# Testimony of

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# 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

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**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.

[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) | | |
|---|---|---|
| | 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.