all got to work to try to get these markets back open so we wouldn't be in a three-to five-year process. And as a result of that, there were seven or eight major economies within a year that reopened their markets to pork.

So through the JCCT in particular, we were able to get China to open its market to pork. We still have an issue with China with respect to their blocking pork that utilizes ractopamine. But for that that doesn't utilize that, the pork exports have resumed and we are shipping pork back into that process.

Senator KLOBUCHAR. Right, and I do appreciate, as Senator Chambliss and others have mentioned, the work that you have done in reopening some of those markets.

The other thing about this is the Mad Cow Disease, where we saw the same kind of thing happen. Major markets are still closed to American beef products. I assume there is work being done to reopen them. But one of the things that I thought would be helpful here, while we all know H1N1 had nothing to do with pork, but the other countries, many of them seem to claim food safety all the time as a reason, and do you think it would be helpful to pass a food safety bill to get at some of this?

Ambassador Kirk. Senator, I think any attention we can bring to the security of our food chain and food safety would be most helpful.

And I would say, if I could, I know many times we beat up on the WTO, but after the H1N1 virus, we reached out and immediately had a letter signed by the WTO, the OIE, all of the international agencies related to food health safety that declared and issued a very definitive statement that there was no risk to humans from consuming prepared pork products.

Senator KLOBUCHAR. Okay. And then one last thing. Are you looking into this honey issue at all, which Senator Schumer has coined "honey laundering"?

Ambassador Kirk. I will be now.

[Laughter.]

Senator KLOBUCHAR. There is a——

Ambassador Kirk. Senator Schumer has talked to me about cows and apples, but I am sure we will have an opportunity to get up to date on that.

Senator KLOBUCHAR. Okay. Very good, because we care about that in Minnesota, as well. Thank you very much, and we will write you about the honey issue.

Ambassador Kirk. Thank you, Senator.

Senator KLOBUCHAR. Thank you.

Chairman LINCOLN. We have a lot of honey in Arkansas, as well.

Mr. Ambassador, I am going to run to vote and I just wanted to, in case I miss you, as Senator Chambliss will take over and keep us going in the hearing, but thank you so much for your work. I think you have done a tremendous job and I am grateful to you. I appreciate our conversation on Russia and we look forward to working with you in the days ahead, particularly on that. So thank you very much.

Ambassador Kirk. Madam Chairman, thank you for your leadership, and I thank this community for your advocacy of our trade efforts.

Chairman LINCOLN. You bet. All right. Senator Chambliss, I am going to hand it over to you, and I think Senator Roberts is next.

Senator ROBERTS. I appreciate it. There are two votes, Madam Chairman, so I am going to have to be brief. I hear my colleagues laughing.

I am going to go through the obligatory facts and figures about Kansas, and the same thing applies to Texas, I think, in regards to the necessity of exports to our economy. We have to export half of our wheat acres, one-third of all planted acres. We are the top beef processing State. That might come as some surprise to you, being from Texas, but we have more cattle than people. They are in a better mood, by the way.

[Laughter.]

Senator ROBERTS. At any rate, I am very much attuned and agree with the Chairman of the Finance Committee that we have a real problem on our hands, an ongoing challenge on our hands. I hope we can reopen our foreign beef markets in the post-BSE area. I think we have made some progress, and that has to go to your credit to get our trading partners to really start to rely on sound science instead of being governed by fear and politics.

But I am concerned about the anti-trade sentiment in Congress, which I think has stalled action on a number of opportunities, and it has been mentioned before, South Korea, Panama, and Colombia, more especially Colombia and what Senator Lugar was talking about. We have a new president. The FARC is getting active again. Just as they have apparently won that battle, here they come back again. That is sort of the history of those kind of things. But they are being aided and abetted by Hugo Chavez, who is the new Castro, self-declared, in the area. So it is a very dicey situation.

And then Senator Johanns pointed out the 45 percent drop in exports in 2010, $811 million for all farm commodities, 87 percent drop in wheat exports to Colombia. This is not only an economic situation, but it is a national security situation, as well, and the same thing applies to South Korea, given the relationship with North Korea and all that is going on. And so trade, more especially agriculture trade, can level that situation out a great deal. You know that. I don't have to tell you that.

You indicated you are going to make every effort to— and let me say you have done an excellent job, a great job with very difficult circumstances to try to emphasize the value of our agriculture trade. But you said that we need to reform their behavior and get them to come to the table, and we need a compelling use. Well, I don't know what on earth would be more compelling than the economic situation we face in this country and our national security concerns and the fact that we have other countries taking over our markets. I mean, that is pretty compelling to me, if we just get past basically what is opposition by labor in this country and by some in the environmental community—I emphasize some.

I note the story in the Wall Street Journal, I don't know if you have read it, but it is a pretty good headline: Obama courts labor support for trade deal. I hope he can do that. But he said at the Group of 20 Nations Summit in Seoul in November, already referred to by the Chairman and Senator Chambliss, he has made it a centerpiece of his efforts to boost U.S. exports and job growth to convince labor that the matter is particularly sensitive now as Democrats try to retain union support in advance of the mid-term elections. I hope we don't have that interfere in our efforts to the degree that we don't make any progress.

But interestingly enough, you have said—well, not you personally, but the USTR, so I guess that is you, filing a complaint against Guatemala for allegedly—I emphasize allegedly—violating workers' rights under an existing trade accord with the country, that will hopefully reassure labor in this country that it will reflect labor concerns and talks over any accord with Korea.

I would hope that the trade agreement in Korea would stand on its own merits and we wouldn't have to run around finding different countries where they are allegedly violating workers' rights, or say in Colombia that the government is not really treating labor leaders there in the proper fashion, well, let the FARC take over and see what happens to them. I mean, that doesn't make any sense.

Here we are, filing a complaint against Guatemala for allegedly violating workers' rights, not to really further our efforts with Guatemala, but to prove to labor in this country to quit opposing these FTAs in the three countries that we have mentioned over and over and over and over again for 18 months, and it seems like we are treading water. I don't know what—I think your primary challenge is to convince the labor community and the environmental community in this country that these agreements are in our best interest. Would you respond to that?

Ambassador Kirk. Senator, let me thank you for your observations about our efforts to advance not only agricultural exports and others.

Secondly, I would only say to you, and I want to be careful, I didn't see the article you referenced, the decision we made on Guatemala stands on its own. The decision by the President to announce, I guess, what, 30 days ago to move forward with Korea stands on its own. And neither of the two go hand-in-hand. Our enforcement efforts are based on the simple premise that we believe the American public have raised a legitimate concern that the United States hasn't paid as much attention to enforcing our trade deals and holding our partners' feet to the fire sometimes as we have been in just opening new markets.

So it was the right thing to do in Guatemala. The case was filed two years ago. We had extensive investigations with the Department of Labor and we think it is important that Guatemala live by the terms of its agreement.

The Korea, Panama, Colombia agreements will each stand on their own merits. But I would again submit to you that the time that we have invested in listening to not only those of us who want me to put my foot to the pedal and just go forward with these agreements, but, frankly, those that have raised concerns, I think it is time that is well spent and will allow us to get to where you and I would like to go, be in a position to bring these agreements to Congress so that we can move forward.

Well, I think you are working—I would ask my distinguished colleague, the Ranking Member, for an additional minute or two, if that is permissible.

Senator CHAMBLISS. [Presiding.] Without objection.

Senator ROBERTS. I thank my friend and colleague.

I don't know what comes first. If you have a trade agreement—I know the situation with China. They are making trade agreements with a whole bunch of folks and the trade with China is exploding. As a result, you have seen even labor strikes in China. Who would have thought you would have seen a labor strike in China five years ago. I mean, that would not have been possible. So if you have the trade agreement and you get the benefits of economic trade and the wherewithal in terms of individual citizens improve and workers' rights improve, but you had the trade agreement first and then you had the trade and then you have the progress.

Now, it seems to me we get the cart before the horse if we, in fact, insist on labor concerns or criteria—I don't know what they are other than just people making speeches, and the same in the environmental community. So we put a criteria on a sovereign country and say, you have to live up to the criteria that we think is good for you. Well, I will tell you what. If I am the sovereign country and I find another person that is going to sign a trade agreement with me without that criteria, I do it, and I think that is what has happened.

So you have got to figure out if you make the speech and you are satisfying, you know, the labor movement in the United States, if you satisfy the environmental community, more especially before November, that is one thing. But if you pass a trade agreement and you achieve those same things actually on the ground, that is another thing. Now, I don't know if that is a question or not, but please feel free to respond.

Ambassador Kirk. Well, I will accept the "or not" part of that question, if that is permissible with you, Senator.

[Laughter.]

Senator ROBERTS. Okay. Well, thank you very much for appearing and thank you for the job that you are trying to do. I think it is very challenging, but I agree with the Chairman of the Finance Committee. There is no need to be holding hearings if we are treading water on trade. We have done that for 18 months.

I thank the Senator.

Ambassador Kirk. Thank you, Senator.

Senator CHAMBLISS. Ambassador Kirk, Senator Thune has indicated he wants to come back, so we are not going to let you leave until he gets back here.

[Laughter.]

Ambassador Kirk. I know you have another panel to hear from, as much as I am enjoying this engagement. I certainly don't want to——

Senator CHAMBLISS. Well, we are not going to hold them up too bad.

Let us talk for a minute more about the situation involved in the export of chickens into Russia. I know we had some conversation about this. We thought this was a done deal, and then all of a sudden, I understand last Friday afternoon we hear from the Russians that they are not going to let imports into their country without having inspectors on the ground in the United States. What can you tell us from an update standpoint on where we are there and what do we need to do as policy makers to try to provide the right kind of assistance to you on this issue?

Ambassador Kirk. Well, first of all, your recitation of the recent events, unfortunately, is a correct one. We were as surprised as you. As you know, when President Medvedev was here just last month, this was an issue that rose to the level even of President Obama and Vice President Biden, all of us rose with President Medvedev. President Obama and Medvedev directed the trade ministers at that time to sit down and see if we couldn't come up with a resolution of this poultry issue, and President Obama was, frankly, very honest that Russia's inability to just sort of meet basic agreements and commitments was one that sort of clouded our thinking in terms of our overall objective of having Russia in the WTO.

We negotiated an agreement to come up with a protocol to allow us to resume poultry shipments. We had some difficulty, frankly, in getting Russia to sign that. We thought we had it signed last week. Secretary Vilsack and, again, Secretary Siddiqui and our team have been on the phone almost daily with our counterparts with Russia. We thought we had this issue put to bed Friday. The Secretary of the USDA, as you know, had put out regulations in terms of certifying the plants here. We felt the matter was put to bed. We had poultry packed and ready to go. Then we learned of this newest challenge.

So, one, I know Secretary Vilsack and our team are reaching out to the Russians again to see if we can't get them to adhere to the agreement they have made, and I would encourage you, Senator, to express your sentiments to the Russians in whatever way you feel is appropriate. But we think it is just not too much to ask to get them to agree what they—I mean, to live up to an agreement they signed just three weeks ago.

Senator CHAMBLISS. Well, again, we appreciate your efforts on this. I know you have been very diligent on it and the Chairman and I will talk about some way that we might impress upon the Russians how important this is to us. When you have a deal and the deal is done and you are supposed to stick by it, and here we are not being able to trust the Russians to keep their word on the import of chickens into Russia, and yet we are in the process, and I am one of those who is on the fence on the issue of whether or not trust the Russians from the standpoint of the issue of nuclear weapons.

So this type of action on the part of the Russians does not benefit them in the eyes of a lot of policy makers who are trying to make up their mind relative to the START treaty. If we can't work out a deal on chickens and they keep their word, what can we expect from them on inspection of nuclear weapon facilities?

Going back to the issue that we touched on a little bit earlier relative to West African cotton producing countries, recent reports have indicated that those countries, also known as C4, plan to step up pressure on the United States and the EU for what they consider unfair trade practices. This comes at a time when world prices and demand have, frankly, improved pretty dramatically. Have there been any recent discussions between the United States and the C4 on this issue?

Ambassador Kirk. Senator, there have, and your question is actually very timely. You may know or may not know, we actually just concluded yesterday the Ninth Annual AGOA Forum, the African Growth and Opportunity Act, and this is the ten-year anniversary of that, and obviously a number of members of the C4. We had 35 trade ministers, commerce ministers, ambassadors here, and we had a number of individual bilateral meetings with them.

You should not be surprised that after our ability, again, working with the Department of Agriculture to avoid what could have been some pretty devastating retaliation by Brazil over the cotton case they filed against us, that the C4 have intensified their interest in this. But we continue to press upon them that, first of all, a resolution of U.S. cotton subsidies and other issues is only going to occur through a balanced conclusion to the Doha Round.

But secondly, we have also been very honest in addressing with them underlying issues of desperately needed investment in Africa's infrastructure that would have to be made separate and apart from whatever the United States may do or the Europeans may do in terms of our approach to cotton support, that if we were to resolve those issues right now, the reality is the principal beneficiaries would be Brazil and other countries that have much more advanced support programs and infrastructure to be able to export cotton.

So I don't know if that satisfies them. These are truly some of the poorest economies in the world. But at least we have tried to engage them in a much more honest discussion about what all has to happen to increase their export competitiveness.

Senator CHAMBLISS. Senator Thune?

Senator THUNE. Thank you. I appreciate the Senator from Georgia giving me an opportunity, and Ambassador, thanks for your indulgence, too, as we try and work around the votes.

I just want to read a quote to you from a U.S. Chamber of Commerce study, and it says, and I quote, "If the EU and Canada implement their Free Trade Agreements with Korea and Colombia and the United States does not, exporters in the EU and Canada will enjoy a competitive advantage over U.S. exporters in the Korean and Colombian markets. Specifically, failure to implement the U.S. Free Trade Agreements while our trading partners go forward with their agreements would lead to a decline of $40.2 billion in U.S. exports of goods and services and U.S. national output failing to grow by $44.8 billion. The study estimates that the total net negative impact on U.S. employment from these trade and output losses could total 383,400 jobs."

I guess the point I am making is that this issue really comes down to, when you are talking about growing the economy and creating jobs, this is about economic growth. We are trying to get back on track here and get the economy growing again. There are tremendous export opportunities that are available to us that we are not able to access because we haven't gotten these implementing agreements submitted to Congress and moving forward with what I think are almost—these just seem like, for the most part, no-brainers in terms of these trade agreements.

I guess my question for you has to do with regard to Colombia, Panama, and South Korea. Can you quantify for the committee the amount of tariffs that our agriculture industry has paid to each of these countries since these Free Trade Agreements have been signed?

Ambassador Kirk. Senator, I don't have that information now. We will get that information for you, if you don't mind, and resubmit that to you. What I would say is we have been working very closely with the Chamber and others that are interested in Korea, and for the reasons that you articulated in reading the Chamber's statistics, it was a rationale both behind the President's announcement not only at the G–20 Summit in Canada, but frankly, when in his State of the Union people only heard the part of the statement about doubling exports. But he also spoke to the reality of us being in a very competitive global environment.

Now, I want to make it plain. Our rationale in moving forward is not because Korea has signed a Free Trade Agreement with the European Union and Canada. That certainly would not be to our advantage.

I would like to give you the other statistics. If we get this done, and I believe we will, there is a $10 billion upside for us, and rather than losing jobs, the opportunity to add 70,000 jobs. And while I will get you the statistics and try to get the analysis you wanted looking back, but looking forward, the one great advantage is if we can get this Korea deal done and signed, is that about two-thirds of our tariffs on agriculture go away immediately. And then many of them will be phased out over ten years.

So the upside in Korea is a huge market for us in terms of agricultural exports already. So it represents a very real opportunity for us to not only grow agricultural exports, but to help create jobs and grow the economy, and we think that is worth fighting for and that is one of the reasons the President has asked us to try to get this done.

Senator THUNE. Have the outstanding issues that the administration feels need to be resolved with these various countries been communicated to those countries, and what has been the response?

Ambassador Kirk. In the case of Korea, certainly, I think it is generally accepted that concerns over the market access in autos, and you heard Senator Baucus and others speak about beef.

In the case of Panama, there are a number of issues that we wanted to see them address on labor and the rights of workers and justice. And I want to make it plain. We are not trying to impose our U.S. labor code on other countries, but there are some generally accepted provisions encompassed in the May 10 agreement we did with Peru that had support from Democrats and Republicans, we don't think are too much to ask. And in Panama, we did have the intervening factor of the OECD identifying Panama as a tax haven. So in our defense, I would say the issue of their coming up with an acceptable answer for that is not only one for the U.S., but with all of Panama's other trade partners. But we are making progress on that.

In the case of Colombia, we did publish a notice in the Federal Register last August, one, so we could try to move just beyond some of the rhetoric over violence and really drill down and come up with a list that we can present to Colombia. We are now in the interagency review process to refine that, but again, trying to work in an expedited but thoughtful manner to meet the President's goal, as well, to present this to you sooner rather than later.

Senator THUNE. With the new Colombian administration about to take power, does the outlook for the Free Trade Agreement with Colombia improve?

Ambassador Kirk. Yes. In fairness, Colombia has been ready to do this deal, because I want to make it plain that we are anticipating as good of a working relationship with the new Santos administration. But President Uribe and his team and Ambassador Barco have been wonderful to work with. So we don't see any break in the good relationship we had with them, and frankly, a lot of it has been our trying to work through some of the issues on our side so we can move forward.

Senator THUNE. And that is, I guess, what makes this so sort of perplexing, is that it seems like that one has been teed up for a long time and great cooperation from the country. So I would hope that, because as the President did say in the State of the Union, which is now many, many months ago that he wanted to double exports, and this is critical if we are going to be able to do that, and if we don't get these agreements signed, we are going to lose significant market opportunities to competitors. And I think the producers in places like South Dakota and other areas in America where we have strong, vibrant agricultural economies are going to really lose out.

So I will share and echo the frustration you have heard from many of my colleagues here today that these things aren't getting done and would urge you to move forward as quickly as possible.

Ambassador Kirk. We will do so, and Senator, we will need your support in that effort. Thank you.

Senator THUNE. Thank you, Mr. Chairman.

Senator CHAMBLISS. Mr. Ambassador, again, we thank you for coming today, and as you told the Chairman and I before the hearing this morning, it is the first time in a long time we have had the Trade Ambassador appear officially. Both Ambassador Portman and Ambassador Schwab used to come by informally, but we thank you for coming in and officially testifying at a hearing before the Agriculture Committee.

I would simply say that our relationship with South Korea is very strong. We have got a brand new Kia plant that has opened in my State in the last several months. It has created 1,500 jobs for Georgians directly and probably at least another 1,500 at supplier facilities around the Western part of my State, the Eastern part of Alabama. We are very pleased with our relationship with the Koreans there.

That being said, I think what you are going to find is pretty near unanimous consent around here with the statements of Senator Baucus. So I urge you to continue to proceed down the road of trying to conclude this, and we look forward to that being the case.

But thank you very much for being here today and for your continued efforts in this.

Ambassador Kirk. Senator, thank you so much, and we would welcome the opportunity to come back and visit with the committee at any time. And I particularly want to thank you for working with us on a number of issues important to American agriculture.

And if I might say this, and since you referenced the Kia plant in Georgia, and I know the issues on autos are important. I mean, there are 790,000 Kias sold in the United States, less than 7,000 American cars of any kind sold in Korea, and that is unacceptable. But, on the other hand, with the increased production in the U.S., the number of Korean imports have actually declined as more and more of their cars sold are being produced here in the United States, which is something we would like to see, so that they are made by American workers.

But thank you for your encouragement and we look forward to continuing to work with you and all the members of the committee.

Senator CHAMBLISS. Great. Thank you very much.

And as the Ambassador exits, we will ask our second panel, Mr. Danny Murphy, Vice President of the American Soybean Association from Canton, Mississippi; Mr. Joe Mencer, Board Member of the USA Rice Federation, USA Rice Producers Group, and Arkansas Rice Producers Group, Lake Village, Arkansas; Mr. Duane Rhodes, Vice President of International Sales, Tyson Foods, on behalf of the National Chicken Council; and Mr. Brent Roggie, General Manager and Chief Operating Officer of the National Grape Cooperative Association, on behalf of the National Council of Farmer Cooperatives, to come forward.

[Pause.]

Chairman LINCOLN. [Presiding.] All right. I thank the committee for their patience, and certainly for our panelists, we want to welcome you all. And again, I want to add my special thanks to Joe Mencer, who is a rice, cotton, corn, and soybean farmer from Lake Village, Arkansas, where he has been farming for 30 years on land owned by his family for 75 years. He serves on the USA Rice Federation Board in the Executive Committee and the USA Rice Producers Group Board as Vice Chairman of the USA Rice Council. Joe, thanks for being here. We are grateful to you.

And also, Duane Rhodes of Springdale, Arkansas, Vice President of Export, Poultry, and Prepared Foods for Tyson Foods, where he has worked for the past 25 years. He is Vice Chairman of the Board of the U.S. Poultry and Egg Export Council.

We appreciate both of you all being here from Arkansas as well as our other panelists, Danny Murphy, who is my neighbor there in Mississippi. We are grateful to you. And Brent Roggie, thank you so much for being here, as well.

We are going to now move to your testimony, and I believe if it is appropriate—Senator Cochran, have you made your comments? Would you like to speak?

Senator COCHRAN. Madam Chairman, I would like to have an opportunity to welcome——

Chairman LINCOLN. Good.

Senator COCHRAN. —one of my favorite constituents, who is a member of this panel. I want to welcome Mr. Danny Murphy of Canton, Mississippi, and to thank him for his leadership and service to both his community and the agriculture community in my State.

He and his wife and two sons are here today. He represents the State of Mississippi on the American Soybean Association Board. He is also an active farmer with his brother. They farm 1,500 acres of soybeans and corn in our State. He has served in numerous positions of leadership since his election to the Board of the American Soybean Association back in 2005.

I am glad to see him here and to extend the welcome to him and his family. We are happy that he could be here.

Chairman LINCOLN. Great. Thank you, Senator Cochran.

We are going to wait and see. Senator Gillibrand wanted to be able to be here, so Mr. Roggie, I will give you a better introduction as we get down to you, but we will begin with Mr. Murphy.

STATEMENT OF DANNY MURPHY, VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, CANTON, MISSISSIPPI

Mr. MURPHY. Good morning, Madam Chairman and members of the committee. I am Danny Murphy, a soybean producer from Canton, Mississippi, and Vice President of the American Soybean Association. ASA appreciates the opportunity to appear before you today to provide our views on international trade issues, including the export promotion provisions of the 2008 farm bill.

Soybeans are the second largest commodity in the United States in terms of annual acreage and value, with 78 million acres planted and a farm-gate value of $32 billion in 2009. Soybeans and soybean products are the most important U.S. export commodity, with sales exceeding $21 billion last year. This represents over 50 percent of U.S. soybean production and 21 percent of total U.S. agricultural exports in 2009.

As producers of the largest export dependent commodity, soybean farmers have historically made international trade a top priority. ASA has actively participated in negotiations on and strongly supported enactment of every multilateral, regional, and bilateral trade agreement the United States has engaged in. We have worked closely with every administration to ensure enforcement of these agreements, including their sanitary and phytosanitary provisions, and we have successfully protected access for U.S. soybean exports to foreign markets as new biotech traits have been introduced over the last 15 years.

Looking to the future, the growth in world population and demand in developing countries for an improved diet, including more livestock products and vegetable oils, indicates a pressing need to increase soybean production over the next several decades. With limited opportunities to expand U.S. soybean acreage, most of this increase will need to come from raising yields. ASA has strongly supported greater funding for agriculture research, including the President's request for $429 million in the fiscal year 2011 funding for the Agricultural and Food Research Initiative. We are also working closely with companies that are developing new traits to increase soybean yields, protein and oil content, and other quality characteristics.

ASA was pleased with the President's commitment to double the value of U.S. exports under the National Export Initiative. Efforts to contribute toward achieving this goal in the agricultural sector will require Congressional approval of the pending Free Trade Agreements with Colombia, South Korea, and Panama, negotiation of new Free Trade Agreements with key importing countries, and progress on the Asia-Pacific Economic Cooperation Regional Agreement. Delay in approving the Colombia Free Trade Agreement has caused us to lose over 50 percent of our market share for soybean meal. Negotiation of new Free Trade Agreements will require renewal of Presidential Trade Promotion Authority, which is a top priority for ASA.

Action is also needed on legislation to normalize financial relations with Cuba. S. 3112, introduced by Senators Klobuchar and Enzi, would eliminate current financing restrictions as well as lift the ban on U.S. citizens traveling to Cuba. Cuba imported $284 million worth of U.S. soybeans, meal, oil, and livestock products in 2009. Normalizing financial relations would improve the competitiveness of U.S. soybeans and soybean and livestock product exports to the Cuban market.

Turning to the trade title of the 2008 farm bill, ASA is one of the largest recipients of funds under the Export Promotion Program of USDA's Foreign Agricultural Service, including $6.8 million under the Foreign Market Development Program and $5.1 million under the Market Access Program. These funds are matched with soybean farmer check-off dollars contributed by the United Soybean Board. ASA strongly supports maintaining funding for the export promotion programs at current levels for fiscal year 2011 and increasing these levels in the 2012 farm bill.

Finally, ASA continues to follow efforts to revive negotiations on the Doha WTO Trade Agreement. In December 2008, we joined other agricultural organizations in opposing the draft agricultural modalities framework known as the Falconer Text because it provides little assurance of improved market access for U.S. farm exports in exchange for major concessions on trade distorting domestic support. We stated at the time and repeat now that no agreement is better than a bad agreement. If the Falconer Text cannot be significantly changed, developing countries will need to make meaningful concessions during bilateral negotiations if the Doha Round is to be revived and completed.

That concludes my statement, Madam Chairman, and I will be pleased to answer any questions you or other members of the committee may have.

And I would like to add just a personal note that on behalf of the Mississippi farmers who were inundated with the rains last fall, we appreciate your work and Senator Cochran's work on the disaster assistance. Thank you.

[The prepared statement of Mr. Murphy can be found on page 63 in the appendix.]

Chairman LINCOLN. Thank you, Mr. Murphy. And as somebody that has walked soybean fields with a machete chopping down coffee bean plants, we appreciate your leadership on behalf of the American Soybean Association and those hard-working farm families out there across the country, so thank you.

Mr. MURPHY. Thank you.

Chairman LINCOLN. And we will continue to work hard on that disaster assistance.

Mr. MURPHY. Thanks.

Chairman LINCOLN. Joe Mencer, who is a rice, cotton, and soybean farmer from Lake Village, just across the river from Mississippi. Joe, thank you for being here and for all of your hard work on behalf of growers not only in Arkansas, but across the country.

STATEMENT OF JOE MENCER, BOARD MEMBER, USA RICE FEDERATION; BOARD MEMBER, USA RICE PRODUCERS GROUP; VICE CHAIRMAN, USA RICE COUNCIL; AND ARKANSAS RICE PRODUCERS GROUP, LAKE VILLAGE, ARKANSAS

Mr. MENCER. It is my pleasure, Madam Chair. I would like to thank you and Senator Cochran for the opportunity to appear here today. I appear on behalf of USA Rice Federation and the USA Rice Producers Associations. Our two organizations represent rice producers in all the major rice producing States. We represent millers, merchants, exporters, and allied businesses.

As you know, Arkansas is the largest rice producing State. We grow about 1.5 million acres, average, on an annual basis, and that is about half of the U.S. crop. Rice is also produced on another 1.7 million in five other States. Last year, U.S. farmers produced a rice crop of over $3 billion in farm-gate value. This production and subsequent sales generated $17.5 billion in total value added to the U.S. economy from rice production, milling, selected end users, and had the employment effect of contributing 127,000 jobs to the U.S. labor force.

The U.S. rice sector is a key player in the global rice market and the economic health of our industry is tied to exports, even though we only produce about two percent of the world's production. We export rice across the globe, with a major presence in North and Central America, Northeast Asia, the EU, Turkey, the Middle East, and Africa.

Trade policy is the key focus of our industry, since we are greatly dependent on export channels to market nearly half of our annual production. Over the past 25 years, U.S. rice exports have risen from just under two million tons to nearly 3.5 million tons, and that is largely because of policy gains made in key rice consumption markets and the joint international promotion work of the rice industry and the USDA. We believe that significant additional exports can be made if the public and private market promotion and development partnership with USDA is continued in combination with an aggressive trade policy agenda.

The U.S. rice industry receives $5.7 million in our current fiscal year from the Market Access Program and Foreign Market Development Program to promote rice in foreign markets. For every one dollar that is received in these programs, the industry in turn spends $3.91.

Trade agreements are central to our current level of U.S. rice exports and for future expansion. Prior to NAFTA, rice exports to Mexico faced high tariffs, discrimination against milled rice, and government control of imports. Today, U.S. rice trades duty-free into Mexico and it is now the number one export for U.S. rice, with over 833,000 tons in the 2009 crop year.

Future trade agreements must be inclusive of all tariff lines, must reflect a level of participation by advanced developing countries commensurate with their economic development, and include market access gains for U.S. agriculture while preserving the ability of U.S. agriculture to maintain a viable domestic farm safety net.

One key export market that can be opened very easily and requires only action by the U.S. Government is Cuba. Our industry, along with much of U.S. agriculture, favors an opening of trade and travel to Cuba. The ability of American citizens to travel freely to Cuba and to engage in the full range of commercial activities in Cuba is essential to a successful and meaningful market establishment there.

Cuban rice imports have averaged nearly 600,000 metric tons annually for the last five years, and U.S. suppliers enjoy logistical advantages to meet this demand, but our current policy thwarts this advantage. U.S. rice sales to Cuba resumed in 2001 with the passage of the Trade Sanction Reform and Export Enhancement Act, until sales faltered following the 2005 regulation change by the Department of Treasury. This regulation effectively placed the U.S. administration between a willing buyer and seller. It impedes the ability of U.S. companies to export and should be permanently repealed.

We also urge support and passage of legislation that would allow for open agricultural trade and travel to Cuba, and two such bills that would do this are S. 1089 and S. 3112.

In terms of pending trade agreements, rice was completely excluded from the trade agreement with South Korea and it blocked us out of that market forever. We do encourage the agreements with Colombia and Panama and we urge Congress and the administration to move forward on those two trade agreements.

Rice farmers and exporters are also facing a challenge in the European market now because of an accidental presence of the Liberty Link gene that was introduced into the rice crop in 2006, and we lost that market just overnight. We need the administration's help to restore that market. After four years of market absence combined with high and complex tariffs on U.S. rice, duty-free competition from India and Pakistan, and the prospective threat of duty-free competition from the developing countries has set back U.S. exports into the European market. We are pleased to be working with Ambassador Siddiqui and others on Ambassador Kirk's team to address our immediate access problems in the European market.

We feel that there is a duty on brown rice imports in the European market that are not being met under the WTO requirements and we need the support of this committee and the administration to try to get those duties removed from brown rice.

And in summary, Congress and the administration should commit to restore normal commercial relations between the U.S. and Cuba, approve Free Trade Agreements with Colombia and Panama as well as South Korea. We don't oppose that, even though we were left out. And we need to negotiate a balanced agreement in the Doha Round for future trade agreements that expand for access of U.S. rice and other agriculture exports into other countries. And, most of all, provide sufficient funds and resources and policy to direct USDA so they can carry out the important function of Export Market Promotion and elimination of phytosanitary and veterinary bases to trade.

In closing, we would like to thank the committee for the opportunity to present rice's issues here today and I would be happy to take any questions.

[The prepared statement of Mr. Mencer can be found on page 50 in the appendix.]

Chairman LINCOLN. Thank you, Joe. We appreciate all that you do, and again, having walked a rice levee or two myself, we are grateful to you all with the U.S. Rice Federation and the Rice Producers Group and grateful for your leadership, as well.

I should have noted earlier that we will hold our questions until everyone has given their testimony.

Mr. Rhodes, thank you for coming to the committee, as well. We are grateful for your presence here. I would say a special thanks, as well, for your conversations earlier with the staff of the committee on the Russian poultry issue. Senator Chambliss and I had an opportunity to visit privately with the Ambassador, as well, and we will continue to be working with you all in the industry and others to really come up with the kind of resolutions that we need in an expeditious way. So we appreciate very much your input on that, as well.

We look forward to working with you. So thanks for your leadership in the poultry industry and the livestock industry and we would love to have your testimony. Thanks.

STATEMENT OF DUANE RHODES, VICE PRESIDENT OF EXPORT, POULTRY AND PREPARED FOODS, TYSON FOODS; SECOND VICE CHAIRMAN, USA POULTRY AND EGG EXPORT COUNCIL; ON BEHALF OF THE NATIONAL CHICKEN COUNCIL, SPRINGDALE, ARKANSAS

Mr. RHODES. Well, good morning and thank you, Senator Lincoln, Senator Chambliss, and committee members, for the opportunity to present the U.S. poultry industry's views on critical international trade issues.

I am Duane Rhodes, Vice President of Export Poultry and Prepared Foods for Tyson Foods, Incorporated, based in Springdale, Arkansas. I also serve as the Second Vice Chairman of the USA Poultry and Egg Export Council. This morning, I am representing the National Chicken Council. NCC represents companies including Tyson Foods which produce and process about 95 percent of the chicken in the United States. Also, as Tyson is a major processor and exporter of beef and pork, I will provide some thoughts on the exports of fresh meats, as well.

To begin, I want to thank you, Chairman Lincoln, as well as Ranking Member Chambliss, for working closely with the administration to reopen the Russian market for U.S. poultry. A quarter of the Senate expressed in writing to President Obama the critical need to achieve a resolution of the six-month stalemate on U.S. poultry exports to Russia. This strong statement by the Congress on a difficult trade issue was a major factor in helping to convince the Russian President to conclude an agreement to restore U.S.-Russian poultry trade, at least at the end of June.

Poultry exports to Russia, like poultry exports to most foreign countries, consist mainly of chicken leg quarters. In 2009, more than 19.5 percent of the chicken that we produced in the United States was exported, a record percentage. Exporting the "back of the bird" is critical to keeping the U.S. chicken supply in better balance for overall demand.

With impediments to our two largest poultry export markets, Russia and China, poultry exports are down for 2010. Fortunately, there is some good news with beef and pork exports. Beef exports total $3.7 billion this year, just short of the 2003 pre-BSE levels, and pork exports are expected to be the second largest on record, at $4.5 billion.

Across the poultry and meat sectors, we are optimistic that the U.S. Government focus on trade can yield very positive results. That is why we were pleased when President Obama called for doubling the U.S. exports in the next five years, including agricultural exports. The President's plan, the National Export Initiative, sends a strong signal to foreign competitors that U.S. agriculture will become more aggressive in securing its fair share of the world market for our food and agricultural products.

For our industry, we believe there are two critical components to making the President's plan a success. First, the United States must have policies and programs in place to help U.S. agriculture compete effectively overseas. USDA's Foreign Agricultural Service administers two important export promotion and market development programs, the Market Access Program, MAP, and the Foreign Market Development, FMD. Both programs will require increased funding to maximize agriculture's contribution to the National Export Initiative's goal. The bottom line is that all sectors of the U.S. economy and agriculture will need to be energized to meet the President's goal.

A second critical component is Congressional approval of the Korean, Colombian, and Panamanian Free Trade Agreements. These trade agreements should more appropriately be called Job Creation Agreements, because that definitely is what they would be for agriculture. According to a recent industry study, more than 29,000 meat and poultry jobs would be added as a result of full implementation of the three FTAs.

There is also no question that the FTAs and increased trade generally boost our overall economy. According to the USDA, for every $1 billion in agricultural trade, 9,000 American jobs are created. It is worth noting that leading agricultural export States, as Arkansas and Georgia, are well positioned to benefit from the increased trade.

A final area that I would highlight for the committee is China. In recent years, exports to China have been a real success story for the poultry industry, and China was our second largest export market in 2009. However, earlier this year, China imposed very high preliminary anti-dumping and countervailing duties on U.S. chicken and chicken parts and these duties may soon be finalized. While our industry certainly disagrees with China's rationale for these cases, the focus should be on the most effective way for U.S. poultry exporters to regain fair access to the China market.

One effort that may prove productive in reestablishing trade in China is an industry proposal to settle the anti-dumping and countervailing duty cases by establishing a minimum selling price for a number of chicken parts. USTR and USDA have agreed to support this initiative and the Chinese government has also indicated a strong interest in such an arrangement. We would ask for this committee's support for this initiative, as well.

Another challenge for poultry for China concerns is China's continued ban on imports of poultry either processed in or moved through U.S. States that have reported an incident of low-pathogenic AI. Unfortunately, China is not imposing or lifting these bans in accordance with World Health Organization OIE guidelines. For Tyson, the cumulative effect of these State bans, which includes the Chairman's own State, is roughly 50 percent of our export capacity is blocked. This is a problem that could grow worse if not addressed.

As this committee knows, there is great opportunity in China not only for poultry, but for beef and pork, as well. There is progress on the pork exports, but the beef industry still lacks a Market Access Agreement. We urge this committee and the administration to push for a beef agreement with China that will open the market to beef from cattle aged 30 months and under as an initial step, with additional market access phased in.

In closing, although this list of issues facing U.S. poultry and meat exports is challenging and seemingly ever growing, we know that we produce the world's highest quality products and we are optimistic about the future. In order to maximize poultry exports in the years ahead, we will need robust export promotion programs, expanded markets through Free Trade Agreements, and assistance in overcoming non-science-based sanitary and veterinary prohibitions.

I appreciate the committee's attention to these issues and will be happy to answer any questions.

[The prepared statement of Mr. Rhodes can be found on page 66 in the appendix.]

Chairman LINCOLN. Thank you, Mr. Rhodes.

Mr. Roggie, Senator Gillibrand had hoped to be here—I think she is going to still be joining us—but I would like to go ahead and introduce you, if I may.

Brent Roggie, who grew up on a dairy farm in Upstate New York has served for the past ten years as General Manager and Chief Operating Officer of the National Grape Cooperative, representing members in New York, Pennsylvania, Ohio, Michigan, and Washington State. We know that your industries are vital both to the economy here in the U.S. as well as our exports and we are grateful that you are here today to give us your testimony, so thank you, Mr. Roggie.

STATEMENT OF BRENT ROGGIE, GENERAL MANAGER AND CHIEF OPERATING OFFICER, NATIONAL GRAPE COOPERATIVE ASSOCIATION; ON BEHALF OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES, WESTFIELD, NEW YORK

Mr. ROGGIE. Thank you. Chairman Lincoln, Ranking Member Chambliss, and members of the committee, thank you for the opportunity today to testify on the importance of international trade in promoting U.S. agricultural exports. On behalf of National Grape's grower members and the more than two million farmers and ranchers who belong to farmer cooperatives, I appreciate that this statement will be made part of the official hearing record.

I am Brent Roggie, General Manager of the National Grape Cooperative. It is an agricultural cooperative that has 1,150 members who own and operate 46,000 acres of Concord and Niagara grapes, as was mentioned, in New York, Pennsylvania, Ohio, Michigan, and the State of Washington. I also serve on the Executive Council of the National Council of Farmer Cooperatives.

National Grape actually owns Welch's, which processes and then markets our members' grapes in the United States and over 51 other countries. Farmer cooperatives such as National Grape allow individual farmers, I believe, to truly participate in the food and fiber system all the way from the farm to retail. We have built well-known brands that you see every day on the supermarket shelves. We have also built the relationships and networks to help expand the demand for these brands and markets overseas. The earnings from these sales are returned to the farmer owners and help to provide market-based income from beyond the farm-gate.

For National Grape's grower-owners, the Welch's brand is key to expanding market demand and increasing profitability, and foreign markets represent the greatest potential to do just that. Seventy percent of the world's juice is consumed outside of the United States, and foreign juice consumption is expected to increase at four times the rate of U.S. consumption. While foreign markets account for 15 percent of Welch's sales, they represent as much as 26 percent of our growers' income stream.

USDA export promotion programs, such as the Market Access Program and the Foreign Market Development Program, play a vital role in helping farmers and their co-ops capitalize on these opportunities overseas. Both programs have been tremendously successful and extremely cost effective in helping maintain and expand U.S. agricultural exports.

For example, by combining the assistance provided by MAP with a strong Welch's brand, our growers have seen exports to Japan grow by 46 percent just in the last three years, with our volume increasing from 857,000 cases in 2007 to 1,251,000 cases in 2009, and MAP was vital to our success in that market.

Many of my fellow farmer co-op leaders could also testify to the success that they have had in using brands to build market share both here and abroad. This branding differentiates the product in the global marketplace and builds customer loyalty and confidence in quality. As such, the MAP Branded Promotion Program has been instrumental in leveraging farmers' investment in their own co-ops and brands to grow in foreign markets.

Over the next five years, National Grape plans to increase foreign market sales by at least ten percent per year and will be investing heavily to make this possible. Access to matching funds through MAP is critical to our ability to attain these sales goals and enable our grower-owners to remain profitable. Without access to MAP, the effectiveness of our overseas promotion programs would be greatly diminished.

In addition, since promotion programs are allowed under WTO rules, many of America's direct competitors have devoted considerable resources to market development, and MAP helps to level the playing field for American producers.

As you prepare for deliberations on the 2012 farm bill, we strongly encourage the committee to maintain eligibility of farmer co-ops and their branded products under MAP. We also urge continued funding for MAP and FMD at $200 million and $34.5 million annually, respectively, as authorized under the 2008 farm bill.

Passage of the Free Trade Agreements in South Korea, Colombia, and Panama would also help meet the goal of aggressively increasing exports. The situation that our U.S. grape growers face in South Korea illustrates this very well. Currently, our grape juice concentrate is subjected to a 45.5 percent duty, while Chile's competing red grape juice tariff is minimal, and starting next January it is zero. That puts us at a distinct competitive disadvantage, and approval of the U.S.-South Korea FTA would eliminate this disparity. Despite the 45.5 percent duty, we have to maintain a retail premium of just 30 percent, so we are able to make up some of that, but not all of it.

Other issues which will contribute to expanding U.S. agricultural exports include resolving outstanding sanitary and phytosanitary and technical barriers to trade, resolving disputes such as the one with Mexico over trucking, and a successful World Trade Organization Doha Round, one that makes for commercially meaningful advances in market access.

In conclusion, thank you again for the opportunity to testify today before the committee, and thank you for your leadership on behalf of American farmers, ranchers, and their farmer co-ops. We appreciate your support of important agricultural export programs and policies.

I would also like to mention to Chairman Lincoln, we thank you for co-chairing the Congressional Farmer Caucus. We appreciate your leadership in that area.

[The prepared statement of Mr. Roggie can be found on page 79 in the appendix.]

Chairman LINCOLN. Well, thanks to all of you all for making sure that we know directly from the field how important things are and what we can do to be more helpful in terms of both job creation and maintaining a safe and affordable supply of food and fiber, not just for our nation, but for the world.

Just quickly, I would give each of you all also a quick chance, as you represent the point of view of your producer groups, if there is one single most important step that could be taken that would expand exports of your commodities, what do each of you all think? I know you have expressed some concerns, but if there is one single one that you would pick out of all of those, is there any one that from your point of view from a specific producer group? Anyone? Mr. Murphy?

Mr. MURPHY. I would just say that we would like to make sure that the MAP and FMD programs funds are fully funded as authorized. I will add a second point, that we would like to see them applied to Cuba, if we could move forward with this other previous bill.

Chairman LINCOLN. All right. Joe?

Mr. MENCER. I would have to agree with Mr. Murphy. I have got two. It is hard to pick. A Free Trade Agreement with Cuba is vitally important to rice production in the State of Arkansas and the Mid-South.

Chairman LINCOLN. Great. Mr. Rhodes?

Mr. RHODES. I have got two, also.

[Laughter.]

Chairman LINCOLN. You all are breaking the rule, but it is okay.

Mr. RHODES. Okay. Of course, we would love to get a finalized version on the Russian deal. That is on the top of everybody's mind here, I am sure. And the other one would be that in China, that we prevail or get a solution on the countervailing duties and anti-dumping.

Chairman LINCOLN. Great.

Mr. ROGGIE. And with us, I would certainly agree with MAP and FMD I would also remind everyone of the USDA study that was recently concluded in March of 2010. For every dollar that was spent in MAP funding, a $35 return was shown in a cost-benefit analysis. It was just completed. So I would certainly like to have MAP and FMD fully funded, as they were in the 2008 farm bill, and certainly to have the FTA agreements that are currently under negotiation to be completed. And any others that could be started, that would be good, as were mentioned earlier this morning.

Chairman LINCOLN. Okay. Thirty-five-to-one. That is pretty good odds. I am with you on that.

Mr. Murphy, according to USDA economic research, 93 percent of all soybean acres planted in 2010 were planted with seed with one or more genetically engineered traits, so certainly acceptance of these GM crops in international markets is crucial. What more could be done by the U.S. Government to promote the benefits of agricultural biotech?

Mr. MURPHY. I think we need to continue to work on it. Most countries do accept genetically modified traits, but there is always a constant challenge to make sure that when you have a new event, that it is accepted. The EU continues to be a problem, where they have resisted moving forward. I think efforts need to be made in the EU to encourage them to accept our products.

Chairman LINCOLN. It sets a good example. I know that.

Mr. Mencer, after discovery of those trace amounts of unapproved, the Liberty Link 601 gene in the rice supply in 2006, the EU implemented burdensome testing requirements on our rice which basically closed their markets to our product. I understand that those testing requirements have finally been lifted, but the trade has not yet resumed.

I mean, kind of following on the steps of Mr. Murphy there, what steps need to be taken for that to happen? Is there something that we can do, do you think, or any comments that we can make that would help resume some of that trade, building that confidence? I think those things could be very important.

And I know you have mentioned Cuba, and I echo that. The average Cuban consumer eats 150 pounds of rice annually and 80 percent of that is imported. If these current barriers that we have with Cuba were relaxed, do you think the U.S. rice farmers could beat out the rice produced in Vietnam and Thailand for this market, where the Cuban imports are currently sourced from?

Mr. MENCER. On the Cuban issue, we feel like that we have a better quality product than where they are importing the rice from now. Before the ban was put on back in the 1960s, we probably sent them 500,000 to 600,000 tons a year, and most of that came out of the Mid-South or Arkansas. We feel like that they prefer our rice. I think between the logistics of being closer, we can offset the price, higher price of our product by the lower freight rates that it will be costing. We have already proven we can supply the rice to them. It is a preferred product there.

On the European issue, I think just trying to convince the European market that to base their judgments on sound science, that this is not a harmful trait to the rice, maybe would help some. And the issues with the tariffs that they are imposing on brown rice now is just—we don't feel like that is fair. It is not compliant under the WTO requirements. And we think that this committee could urge the administration to try to get those tariffs removed. They should be closer to zero.

Chairman LINCOLN. Right. There is no doubt that the Cubans enjoyed rice from the Southern States in the 1950s to a great degree, and that is certainly evidence to me there is great opportunity to increase that. And certainly with the growing popularity of brown rice, I think you are exactly right. Making sure that those markets are open to us and our products are critical. So thank you very much.

My time has expired and I will turn to the Ranking Member, Senator Chambliss.

Senator CHAMBLISS. Thanks, Madam Chairman, and gentlemen, thanks for your testimony.

This is to each of you. The administration's Interagency Trade Promotion Coordinating Committee recently solicited industry comments regarding the National Export Initiative. Did your national associations or companies provide comments, and if so, can you summarize what those comments were? Mr. Murphy?

Mr. MURPHY. I think we did, and we would have wholeheartedly supported that initiative. As I stated in my testimony, soybeans are critically dependent on exports. Over 50 percent of the crop is exported and the soybean farmer's income depends on exports. Thank you.

Senator CHAMBLISS. Mr. Mencer?

Mr. MENCER. Yes, sir. The Rice Federation did support this doubling of exports and our main focus was this could be achieved for rice by opening the Cuban market and Free Trade Agreements and the help with the European Union issue we have.

Senator CHAMBLISS. Okay. Mr. Rhodes?

Mr. RHODES. Yes, sir. I believe that our trade focused on the FTAs and the MAP support as far as funding and staffing.

Senator CHAMBLISS. Okay. Mr. Roggie?

Mr. ROGGIE. Yes. We had comments that were submitted. We have attached them to our written record and those were through the Ag Export Coalition. It is a coalition of over 100 agricultural companies that submitted that. And basically, it is similar to what these other gentlemen mentioned. It is fully funding MAP, FMD, and working through Free Trade Agreements are the major three.

Senator CHAMBLISS. Mr. Rhodes, Tysons is one of the largest meat processors in the United States, and obviously exporting your products is critically important to you. You heard us discussing with Ambassador Kirk the situation regarding the South Korean FTA. How important is it to a company like Tyson Foods that we have the ability to export all age, all cuts of beef to a country like South Korea versus our limitation now on being able to export only beef under 30 months of age?

Mr. RHODES. Well, it is important to our company, Senator. We actually believe that—you asked about Korea, but China would be the place that, if we had an opportunity to gain access with our beef, would be the place there. I think you are asking, is it kind of a process where you get one thing and then add another one. I think our industry would support that.

Senator CHAMBLISS. Okay. Thanks very much, Madam Chairman.

Chairman LINCOLN. Senator Cochran?

Senator COCHRAN. Madam Chairman, I am pleased to have the opportunity to be here this morning and listen to the testimony we have heard. I think it has been very helpful, instructive about the policies at work and those that need to be modified, improved so that we can gain even more of the world's share of the market from our agricultural products grown and marketed out of the United States. I think that is one of our important roles here in the Congress and this committee is going to be at the forefront, I think, of leading the way, making sure we achieve those goals.

Chairman LINCOLN. Are you done?

[Laughter.]

Chairman LINCOLN. I am sorry——

[Laughter.]

Chairman LINCOLN. Well, thanks to you, Senator Cochran and the other Senators that were here. I want to thank our panel.

I just wanted to mention, too, to Mr. Rhodes that I know your testimony described several instances in which the government of China seemed to be imposing restrictions on U.S. meat and poultry exports. You have mentioned it both in the two things that you wanted to see happen as well as in the comments with Senator Chambliss, some of those restrictions that are inconsistent with WTO obligations, either through improper use of anti-dumping rules or through the SPS rules which ignore the OIE standards. We want to continue to work with you and certainly continue to work as the government contemplates WTO dispute settlement cases against restrictions and see if there is not more that we can do about that. I don't know if you have got any further comments about that, but you have kind of been pretty clear.

Mr. RHODES. Well, the one thing I would like to say in reference to China, in fairness there, that if China—one of the things that I think would help us with just about all our trade issues with China, at least from a poultry area, would be the ability for China to export out of approved facilities fully-cooked poultry to the United States. I think that is a point that would allow them to maybe be more reasonable on our exports.

Chairman LINCOLN. And we have certainly been working with the House and others on that issue and we will——

Mr. RHODES. We appreciate that, Senator.

Chairman LINCOLN. You bet, and continue to do so.

Thanks to all of you all. I would also like to publicly apologize to Senator Thune. I wasn't paying attention and Senator Roberts had already voted. I should have called on Senator Thune to go, but I wasn't paying attention to everybody that was moving around. It may have saved us a little time.

But thanks to our panel here today. We appreciate that. We appreciate all the members for being here and we look forward to continuing to work with you all as we open up markets, understanding how important it is to create jobs in this country. That is going to be a critical part of putting our economy back on track, and we know that you all provide the great industries that can help us do that. We want to continue to work with you and to continue to move in that vein.

So thank you for joining us. We appreciate it. We look forward to continuing that work.

The committee stands adjourned.

A P P E N D I X

AUGUST 4, 2010

Testimony of Ambassador Ron Kirk
August 4, 2010
Senate Committee on Agriculture
Hearing on Promoting U.S. Agricultural Exports
Washington, D.C.

Chairman Lincoln, Ranking Member Chambliss, and members of the Committee, thank you for this opportunity to discuss agricultural trade issues. Because 95 percent of the world's consumers live outside of the United States, exports and trade are vital to the long-term health and viability of American agriculture.

Despite the recent global economic downturn, U.S. agricultural exports have continued to expand, more than doubling from about $50 billion in fiscal year 2000 to a projected $105 billion for fiscal year 2010. Last year, America exported $97 billion in agricultural products, supporting a $23 billion agricultural trade surplus.

Every $1 billion in agriculture exports supports roughly 8,000 jobs in the United States. The Obama Administration is committed to strengthening American agricultural exports and supporting the jobs that come with them.

In this year's State of the Union Address, the President set a goal to double American exports over five years, supporting up to two million additional American jobs. To that end, he created the National Export Initiative to leverage resources across the Administration to help more American farmers, ranchers, businesses, manufacturers, and workers to succeed through trade.

At USTR, we are taking the lead in pursuing new trade opportunities, with a special focus on the world's fastest-growing markets, through initiatives with individual trading partners, across economically significant regions, and with all World Trade Organization Members in the Doha round.

USTR is seeking to resolve outstanding issues on the pending agreements with Korea, Colombia, and Panama. These agreements hold significant opportunities for our farmers and ranchers. In 2009, Colombia was among the largest Central and South American markets for American farm exports, and Korea was our fifth largest agricultural export market. At the President's direction, USTR is focused on resolving outstanding issues with the Korea agreement by the G20 Summit in November.

In the Asia-Pacific, USTR is leading negotiations of a new, high-standard, 21st century Trans-Pacific Partnership (TPP) Agreement that will ensure American farmers and ranchers access to the region's dynamic and growing markets for decades to come.

Globally, USTR remains committed to a balanced and ambitious Doha round. Success will depend particularly on engagement by emerging markets such as China, Brazil, and India, which must make contributions commensurate with their position in the global economy.

As we pursue new market access, the Obama Administration is also ensuring that American farmers and ranchers benefit more fully from existing trade agreements.

American farmers and ranchers now have greater access to world markets because we resolved long-standing disputes and addressed other barriers to U.S. agricultural products – for instance, we succeeded in reopening the markets in Russia, China, Ukraine, Korea, Honduras and Thailand to U.S. pork and/or live hogs after the H1N1 influenza outbreak. Last year, we also took a huge step forward in a 20-year-long dispute with the EU over beef by securing significant additional access at zero duty for America's farmers and ranchers resulting in $48 million in beef sales to the EU from the time the agreement went into force through May.

We are working with Russia on implementation of its June agreement to permit the resumption of U.S. poultry exports to its market – which is potentially worth hundreds of millions of dollars to our poultry farmers. We are also moving forward with a WTO case against Europe's ban on U.S. poultry.

As we press trading partners to open their markets to American agricultural products, USTR is developing new tools to aid enforcement of farmers' and ranchers' trade rights. In March, we published the first USTR reports focused specifically on unjustified technical barriers to trade and non-science based sanitary and phytosanitary standards that unfairly keep our agricultural products out of foreign markets. We are using this information to expand exports of safe, high-quality U.S. agricultural products.

Among our most pressing concerns on agricultural non-tariff measures are Chinese and Indian certification requirements for U.S. dairy exports, and unjustified barriers on beef, pork, and poultry products in China, Japan, Taiwan, and elsewhere.

The Obama Administration is committed to trade policies that keep American farmers and ranchers supplying high quality food and fiber around the world.

Chairman Lincoln, Ranking Member Chambliss, and members of the Committee, thank you again for the opportunity to testify, and I look forward to your questions.

Testimony of

Joe Mencer

On behalf of the USA Rice Federation and the US Rice Producers Association

Before the U.S. Senate Agriculture, Nutrition, and Forestry Committee

Promoting agricultural exports: reviewing U.S. agricultural trade policy and the Farm Bill's trade title

Washington, DC

August 4, 2010

Introduction

Chairman Lincoln, Senator Chambliss, and Members of the Committee, thank you for holding this hearing to review agriculture trade programs and policies in advance of the 2012 farm bill.

We appreciate the opportunity to offer testimony before the Committee concerning the view of the rice industry relative to current trade policies and promotion programs and the development of the 2012 farm bill.

My name is Joe Mencer. I am a rice, cotton, corn and soybean farmer from Lake Village, Arkansas and have been farming for 30 years. My family farms 6,300 acres in the southeastern corner of the state on land that has been in my family since 1936. I serve on the USA Rice Federation board and executive committee, the USA Rice Producers' Group board and as vice chairman of the USA Rice Council. Today I appear on behalf of both the USA Rice Federation and the US Rice Producers Association. Our organizations represent rice producers in all of the major rice producing states—as well as rice millers, merchants, exporters, and allied businesses.

U.S. Rice Industry Overview

The U.S. rice industry is a multibillion dollar industry that provides jobs and income for not only producers and processors of rice, but for all involved in the value chain. Much of this economic activity occurs in the rural areas of the Sacramento Valley in California, the Gulf Coast region of

Louisiana and Texas, and the Mississippi Delta region where 3.2 million acres of rice, on average, are produced annually.

Arkansas is the largest rice producing state in the U.S., growing about 1.5 million acres on average, or about half of the total U.S. crop. Rice is also produced on another 1.7 million acres in the other five rice growing states of California, Louisiana, Mississippi, Missouri, and Texas.

The U.S. rice industry is unique in its ability to produce all types of rice, from long grain, medium grain, and short grain, to aromatic and specialty varieties. Last year, the 6,000 U.S. rice farmers produced a rice crop of over $3 billion as measured in farm gate value. This production and subsequent sales generated $17.5 billion in total value added to the U.S. economy from rice production, milling, and selected end users and had the employment effect of contributing 127,000 jobs to the U.S. labor force[1].

Today, about 85 percent of all the rice that is consumed in the U.S. is produced here at home. And, despite significant trade barriers to exports, the U.S. remains the largest non-Asian exporter of rice and the third largest exporter worldwide.

On average, between 40 to 50 percent of the annual rice crop is exported as either rough or milled rice. The top U.S. export markets for rice include Japan, Mexico, Canada, Haiti, and most of Central America. In 2009 we exported $2.2 billion in rice to markets around the world.

Americans consume 26 pounds of rice per year. Of the rice produced by our famers that remains in the domestic market, 53% is bound for direct human food use, 16% is dedicated to processed foods, 15% is used to produce beer, 14% is for pet food, and the balance is used for industrial purposes.

Beyond the substantial economic and nutrition benefits of rice is the environmental dividend from winter-flooded rice fields that provide critical habitat for migratory waterfowl and other wetland-dependant species. All of the major rice-production areas in the U.S. host important waterfowl activity during winter months. Without rice farming, wetland habitats in the U.S. would be vastly reduced. A loss of this magnitude would have a disastrous effect on waterfowl, shore birds, and a host of other wetland-dependant species. In the Delta region of Arkansas, Mississippi, Missouri, and Louisiana, at least 70 wildlife species rely on rice fields for habitat. In California, rice fields provide unparalleled habitat for 230 species of wildlife, and provide wintering habitat for some seven million ducks and geese that over winter each year in the Pacific Flyway. So critical is this habitat to the flyway that experts estimate that we would lose more than 1 million ducks if California rice acres were cut in half. Rice production areas in Texas correspond with the bird migration corridor known as the Central Flyway, providing important habitat to hundreds of bird species that rely on these artificial wetlands during their migratory journey.

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[1] According to recent economic impact study conducted for the industry by the Agriculture and Food Policy Center at Texas A&M.

U.S. Rice in the World Economy

The U.S. rice sector is a key player in the global rice market and the economic health of the rice industry is tied to exports even though the United States produces only 2 percent of global rice output.

Total U.S. Rice Exports (MT)

Column1	2006-08 average	2009
Long Grain	**3,006,130**	**2,582,335**
of which paddy	*1,551,630*	*1,450,176*
Medium Grain	**637,026**	**818,093**
Short Grain	**42,096**	**38,490**
Total	**3,685,252**	**3,438,918**

Source: Bureau of the Census, U.S. Department of Commerce.

The United States exports all types and forms of rice: long grain, short grain and medium grain in the form of white milled rice, brown milled rice, parboiled rice, and paddy or rough rice (unprocessed harvested rice). Approximately two-thirds of U.S. exports are milled rice and the remaining one-third are rough rice exports.

The United States exports rice across the globe, with a major presence in North and Central America, Northeast Asia, the EU, Turkey and the Middle East, and Africa.

Top 20 U.S. Rice Export Destinations

Destination	2008	2009
Japan	$ 167,293,186	$ 422,070,810
Mexico	$ 352,865,815	$ 345,912,599
Canada	$ 161,342,890	$ 176,160,762
Haiti	$ 197,067,860	$ 147,090,708
Saudi Arabia	$ 117,464,248	$ 117,583,374
Jordan	$ 58,259,353	$ 90,594,828
Papua New Guinea	$ 23,927,558	$ 87,776,836
Iraq	$ 26,893,223	$ 65,245,379
Honduras	$ 63,105,556	$ 56,200,958
Costa Rica	$ 51,817,985	$ 43,475,285
Nicaragua	$ 66,903,154	$ 42,294,346
Korea, South	$ 75,559,637	$ 40,014,761
El Salvador	$ 33,913,443	$ 39,176,064
United Kingdom	$ 40,556,752	$ 38,966,520
Israel	$ 28,618,909	$ 34,311,128
Australia	$ 18,693,222	$ 30,040,647
Taiwan	$ 14,672,671	$ 26,417,902
Guatemala	$ 31,353,988	$ 25,305,539

Colombia	$ 2,162,379	$ 25,255,898
Nigeria	$ 1,402,788	$ 24,975,708
TOTAL	$ 2,205,187,000	$ 2,183,272,000

Source: Bureau of the Census, U.S. Department of Commerce.

In many years, the U.S. rice industry exports a greater portion of production than any other major rice exporter and this dependence on trade makes the U.S. rice industry particularly vulnerable to trade disruptions or barriers. As one of the most protected and sensitive commodities traded worldwide, market access obstacles are widespread and discourage increased exports of U.S. rice.

On the import side, U.S. tariff protection is minimal, and 15 percent of domestic consumption is sourced from imports, largely fragrant rice from Thailand and basmati rice from India. Vietnam and China are also import sources.

Market Promotion Programs

USA Rice and the US Rice Producers Association participate in two important export promotion and market development programs administered by the USDA's Foreign Agriculture Service (FAS): the *Market Access Program (MAP)* and the *Foreign Market Development (FMD) Program*. Both programs are essential to the U.S. rice industry and are administered on a cost-share basis. The U.S. rice industry received $5.7 million in the current fiscal year from these two programs to promote U.S. rice in foreign markets. For every $1 in funding provided by these programs, USA Rice members contribute $3.91.

These programs are among the few tools specifically allowed without restriction under World Trade Organization (WTO) rules to help American agriculture and American workers remain competitive in a global marketplace that is characterized by subsidized foreign competition. The MAP and FMD programs have been tremendously successful and extremely cost-effective in maintaining and expanding U.S. agricultural exports, protecting and creating American jobs, and strengthening farm income.

MAP and FMD are currently funded at $200 million and $34.5 million annually, respectively, as authorized under the 2008 Farm Bill. MAP has been funded at this level since fiscal year (FY) 2006 and FMD since 2002. In order to build upon the success of these programs and to help achieve the administration's National Export Initiative (NEI) goal of doubling U.S. exports over five years, USA Rice believes that the upcoming 2012 Farm Bill should commit additional resources to both programs. We commend the administration for seeking to double funding for FMD to $69 million in its FY 2011 proposed budget and strongly support maintaining funding for MAP at $200 million annually through the remaining years of the 2008 Farm Bill.

Two good examples of how the programs have assisted in building markets are exemplified by two markets – Mexico and Jordan. Twenty-one percent of the export promotion budget has been invested in Mexico, the largest and fastest growing market for U.S. rice. Per capita consumption has grown by 20% and total consumption by 40% since 1997, the year we initiated our major rice promotional program. Imports by Jordan have grown in response to our promotion programs to the foodservice industry and to consumers. U.S. market share has grown from 8% in 2001 to 63% last year, with a ten-fold increase in export volume reaching 89,000 MT in 2009.

A recent study of the MAP and FMD programs done by IHS Global Insight showed that the increase in market development spending by government and industry during the 2002-09 period increased U.S. export market share by 1.3% and the annual value of U.S. agricultural exports by $6.1 billion. Multiyear impact of the increased market development spending is equal to $35 in agricultural export gains for every additional $1 expended[2].

The agriculture industry, responding to the incentive of USDA funding, unites and commits a significant level of industry funding to engage in overseas market development activities. Industry contributions, when added to the current $234.5 million in government funding, brings the total level of funding to over $570 million per year[3].

The total economic gain to the U.S. economy from increased market development activity is an estimated annual average of $1.1 billion between 2002 and 2009. Producer prices for bulk and high-value agriculture products increased, causing annual direct government payments to fall 0.36% (equal to $54 million) and government spending for domestic supports (loan deficiency payments and countercyclical payments) fell about $0.30 for every $1 spent on MAP and FMD[4].

According to the IHS Global Insight study, if these market development programs suffered a 50% decrease (less $280 million) in government and industry spending, the projected impacts are:

- From 2009-2018, the U.S. share of rest-of-world (ROW) imports declines by $8.9 billion;
- Farm cash receipts average $5.92 billion lower (1.8%) and net cash income drops $2.0 billion (2.6%) from 2012-2018;
- Resulting reduced income and overall farm activity cause farm assets to decline in value by $44 billion and government farm income support payments to increase $60 million due to lower commodity prices.

The overall loss in economic benefits is approximately 13.5 times greater than the savings taxpayers would see from not funding the program and about 5.7 times greater than the combined cost reduction to taxpayers and cooperators[5].

MAP and FMD programs provide a basis for coordinated U.S. market development efforts that would otherwise be fragmented, under-funded, or non-existent. This most recent IHS Global Insight report helps to dispel criticisms that the economic impact of MAP and FMD is unclear and unquantifiable.

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[2] *A Cost Benefit Analysis of USDA's International Market Development Programs,* IHS Global Insight, Inc., March 2010.
[3] Ibid.
[4] Ibid.
[5] Ibid.

Eliminating or reducing funding for MAP and FMD in the face of continued subsidized foreign competition and during ongoing Doha Round World Trade Organization (WTO) negotiations would put American farmers and workers at a substantial competitive disadvantage.

Export Credit Guarantee Program

Exporters of U.S. rice have long utilized USDA's *export credit guarantee program*, commonly known as the General Sales Manager (GSM) program. The GSM program is used in connection with the export of U.S. agricultural products and serves as a risk management tool and source of foreign exchange liquidity. USA Rice is concerned that the benefits of this program to U.S. exporters will be unduly reduced as the administration brings the GSM program into compliance with the findings of the WTO's dispute settlement body in connection with the Brazil case.

On July 1, 2005, USDA adopted measures to bring its three export credit guarantee programs into compliance with WTO obligations. USDA adopted risk-based guarantee premiums for the GSM-102 Program and the Supplier Credit Guarantee Program and suspended the GSM-103 program. Congress made these changes permanent by enacting them into law as part of the 2008 Farm Bill. As part of that bill, Congress eliminated the GSM-103 program and abolished the statutory one percent "cap" on guarantee premiums that could be charged by USDA. Congress also eliminated the Supplier Credit Guarantee Program, leaving GSM-102 as the sole remaining USDA export credit guarantee program. In addition, Congress included language in the Farm Bill requiring USDA to operate the GSM-102 program at no net cost to the government, thereby ensuring that the program would not be a subsidy and would comply with the WTO obligation that guarantee premiums received under the program would cover its operating costs and losses.

As negotiations continue between the United States and Brazil, USA Rice urges Congress and the administration to preserve this important export tool while being compliant with the United States' WTO obligations. The adjustments that have already been made to the GSM-102 program relative to the Brazil WTO case are severely impacting the value of the program to exporters. We strongly believe that the program modifications made in the 2008 Farm Bill and in recent USDA announcements in response to the Brazil case should be considered sufficient to comply with the requirements of the WTO ruling.

We also have concerns regarding current tenor (repayment period) restrictions implemented by USDA on the FY10 GSM-102 program. The tenor, along with fees, is the critical driver of the GSM program's viability. It is precisely because of its importance that our competitors have consistently sought to reduce the tenor of the GSM program, from the OECD negotiations of the late 1990s to the current WTO Doha Round negotiations. We are concerned that the tenor restrictions imposed on the FY2010 program will be perceived as an indication of waning U.S. support for the GSM program, at a time when efforts to re-start the Doha talks are underway.

A second concern relates to the long-standing issue of USDA's country risk rating methodology and the fact that the risk ratings resulting from that methodology were used as the basis for determining the tenor restrictions imposed on the FY2010 program. Notably, the 2008 Farm Bill requires USDA "to develop an approach to risk evaluation that facilitates accurate country risk designations and timely adjustments to the designations (on an ongoing basis) in response to material changes in country risk conditions, with ongoing opportunity for input and evaluation from the private sector." The Export Credits Working Group (ECWG), of which USA Rice is a participant, has reiterated its concerns regarding USDA's country risk rating methodology, and, by extension, with the country risk ratings and risk-based fees produced by that methodology.

We acknowledge that USDA refrained from implementing the proposed fee schedule, which would have increased fees for nearly all active GSM markets, with the start of the FY2010 GSM program. However, we are troubled that USDA imposed restrictions on the equally crucial element of tenor, and, moreover, that it based these restrictions on country ratings that are the product of what we have long maintained is a flawed risk-rating process.

We recognize that, notwithstanding the tenor restrictions, GSM program utilization has been strong for the limited, $2.4 billion in FY2010 allocations announced to date for this fiscal year. Rice utilization of the GSM-102 program for this year is at $118 million for exports to the regions/countries of Central America, Sub-Saharan Africa, and Turkey.

Food Aid

USA Rice participates as part of a broad industry coalition consisting of over 30 organizations that support sustained funding for our nation's food aid programs, including Titles I and II of P.L. 480, and therefore strongly opposes all proposals to divert funding away from these important programs or alter the programmatic structure of the programs.

The donation of American commodities as food aid has been the cornerstone of U.S. and global foreign assistance programs since their inception. Our in-kind food aid programs are needed now more than at any time in their history. The United Nations World Food Program tells us that in recent years the food insecure have been hit by a "perfect storm" of increases in food prices coupled with export restrictions imposed by traditional regional and local food exporters. U.S. food aid programs not only furthers our humanitarian and food security goals by allowing Americans to contribute to the needy in a tangible way, but the programs also provide stable jobs for Americans.

Food for Peace, which provides farm products grown in the United States to millions overseas in bags marked as gifts "From the American People," is a clear and tangible sign of America's concern and generosity to its recipients. This same "in-kind" composition generates important economic benefits to our nation.

Given the recent food crisis experienced by many nations, in terms of price, availability, and quality, and considering the recent actions by some food-exporting nations to halt food exports when domestic price increases occurred, the amount and dependability of U.S.-produced food aid in P.L. 480 is crucial to our humanitarian assistance effort. Using American taxpayer dollars to purchase foreign agricultural commodities would forego the unique benefits of U.S. food aid, such as predictable food aid supply, unparalleled quality, and good American jobs, when our country and food-deficit areas need those most. Nevertheless, additional resources have already been directed to so-called "local and regional purchases": USAID has been provided hundreds of millions of dollars of new funding for such purchases under the Foreign Assistance Act through the International Disaster and Famine Assistance (IDFA) account and Congress also established a $60 million CCC-funded USDA pilot program in the 2008 Farm Bill to examine the potential dangers and benefits of this approach before considering further expansion of its use in conjunction with a strong in-kind food aid program centered around American commodities. Additionally, the UN World Food Program operations have wide latitude to purchase grain from Europe, Australia, and elsewhere.

USA Rice is strongly opposed to the administration's attempts to eliminate up to 25% ($305 million) of P.L. 480 Title II funding in favor of an experimental program whereby the USAID Administrator will be granted unchecked discretion to divert U.S. tax dollars to foreign producers. Congress has wisely rejected this proposal in each of the last two budget cycles, and there is no authority for this program.

The Title I concessional sales food aid program is an important tool in the aid "toolbox". In order to ensure that countries with the most dire need have sufficient donated food aid, we recommend that USDA offer the Title I concessional sales program to countries that can afford it. Title I allows us to leverage our aid dollars, helping more people in need with our limited budget resources.

Our recommendation is to maintain annual food assistance with a blend of programs drawing upon the unique strengths of the different U.S. food aid program authorities.

USDA Support is a Necessary Condition to Expanding Rice Exports

U.S. agriculture has enjoyed a long and productive working relationship with the agencies and programs of USDA. This partnership remains as necessary and relevant today as it was when established more than 50 years ago. Protectionism in global agricultural markets remains well above that for manufactured goods and services, and protectionism that hides behind illegitimate sanitary, phytosanitary and food safety rules is a growing threat.

Two USDA agencies – FAS and the Animal and Plant Health Inspection Service (APHIS) – stand out as defenders and advocates of the export interests of American agriculture. The U.S. rice industry continues to place a high value on the market intelligence and assistance provided by FAS as a whole and particularly through its offices around the world. FAS's overseas posts provide immeasurable assistance to U.S. agriculture and exporters. These benefits involve market information, market development assistance, and managing and resolving market access issues. It is critical that these services be maintained and strengthened.

APHIS's mission is to protect U.S. agriculture from plant and animal pests and diseases. Additionally, the agency performs an equally valuable service by providing the technical backbone to U.S. government challenges of illegitimate sanitary and phytosanitary restrictions by foreign countries against U.S. agricultural exports. For rice, these unfounded barriers frequently occur in Latin America, the largest regional export market for U.S. rice, and center on allegations of plant diseases on U.S. rice that are either already present in the importing country or that pose no plant health threat. APHIS's overseas personnel in U.S. embassies have been instrumental, for example, in maintaining rice access in Mexico, Colombia, the Dominican Republic, Costa Rica, and the EU just in the past few years.

APHIS is also proactive in supporting increased access for U.S. rice. Currently, the agency is involved in pest risk assessments (PRA) being conducted by Peru and China. Completion of these PRAs is an essential first step in removing regulatory barriers that prevent the import of U.S. rice.

In the future, the contributions of FAS and APHIS will remain key determinants in increasing U.S. rice exports and supporting more jobs at home. Many countries have recently increased regulatory attention on food safety, including establishment of maximum residue levels (MRL) of chemicals on food. These MRLs are extensive in number and frequently cover many more chemicals than can be legally applied on rice in the United States. Japan, for example, tests for over 700 MRLs on U.S. rice but only 27 chemicals are registered for use on rice in California, the origin state of most U.S. rice purchased by Japan.

Testing on rice for agricultural chemicals adds cost to mitigate what is generally a low level of risk. USA Rice supports safe food and risk-based testing. False positives and increased access problems related to MRLs will require the trade policy support of FAS and the technical support of APHIS plus other U.S. agencies such as the Environmental Protection Agency and the Food and Drug Administration.

Cuba Trade

In 1951, Cuba was the destination for 252,878 metric tons of U.S. rice, approximately $52 million in sales that represented 51% of U.S. rice exports at that time. Rice exports to Cuba during the period between 1951 and 1960 averaged approximately 169,000 metric tons, valued at $37 million annually and accounted for 25% of all rice exports for the decade. Following the overthrow of the Batista government in 1959, the unilateral U.S. embargo closed the Cuban market in 1960.

Meanwhile, the U.S. rice industry has grown tremendously in the past 40 years. U.S. rice production is projected to increase to approximately 237 million hundredweights (cwts) in 2010, up 17 million cwts from 2009 production. For the 2009 marketing year, USDA projects 4.5 million metric tons in rice exports.

In addition to shutting off exports to Cuba, export embargoes imposed unilaterally by our government represent one of the greatest impediments to the enhanced exports of U.S. rice. For example, the largest market for U.S. rice in the 1950s was Cuba, in the 1970s it was Iran, and in the 1980s it was Iraq. Unfortunately for rice producers and the rice industry, unilateral embargoes imposed by our own government negatively affected each of these important markets.

Fortunately, as policymakers have recognized the ineffectiveness of trade embargoes, each of these embargoes has been lifted with the exception of the embargo against trade with and travel to Cuba.

Following passage of the Trade Sanctions Reform and Export Enhancement Act in 2000, U.S. rice exports to Cuba restarted in 2001, and by 2004 the U.S. exported 177,000 tons of rice to Cuba worth an estimated $64 million. The total economic impact of these exports on local U.S. economies was $220 million and provided for up to 1,400 jobs.

Cuba has the potential to once again become a top export market for U.S. rice, representing a 400,000 to 600,000 MT export market under normal commercial trade and travel relations.

Current U.S. law discriminates against American farmers and agricultural exporters. It prohibits Cuba from directly paying U.S. sellers for their purchases. Even safe and secure payments by bank letters of credit are required to be routed through third country banks. This requirement unnecessarily drives up the cost of U.S. exports, discourages U.S. sales, and costs U.S. jobs. A comprehensive study by the U.S. International Trade Commission (ITC) during the Bush Administration concluded that the Treasury Department's restrictions on agricultural payment terms had a substantial negative effect on the sales of agricultural products to Cuba. The ITC also found that removing these restrictions would increase annual U.S. agricultural sales to Cuba by more than $300 million.

In the case of rice, the ITC concluded that the lifting of these unnecessary restrictions could increase U.S. rice exports to the island by $43 million per year. As of 2006, U.S. rice enjoyed a 24 percent share of Cuban imports, for sales valued at $40 million. The restrictive policies of the United States have driven those exports to zero currently.

The rice industry also strongly supports the freedom of U.S. citizens to travel to and from Cuba. We continue to be disappointed that our government continues to restrict the freedom of Americans to travel to and engage with the people of only one country on earth: Cuba.

Increased travel to Cuba will boost food demand in the country and provide the funds to purchase U.S. commodities. U.S. producers and the agriculture industry would expect to meet the increased food needs. The ITC again concluded that if restrictions on travel of U.S. citizens to Cuba were lifted, gains in exports valued in the millions of dollars per year would be made.

The entire rice industry supports these goals to increase exports and support U.S. jobs. Instead, U.S. government policy *reduces* U.S. employment by choking off trade with Cuba. That policy continues to *decrease* U.S. exports, and cedes this important market to our global competitors. Rather than aggressively contending for the Cuban market, our government does indeed sit on the sidelines, while blocking our own team from taking the field. When these markets are closed off, everyone in the industry is hurt, and farmers predictably pay the ultimate costs of lost markets from their own pockets. These are unnecessary costs that rice farmers should not be asked to pay.

We urge support and passage of legislation that would allow for open agricultural trade and travel to Cuba. Both S. 1089 and 3112 in the Senate would accomplish this important goal. Companion legislation is currently advancing in the House having passed out of the Agriculture Committee.

Iraq Trade

In the mid to late 1980s Iraq was the largest export market for U.S. rice, reaching a record 508,000 MT in 1988. The U.S. shipped no rice to Iraq during the 1990s. Since U.S. agricultural exports to Iraq resumed in 2005, U.S. sales of rice reached the highest level this decade of 381,000 MT in 2006. Since then, sales have declined by two-thirds to reach 121,000 MT last calendar year. We have worked in concert with the U.S. wheat and grain export industries to provide information and education to the Grain Board of Iraq, who purchases the rice and other commodities that are distributed in a government implemented ration system to the local populace. The focus of our efforts has been to educate the Grain Board on the international grain trade and the value of sourcing U.S. agricultural commodities. With a near record U.S. crop being harvested this year, we are working to help develop more export opportunities for U.S. rice to Iraq and urge Congress and the administration to take every step possible towards this end.

Trade Agreements Promote Rice Exports

Rice is one of the world's most highly protected sectors. Countries with relatively large agricultural labor forces restrict imports to protect domestic production, such as some Latin American and Asian countries, while politically powerful farm interests in developed countries such as the EU, Japan, Korea, and Taiwan seek to maintain grower and or processor income by restricting imports.

Trade agreements are central to the current level of U.S. rice exports and to future expansion. Prior to the *North American free Trade Agreement*, U.S. rice exports to Mexico faced high tariffs, discrimination against milled rice and government control of imports. Today, U.S. rice trades duty-free into Mexico and Mexico is the number one export market for U.S. rice farmers with 2009 exports equal to 833,437 metric tons ($346 million).

The *Uruguay Round Agreement* opened up markets in Japan and Korea. Japan is currently the number-one value export market for U.S. rice and Korea is the twelfth largest. Access to Korea was further enhanced in 2004 when the United States and other WTO members agreed to allow the government of Korea to continue management of all rice imports. When Taiwan joined the WTO, the United States negotiated guaranteed access in exchange for the ability of the Taiwan government to continue to manage imports. In 2009, U.S. rice exports to Japan, Korea, and Taiwan represented 27 percent of the value of all U.S. rice exports. Were it not for the Uruguay Round and the WTO trading system, these exports would not have occurred.

Extremely high and discriminatory import tariffs on U.S. rice will be phased out under the *Central America-Dominican Republic Free Trade Agreements.* Many of these phase-outs will take 15-19 years, demonstrating the pressure for protectionism in these countries, and the utility of broad trade agreements to address this constraint.

We urge Congress and the administration to aggressively work toward approval of existing free trade agreements with Colombia and Panama. The benefits of these agreements are real for U.S. rice exports.

Going forward, we urge the administration to proceed with its current policy of negotiating a balanced agreement in the Doha Development Round of multilateral negotiations, and should not shy away from negotiating regional and bilateral trade agreements where there is a clear U.S. export interest. Because of the political sensitivity of rice market access, future increases in U.S. exports will come only in the context of negotiations that are large and inclusive of all tariff lines. This will allow negotiators maximum flexibility to identify solutions across sectors and tariff lines.

It is absolutely critical that the administration strongly resist any efforts in new trade agreements to exempt certain tariff lines or commodity groups. Rice was excluded from the U.S.-Korea Free Trade Agreement, for example, because of intense political pressure in South Korea. Any exemptions weaken the support for trade agreements and call into question the global leadership of the United States.

Below is a summary table of select market access constraints to U.S. rice exports. Removing these constraints has the potential of significantly increasing U.S. rice exports.

Select Market Access Constraints to U.S. Rice Exports and Potential Market Gains

		2007 - 2009 Average Exports		
Market	**Market Access Constraint**	**($,000)**	**(mt)**	**Potential Market in 2015 ($,000) ***
Japan	GOJ monopoly importer; discrimination against rice imports	$252,300	326,000	$359,200
Iraq	Inconsistent tendering and non-transparent procedures	$59,800	136,000	Unknown[1]
EU	GMO/Low Level Presence; High tariffs on brown rice	$58,900	95,000	$100,000
Korea[2]	Exclusion of rice from U.S.-Korea FTA	$53,000	74,000	$95,800
Taiwan[3]	Failure to import WTO commitment	$25,700	45,000	$48,300
Panama	U.S. Approval of Pending FTA	$20,600	63,500	$30,000
Cuba	U.S. sanctions policy	$10,300	24,000	$321,600
Colombia	U.S. Approval of Pending FTA	$10,000	27,400	$35,000
Iran	U.S.-Iran Political Relationship	$8,000	11,000	Unknown[1]
China	Lack of U.S.-China phytosanitary protocol	$1,500	2,000	Unknown

Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics
Retrieved on April 1, 2010
* Value is estimated using 2009 price data.
[1]Iran and Iraq were large historic importers of U.S. rice in the 1970s through the early 1990s. Export levels were highly correlated to the status of political relations between the United States and Iran and Iraq.
[2]Potential market assumes full implementation of 2004 U.S.-Korea bilateral rice agreement.
[3]Converted from brown rice basis to milled - 90% milling rate.

Conclusion

In closing, we would like to thank you once again for this opportunity to share our views on the current state of the rice industry, the diverse trade challenges we face, and our initial thoughts on the development of a 2012 farm bill that can help meet the needs of producers and the entire rice industry.

We look forward to working with you in this regard and I would be happy to respond to any questions the Committee may have.

Statement by Danny Murphy, Vice President
American Soybean Association

before the

Committee on Agriculture, Nutrition, and Forestry
United States Senate

August 4, 2010

Good morning, Mr. Chairman and Members of the Committee. I am Danny Murphy, a soybean producer from Canton, Mississippi, and a Vice President of the American Soybean Association. ASA appreciates the opportunity to appear before you today to provide our views on international trade issues, including the export promotion provisions of the 2008 Farm Bill.

Soybeans are the second largest commodity in the United States in terms of annual acreage and value, with 78 million acres planted and a farm-gate value of $32 billion in 2009. Soybeans and soybean products are the most important U.S. export commodity, with sales exceeding $21 billion last year. This represented over 50 percent of U.S. soybean production and 21 percent of total U.S. agricultural exports in 2009.

As producers of the largest export-dependent commodity, soybean farmers have historically made international trade a top priority. ASA has actively participated in negotiations on and strongly supported enactment of every multilateral, regional, and bilateral trade agreement the U.S. has engaged in. We have worked closely with every Administration to ensure enforcement of these agreements, including their sanitary and phytosanitary provisions. And we have successfully protected access for U.S. soybean exports to foreign markets as new biotech traits have been introduced over the last 15 years.

Looking to the future, the growth in world population and demand in developing countries for an improved diet, including more livestock products and vegetable oils, indicates a pressing need to increase soybean production over the next several decades. With limited opportunities to expand U.S. soybean acreage, most of this increase will need to come from raising yields. ASA has strongly supported greater funding for agricultural research, including the President's request for $429 million in FY-2011 funding for the Agriculture and Food Research Initiative (AFRI). We also are working closely with companies that are developing new traits to increase soybean yields, protein and oil content, and other quality characteristics.

ASA was pleased with the President's commitment to double the value of U.S. exports under the National Export Initiative. Efforts to contribute toward achieving this goal in the agriculture sector will require Congressional approval of the pending Free Trade Agreements with Colombia, South Korea, and Panama, negotiation of new FTAs with key importing countries, and progress on the Asia Pacific Economic Cooperation regional agreement. Delay in approving the Colombia FTA has caused us to lose over 50 percent of our market share for soybean meal. Negotiation of new FTAs will require renewal of Presidential Trade Promotion Authority, or TPA, which is a top priority for ASA.

Action is also needed on legislation to normalize financial relations with Cuba. S. 3112 introduced by Senators Senators Amy Klobuchar and Mike Enzi, would eliminate the current financing restrictions, as well as lift current travel restrictions for U.S. citizens to Cuba. Cuba imported $284 million worth of U.S. soybeans, meal, oil, livestock products in 2009. Normalizing financial relations would improve the competitiveness of U.S. soybean and soybean and livestock product exports to the Cuban market. We understand some Members of Congress are concerned that lifting the travel restrictions would strengthen the current Cuban government and delay democratic reform. ASA's view is that the travel prohibition has had no more effect in bringing about reform in Cuba than the financial restrictions, and that it should not impede action on this important legislation.

Turning to the trade title of the 2008 Farm Bill, ASA is one of the largest recipients of funds under the export promotion programs of USDA's Foreign Agricultural Service, including $6.8 million under the Foreign Market Development (Cooperator) Program and $5.1 million under the Market Access Program. These funds are matched with soybean farmer check-off Dollars contributed by the United Soybean Board through the U.S. Soybean Export Council, which administers our foreign offices and activities under these programs. ASA strongly supports maintaining funding of both the FMD program and MAP at the current levels of $34.5 million and $200 million, respectively, for FY-2011, and increasing these levels in the 2012 Farm Bill.

ASA is also becoming increasingly involved in international food assistance and development programs operated by FAS and USAID. ASA's World Initiative for Soy in Human Health, or WISHH, program received a grant of $26.9 million under the FAS Food for Progress program this year to conduct agricultural development projects in Afghanistan. The goal of this and similar efforts is to help strengthen the economic, social, and political stability of nations designated as "least developed countries" so they can eventually emerge as viable states and trading partners. The alternative is to leave them to the influence of countries hostile to the U.S., or to see them become bases for terrorists, as Afghanistan was prior to 9/11.

Finally, ASA continues to follow efforts to revive negotiations on the Doha WTO trade agreement. In December 2008, we joined other agriculture organizations in opposing the draft agriculture modalities framework known as the Falconer text because it provides little assurance of improved market access for U.S. farm exports in exchange for major concessions on trade-distorting domestic support. We stated at the time, and repeat now, that no agreement is better than a bad agreement.

We are concerned with provisions in the Falconer text under which countries could protect domestic industries from meaningful tariff reduction by designating Special Products or Sensitive Products, or through a Special Safeguard Mechanism, or SSM. Under the SSM provision, a developing country could raise tariffs when imports of a product exceed only 110 percent of recent average levels. A paper submitted to the WTO by Canada and Australia based on import data from developing countries in the last 6-10 years concluded that, even with a trigger of 140 percent, higher SSM tariffs could have been imposed on 30.3 percent of all tariff lines in each year, and on 85.6 percent of all tariff lines in at least one year. As a result, countries which have consistently exceeded previous-year imports of soybeans or soybean and livestock products, such as China, would be able to use the Special Safeguard Mechanism to impose higher tariffs.

In our view, the Doha negotiations on agriculture are unlikely to make progress until and unless structural imbalances in the Falconer text are corrected. These imbalances are rooted in the very different assumptions which countries brought to the Doha Round. Developing countries assumed that a development agenda would include unilateral concessions by developed countries, including substantial reductions in trade-distorting domestic support and export subsidies. Developed countries, and particularly the U.S., expected commensurate improvements in market access by developing countries in exchange for these concessions. The Falconer text, which has very real domestic support reductions but insufficient tariff cuts and problematic protectionist loopholes, does not strike a balance acceptable to U.S. soybean producers.

If the Doha negotiations are to be revived and completed, individual developing countries will need to make meaningful concessions during bilateral negotiations that offset the imbalance in the Falconer text. These include acknowledgement by countries that are major world exporters that the value of their domestic price supports to producers exceeds their AMS caps and must be scaled back. Countries that subsidize exports of processed products by applying Differential Export Taxes must commit to eliminate them. Tariff Rate Quotas must be set at levels that ensure meaningful and increasing market access, particularly for designated Special and Sensitive Products. And shortcomings in the text, including the SSM import trigger, must be corrected. ASA urges the Committee to keep these issues in front of our negotiators at USTR and USDA as the bilateral discussions continue.

That concludes my statement, Mr. Chairman. I will be pleased to answer any question you or other Members of the Committee may have.

STATEMENT REGARDING

Promoting Agricultural Exports
Reviewing U.S. Agricultural Trade Policy
and the Farm Bill's Trade Title
Poultry and Meat Issues

HEARING OF
THE SENATE COMMITTEE ON AGRICULTURE
NUTRITION AND FORESTRY

THE HONORABLE BLANCHE LAMBERT LINCOLN
CHAIRMAN

PRESENTED BY

DUANE RHODES
VICE PRESIDENT OF EXPORT
POULTRY AND PREPARED FOODS

TYSON FOODS
SPRINGDALE, ARKANSAS
Wednesday, August 4, 2010

RUSSELL SENATE OFFICE BUILDING
WASHINGTON, DC

Good morning and thank you, Chairman Lincoln, Senator Chambliss, and Committee Members for the opportunity to present the U.S. poultry producers/processors views, comments, and recommendations regarding very important international agricultural trade issues, especially those relating to poultry and meat. This very timely hearing can serve as a most key opportunity to more fully and successfully address many difficult and somewhat frustrating trade issues. Please be assured the National Chicken Council appreciates the Chairman's invitation to be part of this critical discussion. It is the sincere hope of U.S. poultry companies that working together with the Committee our combined efforts will help contribute to and be a part of satisfactory resolutions for these trade issues. Without continued diligence and determination, the agricultural trade agenda cannot successfully move forward. Resolution of the issues outlined in my statement will undoubtedly help build poultry and meat exports in the months and years ahead.

I am Duane Rhodes, Vice President of Export/Poultry and Prepared Foods for Tyson Foods in Springdale, Arkansas. I also serve as Second Vice Chairman of the USA Poultry & Egg Export Council. This morning I am representing the National Chicken Council. NCC represents companies, including Tyson Foods, that produce and process about 95 percent of the young meat chickens (broilers) in the United States. NCC works very closely with the USA Poultry &

Egg Export Council and with Congress and the Administration to help promote an expanding export market for U.S. poultry. This committee's leadership on international trade issues is recognized and most appreciated.

The primary focus of my comments is on chicken exports, but since Tyson Foods is a major processor and exporter of beef and pork, I will also provide comments on the exports of fresh meats, as well. Further, many of the international trade issues impacting chicken, such as the use of non-science based sanitary and veterinary provisions as unfair trade barriers, apply equally well to beef and pork trade.

Before I address some of the issues and challenges confronting U.S. poultry and meat exports, I must thank you, Chairman Lincoln, Ranking Member Chambliss, and the other Committee Members for working closely and diligently with the Administration to re-open the Russian market for U.S. poultry. One-fourth of the Senate expressed in writing to President Obama the critical need to achieve a resolution of the six-month stalemate of U.S. poultry exports to Russia. I believe, as do all U.S. poultry producers and processors, that the strong support of the Congress on this difficult trade issue was a major factor in helping to convince Russian President Dmitri Medvedev to conclude an agreement to restore U.S.-Russian poultry trade. When the two Presidents met in late June the necessary breakthrough was achieved and as I speak today 73 poultry processing plants and cold storage facilities are preparing and operating to export poultry to Russia. Last year, as has been the case for more than a dozen years, Russia was the largest export market for U.S. poultry. Madame Chairman, Ranking Member Chambliss, and other Committee Members, please accept the U.S. poultry industry's gratitude for helping us begin to re-build our exports to our major market. Poultry exports to Russia, like poultry exports to most foreign markets, consist mostly of chicken leg quarters. In 2009 more than 19.5 percent of the chicken produced in the United States was exported, a record percentage for exports. Exporting the "back-of-the-bird" is critical to keeping the U.S. chicken supply in better balance with overall chicken demand. The North American consumer prefers breast meat while the rest of the world, generally, prefers leg meat. By comparison, last year, 22 percent of the pork produced was exported, 10 percent of beef, and 10 percent of turkey. With export blockages of U.S. poultry's two largest markets, Russia and China, overseas sales have decreased for 2010. In contrast, beef exports are increasing and could total $3.7 billion this year, just short of the $3.855 billion exported in 2003 before the BSE issue erupted. Pork exports are expected to be the second largest on record, valued at more than $4.5 billion and bolstered by a recovering global economy and lessened concern about flu that was unfortunately associated with swine.

Regarding a trade success, permit me to express the beef industry's gratitude to this Committee, the Congress, and the Administration for successfully securing a memorandum of understanding with the European Union in the context of the longstanding hormone dispute. The additional duty-free access to the large EU beef market has helped high-quality U.S. beef exports increase by 78 percent when compared to last year to more than $37 million in the first five months of 2010 compared with year-ago, based on EU import data. The United States now accounts for over eight percent of the EU's chilled beef imports, a doubling of its market share from four percent in 2008. Further, expanded access for bone-in beef to Taiwan has also helped boost U.S beef exports to that market, increasing 53 percent to nearly $73 million in January through May 2010. The quick and prudent attention by this Committee and the Administration to the H1N1 situation and the resolution of related trade bans, especially in Russia and China, are gratefully acknowledged. Similarly, work related to residues and plant audits, which essentially closed the Russian market to U.S. pork in early 2010, is also appreciated. Although some issues remain, pork shipments regained momentum in April and the U.S. pork industry has benefited from the ability to again supply one of the largest pork import markets in the world.

National Export Initiative

President Obama has called for a doubling of U.S. exports, including agricultural exports, over the next five years. The President's plan (National Export Initiative) will not only facilitate the creation of greater employment in agriculture and the rest of the economy but its implementation is also sending a strong signal to foreign competitors that U.S. agriculture will become more aggressive in securing its fair share of the world market for our many food and agricultural products.

The National Chicken Council, USA Poultry & Egg Export Council, and U.S. Meat Export Federation are among the members of the Coalition to Promote U.S. Agricultural Exports. Over 100 members of this ad hoc coalition joined together to submit comments on July 26, 2010, to the U.S. Department of Commerce. These comments explained that the United States must have policies and programs that help U.S. agriculture compete effectively in world markets. Subsidized foreign competition remains one of the toughest challenges to overcome. USDA's Foreign Agricultural Service administers two important export promotion and market development programs. These are the Market Access Program (MAP) and the Foreign Market Development (FMD) program. Both programs will require stepped-up funding and staff resources to achieve the National Export Initiative goal. On July 6, 2010 this Coalition, sent a letter to

Senator Herb Kohl, Chairman of the Subcommittee on Agricultural, Rural Development, and Related Agencies/Committee on Appropriations, and Senator Sam Brownback, Ranking Minority Member on the Subcommittee on Agriculture, Rural Development, Related Agencies/Committee of Appropriations. This letter requested that Senators Kohl and Brownback oppose all measures that would reduce or eliminate funding for the Market Access Program or the Foreign Market Development Program. In addition to the MAP and FMD, USDA must improve its financing policies to better assist in markets where credit risks warrant insurance coverage. The bottom line is that all sectors of the U.S. economy and agriculture will need to be energized to meet the President's National Export Initiative goal. Maximizing exports of high-value agricultural products, notably meat and poultry, must be one important part of the effort.

Re-Gaining Poultry Exports to China

China was the U.S. poultry industry's second largest export market in 2009. Early this year, China imposed preliminary and prohibitively high import duties on U.S. chicken and chicken parts. China said that as a result of its investigation it found U.S. chicken producers were benefiting unfairly from government-subsidized corn prices and were also selling chicken parts below the cost to produce the whole carcass chicken. Reportedly, China made the preliminary duties permanent last week. An official Chinese government announcement to this effect is expected soon. Much discussion has taken place about why China has imposed these duties and the validity of China's claims regarding the justification for imposing such extraordinarily high rates. However, the more pragmatic discussion at this time should focus on the most effective way for U.S. poultry exporters to regain fair access to the China market. One effort that may prove productive in re-establishing chicken trade with China is the USA Poultry & Egg Export Council's (USAPEEC) proposal to settle the antidumping case and subsidized corn price charges by implementing an import quota arrangement for U.S. chicken using an export trading company program and/or establishing minimum selling prices for a number of chicken parts. Both the U.S. Trade Representatives Office and the U.S. Department of Agriculture have agreed to support the USAPEEC initiative. Similarly, the Chinese government has indicated a strong interest in concluding such an arrangement. Although U.S. poultry exporters would prefer a freer and fairer trade environment with China, the U.S. poultry industry is also pragmatic in terms of finding an acceptable approach to maximize trade with China. If the initiative moves forward and plans are developed to implement such an arrangement, I request that the Committee give full consideration to supporting the arrangement.

It is also worth noting that a growing impediment to U.S. –China poultry trade is China's continued ban on imports of poultry either processed, or transported through, U.S. states that have reported an incident of low-pathogenic avian influenza, U.S. states that have reported an incident of low-pathogenic avian influenza (AI). Unfortunately, China is not imposing or lifting these bans in accordance with World Health Organization (OIE) guidelines. I urge this Committee and the Administration to work with the Chinese government to review and lift these bans in accordance with OIE guidelines.

The beef industry also faces challenges in China, with China continuing to maintain its BSE-related ban on imports of U.S. beef, now in its seventh year. The value of this market for U.S. beef exports is estimated at $200 million, with tremendous growth potential.

Three Pending Free Trade Agreements (FTAs)

At the G-20 Summit in Toronto in June, President Obama committed to securing Congressional approval of the U.S./Korean Free Trade Agreement. The accord has languished for more than three years. Last month, the National Chicken Council joined with more than 40 other agricultural and food organizations in letters to both the Senate and House leadership urging approval and implementation of the U.S./Korean FTA, as well as the trade agreements with

Colombia and Panama. I would also note that on June 1 16 Senators wrote a letter to President Obama requesting that Korea, Columbia, and Panama need to be given a "well-defined and finite list" of outstanding issues for their respective free trade agreements, as well as a specific timeline for enactment of their agreements. U.S. poultry and meat producers and processors believe that this is a reasonable approach to begin ending the stalemate on the FTAs.

These trade agreements should more appropriately be called job creation agreements because that is definitely what they are for agriculture. More than 29,000 jobs would be added through the three FTAs, according to a recent study by U.S. meat and poultry associations that evaluated the impact of the FTAs on domestic employment in the meat and poultry industry. These added jobs and increased exports for meat and poultry will, in turn, help boost the exports of corn, soybeans, and other crops that provide the primary feedstocks for our industry. The Committee is urged to continue to work to achieve passage of all three trade agreements.

Enhancing Exports to Cuba

Regarding the ongoing effort to improve the trade relationship with Cuba, the National Chicken Council and almost 140 other associations and non-government organizations recently issued a statement expressing strong support for the Congressional effort to permit payment upon product arrival in Cuba rather than cash payment before the product is loaded at the U.S. port. The legislation would also eliminate the requirement that Cuban payment must pass through banks in third-party countries. Further, a general travel license for U.S. citizens would be available for sellers of food and medical supplies. Cuban-Americans could increase their visits to Cuba, as well, and their daily spending amounts would be increased. All of these measures can work to enhance U.S. agricultural exports to Cuba. Cuba is already a top ten market for U.S. poultry, but these provisions could better secure the Cuban market for U.S. poultry and help build future sales.

WTO Poultry Dispute Settlement With European Union

After a dozen years of U.S. poultry being excluded from the European market, the United States in January 2009 officially notified the World Trade Organization that the European Union's prohibition on U.S. poultry was in conflict with WTO rules and member country obligations. The issue was originally the use of chlorinated water during poultry processing, but subsequently the EU expanded its ban to include the use of any and all antimicrobials. To remedy this violation, the Office of the U.S. Trade Representative sought resolution through the WTO's dispute settlement process. In late 2009, the WTO announced its intentions to establish a dispute settlement panel to evaluate the evidence and issue a ruling. To date no panel members have been selected and the process is not moving forward. The National Chicken Council would ask the Committee to urge the U.S. Trade Representatives Office to notify the WTO Director General that action on this issue is long overdue and that a panel must be formed in the very near future so that the process can proceed.

Conclusion

In summary, the list of issues facing U.S. poultry and meat exports is challenging and seemingly ever-growing. Whether or not the goal of doubling agricultural exports in five years can be achieved depends heavily on improved and expand market access, effectively overcoming non-science based sanitary and veterinary prohibitions, and supporting our industry's competitiveness, not burdening it with inappropriate and unnecessary regulations and policies. Reducing foreign trade barriers whether through one-on-one, case-by-case talks, or through bilateral negotiations to reach free trade agreements, or through a successful conclusion and agreement for the WTO Doha Round, will continue to be most difficult and somewhat frustrating. But, whatever the case, the strong support of this Committee will be necessary to achieve success.

The National Chicken Council and its sister organizations in the poultry and meat industry look forward to working with this Committee to meet the challenge of increasing our exports in the years ahead.

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Statement of
Brent Roggie
General Manager and Chief Operating Officer
National Grape Cooperative Association

Testimony before the Senate Committee on Agriculture, Nutrition and Forestry

August 4, 2010

Chairman Lincoln, Ranking Member Chambliss, and Members of the Committee, thank you for the opportunity today to discuss the importance of international trade and exports to the U.S. agricultural economy, and specifically to farmer-owned cooperatives. I am Brent Roggie, the General Manager of the National Grape Cooperative, an agricultural cooperative owned by its 1,150 members who farm 46,000 acres of Concord and Niagara grapes. I also serve on the Executive Council of the National Council of Farmer Cooperatives.

On behalf of National Grape's grower members and the more than two million farmers and ranchers who belong to farmer cooperatives, I appreciate this opportunity to submit testimony regarding international trade programs and issues facing our industry, and respectfully request that this statement be made part of the official hearing record.

National Grape Cooperative's members grow Concord and Niagara grapes in New York, Pennsylvania, Ohio, Michigan, and Washington State. National Grape also wholly owns Welch's, which processes and markets our members' grapes in the United States and 51 other countries. While Welch's is a well known American brand with a rich history, its owners are entirely family farmers – the average farm size of a National Grape grower-owner is just 40 acres.

To that point, farmer cooperatives across the country offer farmers an opportunity to market their products and compete in a global marketplace. Cooperatives give these individual farmers, who do not have the resources or production volume on their own, access to foreign markets. The earnings from these overseas sales then flow back to the farmer-owners in increased patronage dividends, boosting farmers' income from beyond the farm gate.

The grower-owners of National Grape depend on their Welch's brand to expand market demand, which improves profitability. The economic viability of our cooperative's grower-owners is tied directly to Welch's ability to increase sales, and foreign markets represent the greatest potential for robust sales increases. In fact, 70 percent of the world's juice is consumed outside the United States, and foreign juice consumption is expected to increase at four times the rate of U.S. consumption over the next five years. In addition, while foreign markets account for 15 percent of Welch's sales, they represent as much as 26 percent of our growers' income due to pricing and cost structure in those markets.

Therefore, we commend the Administration for the goal of the National Export Initiative (NEI) of doubling U.S. exports of goods and services over five years to facilitate the creation of jobs in the United States. We look forward to working with the Administration and the Congress to achieve that goal.

As part of that initiative, we believe U.S. Department of Agriculture (USDA) market promotion programs such as the Market Access Program (MAP) and the Foreign Market Development (FMD) Program play a vital role. Both programs have been tremendously successful and extremely cost-effective in helping maintain and expand U.S. agricultural exports.

MAP funding has been essential in growing our markets overseas. For example, MAP has significantly contributed to the increased consumption of Concord grape juice in Japan through advertizing and sales promotions. Now, over 92 percent of retailers, or nearly 12,000 outlets, carry Welch's brand of Concord grape juice. Since 2007, Welch's has seen exports to Japan grow by 46 percent, with our volume increasing from 857,000 cases in 2007 to 1,251,000 cases in 2009. MAP was a vital part of our success in the Japanese market.

Producers of other commodities also have done what National Grape's members have done – form cooperatives and build brands to help market their products both in the U.S. and overseas. This branding differentiates the product in the global marketplace and builds customer loyalty and confidence in quality. As such, the MAP branded promotion program has been instrumental in leveraging farmers' investment in their own products to grow those foreign markets.

National Grape plans to increase foreign market sales by at least 10 percent per year over the next five years and will be investing heavily to make this possible. However, access to matching funds through MAP is critical to our ability to attain these sales goals and provide the proceeds necessary to enable our co-ops' grower-owners to remain profitable. Without access to MAP, the effectiveness of our overseas promotion programs would be greatly diminished.

Exports account for about one-third of all farm cash receipts, making U.S. agriculture about twice as reliant on overseas markets when compared to the general economy where exports comprised about 13 percent of U.S. GDP in 2008. Given the economic activity generated by agricultural exports, we urge continued funding for MAP and FMD at the $200 million and $34.5 million annually levels, respectively, as authorized under the 2008 Farm Bill. I also would like to submit for the record the July 26, 2010, comments from the Coalition to Promote U.S. Agricultural Exports to the U.S. Department of Commerce concerning these programs and their importance to the NEI.

Another area that would assist the Administration in reaching the goals of the NEI includes passing the Free Trade Agreements (FTA) with South Korea, Colombia, and Panama. An example of where an FTA would help our grape growers tremendously is the agreement with South Korea. Currently, our grape juice concentrate is subjected to a 45.5 percent duty, while Chile's competing red grape juice tariff is minimal, and will be zero starting January 1, 2011. That puts us at a distinct competitive disadvantage.

However, under the terms of the U.S.-South Korea FTA, the tariff on our product would be eliminated immediately, which would allow us to grow the market by making our product more affordable while also competing on a more level basis with our competitors.

Other issues which would contribute to expanding U.S. agricultural exports include resolving outstanding sanitary and phytosanitary and technical barriers to trade, resolving disputes such as the one with Mexico over trucking, and a successful World Trade Organization Doha Round – one that makes for commercially meaningful advances in market access.

In conclusion, thank you again for the opportunity to testify today before the Committee. And thank you for your leadership in supporting American farmers and ranchers by supporting important export programs and policies. We appreciate your attention to these issues that will help maintain the United States as the leader in providing for the world's food needs.

DOCUMENTS SUBMITTED FOR THE RECORD

AUGUST 4, 2010

July 26, 2010

International Trade Administration: Trade Promotion
Coordinating Committee
U.S. Department of Commerce
Room C102
1401 Constitution Ave. N.W.
Washington, DC 20230

Attn.: NEI Comments

As members of the Coalition to Promote U.S. Agricultural Exports and the Agribusiness Coalition for Foreign Market Development, we are submitting these comments in response to the Administration's interagency Trade Promotion Coordinating Committee's request for information in order to achieve the goal of the National Export Initiative (NEI) plan of doubling U.S. exports of goods and services over five years to facilitate the creation of jobs in the United States. We commend the Administration for setting this important goal and wish to support and work with the Administration in order to achieve it.

The Coalition to Promote U.S. Agricultural Exports is an ad hoc coalition of over 100 organizations, representing farmers and ranchers, fishermen and forest product producers, cooperatives, small businesses, regional trade organizations, and the State Departments of Agriculture. The Coalition believes the U.S. must continue to have in place policies and programs that help maintain the ability of American agriculture to compete effectively in a global marketplace still characterized by highly subsidized foreign competition.

Members of the Coalitions utilize primarily two important export promotion and market development programs administered by USDA's Foreign Agricultural Service (FAS): the Market Access Program (MAP) and the Foreign Market Development (FMD) Program. Both programs are administered on a cost-share basis with farmers and other participants required to contribute up to 50 percent of their own resources. These programs are among the few tools specifically allowed in unlimited amounts under World Trade Organization (WTO) rules to help American agriculture and American workers remain competitive in a global marketplace still characterized by highly subsidized foreign competition. U.S. agricultural groups that share in the costs of the MAP and FMD programs fully recognize the export benefits of market development activities. Both programs have been tremendously successful and extremely cost-effective in helping maintain and expand U.S. agricultural exports, protect and create American jobs, and strengthen farm income.

MAP and FMD are currently funded at $200 million and $34.5 million annually respectively, as authorized under the 2008 Farm Bill. MAP has been funded at this level since FY 06 and FMD since 2002. In order to achieve NEI's goal of doubling U.S. exports over five years, the Coalition believes that the upcoming 2012 Farm Bill should commit additional resources to both programs. We commend the Administration for seeking to double funding for FMD to $69 million in its FY 11 proposed budget and strongly support maintaining funding for MAP at $200 million annually through the remaining years of the 2008 Farm Bill.

MAP forms a highly successful partnership between non-profit U.S. agricultural trade associations, farmer cooperatives, non-profit state-regional trade groups, small businesses and USDA to share the costs of international marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing. Exports are a vital part of the U.S. economic engine, and agricultural exports continue to be its strongest component. Since its creation in 1985, MAP has proven to be highly successful in helping to boost U.S. agricultural exports, protecting and creating American jobs, and increasing farm income. Over this period, U.S. agricultural exports have increased by nearly 300 percent, and today nearly 900,000 Americans have jobs that depend on these exports. According to USDA, each $1 billion in agricultural exports supports 8,000 to 9,000 U.S. jobs.

FMD was established by Congress to develop, maintain, and expand long-term export markets for U.S. agricultural products. FMD benefits U.S. farmers, processors, and exporters by assisting their organizations in developing new foreign markets and increasing market share in existing markets. Overseas promotions focus on generic U.S. commodities and are targeted toward long-term development. This program, also known as the Cooperator Program, has been one of the most successful public-private partnerships. Today, the private industry matching funds are greater than the U.S. Government's investment. The program has fostered a partnership between USDA and nonprofit commodity or trade associations (Cooperators) that represent an entire industry or are nationwide in membership and scope to expand U.S. agricultural exports.

A recent study by IHS Global Insight (*A Cost Benefit Analysis of USDA's International Market Development Programs*, IHS Global Insight (USA), Inc., March 2010), commissioned by USDA, found that the increase in market development spending through MAP and FMD since 2002 increased U.S. export market share by 1.3 percentage points and the annual value of U.S. agricultural exports by $6.1 billion. (MAP funding was increased over the course of the 2002 Farm Bill from $90 million annually to $200 million annually, and FMD was increased from approximately $28 million to $34.5 million annually). The study also found that over the 2002-09 period export gains associated with the programs increased the average annual level of U.S. farm cash receipts by $4.4 billion and net cash farm income by $1.5 billion. For every additional $1 expended by government and industry on market development during this period, U.S. food and agricultural exports increased by $35, a 35 to 1 return on investment. At the same time, the study also found that U.S. domestic farm support payments were reduced by roughly $54 million annually due to higher prices from increased demand abroad, thus reducing the net cost of farm programs.

American agriculture and American workers continue to face increasingly strong foreign competition supported by government sponsored activities. In recent years, the EU, the Cairns group, and other foreign competitors have devoted considerable resources to various market development activities to promote their exports of agricultural, forestry, and fishery products. A significant portion of these activities is carried out in the United States. Because market promotion programs are permitted under World Trade Organization (WTO) rules, with no limit on public or producer funding, such programs are increasingly seen as a centerpiece of a winning strategy in the international trade battleground. Many competitor countries have announced ambitious trade goals and are shaping export programs to target promising growth markets and bring new companies into the export arena.

MAP and FMD, it should be emphasized again, are cost-share programs under which farmers and other participants are required to contribute up to 50 percent of their own resources to be eligible. They have been and continue to be excellent examples of effective public-private partnerships. While government is an important partner in this effort, industry funds are now estimated to represent almost 60 percent of total annual spending on market development and promotion, up from roughly 45 percent in 1996 and less than 30 percent in 1991.

Clearly, U.S. producers and industry are committed to the program.

By any measure, both MAP and FMD have been tremendously successful and extremely cost-effective in helping maintain and expand U.S. agricultural exports, protect and create American jobs, strengthen farm income and help to offset the government-supported advantages afforded foreign competitors. They are one of the few tools U.S. agriculture has to compete in the international marketplace, and are even more important today as our competitors continue to use their considerable financial resources to gain market share. In our view, it will be difficult, if not impossible, to achieve the NEI's goal without increasing funding for both programs.

We appreciate this opportunity to express our views and look forward to working with the Administration to achieve the goal of doubling U.S. exports over the next five years, which in turn will protect and create American jobs and increase farm income.

Sincerely,

Alaska Seafood Marketing Institute
American Cotton Exporters Association
American Cotton Shippers Association
American Feed Industry Association
American Forest and Paper Association
American Hardwood Export Council
American Meat Institute
American Peanut Council
American Quarter Horse Association
American Seed Trade Association
American Sheep Industry Association
American Soybean Association
Atlantic Seaboard Wine Association
Blue Diamond Growers
Calcot, Ltd.
California Agricultural Export Council
California Apple Commission
California Association of Winegrape Growers
California Blueberry Commission
California Dried Plum Board
California Farm Bureau Federation
California Fig Advisory Board
California Grape and Tree Fruit League
California Kiwifruit Commission
California Stone Fruit Coalition
California Strawberry Commission
California Table Grape Commission
California Walnut Commission
Cherry Marketing Institute
CoBank
Distilled Spirits Council of the United States
Florida Citrus Commission
Florida Citrus Mutual
Florida Citrus Packers Association
Florida Citrus Processors Association
Florida Department of Citrus
Florida Fruit & Vegetable Association
Florida Peanut Producers Association
Food Export Association of the Midwest USA
Food Export USA - Northeast
Georgia Poultry Federation
Ginseng Board of Wisconsin
Gulf Citrus Growers Association
Highlands County Citrus Growers Association, Inc.
Hop Growers of America, Inc.
Indian River Citrus League
Land O'Lakes, Inc.
Mohair Council of America
National Association of Wheat Growers
National Barley Growers Association
National Chicken Council
National Confectioners Association
National Cotton Council
National Council of Farmer Cooperatives
National Farmers Union
National Grape Cooperative Association, Inc.
National Milk Producers Federation
National Oilseed Processors Association
National Potato Council
National Renderers Association
National Sorghum Producers
National Sunflower Association
National Turkey Federation
NORPAC Foods, Inc.
North American Millers' Association
Northwest Horticultural Council
Ocean Spray Cranberries, Inc.
Peace River Valley Citrus Growers Association
Pet Food Institute
Produce Marketing Association

Softwood Export Council
Southern Forest Products Association
Southern U.S. Trade Association
Sunkist Growers
Sun Maid Growers of California
Sunsweet Growers, Inc.
The Catfish Institute
The Popcorn Institute
Tree Top, Inc.
United Egg Association
United Egg Producers
United Fresh Produce Association
USA Dry Pea and Lentil Council
USA Poultry & Egg Export Council
USA Rice Federation
U.S. Apple Association
U.S. Dairy Export Council
U.S. Dry Bean Council
U.S. Grains Council
U.S. Hides, Skins & Leather Association
U.S. Livestock Genetics Export, Inc.
U.S. Meat Export Federation
U.S. Rice Producers Association
U.S. Wheat Associates, Inc.
Valley Fig Growers
Washington Apple Commission
Washington State Fruit Commission
Welch Foods Inc., A Cooperative
Western Growers Association
Western Pistachio Association
Western U.S. Agricultural Trade
Association
WineAmerica (The National Association of
American Wineries)
Winegrape Growers of America
Wine Institute

QUESTIONS AND ANSWERS

AUGUST 4, 2010

Promoting Agricultural Exports:

Reviewing U.S. Agricultural Trade Policy and the Farm Bill's Trade Title

Wednesday, August 4, 2010

Questions for the record submitted by Chairman Blanche Lincoln

For Ambassador Ron Kirk

1. An issue of critical importance to farmers in my state concerns the implementation of the Catfish Inspection Rule, a provision contained in the 2008 farm bill. Catfish production is a mainstay for farmers in Arkansas, which is the third largest producer of catfish in the nation. Yet in the past several years the industry has been hit hard by Chinese, Vietnamese and other imports of related fish species that led to job loss and a 30% reduction in water surface acreage devoted to catfish in Arkansas. What bothers me is not competition – our producers can compete with the best of them. The problem here is the continued reluctance of this administration to implement the Catfish Inspection Rule as intended. The legislative language of the bill leaves no ambiguity in its intent that all catfish – domestic and imported – be inspected by USDA. Studies have shown that USDA methods are far better than those used by the FDA to detect traces of illegal chemicals and dangerous substances in the fish. **I would like for you to please clarify why your office continues to oppose the transfer of responsibility for inspection of all catfish species to the jurisdiction of USDA – as mandated by law? While trade relations are an important consideration, in my mind the safety of our citizens comes first. If trade concerns are at play in this case please explain how they might trump those serious health concerns.**

2. Of the three pending FTAs, none contains greater potential for revenue and job creation than the agreement with South Korea. Before the BSE scare, the Koreans annually imported 750 million dollars worth of U.S. beef. Today, our producers are struggling to get back into that market and desperately need a free trade agreement to facilitate their exports, especially since those concerns stemming from BSE had been more than adequately addressed. With other countries poised to sign FTAs with the Koreans, our producers could be placed at a substantial price disadvantage for years to come. I publicly praised the President's recent announcement to move forward with that agreement. **I would like to hear your assessment as to how soon this agreement could be brought before Congress and whether our beef producers can expect to gain full and unhindered access to that market.**

3. Between 2003 and 2006 three cows that carried BSE, also known as mad-cow disease, were found in the U.S. In the years since, tens of millions heads of cattle were processed without another occurrence. Yet despite this impeccable record, our beef industry is severely restricted from freely exporting its products to many markets around the world, chiefly among them China, Japan and Taiwan. I would appreciate your opinion on how a country like Japan, which used to import 1.4 billion dollars of our beef, now allows only a fraction of that amount, with no science-based justification to the ban; or how China continues to restrict all such imports. This is a matter of urgency for our producers who helplessly watch their Canadian and Australian competitors sign agreements that overcome these barriers. **Mr. Ambassador, how can China, Japan and others**

get away with such arbitrary measures while they are assured of a level playing field on our shores, and when will our products return to those markets without restrictions?

4. In his State of the Union address, President Obama set a goal of doubling U.S. exports within 5 years. I was pleased to hear that ambitious objective and I was one of 18 Senators – and the only one from my party – to immediately offer encouragement and support to accomplish that goal. **Considering that agriculture maintains a consistent and sizable trade surplus, how does USTR intend to leverage this performance toward doubling our exports and will your agency dedicate sufficient resources to do so?**

5. British Columbia continues to engage in timber pricing practices which are harming the U.S. forestry industry and appear to be inconsistent with Canada's commitments under the Softwood Lumber Agreement (SLA). Is USTR taking enforcement steps to address the BC issue?

6. How will USTR position itself and the United States to ensure it will be able to negotiate a Softwood Lumber Agreement (SLA) extension or re-negotiated agreement on favorable terms for U.S. industry and workers?

Senate Committee on Agriculture, Nutrition & Forestry
Promoting Agricultural Exports and
Reviewing U.S. Agricultural Trade Policy and the Farm Bill's Trade Title
Questions for the Record – Ambassador Kirk
August 4, 2010

Senator Chambliss

1. We understand the West African Cotton Improvement Program (WACIP) is currently operating on a short term extension and without additional funding will have to be terminated in the near future.

   What is the status of funding for WACIP? Has any consideration been given to how WACIP and Feed the Future might be coordinated in West Africa?

2. Ambassador Kirk, it has been well over one year since the Mexican government imposed retaliatory tariffs against a host of American goods. This retaliation comes in response to a failure of the U.S. government to adhere to its commitments under the North American Free Trade Agreement (NAFTA) as it relates to trucking access.

   The intervening months have seen losses of American jobs and export opportunities, particularly for agricultural producers. Specialty crops in particular have seen processing plants idled and market share ceded to Canadian interests that had originally been developed by the American industry.

   Given the challenging economic times we are in, the timing of this retaliation is particularly painful.

   When can we expect the Administration to implement a trucking program that will allow these tariffs to be lifted and American exports to flow again?

3. As you know, the European Union (EU) is attempting to extend the protection for Geographical Indications (GI's) to food products in markets which are of interest to U.S. producers and exporters. For example, by restricting the use of common cheese names in international commerce the EU is threatening present and potential trade with third countries.

   While the focus of attention has been in the Doha Round negotiations, it is now impacting market access via free trade agreements. Specifically, Korea has agreed to protect a long list of EU GI's which would impair the tariff reductions gained in the Korea-United States Free Trade Agreement.

How and when do you intend to resolve the conflicting commitments Korea has made to the EU and the United States regarding GI protection for what are considered generic cheese names (parmesan, feta etc)?

If unresolved, Korea will have both nullified U.S. access to their market under the terms of the free trade agreement and established precedent which threatens to cripple growth in U.S. dairy products internationally.

With a significant share of the export market out of reach, does it threaten domestic efforts to reform the dairy program?

How can dairy producers have confidence to move away from the current program when export markets are closed in Korea and other important countries?

4. The 2010 Trade Estimates Report notes China's use of an active value added tax (VAT) rebate program, impacting U.S. exports in important third-country markets. However, the rebate program can also have an adverse impact on domestic producers of agricultural products and inputs in the U.S. market. I have heard from U.S. agricultural chemical manufacturers impacted by this policy and if left unchallenged, it can have negative impacts on the long-term viability of certain manufacturing operations.

   Can you update the Committee on China's use of the VAT rebate program and detail which domestic agriculture related industries are impacted by it?

   Do any other domestic policies employed by the Chinese government, such as environmental or waste management regulations; provide an unfair advantage to Chinese manufacturers? Can you please detail these and update what plans China has to enforce its domestic laws?

   Has your office been in contact with agricultural industries impacted by these policies and can you detail steps in the future to ensure China refrains from employing them?

5. I understand that you may soon decide how the United States will respond to apparent violations of the U.S.-Canada Softwood Lumber Agreement by British Colombia and the Government of Canada. I urge you to proceed as quickly as possible with your deliberations and ensure that Canada lives up to its commitments.

Despite the 2006 Agreement, British Columbia is providing timber to its industry at essentially no cost and facilitates misgrading of lumber-grade timber as salvage material.

The softwood lumber agreement can only remain viable if it serves it intended purpose, which is to allow our domestic producers and workers to compete on fair terms with their Canadian counterparts, and for our landowners to get a fair price for their timber harvests.

What steps has your office taken to investigate the policies and actions noted above?

When do you expect your office will reach a decision on whether to proceed with enforcement actions?

Senator Chuck Grassley
Questions of Ambassador Ron Kirk
Senate Agriculture Committee Hearing
August 4, 2010 9:30am

Colombia Free Trade Agreement

I'm pleased that the President has stated that he intends to advance our trade agreement with South Korea. I'm disappointed, however, that he has yet to make a similar commitment with regard to the Colombia trade agreement.

While the Administration has put the Colombia trade agreement in storage, other countries are aggressively moving ahead to replace U.S. commodities in the Colombian market.

For example, following implementation of a Colombia-Mercosur free trade agreement, Argentina's exports of corn to Colombia grew seven-fold from 2007 to 2009. During that same period, U.S. corn exports to Colombia dropped by 62 percent.

By failing to implement the U.S.-Colombia trade agreement, the Administration is in effect boosting Argentine corn export to Colombia, at a direct expense to corn farmers in Iowa and other states. How long is the President willing to stall implementation of the Colombia agreement? How is the United States benefiting from this stalling?

Doubling Exports/Colombia and Panama Trade Agreements

I support the President's goal of doubling U.S. exports over the next five years. The President states that this export goal will be met in part by reducing barriers to U.S. exports.

Over three years ago, Colombia and Panama agreed to remove barriers to U.S. imports by signing trade agreements with us. Their commitments to remove barriers to U.S. imports won't go into effect, however, until after the United States implements these agreements.

If the President is interested in doubling U.S. exports, why doesn't he act quickly to send implementing legislation for the Colombia and Panama trade agreements, as well as for the South Korea agreement, to Congress?

Pork and China, Taiwan, and the European Union

China recently lifted its non-science based ban on the importation of U.S. pork, which was imposed due to alleged concerns over the H1N1 virus.

I remain concerned, however, over a remaining barrier to exports of U.S. pork to China. Specifically, China continues to prohibit imports of pork containing traces of ractopamine (rack-toe-puh-meen), a safe veterinary drug used in the United States.

In addition, Taiwan and the European Union restrict imports of U.S. pork for the same reason.

What is the United States doing to see that China, Taiwan, and the European Union drop their scientifically unwarranted barriers to imports of U.S. pork?

European Union and Corn (Biotechnology)

Due to alleged concerns about biotechnology, the European Union continues to block imports of corn grown in Iowa and other states.

What actions is the Administration currently taking to reopen the European Union market to U.S. corn?

Beef Exports

China, Japan, South Korea, and Mexico impose scientifically unjustified barriers to imports of U.S. beef. But U.S. beef is safe. After all, millions of Americans and others around the world consume this product every day.

In addition, the World Organization for Animal Health recognized our beef as safe when it listed the United States as a controlled risk country for BSE.

What is the Administration doing to see that China, Japan, South Korea, and Mexico fully reopen their markets to U.S. beef?

Promoting Agricultural Exports:

Reviewing U.S. Agricultural Trade Policy and the Farm Bill's Trade Title

Wednesday, August 4, 2010

Questions for the record submitted by Senator Amy Klobuchar

For Ambassador Ron Kirk

1. Foreign importers of honey and sweetener (primarily from China) are avoiding paying anti-dumping and countervailing subsidy duties through a variety of means including importing diluted or mislabeled honey and transshipping their product through third-parties. It is estimated that these practices account for a loss of more than $200 million Treasury revenue. This problem may have also contributed to the 12% decline last year in U.S. honey production. What steps do you think should be taken to resolve this problem, and how do you feel that implementation of a national standard of identity for honey would affect the effort to close the loopholes that are being exploited?

Senate Committee on Agriculture, Nutrition & Forestry
Promoting Agricultural Exports: Reviewing U.S. Agricultural Trade Policy and the Farm Bill's Trade Title
Questions for the Record
August 4, 2010

Senator Richard G. Lugar

Witness: Ambassador Ron Kirk during his Tenure as U.S. Trade Representative

Trade Restrictions of U.S. Agricultural Exports
Agricultural exports from the United States continue to face bans and restrictions in markets around the world. The use of restrictive trade practices by countries in overseas markets can contribute market disruptions and price instability for American farmers and producers.

1. What is the current status of foreign county bans and restrictions on exports of U.S. beef, poultry and pork products including on products from individual U.S. states?

2. Detail USTR's efforts to address these bans and restrictions.

Questions for the Record
Senator Mitch McConnell
Senate Agriculture, Nutrition and Forestry Committee
Hearing to Discuss Agriculture Exports
August 4, 2010

As you are aware, burley tobacco is critically important to Kentucky's economy and small farmers across the state. Kentucky is the leading burley producer in the U.S. and 80 percent of our tobacco is exported. In September 2009, the Canadian Parliament passed Bill C-32, which bans the use of over 5,000 flavorings in cigarettes. As a result, traditional blended cigarettes, like the cigarettes that dominate the market in the U.S., are now banned in Canada. If other nations were to follow Canada's lead in banning products made with burley tobacco, the market for American tobacco could become non-existent outside the U.S. Due to the significance of the export market; this could put many U.S. growers out of business and devastate communities dependent on the industry.

Question #1: The Framework Convention on Tobacco Control (FCTC) will be meeting in Punta del Este, Uruguay, in November to consider proposed ingredients guidelines for tobacco products. What specific plans do you have to make sure the countries that are a party to the FCTC are fully aware of the damage the FCTC Articles 9 and 10 guidelines, as currently drafted, would do to the livelihood of American tobacco farmers? Who from the Obama Administration will be representing the views of the United States and our tobacco farmers?

Question #2: The FCTC is looking to arbitrarily eliminate all ingredients in tobacco products thus eliminating the entire category of traditional American blended cigarettes from the market. Similar legislation passed in Canada in 2009 and there is absolutely no evidence to suggest that traditional American blended cigarettes are more harmful than Virginia style (flue-cured tobacco) cigarettes. Would it be fair to say that this constitutes a discrimination against one category of cigarettes? What does the USTR plan to do to support U.S. tobacco farmers?

Question #3: The Canadian tobacco flavorings ban legislation, Bill C-32, that is now law in Canada, began as legislation to ban characterizing flavors in tobacco products. These products, considered attractive to youth, put off a district fruity or sweet flavor like grape or cherry. Traditional blend cigarettes neither advertise a characterizing flavor, nor do they have a characterizing flavor, other than tobacco.

Article 2.2 of the Technical Barriers to Trade Agreement within the WTO states that "technical regulations shall not be more trade-restrictive than necessary to fulfill a legitimate objective." Is it your understanding that the Canadian legislation, and the even more restrictive draft FCTC Articles 9 and 10 guidelines, are outside the scope of the original, admittedly legitimate, objective to ban candy flavored tobacco products and may be a violation of the TBT Agreement?

Promoting Agricultural Exports:

Reviewing U.S. Agricultural Trade Policy and the Farm Bill's Trade Title

Wednesday, August 4, 2010

Chairman Lincoln

1. An issue of critical importance to farmers in my state concerns the implementation of the Catfish Inspection Rule, a provision contained in the 2008 farm bill. Catfish production is a mainstay for farmers in Arkansas, which is the third largest producer of catfish in the nation. Yet in the past several years the industry has been hit hard by Chinese, Vietnamese and other imports of related fish species that led to job loss and a 30% reduction in water surface acreage devoted to catfish in Arkansas. What bothers me is not competition – our producers can compete with the best of them. The problem here is the continued reluctance of this administration to implement the Catfish Inspection Rule as intended. The legislative language of the bill leaves no ambiguity in its intent that all catfish – domestic and imported – be inspected by USDA. Studies have shown that USDA methods are far better than those used by the FDA to detect traces of illegal chemicals and dangerous substances in the fish.

   I would like for you to please clarify why your office continues to oppose the transfer of responsibility for inspection of all catfish species to the jurisdiction of USDA – as mandated by law? While trade relations are an important consideration, in my mind the safety of our citizens comes first. If trade concerns are at play in this case please explain how they might trump those serious health concerns.

   Answer: The Obama Administration has a strong commitment to improving food safety in the United States. In March 2009, President Obama created the Food Safety Working Group which has initiated advances in domestic and import policies by protecting the U.S. food supply from microbial contamination, reducing exposure to Salmonella, and developed new standards for Campylobacter in poultry and issues new guidelines for controlling E. coli O157:H7 on the farm, before cattle come to slaughter.

   In addition, the U.S. Food and Drug Administration launched the Reportable Food Registry (RFR), an electronic portal for industry and public health officials to report when there is reasonable probability that a food item will cause serious adverse health consequences. Federal agencies are responding more aggressively to reports of contamination in an effort to remove potentially contaminated product from the market before it can cause illness. And in concert with our WTO obligations, these new initiatives apply to domestic and imported products alike.

With regards to pending regulations on catfish, however, USTR cannot discuss ongoing interagency discussions within the Administration with regards to a USDA draft rule.

2. Of the three pending FTAs, none contains greater potential for revenue and job creation than the agreement with South Korea. Before the BSE scare, the Koreans annually imported 750 million dollars worth of U.S. beef. Today, our producers are struggling to get back into that market and desperately need a free trade agreement to facilitate their exports, especially since those concerns stemming from BSE had been more than adequately addressed. With other countries poised to sign FTAs with the Koreans, our producers could be placed at a substantial price disadvantage for years to come. I publicly praised the President's recent announcement to move forward with that agreement.

   I would like to hear your assessment as to how soon this agreement could be brought before Congress and whether our beef producers can expect to gain full and unhindered access to that market.

   Answer: Improving market access for U.S. beef in Korea is one of the outstanding issues associated with the U.S.-Korea FTA that the President has instructed me to resolve.

   In close consultation with U.S. industry and Congress, we are developing a number of proposals to move Korea to full compliance with our bilateral beef import protocol by going beyond the current restrictions on beef from cattle under thirty months of age.

   Currently, Korea is our fourth largest beef export market. From January to July 2010, U.S. exports of beef and beef products to Korea reached $290.8 million in value, already well exceeding our exports for all of last year in value.

3. Between 2003 and 2006 three cows that carried BSE, also known as mad-cow disease, were found in the U.S. In the years since, tens of millions heads of cattle were processed without another occurrence. Yet despite this impeccable record, our beef industry is severely restricted from freely exporting its products to many markets around the world, chiefly among them China, Japan and Taiwan. I would appreciate your opinion on how a country like Japan, which used to import 1.4 billion dollars of our beef, now allows only a fraction of that amount, with no science-based justification to the ban; or how China continues to restrict all such imports. This is a matter of urgency for our producers who helplessly watch their Canadian and Australian competitors sign agreements that overcome these barriers.

   Mr. Ambassador, how can China, Japan and others get away with such arbitrary measures while they are assured of a level playing field on our shores, and when will our products return to those markets without restrictions?

   Answer:
   With regard to bans and restrictions on U.S. beef and beef products due to concerns about BSE, the administration is committed to appropriate science-based import requirements for U.S. beef and beef products consistent with OIE guidelines. The administration continues to

press all trading partners, including key former top markets in Asia, to fully open their markets to U.S. beef and beef products on this basis.

Over 60 countries' markets are fully open to U.S. beef and beef products and some U.S. beef and beef products are exported to over 100 other countries. At the same time, Japan still continues to restrict imports of U.S. beef and beef products to product from cattle aged 20-months or younger. The Administration continues to urge the Japanese Government to resolve this long-standing issue so that we can normalize beef trade based on science and consistent with OIE guidelines. Securing Japan's agreement on a science-based approach – and doing so by negotiating a protocol in a comprehensive single undertaking that achieves this – is priority number one. A working-level meeting was held the week of September 13 to discuss technical details related to this issue. After we secure Japan's agreement on this critical point, we can then talk about ways to phase-in implementation, as we have done with some other trading partners.

The United States continues to urge China to lift its BSE-related ban on U.S. beef and beef products. Building on discussions of this issue at the 2009 JCCT, our delegation in Beijing in March 2010 urged China to come back to the table for discussions of a science-based re-opening of China's market to U.S. beef and beef products. China expressed its willingness to re-engage. We are hopeful that in the coming months we can work on this issue and achieve positive results. A U.S. working level team traveled to China for meetings on September 7-8, 2010, to provide information on developments in the United States with regard to beef in advance of Ambassador Siddiqui's and Under Secretary Miller's September 16 trip to China to discuss bilateral agricultural issues including beef market access. With regard to Canada's announcement on an arrangement with China on beef, we understand that it is an agreement in principle and that Canada and China still have to engage on specific terms and conditions, and a protocol and health certificate statements. This means that Canadian beef remains banned in China currently. In the case of Australia, as well as New Zealand, neither country has reported a case of BSE and both are classified as "negligible risk" for BSE by the OIE. Neither country has therefore needed to reach agreement with China on BSE-related import measures, and both enjoy full market access.

4. In his State of the Union address, President Obama set a goal of doubling U.S. exports within 5 years. I was pleased to hear that ambitious objective and I was one of 18 Senators – and the only one from my party – to immediately offer encouragement and support to accomplish that goal.

Considering that agriculture maintains a consistent and sizable trade surplus, how does USTR intend to leverage this performance toward doubling our exports and will your agency dedicate sufficient resources to do so?

Answer: USTR efforts relating to the President's initiative to double exports focus in particular on our extensive trade policy activities to expand export opportunities for U.S. farmers, ranchers, businesses and workers by opening key foreign markets, reducing barriers to trade, and robustly enforcing our trade agreements. We are using all available resources to continue our hard work on all these fronts.

5. British Columbia continues to engage in timber pricing practices which are harming the U.S. forestry industry and appear to be inconsistent with Canada's commitments under the Softwood Lumber Agreement (SLA).

Is USTR taking enforcement steps to address the BC issue?

Answer: As you know, on October 8 we announced that the United States has requested consultations with Canada under the 2006 Softwood Lumber Agreement. Requesting consultations under the SLA initiates the dispute settlement process and provides an opportunity for the United States and Canada to exchange views and attempt to resolve their differences. If the matter is not resolved within 40 days of the request for consultations, either party may refer the matter to arbitration.

6. **How will USTR position itself and the United States to ensure it will be able to negotiate a Softwood Lumber Agreement (SLA) extension or re-negotiated agreement on favorable terms for U.S. industry and workers?**

Answer: USTR will be consulting with the Congress, stakeholders and other agencies as the October 2013 expiration of the SLA approaches, and these views will be key to our approach to the issue of an extension.

For our part, the Administration is continuing to spend considerable resources to ensure the SLA is being implemented appropriately. Where we have concerns about implementation, we have pursued our rights under the agreement to seek redress, and will continue to do as necessary. We believe the SLA has worked to level the playing field for lumber producers in North America, and we are in the best position to consider an extension if this perception is widely shared by stakeholders.

Senator Chambliss

1. We understand the West African Cotton Improvement Program (WACIP) is currently operating on a short term extension and without additional funding will have to be terminated in the near future.

What is the status of funding for WACIP? Has any consideration been given to how WACIP and Feed the Future might be coordinated in West Africa?

Answer: Launched in December 2006, the West African Cotton Improvement Program (WACIP) was designed to increase yields and incomes of West African cotton producers. This U.S. Department of State and U.S. Agency for International Development (USAID) funded program is an excellent example of USG commitment to develop the West and Central African cotton sector through technical assistance. This three-year $27 million program targets the cotton-producing countries of Benin, Burkina Faso, Chad, Mali, and to much lesser extent, Senegal. WACIP programs have significantly benefited the rural economies of these so-called C-4 countries by working within the cotton producers and processors (ginners and artisans) to promote good agricultural practices for cotton and food staples grown in rotation with it, support local research institutes, strengthen cotton biotechnology programs, and increase the value added from cotton products.

The WACIP program was until recently scheduled to conclude in December 2010, but on September 15 State and USAID approved the allocation of an additional $4 million to continue the program through March 2012. Throughout the life of the program, USTR has worked cooperatively with USAID and State to support the program and to explore possible options to continue support to the African cotton sector.

Many of the goals of WACIP are similar to those in the Administration's Feed the Future program, and we will continue to work with other USG agencies – particularly State Department, USAID, and USDA – to explore synergies and the possibility for coordination between these two programs.

The Administration's commitment to trade capacity building in Africa is firm and will continue. U.S. agencies will continue to carry out a wide array of trade capacity programs, including the work of the four USAID-managed trade hubs and trade-related activities taking place under MCC compacts. Of course, we are always looking for ways to improve the effectiveness of our programs and welcome ideas you may have toward that end. Since FY2001, U.S. trade capacity building assistance to sub-Saharan Africa has totaled $3.3 billion, including $732 million in FY2009 alone.

2. Ambassador Kirk, it has been well over one year since the Mexican government imposed retaliatory tariffs against a host of American goods. This retaliation comes in response to a failure of the U.S. government to adhere to its commitments under the North American Free Trade Agreement (NAFTA) as it relates to trucking access.

The intervening months have seen losses of American jobs and export opportunities, particularly for agricultural producers. Specialty crops in particular have seen processing plants idled and market share ceded to Canadian interests that had originally been developed by the American industry.

Given the challenging economic times we are in, the timing of this retaliation is particularly painful.

When can we expect the Administration to implement a trucking program that will allow these tariffs to be lifted and American exports to flow again?

Answer: We are disappointed that the Mexican government has announced its intention to impose duties on additional U.S. products related to the cross-border trucking dispute between our countries. Mexico is an important U.S. export market and President Obama understands the economic pain that these tariffs cause for American farmers, companies and workers. Following President Obama's direction, Department of Transportation Secretary Ray LaHood and I have worked with other agencies and stakeholders in Congress seeking to resolve this issue in a way that addresses safety concerns and upholds our trade obligations. We are committed to continuing to work with Members of Congress and our counterparts in Mexico to resolve the dispute and end these duties.

3. As you know, the European Union (EU) is attempting to extend the protection for Geographical Indications (GI's) to food products in markets which are of interest to U.S. producers and exporters. For example, by restricting the use of common cheese names in international commerce the EU is threatening present and potential trade with third countries.

While the focus of attention has been in the Doha Round negotiations, it is now impacting market access via free trade agreements. Specifically, Korea has agreed to protect a long list of EU GI's which would impair the tariff reductions gained in the Korea-United States Free Trade Agreement.

How and when do you intend to resolve the conflicting commitments Korea has made to the EU and the United States regarding GI protection for what are considered generic cheese names (parmesan, feta etc)?

Answer: Korea agreed in its FTA with the EU to protect several terms put forth by the EU as "geographical indications." We are well aware of the concerns of our industry particularly the dairy sector. I should note that this is not a clear-cut issue – what is considered generic in one country is not necessarily generic in other countries. That said, we have been engaging with the Korean Government to try to resolve this issue satisfactorily. We have made it very clear to the Koreans that we have to find a solution to this issue. We are exploring a number of ideas, and we are in close contact with industry as we develop those ideas.

With a significant share of the export market out of reach, does it threaten domestic efforts to reform the dairy program? How can dairy producers have confidence to move away from the current program when export markets are closed in Korea and other important countries?

Answer:

While there is no doubt that the U.S. dairy sector faces high tariffs and numerous other restrictions when shipping to foreign markets, exports of U.S. dairy products have increased in recent years, rising from $1 billion in FY 2003 to $4 billion in FY 2008. The most recent forecast for FY 2010 is $2.91 billion of dairy product exports. Korea was the 7th largest export market for U.S. dairy products with $70 million in sales in FY2009. Implementation of the U.S.-Korea FTA would give U.S. dairy producers substantial new access to Korea's market. When considering reforms to domestic dairy programs, U.S. dairy producers will want to take into consideration the increasing importance of exports for their sector.

4. The 2010 Trade Estimates Report notes China's use of an active value added tax (VAT) rebate program, impacting U.S. exports in important third-country markets. However, the rebate program can also have an adverse impact on domestic producers of agricultural products and inputs in the U.S. market. I have heard from U.S. agricultural chemical manufacturers impacted by this policy and if left unchallenged, it can have negative impacts on the long-term viability of certain manufacturing operations.

   Can you update the Committee on China's use of the VAT rebate program and detail which domestic agriculture related industries are impacted by it? Do any other domestic policies employed by the Chinese government, such as environmental or waste management regulations; provide an unfair advantage to Chinese manufacturers? Can you please detail these and update what plans China has to enforce its domestic laws? Has your office been in contact with agricultural industries impacted by these policies and can you detail steps in the future to ensure China refrains from employing them?

   Answer: We are reviewing useful information from USDA and from our private sector regarding China's VAT programs. That review is ongoing but we would be prepared to brief you or your staff on the information that we have received thus far. Many countries employ VATs (Value-Added Taxes) as a normal part of their domestic system of taxation, so the simple existence of such a system in China cannot be viewed as extraordinary. However, we are paying close attention to how China's system operates to ensure its consistency with international rules, just as we do for other countries.

5. I understand that you may soon decide how the United States will respond to apparent violations of the U.S.-Canada Softwood Lumber Agreement by British Colombia and the Government of Canada. I urge you to proceed as quickly as possible with your deliberations and ensure that Canada lives up to its commitments.

   Despite the 2006 Agreement, British Columbia is providing timber to its industry at essentially no cost and facilitates misgrading of lumber-grade timber as salvage material.

   The softwood lumber agreement can only remain viable if it serves it intended purpose, which is to allow our domestic producers and workers to compete on fair terms with their Canadian counterparts, and for our landowners to get a fair price for their timber harvests.

   What steps has your office taken to investigate the policies and actions noted above?

Answer: USTR is intensely engaged with Canadian Provincial and Federal officials on this issue. In July, USTR staff traveled to British Columbia and met with the Ministry of Forest and Range and other officials and industry representatives to gain information. I also raised the issue directly with Canada's trade minister when I visited Canada later in July, and discussed the issue with Canada's Ambassador in Washington on August 17. A full U.S. government team met with Canadian officials on August 31 to hear out Canada on this issue.

As you know, on October 8 we announced that the United States has requested consultations with Canada under the 2006 Softwood Lumber Agreement. Requesting consultations under the SLA initiates the dispute settlement process and provides an opportunity for the United States and Canada to exchange views and attempt to resolve their differences. If the matter is not resolved within 40 days of the request for consultations, either party may refer the matter to arbitration.

When do you expect your office will reach a decision on whether to proceed with enforcement actions?

Answer: As you know, on October 8 we announced that the United States has requested consultations with Canada under the 2006 Softwood Lumber Agreement. Requesting consultations under the SLA initiates the dispute settlement process and provides an opportunity for the United States and Canada to exchange views and attempt to resolve their differences. If the matter is not resolved within 40 days of the request for consultations, either party may refer the matter to arbitration.

Senator Grassley

1. Colombia Free Trade Agreement

I'm pleased that the President has stated that he intends to advance our trade agreement with South Korea. I'm disappointed, however, that he has yet to make a similar commitment with regard to the Colombia trade agreement.

While the Administration has put the Colombia trade agreement in storage, other countries are aggressively moving ahead to replace U.S. commodities in the Colombian market.

For example, following implementation of a Colombia-Mercosur free trade agreement, Argentina's exports of corn to Colombia grew seven-fold from 2007 to 2009. During that same period, U.S. corn exports to Colombia dropped by 62 percent.

By failing to implement the U.S.-Colombia trade agreement, the Administration is in effect boosting Argentine corn export to Colombia, at a direct expense to corn farmers in Iowa and other states.

How long is the President willing to stall implementation of the Colombia agreement? How is the United States benefiting from this stalling?

Answer: The Administration highly values the U.S. relationship with Colombia, and the role it plays in the Hemisphere. The Colombia trade agreement continues to be an important trade priority for the Administration.

On July 7, the President signaled his commitment to move forward with the agreement as soon as possible. As directed by the President, we are working to address successfully the outstanding labor-related issues in order to be able to move the agreement forward.

The outgoing Colombian Government worked closely and cooperatively with the Administration in providing the necessary information for this work to proceed, and we are looking forward to working with the Santos Administration to complete the task.

2. Doubling Exports/Colombia and Panama Trade Agreements

   I support the President's goal of doubling U.S. exports over the next five years. The President states that this export goal will be met in part by reducing barriers to U.S. exports.

   Over three years ago, Colombia and Panama agreed to remove barriers to U.S. imports by signing trade agreements with us. Their commitments to remove barriers to U.S. imports won't go into effect, however, until after the United States implements these agreements.

   If the President is interested in doubling U.S. exports, why doesn't he act quickly to send implementing legislation for the Colombia and Panama trade agreements, as well as for the South Korea agreement, to Congress?

   Answer: The Administration is working to resolve the outstanding issues in these FTAs and move forward.

   The Administration is working intensively to identify the steps it believes the Colombian government should take, building on progress to date, to address the concerns that have been raised related to the exercise of fundamental labor rights in Colombia.

   We are also working to address the outstanding issues related to the Panama FTA in order to be able to submit it for Congressional consideration. Specifically, we are seeking to address concerns with certain aspects of Panama's labor regime and its tax transparency rules.

   At the President's direction, USTR is focused on resolving outstanding issues with the Korea FTA agreement by the G20 Summit in November. Specifically, our focus is on beef and autos.

3. Pork and China, Taiwan, and the European Union

China recently lifted its non-science based ban on the importation of U.S. pork, which was imposed due to alleged concerns over the H1N1 virus.

I remain concerned, however, over a remaining barrier to exports of U.S. pork to China. Specifically, China continues to prohibit imports of pork containing traces of ractopamine (rack-toe-puh-meen), a safe veterinary drug used in the United States.

In addition, Taiwan and the European Union restrict imports of U.S. pork for the same reason.

What is the United States doing to see that China, Taiwan, and the European Union drop their scientifically unwarranted barriers to imports of U.S. pork?

Answer: We are working with these trading partners on a bilateral basis, as well as within international fora such as the WTO, to open markets to pork containing safe levels of ractopamine, and also working within CODEX to develop an international science-based standard on ractopamine. Meanwhile, we are exporting ractopamine-free pork to China and the EU. The issue will again be discussed at the upcoming JCCT discussion set for this Fall.

4. European Union and Corn (Biotechnology)
   Due to alleged concerns about biotechnology, the European Union continues to block imports of corn grown in Iowa and other states.

What actions is the Administration currently taking to reopen the European Union market to U.S. corn?

Answer: While there are dozens of pending applications that remain in the EU review pipeline, I am encouraged that, thanks in part to U.S. pressure, the current EU Commission has approved 9 corn applications, as well as the first cultivation approval in 13 years, and lifted the long standing emergency measure on U.S. rice. We will be closely monitoring this situation to see if the EU continues to make progress on approvals and whether these approvals reflect a systemic change in approach by the EU.

Regarding biotech cultivation, the EU continues to struggle with how to address long-standing problems. The EU is now proposing to address those problems by leaving decisions on biotech cultivation to individual EU member states. I have concerns about how EU member states will exercise this authority, if the proposal is approved.

I have had very constructive meetings both here and in Brussels with John Dalli, the EU's new Commissioner for Health and Consumer Policy. Mr. Dalli has stated that he is committed to operating a science-based policy on biotech approvals. I welcome that commitment.

5. Beef Exports

China, Japan, South Korea, and Mexico impose scientifically unjustified barriers to imports of U.S. beef. But U.S. beef is safe. After all, millions of Americans and others around the world consume this product every day.

In addition, the World Organization for Animal Health recognized our beef as safe when it listed the United States as a controlled risk country for BSE.

What is the Administration doing to see that China, Japan, South Korea, and Mexico fully reopen their markets to U.S. beef?

Answer:

China: The United States continues to urge China to lift its BSE-related ban on U.S. beef and beef products. Building on discussions of this issue at the 2009 JCCT, our delegation in Beijing in March 2010 urged China to come back to the table for discussions of a science-based re-opening of China's market to U.S. beef and beef products. China expressed its willingness to re-engage. We are hopeful that in the coming months we can work on this issue and achieve positive results. A U.S. working level team traveled to China for meetings on September 7-8, 2010, to provide information on developments in the United States with regard to beef in advance of Ambassador Siddiqui's and Under Secretary Miller's September 16 trip to China to discuss bilateral agricultural issues including beef market access.

Japan: The Administration continues to urge the Japanese Government to resolve this long-standing issue so that we can normalize beef trade based on science and consistent with OIE guidelines. A working-level meeting took place the week of September 13 to discuss technical details related to this issue.

Korea: Improving market access for U.S. beef in Korea is one of the outstanding issues that the President has instructed me to resolve. In close consultation with U.S. industry and Congress, we are developing a number of proposals to get Korea to move to full compliance with our bilateral beef import protocol by going beyond the current restrictions on beef from cattle under thirty months of age.

Currently, Korea is our fourth largest beef export market. From January to July 2010, exports of beef and beef products to Korea reached $290.8 million in value already well exceeding our exports for all of last year in value.

Mexico: The United States continues to press Mexico on the remaining beef cuts and products that remained restricted by Mexico, most recently at the May 2010 Consultative Committee on Agriculture (CCA). We were encouraged that Mexican technical staff came for a verification visit to the United States the week of August 30. We expect that the report from the visit will form the basis of engagement with Mexico that will lead to full resolution of the issue based on science and consistent with OIE guidelines.

Senator Klobuchar

1. Foreign importers of honey and sweetener (primarily from China) are avoiding paying anti-dumping and countervailing subsidy duties through a variety of means including importing diluted or mislabeled honey and transshipping their product through third-parties. It is estimated that these practices account for a loss of more than $200 million in Treasury revenue. This problem may have also contributed to the 12% decline last year in U.S. honey production.

   What steps do you think should be taken to resolve this problem, and how do you feel that implementation of a national standard of identity for honey would affect the effort to close the loopholes that are being exploited?

   Answer: Antidumping orders are directed at the country from which the honey is obtained, not at the composition of the honey. The Administration is aware that foreign producers and exporters have been engaging in illegal activities to avoid paying antidumping duties on Chinese-origin honey. U.S. Immigration and Customs Enforcement (ICE) have been working closely with U.S. Customs and Border Protection (CBP) to interdict illegal imports into the United States. ICE currently has an active and ongoing multinational investigation focused on the evasion of U.S. antidumping duties of Chinese-origin honey. Working with other U.S. government agencies including CBP, the Food and Drug Administration, and the U.S. Department of Agriculture, ICE has been actively pursuing the alleged evasion of dumping duties on Chinese-origin honey by means of transshipments through several countries, including India, Thailand, the Philippines, Russia, Poland, Ukraine, in addition to Malaysia and Indonesia. ICE's efforts have resulted in some concrete successes. To cite a few examples, the Government of India has amended its law to stipulate that honey exported to the United States must be entirely of Indian origin and may not be blended with honey from other countries. In September 2009, a Chinese executive pleaded guilty in U.S. court to transshipping $1.6 million in Chinese-origin honey through Thailand and the Philippines and falsely claiming the country of origin as Thailand to avoid payment of over $3 million in U.S. antidumping duties. In May 2009, a Chinese executive was charged in U.S. court with conspiracy to import falsely labeled honey into the United States from Russia, Poland and Ukraine. While we are pleased about these successes, the Administration is continuing to work aggressively to identify and prosecute those seeking to evade U.S. antidumping duties.

Senator Lugar

1. Trade Restrictions of U.S. Agricultural Exports

Agricultural exports from the United States continue to face bans and restrictions in markets around the world. The use of restrictive trade practices by countries in overseas markets can contribute market disruptions and price instability for American farmers and producers.

What is the current status of foreign county bans and restrictions on exports of U.S. beef, poultry and pork products including on products from individual U.S. states?

Detail USTR's efforts to address these bans and restrictions.

Answer:

With regard to trading partners' bans and restrictions on U.S. beef and beef products due to concerns about BSE, the Administration is urging trading partners to adopt appropriate science-based import requirements for U.S. beef and beef products consistent with OIE guidelines for Bovine Spongiform Encephalopathy (BSE). The administration continues to press all trading partners, including key former top markets in Asia as well as Mexico, to fully open their markets to U.S. beef and beef products on this basis.

China: The United States continues to urge China to lift its BSE-related ban on U.S. beef and beef products. Building on discussions of this issue at the 2009 JCCT, our delegation in Beijing in March 2010 urged China to come back to the table for discussions of a science-based re-opening of China's market to U.S. beef and beef products. China expressed its willingness to re-engage. We are hopeful that in the coming months we can work on this issue and achieve positive results. A U.S. working level team traveled to China for meetings on September 7-8, 2010, to provide information on developments in the United States with regard to beef in advance of Ambassador Siddiqui's and Under Secretary Miller's September 16 trip to China to discuss bilateral agricultural issues including beef market access.

Japan: The Administration continues to urge the Japanese Government to resolve this long-standing issue so that we can normalize beef trade based on science and consistent with OIE guidelines. In May 2010, the United States sent a letter to Japan proposing dates and an agenda for a working level meeting of experts. Initially, Japan responded that it is not in a position to set a date for a meeting because it was focused on its foot-and-mouth disease (FMD) situation but that situation is now largely resolved and working-level, technical meetings took place on September 14-15, 2010.

Mexico: The United States continues to press Mexico on the remaining beef cuts and products that remained restricted by Mexico, most recently at the May 2010 Consultative Committee on Agriculture (CCA). We were encouraged that Mexican technical staff came for a verification visit to the United States the week of August 30. We expect that the report from the visit will form the basis of engagement with

Mexico that will lead to full resolution of the issue based on science and consistent with OIE guidelines.

On pork:

1. H1N1: In April 2009, an outbreak of a new strain of human H1N1 influenza virus, sometimes referred to as the "swine flu," occurred in Mexico and soon spread to other countries, including the United States. In June 2009, the WHO declared that the H1N1 influenza virus had attained the level of a global pandemic. In response to the appearance of H1N1, more than 30 countries prohibited imports of U.S. swine, pork, and pork products during the first two months of the outbreak in April. Countries that imposed bans on U.S. swine, pork, and pork products included Bahrain, China, Croatia, Ecuador, El Salvador, Guatemala, Honduras, Indonesia, Jordan, Kazakhstan, Russia, Serbia, South Korea, Thailand, and Ukraine. If all countries had maintained their initial restrictions, these bans would have resulted in significant loss of trade as the countries had accounted for more than $900 million worth of trade in pork and pork products.

Following the imposition of these import restrictions, the three major international health organizations – the WHO, OIE, and FAO – together with the WTO, issued an unprecedented joint statement and guidance. The joint statement, published on April 30, 2009, emphasized that pork import bans based on concerns over H1N1 were unjustified given the absence of scientific evidence indicating that the virus could be transmitted by eating properly handled and prepared pork and other swine products.

USTR worked closely with the WHO, OIE, FAO and WTO as well as other U.S. Government agencies to have these countries lift their bans, emphasizing to our trading partners that U.S. agricultural products, including pork and live swine, are safe and that swine-flu related trade restrictions against such products are inconsistent with the policy recommendations of international public health, food safety, and animal health bodies. Senior members of the Obama Administration urged these governments to ensure that their food safety measures were based on scientific evidence and consistent with their international obligations.

Today, due in large part to these efforts, very few countries continue to block imports of U.S. swine, pork, and pork products based on concerns over H1N1 transmission. The United States continues to work bilaterally with these trading partners, such as Thailand, to lift the remaining H1N1 bans on U.S. swine, pork, and pork products.

2. Ractopamine: Ractopamine is a veterinary drug used to promote lean meat growth in pigs, cattle, and turkeys. It is commonly used in the swine industry in the United States. The FDA approved ractopamine for use in U.S. pork production in 1999 after an extensive review of the scientific evidence related to its health implications. (The FDA has since approved the drug for use in cattle in 2003 and turkey in 2008.) Ractopamine is also approved for use in swine in 26 countries around the world, including Australia, Brazil, Canada, and Mexico.

The Joint FAO/WHO Expert Committee on Food Additives (JECFA), which provides scientific advice to Codex on food additives, contaminants, and residues of veterinary drugs, issued a report recommending the establishment of an MRL for ractopamine in animal feed. The report serves as further scientific evidence that this product is safe. Based on the report, the Codex Commission is in the final stages of an eight-step process aimed at establishing a recommended MRL for ractopamine in pork production.

Despite the overwhelming evidence that ractopamine is safe to use, a number of important trading partners, including China, the EU, and Taiwan, continue to ban imports of pork and pork products containing residues of ractopamine. These measures pose a significant barrier to trade for U.S. pork products.

3. Trichinae: A number of trading partners require U.S. pork to be frozen or tested as a mitigation measure for trichinae. Requirements that all U.S. fresh or chilled pork be subject to trichinae testing is costly, and a significant impediment to U.S. fresh/chilled pork exports.

The United States has, as an alternative, proposed less trade restrictive risk mitigation measures to achieve the level of trichinae protection that trading partners such as Brazil and Chile are seeking. The United States maintains high biosecurity protocols and modern pork production systems that serve to limit the incidence of trichinosis in the United States to extremely low levels. The United States will continue to work with regulatory authorities in Brazil and Chile to resolve this trade concern.

4. Pseudorabies: Jamaica currently bans imports of U.S. pork due to concerns about pseudorabies, a viral disease that can affect swine. At the same time, South Africa imposes a freezing requirement to prevent the transmission of pseudorabies. The United States has engaged both trading partners on this issue and explained that this disease has been eliminated in commercial production in the United States since 2004. However, to date, U.S. efforts to persuade both countries to remove their restrictions have been unsuccessful.

5. Porcine Reproductive and Respiratory Syndrome (PRRS): New Zealand restricts imports of U.S. pork to consumer-ready high value cuts and pork for further processing due to concern about porcine reproductive and respiratory syndrome (PRRS) and post weaning multi systemic wasting syndrome. In April 2009, after several years of consultation and analysis, New Zealand issued four provisional import health standards for pig meat, pig meat products and by-products from the United States, Canada, the EU and Mexico. The standards would permit the importation of high-value, consumer-ready cuts of uncooked pork from countries not considered free of PRRS. However, later that year New Zealand established an independent panel to review the provisional import health standards. The panel must complete its review before the process can continue. The United States will continue to engage its New Zealand counterparts on this issue.

On poultry:

1. U.S. AI-Related Controls: Many countries have imposed Avian Influenza (AI)-related import bans on U.S. poultry. For example, China has banned imports of poultry and poultry products from six U.S. states; with some of these bans in place since 2007. India prohibits imports of all U.S. poultry and poultry products for AI related concerns. Additionally, while India recently removed AI restrictions on pork they immediately enacted certificate requirements that continue to prevent shipments of any U.S. pork or pork product to India. Colombia, Ecuador, Kuwait, Taiwan, Uruguay and Venezuela have also banned U.S. poultry and poultry products based on concerns over AI.

The United States is concerned by these restrictions and the impact that they have had on U.S. poultry trade. Many of the import bans appear to be inconsistent with OIE guidelines on AI. Those guidelines recognize that unprocessed poultry products from countries that are free of High Path AI (HPAI) may be safely traded, do not authorize import bans to guard against LPAI, and require any import bans on products from a country where HPAI is present to be limited to products from the specific regions of that country in which an outbreak has occurred. Accordingly, the United States has raised concerns over the various AI-related import bans around the world in numerous bilateral and multilateral fora with the trading partners concerned. The U.S. Government has successfully had 36 AI-related bans lifted since 2008. It remains a high priority for the United States to remove the remaining AI-related import bans on U.S. poultry and poultry products that authorities in China, India, and other countries have imposed.

2. Zero Tolerance limits for pathogens: China, Colombia, Vietnam and Russia, have imposed a zero tolerance limit for the presence of *Salmonella* bacteria, *Escherichia coli* and *Listeria spp.* pathogens in imported meat and poultry. The United States believes that a zero tolerance for any of these pathogens is unattainable and thus an unreasonable restriction on trade. In 2009, China's regulatory authorities assured the United States that they were in the process of revising China's standards for *Salmonella* in poultry, but they have yet to do so. The United States will continue to engage on this issue.

*3. Pathogen Reduction Treatments: I*n 1997, the EU began blocking imports of poultry products that have been processed with chemical treatments designed to reduce microbial surface contamination. The EU has further prohibited the marketing of poultry as "poultry meat" if it has been processed with these pathogen reduction treatments (PRTs). In late 2002, the United States requested the EU to approve the use in processing poultry intended for the EU market of four PRTs that are approved for use in the United States and that U.S. poultry processors use to improve the safety of U.S. poultry products: chlorine dioxide, acidified sodium chlorite, trisodium phosphate, and peroxyacids.

Between 1998 and 2008, various EU agencies issued scientific reports concerning poultry processed with these PRTs. Taken together, the reports conclude that residues of these PRTs do not pose a risk to the health of the poultry consumer.

In May 2008, the European Commission, after years of delay, prepared a proposal that approved the use of the four PRTs for processing of poultry, but imposed highly trade restrictive conditions that did not appear to be based on science. EU Member States eventually rejected the Commission's flawed proposal, first at the regulatory committee level and then, in December 2008, at the ministerial level.

In January 2009, the United States requested consultations with the EU on whether the EU's failure to approve the four PRTs was consistent with the EU's commitments under various WTO agreements, including the SPS Agreement. The United States and the EU held those consultations in February 2009 but failed to resolve the matter. In November 2009, the WTO Dispute Settlement Body established a panel to address the matter. That litigation is pending.

4. Russia: U.S. poultry is being processed and shipped to Russia consistent with the agreement signed on July 14. It is our understanding that some shipments have cleared customs in Russia and up to 40,000 tons are expected to arrive before the end of October. The United States will continue to monitor implementation of this agreement. USDA's Food Safety and Inspection Service and Russian veterinary inspectors are currently conducting joint audits of 33 U.S. poultry facilities pursuant to the 2006 Plant Inspection agreement.

Senator McConnell

1. As you are aware, burley tobacco is critically important to Kentucky's economy and small farmers across the state. Kentucky is the leading burley producer in the U.S. and 80 percent of our tobacco is exported. In September 2009, the Canadian Parliament passed Bill C-32, which bans the use of over 5,000 flavorings in cigarettes. As a result, traditional blended cigarettes, like the cigarettes that dominate the market in the U.S., are now banned in Canada. If other nations were to follow Canada's lead in banning products made with burley tobacco, the market for American tobacco could become non-existent outside the U.S. Due to the significance of the export market; this could put many U.S. growers out of business and devastate communities dependent on the industry.

   The Framework Convention on Tobacco Control (FCTC) will be meeting in Punta del Este, Uruguay, in November to consider proposed ingredients guidelines for tobacco products.

   What specific plans do you have to make sure the countries that are a party to the FCTC are fully aware of the damage the FCTC Articles 9 and 10 guidelines, as

currently drafted, would do to the livelihood of American tobacco farmers? Who from the Obama Administration will be representing the views of the United States and our tobacco farmers?

Answer: Officials from the U.S. Departments of State, Health and Human Services, and Treasury have participated as observer delegates for the United States at meetings on the World Health Organization's Framework Convention on Tobacco Control (FCTC). As you may know, the United States is not a State Party to the FCTC. Consequently, there are constraints on the United States' ability to comment on matters discussed in the FCTC Conference of the Parties (COP). The COP has developed guidelines on a number of Articles of the FCTC, none of which is mandatory or legally binding on governments, but serve as a guide for implementation.

2. The FCTC is looking to arbitrarily eliminate all ingredients in tobacco products thus eliminating the entire category of traditional American blended cigarettes from the market. Similar legislation passed in Canada in 2009 and there is absolutely no evidence to suggest that traditional American blended cigarettes are more harmful than Virginia style (flue-cured tobacco) cigarettes.

   Would it be fair to say that this constitutes a discrimination against one category of cigarettes? What does the USTR plan to do to support U.S. tobacco farmers?

   Answer: Please see the response to question 1 regarding the FCTC. With respect to Canada's C-32 legislation, USTR has been working with an interagency team, as required under a January 2001 Executive Order, to better understand this measure. In that regard, the United States posed questions to Canada about how its measure works in a meeting of the World Trade Organization's (WTO's) Committee on Technical Barriers to Trade (TBT). The Administration strongly supports the objective of this Canadian law – that is, to deter youth from tobacco use.

3. The Canadian tobacco flavorings ban legislation, Bill C-32, that is now law in Canada, began as legislation to ban characterizing flavors in tobacco products. These products, considered attractive to youth, put off a distinct fruity or sweet flavor like grape or cherry. Traditional blend cigarettes neither advertise a characterizing flavor, nor do they have a characterizing flavor, other than tobacco.

   Article 2.2 of the Technical Barriers to Trade Agreement within the WTO states that "technical regulations shall not be more trade-restrictive than necessary to fulfill a legitimate objective."

Is it your understanding that the Canadian legislation, and the even more restrictive draft FCTC Articles 9 and 10 guidelines, are outside the scope of the original, admittedly legitimate, objective to ban candy flavored tobacco products and may be a violation of the TBT Agreement?

Answer: As noted in the response to the second question, Canada's measure was the subject of discussion in the WTO TBT Committee, where some delegations, including the U.S. delegation, raised questions about how it works.

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