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ADVANCING THE U.S. TRADE AGENDA: BENEFITS OF EXPANDING U.S. AGRICULTURE TRADE AND ELIMINATING BARRIERS TO U.S. EXPORTS

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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ADVANCING THE U.S. TRADE AGENDA: BENEFITS OF EXPANDING U.S. AGRICULTURE TRADE AND ELIMINATING BARRIERS TO U.S. EXPORTS

WEDNESDAY, JUNE 11, 2014

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in Room 1100, Longworth House Office Building, the Honorable Devin Nunes [chairman of the subcommittee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
June 4, 2014
No. TR-05

CONTACT: (202) 225-3625

Chairman Nunes Announces Hearing on Advancing the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports

House Ways and Means Trade Subcommittee Chairman Devin Nunes (R-CA) today announced that the Subcommittee will hold a hearing on the benefits of expanding U.S. agriculture trade and eliminating barriers to U.S. exports. **The hearing will take place on Wednesday, June 11, 2014, in 1100 Longworth House Office Building, beginning at 10:00 A.M.**

In view of the limited time available to hear the witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing. A list of invited witnesses will follow.

BACKGROUND:
Agriculture trade is a major contributor to the United States economy. The United States is the world's leading agriculture exporter, setting a record in 2013 with $144.1 billion in food and agriculture exports and enjoying an agriculture trade surplus of almost $40 billion. As a result, one in three acres on American farms is planted for export, and U.S. agriculture is two times more reliant on overseas markets than the overall economy.

The benefits of agriculture trade are not limited to the U.S. farmers and ranchers who grow and raise food. Approximately one million jobs on and off the farm are supported by agriculture exports. These include workers that further process agricultural commodities into value-added products that are sought around the world and workers involved in the development, sale, financing, and distribution of agricultural exports. Agriculture exports also bring much needed economic growth and opportunity to America's rural communities.

Nonetheless, U.S. agriculture exports continue to face barriers to markets throughout the world, including tariffs, import quotas, and other explicit border restrictions. While some of these more traditional barriers have decreased over the past several years, many countries, such as Japan and Canada, still maintain prohibitively high tariffs and strict import quotas.

However, as traditional trade barriers are reduced, U.S. agriculture exports are facing more non-tariff barriers that are difficult to identify and address. These often consist of sanitary and phytosanitary (SPS) measures that are not based on science, and are developed and implemented behind closed doors without any outside input or public notice. Supposedly implemented to protect human, animal, or plant health and safety, such SPS measures are all too frequently disguised protectionism. Another barrier consists of the improper restriction of the use of generic food names by designating them as "geographical indications," forcing U.S. agriculture exporters to either abandon markets or product names they have used for years.

The World Trade Organization, free trade agreements, and bilateral discussions have addressed many barriers to U.S. agriculture exports, but more progress is needed. The ongoing Trans-Pacific Partnership and U.S./EU trade agreement negotiations are a welcome opportunity to establish "WTO-plus" obligations to eliminate tariff and non-tariff barriers to U.S. agriculture exports. Agriculture trade will also benefit substantially from implementation of the WTO Trade Facilitation Agreement and liberalization of the flow of services through the Trade in Services Agreement. Finally, the U.S. Trade Representative and the U.S. Department of Agriculture need to make the most of bilateral discussions and international fora to press trade partners to tear down their unjustifiable import barriers.

In announcing this hearing, Chairman Nunes said, **"The U.S. economy and the vitality of rural America depend on our continued position as the world's largest agriculture exporter. We must to do more to knock down barriers imposed by other countries on our agriculture exports. The Congressional Bipartisan Trade Priorities Act (TPA) includes robust and expanded provisions to ensure that our exporters compete on a level playing field around the world, and I continue to call on the President to work with us to move this legislation and create more opportunities for U.S. farmers, ranchers, and processors, as well as manufacturers and service-providers."**

FOCUS OF THE HEARING:
The focus of the hearing is on the benefits of U.S. agriculture trade to the U.S. economy and the challenges faced because of foreign barriers. The hearing focus will include: (1) U.S. successes as the world's largest agriculture exporter, including job creation and economic growth; (2) foreign tariff and non-tariff barriers faced by U.S. agriculture exports; and (3) how current and future trade negotiations and other efforts can reduce those barriers.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:
Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, by the close of business on Wednesday, June 25, 2014. Finally, please note that due to the change in House mail policy, the

U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721 or (202) 225-3625.

FORMATTING REQUIREMENTS:
The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web athttp://www.waysandmeans.house.gov/.

Chairman NUNES. The hearing will come to order. But before we start, today is a very special day for us, especially for Mr. Rangel. It is his birthday today. So, Charlie, we brought you a little—do you want to light the candle and blow it out?

Mr. RANGEL. Thank you, thank you, thank you.

Chairman NUNES. Should we do the—anybody know the Boehner birthday song? I know you guys know it.

[Laughter.]

Chairman NUNES. Okay, ready? Kelly, ready?

This is your birthday song, it doesn't last too long. Hey.

[Applause.]

Mr. RANGEL. Thank you. Thank you.

Chairman NUNES. And Charlie is 62 today.

Mr. RANGEL. This is the 22nd anniversary of my 62 years old.

[Laughter.]

Chairman NUNES. Well, congratulations, Charlie.

Mr. RANGEL. Thanks a million, Chairman.

Chairman NUNES. Absolutely. Good morning. Welcome to today's hearing on the benefits of expanding U.S. agricultural trade and eliminating barriers to agriculture exports—key factors in advancing our trade agenda and creating U.S. jobs and economic opportunity.

I would like to make four points. First, the United States must remain the world's leading agriculture exporter. We excel at producing and exporting a wide variety of agricultural products. For example, my home state of California is a leading export of dairy, beef, fruits, vegetables, and nuts. Global demand for agriculture products is increasing rapidly, creating opportunities to boost U.S. economic growth and create U.S. jobs by selling to these expanding markets.

The second point, agriculture exports benefit both rural and urban America. America's farmers and ranchers increasingly depend, for their livelihood, on exports. In addition, two-thirds of the jobs supported by agriculture exports are in the non-farm sector in diverse areas such as transportation, financial services, and biotechnology research.

Third, we must tear down tariff and non-tariff barriers to U.S. agriculture. Tariffs must be eliminated without exclusion. In negotiations for the Trans-Pacific partnership, or TPP, I am concerned that the Administration is not holding Japan and Canada to the level of ambition that Congress has demanded. In some cases, a long timeframe may be warranted. But there has to be a path to zero. If any countries insist on retaining tariffs, then we must complete the negotiations without them, and allow them to rejoin when they can commit to full tariff elimination.

A growing concern is non-tariff barriers, particularly unwarranted sanitary and phytosanitary or SPS measures. While countries can implement measures to protect human, animal, and plant health, many measures are actually thinly veiled protectionist barriers that ignore science and international standards, and do not enhance food safety in any way. I am pleased the Administration has heard Congress's message that only strong, enforceable rules will ensure that SPS measures are transparent, science-based, and are not unduly restrictive.

I am particularly concerned by European restrictions on the use of generic food names, which the EU improperly designates as geographical indications. The TPP and the U.S.-EU trade negotiations are good opportunities to reduce both tariff and non-tariff barriers. To gain support in Congress, these agreements must result in complete market access.

Fourth, to strengthen USTR's position in trade negotiations, we must pass Trade Promotion Authority without delay. The bipartisan Congressional Trade Priorities Act introduced earlier this year would establish clear direction to open agricultural markets and address unwarranted SPS measures and other trade barriers. If the Administration finishes these negotiations before TPA is granted, it will not get the best deal for our farmers or other exporters. Therefore, I call on the Administration to focus on passing TPA this Congress before completing TPP.

Chairman NUNES. I will now yield to Ranking Member Rangel for the purpose of an opening statement.

Mr. RANGEL. Thank you, Mr. Chairman. This is an important and timely hearing. Agriculture imports are important in my home state of New York, and to our country as a whole. Many markets are still protected, or even closed to our farm, ranch, and dairy products. We need to open those markets, and new trade agreements are one way to do it.

But it isn't just foreign governments that deny our farmers and ranchers access to the markets. In the case of Cuba, our very own government stands in the way. And I know the chairman does not agree with me on this issue, and I respect his views, but, in my view, the embargo is not working, not for the Cuban people, and certainly not for Americans. So, I hope we can work together to find a path for the solution of this important agricultural issue.

Another issue we want to discuss today is food safety. Without a doubt, some of our trading partners put into place laws that they say is about food safety, but they really are keeping U.S. products out of their markets. We do need strong rules in our trade agreement to prevent this from happening. And I want to make certain that we don't agree to a set of rules that ends up tying the hands of our own regulators, who is trying to keep our people safe, and trying to protect our crops from invasive pests. We need to eliminate bogus food safety laws, but we also need to preserve the legitimate ones.

Our regulators are increasingly having to defend these rules at the World Trade Organization. In the first years of the WTO, U.S. sanitary measures was challenged just twice. But in the last five years U.S. measures had been challenged five times. It is important to remember that what makes U.S. products so attractive to other markets is their quality. And our regulatory regime supports that quality. Our regulators do their best to make certain that we don't produce tainted food. They protect our growers by doing their best to keep away invasive pests. We need to make certain that any rules that we sign into free trade agreements allow them to continue to follow these high standards.

Finally, let me say a word about the Trans-Pacific Partnership negotiations. They're at a critical stage, and our attentions need to be focused on ensuring an outcome that this Congress can support.

We need to work with our colleagues, with our stakeholders, and the Administration, on major outstanding issues, as you pointed out, including tariff, as well as non-tariff barriers on the agricultural products.

In Japan, in particular, have not—they have not demonstrated an interest in opening up their agricultural market, nor has Japan shown an interest in opening up its automobile market, for that matter. Unfortunately, Japan's position in these negotiations looks like a real problem that still yet has to be resolved.

Some say the problem is that we haven't passed trade promotion authority legislation, that Japan won't get serious until TPA is in place. I don't believe that argument fits with the facts. To the contrary, I think a lot of Members want to make certain what the TPP negotiations are moving in the right directions right now. I don't believe it is helpful to blame ourselves for the position that has been taken consistently by the Japanese Government.

So, I think these hearings are timely. I thank the chairman for holding them. And I thank the witnesses for taking the time to share their views with us this morning.

Chairman NUNES. Thank you, Mr. Rangel. Today we are joined by five witnesses.

First we will hear from Professor Dermot Hayes, the Pioneer Hybrid International Chair in Agribusiness, professor for economics, and professor of finance at Iowa State University. Professor Hayes is a highly regarded agriculture economic expert, particularly regarding trade.

Second we will hear from Bob McCan, who is President of the National Cattlemen's Beef Association and oversees the cattle and other operations of his family's company, McFaddin Enterprises, in Texas. Mr. McCan has a distinguished record as a leader in the cattle industry.

Third we will hear from Andrei Mikhalevsky, President and CEO of California Dairies. California Dairies is a top dairy-processing cooperative in the leading dairy-producing state in the country.

Fourth we will hear from Ryan Turner, President of West Side Trading, a leading almond, pistachio, and walnut trading company.

Finally, we will hear from Terence Stewart, managing partner of the Law Offices of Stewart and Stewart.

We welcome all of you, and we look forward to your testimony.

Before recognizing our first witness let me note that our time this morning is limited so witnesses should limit their testimony to five minutes, and Members should keep their questioning to five minutes.

Professor Hayes, your written statement, like those of all the other witnesses, will be made part of the record. You are now recognized for five minutes.

STATEMENT OF DERMOT HAYES, PROFESSOR, PIONEER CHAIR IN AGRIBUSINESS, IOWA STATE UNIVERSITY

Mr. HAYES. Chairman Nunes, Ranking Member Rangel, thank you for focusing on this issue at this time. The trade negotiations that are underway with the Pacific Rim and with Europe have the potential to fundamentally transform U.S. agriculture.

In the first class, when I teach Economics 101, I contrive to get two copies of a textbook into the hands of one student. I recognize that student, and then find a student who has yet to purchase the textbook. The second copy is worth almost nothing to the first student, but it is worth about $100 to the second student. When they trade, each student comes out—they typically trade at about $50, and each student comes out $50 ahead. In that sense, wealth is created with free trade. And the theory that underlies the economic arguments in favor of free trade are based on that simple principle: you take resources from a place where they are in plenty supply, and you move them to a place where it is scarce.

Now, as it happens, the U.S. has an abundance of agricultural resources. So we are a natural exporter of agricultural products. The problem is that the countries that have imposed trade barriers on value-added agricultural products, whereas they allow their raw materials to enter free. So if these negotiations are successful, we will end up adding much more value-added agriculture products to—and those industries will effectively move from places like Asia back into the U.S.

As crop production technology has improved in the U.S., rural areas have become depopulated. And this is a real opportunity to repopulate those areas with people working in livestock and dairy sectors, and with industries that use livestock and dairy products such as ice cream or manufacturing eggs. So that is the punch line.

So I see enormous opportunity here for my part of the world in Iowa, and for all of rural America. And I really appreciate your focusing at this time on this issue.

I want to make two points specifically to the ongoing agreements. The first is about Japan and the TPP, and the second is about Europe and the regulatory equivalence that we should ask for.

Prior to the entrance of Japan, the focus of the negotiations was to eliminate all duties and non-tariff barriers, and progress was very, very successful. Unfortunately, Japan has recently hijacked the negotiations by insisting on permanent protection for its beef, pork, dairy, wheat, rice, and sugar sectors. As announced, the intention of using the money generated by these duties to subsidize the relevant sectors—so, for example, duties collected on imported pork would be used to subsidize the Japanese pork sector. And, in that sense, the U.S. pork producer is paying a tax to subsidize their competitor.

I sincerely hope that our negotiators will hold out for an agreement that results in eventual free trade, and I do so for the following reasons.

The benefits of trade I described earlier come from the reallocation of resources, putting the resources in the right place at the right time. What Japan is asking for is, essentially, allowing free trade, but one student has to end up with two textbooks. And that doesn't make sense. You can't protect a sector under free trade.

The second, Japan has insisted on this outcome because of food security. But Japan imports all of its feed grains. And so, you don't get much food security from animals that are located in Japan, but which are—rely exclusively on imported feed.

And, third, if Japan gets away with this distortion, then other countries that join the TPP, such as China, will ask for a similar

rule. And, in that sense, we could lose billions of dollars in trade because of a giveaway right now.

Next I want to talk about equivalence and Europe. Right now, in the U.S. corn market, we have a serious disruption because China did not recognize one of our scientific technologies, one of the varieties we grew last year, and it is causing enormous disruption in that market. Now, the solution to that would be for China and the U.S. to agree on similar science. And, in so doing, when U.S. scientists approve of a technology then it would be automatically approved in China. That is called equivalence, and the U.S. has asked for that equivalence in all of its—in most of its free trade agreements.

And equivalence works because the scientists can eventually form a consensus on what is safe. The process breaks down if non-scientific arguments are introduced. The European Union has allowed this to happen, and has imposed bans on genetically modified crops and growth enhancers in livestock that scientists all over the world view as being perfectly safe. Now, I realize that some consumers in the U.S. oppose these technologies. But under the U.S. system, these consumers have a choice. The European system eliminates this choice, and it is as if the people who shop in Whole Foods in the U.S. had a veto power over the rest of us.

And in a well-structured TTIP agreement, the U.S. and EU systems will be viewed as equivalent, and European consumers will have a choice amongst the alternatives. Unless the deal results in regulatory equivalence, countries will be able to impose new subjective barriers to replace those that have been eliminated. With equivalence, the U.S. will be able to avoid the type of trade distortion currently roiling the U.S. corn market. Thank you.

[The prepared statement of Mr. Hayes follows:]

Ways and Means Subcommittee on Trade Hearing on

Advancing The U.S. Trade Agenda:

Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers To U.S. Exports

June 11th, 2014

Statement of

Dermot Hayes

Professor of Economics and Finance

Pioneer Chair of Agribusiness

Iowa State University

Chairman Nunes, Ranking member Rangel and members of the sub-committee: Thank you for the opportunity to speak on agricultural trade. Thank you also for focusing on this issue at such a critical time. The US is currently negotiating free trade deals with countries across the Pacific and with the EU. These negotiations, if successful, will have a profoundly positive impact on US agriculture.

I will begin with an intuitive explanation of how trade creates wealth and why economists almost universally favor free trade. I will then explain why trade with land scarce countries will impact US agricultural trade patterns

and how this trade will benefit the United States. I will finish with a couple of concerns about the way the negotiations have evolved to date.

The most rewarding part of my job is teaching economics 101 to incoming students. In the very first class I contrive to get two copies of my text book into the hands of one student and I then find a student who has yet to purchase the text. The students in class quickly realize that the second copy is worth almost nothing to the first student and they know that it is worth $100 to the second student. I then ask the two students to trade. The book typically changes hands for $50, leaving both students better off by $50. This $100 in wealth is created simply by moving the text from a student who places a low value on it to one who values it highly.

The step from the text book example described above to international trade is straightforward. Countries with the resources to produce large quantities of certain goods will place low value on these goods because they will be in plentiful supply. These countries are similar to the student with two copies of the text. Countries that have limited supplies of key resources will place a large value on products that require these scarce resources. Trade benefits both countries by moving product from an area where it has low value to an area where it has high value. Wealth is created in this fashion much as it was created when the text book changed hands.

The US has an abundance of land, capital and skilled labor and will typically benefit from exporting products that require large amounts of these inputs. Corn wheat barley and soybeans require large amounts of land relative to other inputs, and therefore, the US is a natural exporter of these commodities along with derived products such as beef, pork, poultry, dairy products and eggs. My home state of Iowa is an extreme in this regard with approximately 10 acres for every person. Asia has about one fifth of an acre per person. Therefore Iowa benefits disproportionately from agreements that open markets with land scarce countries.

Singapore has almost no natural resources and must even import nearly all of its water. Yet, its per capita income is 20% greater than in the US. Singapore has achieved this level of prosperity because it takes full advantage of free trade. Other countries that have adopted a similar approach include Hong Kong, New Zealand, Chile, and South Korea. Argentina was once a very wealthy country, but in the latter part of the last century it adopted antitrade policies. Argentina fell from number seven on the per capita income ranking to number seventy five today.

Why Bilateral Trade Negotiations have become so important

As the number of countries participating in the multilateral negotiations at WTO increased, the negotiations became more and more difficult. In contrast, bilateral agreements are contagious because the more countries that participate, the greater the incentive for other countries to participate.

Countries see that they will be left out of important markets unless they have the same access as countries that sign agreements.

With the failure of WTO sponsored multilateral trade negotiations, there has been an explosion of interest in bilateral and regional agreements. The US, South Korea, Australia, New Zealand, Canada, and Chile have been particularly aggressive in this regard. More recently, China, Japan, and the EU have jumped on this bandwagon. There are dozens of bilateral negotiations underway. For example, Chile is in negotiation with, or, has finalized free trade agreements with sixty countries. If the US does not have the same success rate as other countries, we will lose market share to countries with better access.

How Trade liberalization Benefits Rural Areas

Most agricultural trade barriers are used against value added agricultural imports such as dairy products, beef, poultry, pork, and eggs. Countries typically allow free access to feed-grains so that their domestic livestock industries can grow. In the absence of these barriers, transportation economies would favor the export of value added products instead of bulky feed-grains. Therefore, any liberalization of agricultural trade will involve an increase in meat, poultry, dairy (and possibly fish) production in the US.

As I am sure you all know, many rural areas have been losing population as technologies have allowed farmers to increase the number of crop acres they cultivate. A dramatic increase in value added agricultural production,

such as would occur if current negotiations are successful, will allow a repopulation of rural areas.

Livestock manure is a valuable fertilizer. It improves soil tilth and carbon content. An expansion of US Livestock production will allow us to recycle soil carbon via manure instead of exporting this carbon to countries where it has no value.

Value added production is much more than simply feeding cattle, pigs and chickens. Other sectors include genetics, veterinary services, feed supplements, animal medicine, housing, feeding and handling equipment, commodity trading, banking, finance and even economics. On the output side companies buy livestock products to produce cheese, yoghurt, ice cream, packaged meals, cured meats, soups and medical products. These secondary sectors tend to locate headquarters, marketing and research facilities in close proximity to their main customers or suppliers. As is true in other sectors of the economy, when several firms working in the same industry locate in a particular area, others tend to follow. This is a phenomenon known as agglomeration. If the US can use trade agreements to attract the value added industries that rely on US feed grains, these sectors will thrive and rural areas of the US will become world leaders in some of the input and output industries just described.

Now I would like to turn my attention to the two main negotiations the US has underway; the Trans Pacific Partnership (TPP) and Transatlantic Trade

and Investment Partnership (T-TIP) agreement. These provide huge opportunities, and if implemented correctly, have a very positive impact on US agriculture. My comments will focus on concerns about the way negotiations appear to be heading.

TPP

The Trans Pacific Partnership (TPP) involves the United States, Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. This is a group of countries with almost 800 million consumers and 40% of world GNP. Japan, Mexico, and Canada were not part of the original group and were accepted as late entrants. China, South Korea, and Taiwan have expressed interest in joining at a later date.

Prior to the entrance of Japan, the focus of the negotiations was to eliminate all duties and other non-tariff barriers. Progress towards a high standard free trade deal was surprisingly successful. Unfortunately, Japan has recently hijacked the negotiations by insisting on permanent protection for its beef and pork, dairy, wheat, rice, and sugar sectors. To date, Japan has insisted on the use of import duties on these products on a permanent basis. It has announced its intention of using the money generated by these duties to subsidize the relevant sectors. For example, duties collected on imported US pork would be used to subsidize Japanese pork producers.

I sincerely hope that our negotiators will hold out for an agreement that results in eventual free trade in these products. I do so for the following reasons.

1. Japan's current offer in the TPP, if accepted, would be managed trade deal and would not deserve to be called a free trade agreement. The difference between what Japan is proposing in order to protect its "sensitive" sectors and what the U.S. would get if Japan eliminated tariffs on all these products is very large.
2. The benefits from trade described earlier come from the reallocation of resources. In attempting to protect these sectors and stop any reallocation of resources, Japan is fighting the fundamental economics from which benefits are derived. It is as if Japan is prepared to allow the two students described earlier to trade so long as one student ends up with two text books.
3. Japan has insisted on this outcome because of food security concerns. This logic is flawed because Japan imports all of its feed grains.
4. If Japan, a wealthy developed nation, gets away with a distortion of this sort, then other nations such as China will request a Japan type deal. The value of all future free trade agreements for U.S. agriculture likely will be diminished and the U.S. will lose future exports and jobs. The importance of this issue dwarfs other trade issues faced by US agriculture.
5. If Japan is provided special treatment and the tariffs on these products are not eliminated, then the incidence of the tariffs will

be felt by Japanese consumers who pay a higher price for imported products and by US exporters who receive a lower price for exported products. This means that US livestock producers will be paying a tax to subsidize their competitors. It will be difficult to get them to support the TPP agreement with such an unfair outcome.

TTIP and the Importance of Equivalence

The US corn market is currently being disrupted by the refusal of Chinese quarantine agency to allow shipments of US corn and distillers grain into China because of the likely hood they would contain a genetically modified variety of corn called MIR 162. This problem would not exist if Chinese regulators recognized that the US scientific-regulatory system as equivalent. In order to reduce problem of this type the US has usually included equivalence in trade deals.

T-TIP is a proposed trade agreement between the US and EU. It was launched less than a year ago and viewed as a way to kick start the EU and U.S. economies. As is true for TPP, I see enormous opportunity for US agriculture, particularly in exporting livestock products to densely populated countries such as the UK, Italy and Germany. My own work has shown that U.S. meat can be delivered into these countries at a price below EU production costs.

It has become clear to me that the U.S. and EU have very different attitudes to food safety and the regulation of new technologies. I am concerned that this difference will derail the agreement. Equivalence works because scientists can eventually forma a consensus on what is safe. The process breaks down if non-scientific arguments are introduced. The EU has allowed this to happen and has imposed bans on genetically modified crops and growth enhancers in livestock that scientists all over the world view as being perfectly safe. I realize that some consumers in the US oppose these technologies but under the US system these consumers have a choice. The EU system eliminates this choice. It is as if the consumers who shop at Whole Foods had a veto power over the rest of society.

As you can tell from my accent, I grew up in Ireland and I am very familiar with the EU approach to agricultural technologies. Europe has a fragmented regulatory system. Each country has its own approval process and regulations. Compounding this problem is the practical requirement that scientists be able to speak the language of the country in which they work.

When compared to the U.S., the EU regulatory system has let the consumer down. Examples of failures include; Thalidomide, BSE, Dioxin, illegal Diethylstilbestrol (DES) use in the Italian veal industry and more recently the fraudulent comingling of horsemeat and ground beef.

As a result of these failures, many consumers in the EU lack trust in regulatory authorities and have begun to insist on non-scientific approaches to regulation. EU law has codified an anti-technology philosophy with a legal concept called the Precautionary Principal. This is a "guilty until proven innocent" approach that states that so long as there is **any** scientific uncertainty about the safety of a new technology, the technology is restricted. Under this standard, the milking machine and microwave oven would never have been approved. The EU imposes these non-scientific standards on agricultural imports.

The rest of the world has added millions of additional crop acres to compensate for lower productivity of EU agriculture. Some of these new acres are in environmentally sensitive areas. This environmental problem will grow if the EU influences its trading partners to halt technological adoption via trade deals.

Somehow the media in the EU has cultivated a belief that the EU system, born of poor regulatory performance, is better than the science and market based US system. These negotiations provide an opportunity to debate the merits of the two systems and the science that lies behind them.

In an ideal world, the US and EU systems will be viewed as equivalent and EU consumers will have a choice among safe alternatives that they currently lack. Unless these deals result in regulatory equivalence, countries will be able to impose new subjective barriers to replace those that have

been eliminated. With equivalence, the US will be able to avoid the type of trade disruption currently roiling the US corn market due to Chinese refusal of ships containing a particular type of genetically modified corn.

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Chairman NUNES. Mr. McCan, you are now recognized for five minutes.

STATEMENT OF BOB MCCAN, PRESIDENT, NATIONAL CATTLEMEN'S BEEF ASSOCIATION

Mr. MCCAN. Chairman Nunes, Ranking Member Rangel, and Members of the Committee, on behalf of the U.S. beef industry I thank you for holding this hearing on the benefits of expanding U.S. agricultural trade, and eliminating barriers to U.S. exports. I am a rancher from Victoria, Texas, located in southern Texas, near the Gulf of Mexico, not far from the Mexican border. I am also the current president of the National Cattlemen's Beef Association.

For NCBA, the elimination of tariff and non-tariff trade barriers is a top priority for the U.S. beef industry. We view potential trade agreements like the Trans-Pacific Partnership as a great opportunity to eliminate tariffs, quotas, and non-tariff trade barriers to all TPP countries. Terms that all countries, including Japan, should agree to.

NCBA is also a strong supporter of trade promotion authority because, without it, our negotiators will have a difficult time finalizing terms of TPP. Unlike other parts of our culture, the U.S. beef industry is not subsidized, nor do we wish to be. To put it plainly, we thrive on competition, and we live and die by the marketplace. The only guarantee we have is that if we do not deliver a high-quality product to our growing consumer base, then we will lose market share to another country. At the same time, we are successful because we do everything we can to give our consumers what they want: a safe, tender, delicious product.

Many times, U.S. beef has been the victim of trade terms that have been driven by politics and not science. For instance, the United States has one of the safest risk designations from the World Organization for Animal Health, yet we continue to have age-based restrictions on our product that are not supported by science. It is estimated that U.S. beef has lost over $20 billion in export opportunities due to BSE restrictions alone.

The removal of tariffs and quota restrictions are important to our future success. But just as important is the establishment of trade terms based on sound science. Unfortunately, U.S. beef has also been victim to U.S. trade policies that are also based on politics instead of science. As you may know, we are facing an intense drought throughout California and the southwestern part of the Unites States. Our herd size in the United States is the smallest it has been since the 1950s.

At the same time, international demand for U.S. beef is at an all-time high. In order to continue meeting demand, we rely on the importation of Mexican-born and Canadian-born cattle to supplement our herd loss. My family has been importing Mexican-born calves for many years, and we have enjoyed the benefits of international trade. Unfortunately, the cost of compliance of mandatory country-of-origin labeling has driven some feed yards and processors out of the business, creating less competition for my cattle. And that places me, and cattlemen like me, at a disadvantage.

And if the World Trade Organization rules against the United States on the pending appeal, you can rest assured that beef will

be at the top of the list of retaliatory tariffs. Mexico and Canada are two of our largest export markets for beef. But they won't be for very long if we face retaliation.

So, it is my hope that my testimony will highlight expanded trade opportunities, as well as the barricades to trade that we continue to face in the U.S. beef industry. I appreciate this opportunity to appear before you today, and I look forward to answering any of your questions. Thank you very much.

[The prepared statement of Mr. McCan follows:]

Statement of Mr. Bob McCan, President, National Cattlemen's Beef Association
Submission for the record to the
United States House Committee on Ways and Means, Subcommittee on Trade
Hearing on Advancing the U.S. Trade Agenda:
Benefits of Expanding U.S. Agriculture Trade and
Eliminating Barriers to U.S. Exports
June 11, 2014

Chairman Nunes, Ranking Member Rangel and members of the committee, on behalf of the U.S. beef industry, I thank you for holding this hearing on the benefits of expanding U.S. agricultural trade and eliminating barriers to U.S. exports. The elimination of tariff and non-tariff trade barriers is a top priority for the U.S. beef industry, and I strongly encourage you to work with President Obama to craft current and future trade agreements based on free market, science-based principles. If there is one industry that has witnessed both the benefits and tragedies of U.S. trade policy it is the U.S. beef industry. It is my hope that my testimony will highlight expanded trade opportunities as well as the barricades to trade that we continue to face in the U.S. beef industry.

I am a rancher from Victoria, Texas, located in southern Texas near the Gulf of Mexico not far from the Mexican border. I work on my family-owned ranching operation where we focus on cow-calf production of Braford cattle, a Brahman-Hereford cross breed that consists of approximately 3/8 Brahman and 5/8 Hereford that has natural genetic traits that allow them to thrive in warmer climates like south Texas. In my part of the country it can be hot throughout most of the year and like other parts of Texas, it has been dry due to the ongoing drought. Unfortunately, many parts of the southern and western United States have suffered tremendous loss from the ongoing drought and our industry has seen a significant reduction in our national herd.

Meanwhile, beef demand around the world continues to grow at a strong and steady pace. In order to keep up with demand we rely on science and technology to assure our natural resources are efficiently used. We also rely on proper conservation practices to make sure our pasture and grazing lands remain healthy even in tough times like these. The judicious use of scientific interventions such as antibiotics, pest control, and growth promotants allow me and other producers to compete with beef producers across America and around the world for a growing consumer base that is hungry for the safe and delicious beef we produce. It is very important to me and many other ranching families that we do everything possible to ensure that the next generation will have the opportunity to continue providing high quality beef to consumers around the world. While government incentives for young and beginning producers may sound good in theory, the truth is nothing attracts workers like the promise of the almighty dollar. I believe that exports will help provide the real economic incentive needed to stem the tide of disappearing farmers and ranchers needed to continue providing safe and affordable food to a growing global consumer base.

In addition to being a husband, father, and rancher, I am also the current president of the National Cattlemen's Beef Association (NCBA). NCBA is the nation's oldest and largest national trade association for cattlemen and represents more than 140,000 cattle producers through direct membership and our state affiliates. NCBA is producer-directed and consumer-focused and represents all segments of the beef industry. Our top priority is to produce the safest, most nutritious and affordable beef products in the world. This has been consistent throughout our industry's history and in our long-term efforts to continually improve our knowledge and ability to produce beef products to meet consumer preferences. I also serve on the Agricultural Technical Advisory Committee for Trade (ATAC). I have been fortunate to have a front row

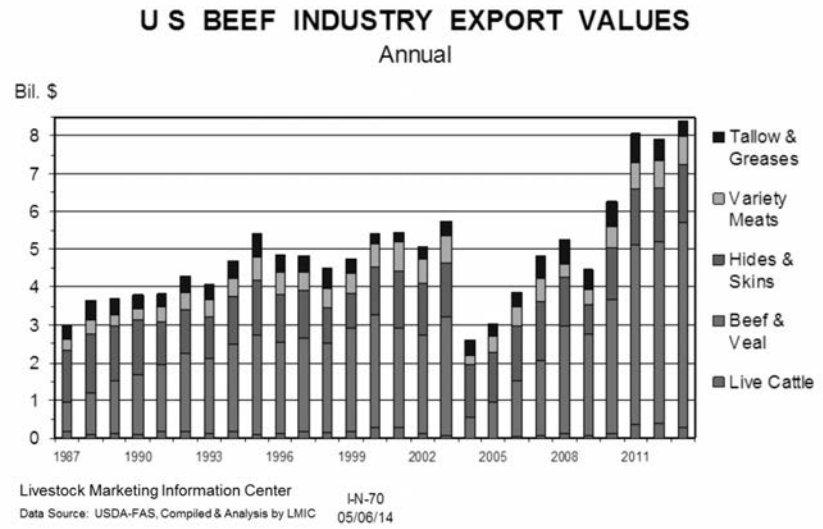
vantage point to the successes and failures of U.S. trade policy and how these actions have impacted the U.S. beef industry. I appreciate the opportunity to appear before you today and share these views with you.

Overview of U.S. Beef Industry and Exports

According to the U.S. Department of Agriculture, the U.S. beef industry consists of nearly 915,000 cattle and calf operations with a national herd size of 89 million head of cattle, with 90 percent of cow herds consisting of less than 100 head (average is 44 cows per operation). In 2013, the U.S. beef industry generated $44 billion in farm gate receipts and the average American spent approximately $300 per capita on U.S. beef products. Without question, our domestic market is our largest consumer base and the focus of most of our marketing campaigns. Americans love beef, and we enjoy a dominant share of the domestic market place. At the same time, international consumers are often willing to pay premiums for cuts and variety meats such as tongue, livers, short ribs, skirts, and stomachs that are not as valuable in the U.S. market.

The U.S. beef industry has traditionally exported 10 to 15 percent of our products and we expect that percentage to rise as more consumers are exposed to U.S. beef in other countries. In 2013, foreign consumers purchased 1.17 million metric tons of U.S. beef and beef products at a total of $6.1 billion. In addition to beef and veal, we also export hides and skins, tallow, live cattle, semen, embryos, and even rendered cattle. If there's a market demand for any part of the animal we do our best to meet it. According to CattleFax, a global leader in beef industry research, analysis, and information, exports accounted for $307 per head of fed cattle in 2013.

Beef and beef products are the largest segment of our export portfolio. According to the U.S. Meat Export Federation, our top five export markets in 2013 were: Japan ($1.39 billion, 234,615 metric tons), Canada ($1.17 billion, 173,030 metric tons), Mexico ($925 million, 216,386 metric tons), Hong Kong ($823 million, 130,112 metric tons), and Korea ($609 million, 105,406 metric tons).



Success Stories for U.S. Beef Trade

Quite possibly one of the greatest success stories for the U.S. beef industry has been the North American Free Trade Agreement (NAFTA). In 1993, the pre-NAFTA level of U.S. beef exports to Mexico were 39,000 tons valued at $116 million. As a result of NAFTA, Mexico eliminated its 15 percent tariff on live cattle slaughter, the 20 percent tariff on chilled beef and the 25 percent tariff on frozen beef. Fast forward to 2013—Mexico is now our third largest export market, valued at nearly $1 billion. With the recent announcement that Mexico has lifted the 30-month age-based restriction on U.S. beef products, we anticipate further growth in our exports to Mexico. Meanwhile, Canada has traditionally been our largest export market for U.S. beef, but finished second to Japan with $1.17 billion in sales. Having two large export markets at our borders has greatly benefitted the U.S. beef industry.

Not only do we trade beef with Mexico and Canada, the live cattle trade is also a very lucrative business for all three nations. In 2013, we imported over one million head of cattle from Canada and just under one million head of cattle from Mexico. Mexican-born and Canadian-born cattle are a critical component to the success of the U.S. beef industry, something on which U.S. cattlemen depend in order to supplement our herd shortage.

Likewise, our trade agreements with other countries in the western hemisphere have proven to be very successful for the U.S. beef industry. This year we celebrate the ten year anniversary of Central American Free Trade Agreement (DR-CAFTA) where we are experiencing the benefits of elimination of 15-40% tariffs over 15 years and the strengthening of SPS measures.

Of course, we are very excited to see the growth and opportunities that have been created with the implementation of the free trade agreements with Korea, Colombia, and Panama. Korea is a top five market for U.S. beef exports and the 15 year phase out and elimination of the 40 percent tariff on U.S. beef allows us to sell more U.S. beef to more Korean consumers. We currently enjoy an eight percent tariff rate advantage over Australia and Canada because Congress implemented our agreement before Australia and Canada. Some have questioned whether the Korea FTA was beneficial to the beef industry because sales have not been as high as the year before the FTA was implemented. One important fact they do not take into account is that prior to the implementation of the FTA, Korea was suffering from a massive shortage in their domestic livestock production due to animal health issues that led to a spike in beef imports. Domestic production in Korea has been recovering at a rapid pace, and even in spite of that, U.S. beef sales continue to increase in Korea. We see great opportunity in the Korean market.

Just as important as tariff elimination is the strong agreement we now have with Korea on sanitary and phytosanitary standards (SPS). The Korea FTA's SPS agreement is considered the gold standard of SPS agreements and is something we want reflected in all future agreements. Similarly, the SPS agreements in the Colombia and Panama FTAs are also very strong. Prior to the FTA with Colombia, we had virtually no presence in the Colombian market due to the massive 80 percent tariff. After one year of implementation and removal of the tariff we have experienced a 117 percent increase in sales to $9.1 million.

One market that has been beneficial for U.S. beef exports is Hong Kong. The cause of this increase in sales has not had as much to do with the removal of tariff barriers as the removal of a non-science based, age-based restriction on U.S. beef. In May 2013, the U.S. was designated as "negligible risk status" for bovine spongiform encephalopathy (BSE) by the World Organization for Animal Health (OIE). Under a previous agreement Hong Kong agreed to grant full market access (no more restriction on age) for U.S. beef. In 2008, Hong Kong purchased $43 million in U.S. beef. In 2013, that number grew to $823 million.

At the rate sales are growing Hong Kong could surpass Mexico and even Canada in U.S. beef sales in the near future.

Without question, one of the greatest developments for the U.S. beef industry was Japan lifting their age-based restriction on U.S. beef from 20 months to 30 months on February 1, 2013. Prior to that time Japanese protocol limited imports of beef from the U.S. to cattle slaughtered before they reached 21 months of age. The removal of that arbitrary trade barrier caused the sale of U.S. beef to climb from $4 million in 2004, to $1.39 billion in 2013. Japanese consumers want U.S. beef, and the removal of the age-based restriction will further encourage our sales to grow.

Hindrances to U.S. Beef Trade

Unfortunately we continue to face many unnecessary barriers from tariffs, tariff rate quotas, and non-science based non-tariff barriers. Many of these restrictions have been the result of government reaction to cases of BSE.

China

China's market remains closed to U.S. beef since the 2003 discovery of a Canadian-born cow infected with BSE in the U.S. Since 2003, China has continuously used non-science based standards to ban imports of U.S. beef, a product that is recognized internationally as a safe product. Arbitrary guidelines not based on science have resulted in lost profits for U.S. beef exports across the globe. According to CattleFax, the U.S. beef industry lost nearly $22 billion in potential sales through 2010 due to BSE bans and restrictions around the world.

The U.S. beef industry has taken great strides to open markets and promote U.S. beef in Asia. As the middle-class grows throughout Asia, consumers are switching to a protein-based diet. There are tremendous opportunities for beef, pork, and poultry in China, a place with a high population and a growing demand for protein. It has been estimated that U.S. beef sales in China could exceed $300 million annually if given access.

U.S. beef isn't the only industry to suffer from these non-science based trade restrictions. On a larger scale, the elimination of China's tariffs and other trade restrictions could lead to an additional $3.9 to $5.2 billion in U.S. agricultural exports to China, according to a study by U.S. International Trade Commission.

One of the greatest hindrances for the U.S. beef industry has been China's reluctance to embrace internationally recognized science-based standards for beef such as those standards recommended by the World Organization for Animal Health (OIE) and the Codex Alimentarius (Codex).

According to a March 2011 report by the United States International Trade Commission, U.S. and Chinese officials have been unable to reach an agreement on requirements for trade in a variety of beef products, owing to China's regulations related to BSE. In June 2006, China agreed to allow imports of boneless U.S. beef from cattle less than 30 months of age. However, approval was subject to a number of stipulations, many unrelated to BSE risk, and an agreement has not been reached.

On May 29, 2013, the OIE upgraded the United States' designation for BSE from controlled-risk to negligible risk for BSE. The *negligible BSE risk* distinction applies to cattle and commodities from countries or zones that pose a negligible risk of transmitting the BSE agent as demonstrated by: 1) a risk assessment; 2) the appropriate level of BSE surveillance; 3) one of the following: no BSE cases, only imported BSE cases or indigenous BSE cases born no more recently than 11 years; 4) an existing

education and reporting program; and 5) a feed ban that has been in place for at least eight years if an indigenous or imported case or other risk factors exist.

Negotiators were able to reach agreement on trade in several other bovine products that present a low risk of BSE (bovine semen and embryos), but were unable to reach an agreement on trade in beef tallow. Today, in order to export U.S. beef to China the product must meet all 22 requirements set by the Chinese government.

It is unfortunate that China will import beef from other countries that have negligible risk status, such as Australia and New Zealand, and even from countries such as Canada that have controlled-risk status, a lesser status in the OIE scale of designations, but not from the U.S.. NCBA encourages U.S. and Chinese negotiators to develop a beef protocol based on sound science and commercial feasibility instead of political interests.

Another area of concern is China's opposition to the proper use of internationally-approved technologies, particularly beta agonists such as ractopamine. Beta agonists are fed to cattle (steers and market heifers) in feedlots during the last 28 to 42 days of the finishing period to safely increase carcass gain, feed efficiency and carcass leanness while maintaining beef's natural taste, tenderness and juiciness. The Codex Commission, the international food standards-setting body recognized in the WTO-SPS Agreement, has established a set of Maximum Residue Levels (MRLs) widely accepted in international trade. On July 5, 2012, Codex adopted standards for maximum residue levels for ractopamine. The establishment of international standards for veterinary drugs like ractopamine is important since many countries rely on science based food standards to ensure that the food they are importing is safe. U.S. agricultural exporters and consumers worldwide benefit from the adoption of international standards for food safety. Unfortunately, China continues to find reasons to delay approval of technologies like ractopamine, instead of incorporating into their protocol the proven scientific standards of the international community. Other countries have changed their beef protocols in the wake of the Codex approval. NCBA encourages China to do the same. As the global population continues to grow, and as a result a growth in the demand for protein, food production must adapt through the use of safe technological advances that rely on fewer available natural resources.

Russia

Prior to 2013, Russia was the fifth largest market for U.S. beef exports with Russian consumers purchasing more than $300 million of U.S. beef in 2012. Unfortunately, at the end of 2012 Russia closed its doors to beef from the United States, Canada, Mexico, and Brazil due to non-science based concerns over production technologies used in each of those countries. While the impact of unnecessarily closing a $300 million market to U.S. beef has impacted our industry, this unfortunate move by the Russian government did not come as a surprise.

On August 22, 2012, Russia officially joined the WTO. As part of Russia's accession agreement with the U.S., Russia agreed to expand market access for U.S. beef to 60,000 metric tons (frozen beef) and an unlimited supply of High Quality beef at a 15 percent tariff rate. Even though the U.S. beef industry raised concerns with our government over Russia's history of implementing market-disrupting non-science based trade barriers, the increase in available quota for U.S. beef was viewed as a promising move for U.S. beef producers and Russian consumers who continually purchased more U.S. beef year after year (2010: $152 million in annual sales / 57,453 metric tons; 2011: $256 million in annual sales / 72,797 metric tons; 2012: $307 million in annual sales / 80,408 metric tons).

Prior to Russia joining the WTO, the U.S. beef industry had not been a target for Russia's non-science-based market closures suffered by other U.S. meat industries like pork and poultry. Russian consumers had not raised concerns about the safety of U.S. beef, nor had the Russian government. Even after Russia voted in opposition of the Codex Alimentarius' (Codex) establishment of a maximum residue level (MRL) for ractopamine, Russia continued to import record amounts of U.S. beef through 2012. It was not until the end of 2012, that Russia announced it would no longer accept beef and pork that was not certified as "ractopamine-free". Unfortunately, Russia has yet to provide any science-based standards to justify this action and has provided little direction to the U.S. beef industry on how to meet their demands for ractopamine-free beef.

Unfortunately, Russia continues to find reasons to delay approval of technologies like ractopamine instead of incorporating into their protocol the proven scientific standards of the international community. Other countries have changed their beef protocols in the wake of the Codex establishment of a MRL for ractopamine and NCBA encourages Russia to do the same.

Hindrances to U.S. Beef Trade Caused By U.S. Policy

Unfortunately, there are some policies enacted that have managed to restrict the U.S. beef producer's ability to sell beef in some countries.

One situation that is still fresh on our memories is the trade retaliation that resulted from the U.S. government failing to enact a cross-border trucking program with Mexico. While the U.S. may have been the first country to implement carousel retaliation schemes, other countries have picked up on the idea and are becoming experts at innovating its implementation. Fortunately U.S. beef was not on the first retaliation list for Mexico during the trucking dispute, but we are very confident that we will be on the top of the list for both Mexico and Canada following the decision from the World Trade Organization regarding the U.S. mandatory country-of-origin labeling (COOL) program.

Last year, the WTO Appellate Court ruled that the U.S. COOL program violates international trade laws and if the U.S. did not change its law Canada and Mexico will be authorized to sue for relief against the U.S., most likely in the form of retaliatory tariffs. As a result of that decision, the USDA published a new version of the COOL rule at an attempt to bring the U.S. into compliance. That rule only increased discriminatory practices against cattle born in Canada and Mexico, so the lawsuit has continued against the U.S.. On February 18, 2014 the WTO dispute panel met to determine if the new COOL rule published by USDA on May 23, 2013, brought the U.S. into compliance with the WTO Appellate Court decision against the U.S.. If the WTO rules against the U.S., then Mexico and Canada will start the process toward retaliation. Rest assured, U.S. beef and cattle will be at the top of the list for retaliatory tariffs, followed by a long list of other agricultural and manufactured goods. The only way to resolve this potential trade war is to repeal COOL and allow the beef industry to market our product competitively.

NCBA Supports Science-Based and Market-Driven Trade Opportunities

Trans-Pacific Partnership

The Trans-Pacific Partnership (TPP) is an ambitious, 21st-Century trade agreement that includes Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States. NCBA believes that the TPP has the potential to open a number of export opportunities for U.S. beef and expand our presence in Asia. NCBA has been strong supporter of our government's efforts to push for tariff elimination and strong science-based standards among all TPP nations for as long as the U.S. has been part of TPP. Prior to the addition of Canada, Mexico, and Japan; NCBA strongly stated that all TPP countries and any future additions must abide by the same terms as all

other TPP nations. For many months, our negotiators were making progress, but unfortunately Japan has been unwilling to abide by the same principles of free trade as all of the other TPP countries and they are digging in and are refusing to negotiate on products they deem politically "sensitive". This is discouraging and ultimately detrimental to the entire process. We encourage USTR to remain vigilant and to continue to push the Japanese toward tariff elimination on beef. The U.S. beef industry cannot afford to be handed a deal that resembles anything close to the terms given to the Australians. Under the Japan-Australia agreement, Japan will reduce its massive 38.5 percent tariff on frozen beef to 19.5 percent over 18 years, and reduce the tariff on chilled beef from 38.5 to 23.5 percent over 15 years.

We have always supported our government and we appreciate the hard work of our negotiators, but NCBA's ultimate support for the TPP hinges on the terms of the deal. Make no mistake; the U.S. has been accused of taking similar action on sensitive products. And we know exactly what happens in this situation, beef always gets the short end of the stick. That is why NCBA's message has been clear since the beginning: eliminate ALL tariff and non-tariff trade barriers. The era of protectionism is over.

Current restrictions and tariffs on U.S. beef and beef products from the participating TPP countries:

Country	Tariff on Fresh/Chilled Beef	Tariff on Frozen Beef	Non-Tariff Restriction
Australia	0	0	Ban
Brunei	0	0	None
Canada	0	0	None
Chile	0	0	None
Japan	38.5%	38.5%	30 month age restriction
Malaysia	0	0	OIE Guidelines
Mexico	0	0	None
New Zealand	0	0	OIE Guidelines
Peru	FTA*	FTA[1]	OIE Guidelines
Singapore	0	0	30 month age restriction
Vietnam	21.3%	18%	30 month age restriction

Transatlantic Trade and Investment Partnership

Without question, the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union (E.U.) would be a great opportunity for the U.S. beef industry to expand market

[1] Peru's WTO tariff bindings on beef are currently 30 percent, with applied tariff rates ranging from 0 to 25 percent. Under the agreement, the United States secured immediate duty-free treatment on the products most important to the U.S. beef industry; i.e., high quality USDA Prime and Choice cuts. All other tariffs on beef and beef products are eliminated within 15 years, earlier in a number of cases. For Standard Quality beef, the agreement also provides for an 800-ton TRQ with 6-percent annual growth and a 25-percent above-quota tariff phased out over 12 years. Additionally, there is a 10,000-ton beef offal TRQ with 6-percent growth and a 12-percent above-quota tariff phased out over 10 years. Peru will have the right to use safeguards on Standard Quality beef if imports surge.

Regarding SPS measures, Peru reopened its market to U.S. boneless beef and certain offals on April 12 and agreed to fully open to U.S. beef and beef products other than specified risk materials no later than May 31, 2006. Peru agreed to continue to recognize the equivalence of the U.S. meat inspection system and to accept beef shipments accompanied by a USDA FSIS Export Certificate of Wholesomeness with content of the certificate agreed between the two countries. http://www.fas.usda.gov/info/factsheets/peru.asp

access in the E.U. The U.S. beef industry has a longstanding history of providing the E.U. with high quality U.S. beef and we look forward to improving that relationship through the TTIP. According to USDA data compiled by the U.S. Meat Export Federation, European consumers purchased approximately $252 million of U.S. beef in 2013, making the E.U. one of our top ten export markets for beef. Also in 2013, the U.S. and E.U. signed an agreement to extend Phase II of the current Memorandum of Understand (MOU) for another two years, through August 2, 2015. Under Phase II, the U.S. can provide up to 45,000 metric tons of beef from "non-hormone treated cattle" at zero tariff duty. In exchange, the U.S. will not re-instate retaliatory tariffs against the E.U. as it is our right to do so under the WTO decision on hormones.

Unfortunately, there are fundamental differences between the U.S. and the E.U. regarding the use of science and technology in food production. Production practices in the U.S. are based on rigorous scientific review and are continuously improved to employ the latest advancements in scientific research and animal husbandry, with the overall goal of improving production efficiency while improving the overall environmental impact. Meanwhile, the E.U. continues to abuse its precautionary principle which discourages the development and use of scientific advancements. As a result, U.S. beef has been the victim of unwarranted trade restrictions throughout the years.

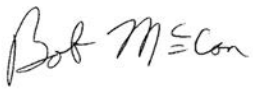
For the benefit of both the U.S. and the E.U., we must set political interests aside and establish a 21st-century agreement based on internationally-recognized scientific standards, free from tariffs, quotas, and subsidies, where the free market allows competition to flourish and encourages sustainable trade. That being said, if the U.S. and E.U. truly want to establish a stronger trade relationship, science based and market driven agriculture policies must be part of the final trade agreement. Otherwise, our differences in agriculture will put at great risk the growing trade opportunities in the TTIP.

Conclusion

With 96 percent of the world's consumers living outside of the U.S., access to foreign markets for our beef and beef products is significantly important for our industry to grow. Exports are vitally important for the future success of U.S. beef producers and rural America. Future growth of the U.S. economy depends upon our ability to produce and sell products competitively in a global marketplace. Economic globalization is not simply a matter of ideological or political preference; it is a fundamental reality that will determine whether America remains an economic super-power or becomes a secondary economic force.

In closing, I appreciate the opportunity to testify before you today on an issue of such importance to our members. I support President Obama's effort to double U.S. exports and create jobs in rural America. On behalf of NCBA and many other stakeholders of the U.S. beef industry, I thank you for your continued efforts to open and expand market access for U.S. beef producers.

Sincerely,



Bob McCan
President, NCBA

Chairman NUNES. Thank you, Mr. McCan. Mr.—I should know how to pronounce your name, but it is—you are my constituent, so I should know.

Mr. MIKHALEVSKY. Andrei is fine.

Chairman NUNES. Andrei.

Mr. MIKHALEVSKY. Andrei is perfect.

Chairman NUNES. You are now recognized for five minutes.

STATEMENT OF ANDREI MIKHALEVSKY, PRESIDENT AND CEO, CALIFORNIA DAIRIES INC.

Mr. MIKHALEVSKY. Thank you very much. Thank you, Mr. Chairman and committee, for allowing California Dairies to come speak with you today regarding a subject that it very important to us, and it is a big part of our business every day.

My name is difficult, but I am Andrei Mikhalevsky, and I am president and CEO of California Dairies. And I have been fortunate in my career to be able to manage dairy businesses on six continents, and the seventh continent doesn't have many dairy cows right now.

My comments today will focus, really, in three areas. The first is the opportunity for U.S. dairy exports; the second the key barriers that we face in exporting product; and third, the upcoming free trade agreements.

California Dairies may not be familiar to everyone, but we are a member-owned cooperative based in California, and a major dairy exporter today. You can find our products on your local grocery store shelves in all 50 states, and you can find it in 50 foreign countries, also. We are responsible for 12 percent of U.S. dairy exports. We export already today over 425 million pounds of milk products every single year. And increasing these dairy exports is very important to our industry, beneficial to the United States, and also good for California Dairies.

And I will give you three areas that we believe these benefits are centered: first it is around economic and financial benefits; second, it creates jobs domestically and creates jobs internationally; and, third, we believe there is implications for national security of having a good dairy export business.

In 2013, just last year, the industry reported a record 15 percent of all milk in the United States was exported valued at about $6.7 billion. One day of every week's production of milk—so one day of milking cows—now goes into export in the United States. And in 2014, this year, California Dairies will export more milk powder than we will sell domestically in the United States. So we have become a larger exporter than we are domestic seller in milk powder.

And the U.S. dairy industry is currently in a state of transition from an inward-facing industry to a dominant world exporter. And the question might be asked, "Why is there a change in the U.S. dairy industry?" And the answer is, really, opportunity. We all know the worldwide demand for dairy continues to grow, driven by population growth and disposable income growth. And this is creating a large demand gap in the world market for dairy products. And dairy is very important. Remember, people start from infants using dairy, all the way through old age.

But there is barriers to us taking advantage of that export growth, and they fall in the areas that were earlier mentioned: tariff barriers; non-tariff barriers; and internal domestic barriers, which we haven't mentioned.

Let me first give an example of tariff barriers. Canada and Japan, today who are in the news, both imposed astronomically high tariffs on imported dairy products. The tariffs we face every day are between 250 and 300 percent of the value of the product that we ship into those countries. So, basically, impossible to meet.

There is also non-tariff barriers, which are commonly known as SPS measures, sanitary and phytosanitary measures. Those are being abused in markets around the world.

And third, geographical indications. And the EU, as we all know, is probably the most aggressive and abusive in its interpretation of these GIs.

I would also just note that there are internal barriers that we face also, but that is a conversation for another day.

I would like to shift now to free trade agreements. We have talked about the TPP and the TTIP, TTIP. And both of these are wonderful opportunities for us to break down these barriers and expand our area of exports. And so I would like to just share our viewpoint in a few sentences.

First, we actively support the inclusion of dairy in all FTAs. We would like dairy in.

The second thing we would like to see is the inclusion of all dairy products. For example, the South Korean FTA excludes things like butter. It is a fundamental product, and we would like to have all products in the FTAs.

We support the complete elimination of all tariffs. We need a level playing field with our competitors. China, for example, we don't have a level playing field with New Zealand. They get the first 300,000 tons in there at a reduced tariff. We need a level playing field.

Market access must be real, measurable, and equitable. And we believe that TPP and TTIP are really the most likely—the most important trade agreements that we have seen in a generation. California Dairies also highly supports trade promotion authority. We think it is essential.

So, in summary, there is a great opportunity here. But to achieve the success, we must have FTAs that are comprehensive and inclusive of all dairy, including zero tariff access, and ensure that unjustified non-tariff barriers and regulatory requirements do not block us, moving forward. Thank you very much for your time today.

[The prepared statement of Mr. Mikhalevsky follows:]

California Dairies, Inc.

Testimony before the Committee on Ways and Means Subcommittee on Trade
Andrei Mikhalevsky, President and CEO of California Dairies, Inc.
June 11, 2014

Advancing the U.S. Trade Agenda:
Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports

Overview

Exported products from the U.S. have become an increasingly important component of the U.S. economy, supporting over 11 million jobs in 2013. One sector of the U.S. economy, the dairy industry, has only recently started to capitalize on the benefits of participating in the world market and is undergoing a transformation from an inward-looking industry to one that is positioned to be a dominant international exporter. International markets are demanding more dairy products, an outgrowth of increases in disposable income and population growth. Over the next ten years, the opportunities presented in world markets seem particularly well-suited for the U.S. dairy industry with its extensive dairy farm and processing plant infrastructure, potential for future growth of its safe and reliable milk supply, and its strategic geographic position to provide a consistent supply of nutritious dairy to any country in the world. Free trade agreements will facilitate this industry-wide evolution by providing a welcome opportunity for the U.S. to strengthen its economy, bolster the creation of jobs domestically and abroad, and increase the level of food security in foreign countries by delivering high-quality, nutrient-dense dairy products. To achieve this success, the U.S. must maintain the goal of achieving comprehensive, zero-tariff access and ensure that unjustified non-tariff barriers and regulatory requirements do not block trade.

California Dairies, Inc. (CDI) has built a strategy around the goal of becoming the "leading source of dairy nutrition for a healthy world" and is actively aligning itself to the fundamental changes in world market demand. By exporting dairy products and developing new market outlets that require higher product specifications or more stringent food safety protocols, CDI can increase its profitability by marketing products with higher margins, and its member-owners can increase the investments made in their dairy farms to provide more of the safe, high-quality milk that customers are seeking. CDI is uniquely positioned geographically by being located in California and has easy access to several nearby sea ports, greatly reducing its transportation costs to ship dairy products to international customers.

Economic Importance of U.S. Exports and of the U.S. Dairy Industry

The Office of Trade and Economic Analysis of the U.S. Department of Commerce reported that 11.3 million jobs were supported by exports in 2013, up 1.3 million since 2009 and the highest level in the last ten years. Every billion dollars of U.S. exports supports over 5,500 jobs, but U.S.

agricultural sectors do even better - every billion dollars in U.S. agricultural exports supports about 6,800 jobs.[1]

The 47,000 dairy farms and more than 1,000 milk processing plants in the U.S. play a critical role in providing and supporting hundreds of thousands of jobs, a large portion of which require skilled labor and support this country's manufacturing sector. Dairy farm receipts alone contribute approximately $40 billion a year to the U.S. economy, primarily in rural areas. The industry's counterpart, the milk processing plants, contribute over $100 billion annually to the U.S. economy, employ 132,000 people and generate over $5 billion in wages, according to U.S. Department of Agriculture's National Agricultural Statistical Service.

U.S. dairy products, made from nature's most perfect food, provide a high-quality and nutrient-dense food source for customers worldwide. However, the contribution and importance of exports to the U.S. dairy industry have been recognized only recently as the industry is undergoing a remarkable transformation due to changing market forces. Dairy product exports have grown a phenomenal 44% per year since 2002.[2] Currently, the U.S. ranks as the third leading country in the world to export dairy products. Furthermore, dairy product exports have accounted for approximately two-thirds of the milk growth in the U.S. over the past decade. The U.S. went from exporting less than $1 billion of dairy products in 1995, a time when a large portion of those sales were government-assisted, to exporting a record 15% of U.S. milk production valued at $6.7 billion last year, none of which used export subsidies.[3]

As good as 2013 was for U.S. dairy product exports, 2014 appears to be taking the high points even higher. The value of U.S. dairy exports topped $700 million in March 2014, and exports of cheese, whey proteins, lactose and milk protein concentrate all reached new records.[4] The U.S. is now the world's leading single-country exporter of skim milk powder, whey products, and lactose; it is second only to the EU for cheese exports. These record figures are not aberrations; they are driven by fundamental changes in global dairy markets, such as changes in EU and U.S. dairy support programs, demand in Asia and increases in global dairy product prices. With greater alignment between U.S. and international prices, export opportunities for U.S. dairy products are on the rise.

For the last several years, CDI has placed a high priority on the importance of expanding export opportunities for our farmers' milk. CDI has grown its milk powder export business so that half of the milk powder products that we manufacture are now exported. Butter and butterfat products exported to international customers are also increasing, more than doubling since 2008.

The Future of U.S. Dairy Exports

In 2009, the Innovation Center for U.S. Dairy commissioned Bain & Company to assess global opportunities for U.S. dairy products. That analysis, "*The Impact of Globalization on the U.S. Dairy Industry: Threats, Opportunities, and Implications*", was "refreshed" in 2011, but the

[1] USDA Economic Research Service
[2] USDA Economic Research Service
[3] US Dairy Export Council
[4] US Dairy Export Council

conclusions did not change – there is worldwide demand for dairy products that current global production cannot meet, and the U.S. is ideally positioned to produce the dairy products needed to fulfill this demand. Furthermore, U.S. exports are forecasted to continue to grow, with expectations for expansion on a value basis of approximately 40% over the next five years. This means that dairy farmers must continue to expand their milk production capabilities and milk processing companies must strive to produce dairy products that meet the specifications demanded by customers. However, these efforts will require significant capital investments on the part of dairy farm operators and milk processing plant owners. It is extremely important for dairy producers and milk processors to receive assurances that U.S. trade negotiators are seeking maximum market access for all dairy products. Those assurances will help to convince them to make investments necessary to take advantage of all international trade opportunities.

Barriers to U.S. Dairy Export Growth

Despite the promising outlook for international trade of dairy products, trade barriers in the form of government protectionism of dairy sectors are among the highest for any of the traded agricultural commodities. It is critical that these inequities be rectified so that the U.S. dairy industry has a level playing field with its competitors to access those markets where dairy products are sought. Free trade agreements (FTAs) such the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (T-TIP) represent comprehensive opportunities to break down the obstacles that restrict market access, which can be generally categorized as tariff and non-tariff barriers. Also, not all barriers to freer trade are exogenous; some U.S. laws, regulations and policies present internal obstacles that must be navigated by exporting companies in their quest for greater participation in world markets.

Tariff Barriers

Many of the world's largest dairy consuming countries, such as Canada, Japan and the EU, set high tariffs on imported dairy products. For example, two of the TPP member countries, Canada and Japan, maintain the most tightly guarded dairy markets in the world by imposing astronomically high tariffs on imported dairy products. Canadian dairy tariffs typically range from 250% to 300%.[5] Tariffs levied by Japan on milk powders and butter fall within a similar range and are effective in restricting market opportunities.[6] The tariffs levied by the EU are not of these magnitudes but are still far higher than U.S. dairy tariffs for comparable products, frustrating any focused efforts by U.S. exporters to expand into those markets.

Ultimately, elimination of dairy tariffs across all dairy products without exception is essential for increasing the flow of trade. The increase in dairy trade activity between the U.S. and South Korea is directly attributable to reductions in tariffs and exemplifies the point. Before the U.S.-South Korea FTA was completed, the U.S. had a 29% share of imported dairy products in that market. After the FTA was implemented and tariffs were eliminated for some U.S. dairy exports, the U.S. import market share grew to 37%.[7] Establishing reasonable transition periods to eliminate tariffs on all dairy products or develop innovative solutions to address trade barriers

[5] World Trade Organization notifications
[6] World Trade Organization notifications
[7] Korea Customs and Trade Development Institution via GTIS Global Trade Atlas

such as tariff-rate quotas may be acceptable as long as the resulting market access is real, measureable and equitable.

Non-Tariff Barriers

Non-tariff barriers can be further broken down into sanitary and phytosanitary (SPS) measures and geographical indications, both of which are intentionally obstructive and pose sizable challenges to U.S. exports in fast-growing markets.

SPS Measures – SPS measures are not without basis and do provide a means for foreign governments to protect humans, animals, and plants from certain health risks; CDI strongly supports this right of governments. However, governments have pushed beyond the original intent of SPS measures to erect unscientific, unduly burdensome, and discriminatory barriers to trade that protect domestic or favored foreign products. An example will underscore the point. Under its requirements for dairy product imports, the EU restricts the number of somatic cells permissible in raw milk used to produce imported dairy products.[8] The U.S. Food and Drug Administration (FDA) considers somatic cell levels to be a milk quality issue rather than a legitimate criterion for food safety and allows raw milk to be sold in the U.S. with higher somatic cell counts. Thus, this requirement imposed by the EU presents a burden for some U.S. exporters.

The World Trade Organization's (WTO) SPS agreement, developed during the Uruguay Round, establishes limits on policies relating to food safety, but it is clear that updates are needed to ensure that international SPS commitments keep pace with the evolving nature of international trade. The TPP and T-TIP provide logical and timely platforms to build upon the existing WTO SPS agreement to help ensure that sudden and unjustified regulatory requirements do not block trade.

Geographical Indications – Occasionally, a government will attempt to protect a name or symbol used on certain products which corresponds to a town, a region, or a country. These are termed "geographical indications" or GI, and they may act as a certification or verification that the product possesses certain qualities, is made according to traditional methods, or enjoys a certain reputation due to its geographical origin. CDI supports the use of legitimate, properly defined GIs. However, U.S. exporters are finding inexplicable applications of GIs at increasing rates in an apparent effort to impede imports of dairy products or carve-out market access for a country's own producers. The EU is among the more abusive in its interpretation and application of GIs, maintaining that terms which originated in Europe should be reclaimed, no matter how widespread the use of the terms today. We are opposed to efforts by the EU to protect generic terms that are not linked to specific locations (e.g., "feta") or to protect terms in translation (e.g., "parmesan"). We applaud those members of Congress who agree with this stipulation and signed the letter to this effect, dated May 9, 2014 and sent to Secretary Vilsack and Ambassador Froman.

[8] US Trade Representative, "2013 Report on Sanitary and Phytosanitary Measures"

Internal Barriers

Much of the industry's attention has been focused on negotiating FTAs that result in a level playing field with competitors. However, it would be an oversight to not mention that some of the factors that limit the ability of the U.S. to participate in more international trading opportunities are endogenous, i.e., impediments that have been created and exist internally. In the report issued to the Innovation Center for U.S. Dairy, Bain & Company highlights several factors that may hinder the U.S from becoming an emerging force in dairy product exports. These include items that should be eliminated or reformed, like the U.S. regulated milk pricing programs, as well as items that need to be improved, such as risk management tools, product innovation, processing capabilities, (to meet customer product specification requirements), pursuit of beneficial trade treaties and market/competitive analysis.

Why Trade Should be Embraced, Not Feared

Government policies that lead to protectionism ignore the very real fact that with successful trade negotiations come opportunities for growth and prosperity. Negotiated FTAs should be enforceable, follow international trade laws, and establish terms of trade that will make the agreement relevant for years if not decades. More specifically, FTAs should be structured such that agriculture is neither an afterthought, nor a sector to be sacrificed in favor of better terms of trade for other industries. The agreements should not contain discriminatory "carve-outs" for specific sectors. Furthermore, a proper FTA should specify dispute resolution for agriculture, just as would be found in the chapters that pertain to other industries. Because of its prominence and ambitious intent, the TPP and T-TIP negotiations offer prime opportunities to set forth an appropriate standard for agriculture in these and future FTAs.

Use of Trade Agreements to Address Issues

The U.S. dairy industry firmly supports an ambitious trade agenda, starting with negotiations for TPP and T-TIP. The TPP is a once-in-a-lifetime opportunity to relax the constraints that are restricting consumers in the fastest growing markets of the world. A successful outcome would be the elimination of tariffs in the key markets of Japan and Canada across all dairy products without exception. As an auxiliary function of the agreement, TPP can be used to establish a precedential framework for dairy tariff commitments in future FTAs, including T-TIP. Basically, a successful effort that provides comprehensive access to the Canadian and Japanese dairy markets will create a standard for other countries that join TPP as it expands. Several potential key dairy markets, including Indonesia, Thailand, Philippines, and even China have expressed an interest in joining TPP.

TPP negotiations promise to be carefully watched with a host of strategies being discussed among representatives from participating countries. Some countries have already noted that they will consider taking their sensitive categories "off the table," both in market access and in concessions, if other countries are seen to be protecting their own sensitive categories. It is easy to see how quickly an FTA can deteriorate if the goal of comprehensive, zero-tariff access to each other's markets is not maintained. Ensuring that Japan and Canada commit to real, significant, meaningful and comprehensive market access is critical to the success of TPP.

There are high expectations for the results of T-TIP negotiations as well, and an agreement must be reached in which the EU makes a serious attempt to remove existing barriers to trade. Both the TPP and T-TIP need to be mindful of the future as well and should contain the foresight to prevent tomorrow's problems from arising as soon as the ink has dried on the agreements.

Well-negotiated FTAs will provide clear and positive benefits for the U.S. dairy industry, an outcome that is very much achievable in TPP and T-TIP. But countries other than the U.S. stand to gain as well. In fact, all dairy exporters in the TPP negotiations should be encouraged to join forces and push for an ambitious outcome. Reaching a critical mass of support for maximum market access will apply the pressure necessary to break down the tariff and non-tariff barriers in these markets. A point to note in these negotiations is that the U.S. market access provided to other countries must be in a fair and balanced relationship to the access the U.S. gains in the world market.

Finally, if the U.S. is to take its place as an initiator of future FTAs and participate in world markets as a preferred supplier in high-quality dairy products, Trade Promotion Authority (TPA) must be renewed. The agricultural provisions of the two bills that seek to renew TPA i.e., S.1900 and H.R.3830, provide clear direction to U.S. negotiators about critical priorities that should be pursued in trade negotiations. We strongly support their inclusion and urge the Committee to move forward with consideration of this legislation that is critical to the approval of balanced trade agreements.

Point of View

CDI supports the inclusion of the dairy category, the inclusion of all dairy products and the complete elimination of dairy tariffs in all FTAs. The TPP and T-TIP are likely the most important trade agreements in a generation, and, if properly negotiated for the dairy industry, they may individually and collectively accomplish all of these goals. Both agreements promise significant economic benefits for American businesses, workers, farmers, ranchers, and service providers if negotiated market access is real and barriers to trade are reduced. CDI fully supports all efforts to get TPP and T-TIP signed into law, provided that our concerns on dairy are addressed satisfactorily. CDI also supports two Congressional bills (*S. 1900: Bipartisan Congressional Trade Priorities Act of 2014 – Baucus (D – MT); H.R. 3830: Bipartisan Congressional Trade Priorities Act of 2014 – Camp (R – MI)*) which would re-enact TPA, a critical tool for establishing a strategic vision of U.S. trade policy and shaping the goals for future U.S. trade negotiations.

About California Dairies, Inc.

California Dairies, Inc. (CDI) is the largest member-owned milk marketing and processing cooperative in California producing 47 percent of California's milk. Co-owned by more than 410 dairy producers who ship 18 billion pounds of milk annually, CDI is a manufacturer of quality butter, fluid milk products and milk powders, which are available in all 50 United States and in more than 50 foreign countries. CDI has an ownership position in DairyAmerica and in Challenge Dairy Products, Inc. (a wholly owned subsidiary of CDI).

CDI Key Facts:

- CDI represents 12% of US dairy exports
- Produces 385 million pounds of butter per year – 21% of U.S. supply
- Produces 775 million pounds of milk powder per year – world's leader in Skim Milk Powder
- Exports 50 million pounds of butter/AMF to 31 countries – 13% of U.S. milkfat exports
- Exports 375 million pounds of milk powders per year to 51 countries – 48% of U.S. milk powder exports
- Began exporting cream cheese in March 2014

Andrei Mikhalevsky is the president and CEO of California Dairies, Inc. (CDI). Andrei joined CDI at the start of 2012 bringing more than 35 years of leadership experience to the role. Previously, he held the position of managing director of global ingredients and foodservice at Fonterra Cooperative Group Ltd., (NZ), the world's largest dairy exporter, responsible for developing and building Fonterra's global business to business partnerships. Andrei's career began at Campbell Soup Company and progressed to Georgia Pacific Corp. and Symrise Inc., (DE). He is a graduate of Stetson University with a Bachelor of Business Administration in finance. In addition, he has attended the Food Executive Program at the University of Southern California.

Chairman NUNES. Thank you, Mr. Mikhalevsky. Mr. Turner, you are now recognized for five minutes.

STATEMENT OF RYAN TURNER, PRESIDENT, WESTSIDE TRADING COMPANY

Mr. TURNER. Good morning, Chairman Nunes, Ranking Member Rangel, and the Members of the Subcommittee on Trade. Thank you for inviting me to be here with you today. My name is Ryan Turner, and I am here to testify today as a farmer and as the president of Westside Trading Company, WTC. I founded WTC three-and-a-half years ago to export California almonds, walnuts, and pistachios.

WTC is a trading company that buys product from farmers and packers and resells the product exclusively into export markets. WTC specifically finds its niche in taking the export risk for our suppliers. After purchasing the product from California growers and processors, we are responsible for payment to supplier, marketing, logistics, documentation, and collection of the export sale. Any export-import problems, failure to collect funds, false quality claim from the end customer, it all falls on WTC. And we make our name by insulating the suppliers from these risks. So we truly are on the front lines of the trade discussion.

Since the inception of the company, we have exported to more than 40 countries around the world. We have exported to Canada and Mexico, South America, all over Europe and Eastern Europe, Russia, Middle East, North Africa, as well as China, India, Singapore, and Bangladesh. About 85 percent of the products we have shipped to date are almonds, and so I will focus, in the interest of time, on almonds for the rest of the testimony.

The California almond industry is a great example of the strong U.S. industry that dominates the world market because of our significant long-term investment, innovation, high food safety standards, and strong global marketing. California almonds add $2.82 billion in export value in the 2012–2013 season, ranks as California's largest agricultural export, and the U.S.'s largest specialty crop export. Currently, more than 80 percent of the world's supply of almonds are grown and produced in California.

The U.S. is the largest buyer of California almonds, consuming, on average, about a third of our supply. However, that means that, on average, two-thirds of California almonds are exported. The top 5 export countries are China, at approximately 10 percent of the U.S. crop, followed by Spain, India, Germany, and UAE. In total, California exported directly to 57 countries last season.

The California almond industry is dependent on export for the long-term sustainability of the industry, but it is also a huge success story. Over the past decade, export growth has averaged nearly 10 percent, year after year. The industry has not been able to wait for trade agreements in many countries, but has forged ahead in tackling major issues, opening new markets around the globe. These challenges, though, however, come at a high risk to farmers, processors, and exporters, as well as our overseas processors and the end user, ultimately increasing the cost of our products to consumers, worldwide.

WTC faces export challenges head-on every day, due to trade barriers that exist in markets around the globe. From tariffs and SPS differences to banking and finance rules, as well as labeling requirements, port protocols, documentation requirements, as well as dispute resolution issues. The almond industry faces tariffs, specifically, in dozens of its markets. However, like in other industries where the product is in strong demand, gray market activities are developed to avoid such tariffs. The biggest examples exist in two of our largest export markets, China and India.

The vast majority of almonds are exported to China, are shipped from California to Hong Kong, then redirected through Vietnam and trucked north to various points for delivery to processing plants mainly in China. Most U.S. exporters ship to Hong Kong and are paid for the product at that point. While it customarily only takes two weeks or so to ship a container from California to Hong Kong, it could take an additional three to four to move that product through the gray channels to the end user.

While a larger percentage of customers actually pay the tariff in India and take delivery in major ports, more and more importers have begun to smuggle the product from Kashmir. This product is mostly shipped from U.S. to Dubai and then shipped in trucks, via trucks, saving the importer the tariff. While lower trade barriers and relatively strong business protections in Dubai and Hong Kong keep risks lower for us exporters, the risks borne by our end customers through the gray channels increases their risk and delays shipment of product.

In addition to the gray markets, where product is physically moved to avoid tariffs, many markets in the Middle East rely on falsification of documents to reduce tariff exposure. These practices create challenges that differ in each market which require exporters to constantly stay on defense, to ensure that gray market behaviors do not put our companies and our products at risk.

The U.S. produces the safest food and food products in the world. Agricultural and food safety regulations, coupled with innovation of farmers and processors themselves, have given our products the strongest reputation for quality. However, differing SPS standards in some of our export markets create major problems, add costs, and, at times, significantly put our products at risk. Whether it is lower allowable levels of aflatoxin in the EU, or the ever-increasing changing and somewhat arbitrary standards in other parts of the world, it is extremely important that SPS standards must be, at a minimum, based on science.

We have had many loads returned to the U.S., and many more held at ports for long periods of time, subjecting our products to additional testing and fees for results that we never see. It is very important that any new trade agreement address banking finance and dispute resolution protocols, as well, so that exporters such as ourself can have more confidence in international collection and contract enforcement. We have had minor typographical errors lead to major searches of funds, we have had several international banks release documents prior to payment, we have had ports release containers without proper documentation, we have had money rerouted and lost through illegal foreign currency traders.

These are just a few of our examples caused by lack of uniform standards.

In conclusion, multi-faceted, comprehensive, regional trade agreements that not only level the playing field, but normalize business practices between the U.S. and its trading partners, will allow us to grow export markets faster and more reliably. Thank you for your time.

[The prepared statement of Mr. Turner follows:]

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TESTIMONY OF Ryan W. Turner
BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON TRADE

Hearing on: *"Advancing the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports"*

June 11, 2014

Good morning Chairman Nunes, Ranking Member Rangel, and members of the Subcommittee on Trade. Thank you for inviting me to be with you here today. My name is Ryan Turner and I am here today to testify as a farmer and as the President of Westside Trading Company, Inc. (WTC).

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Since the inception of the company, we have exported to more than 40 countries around the world. We have exported to Canada and Mexico, South

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America, all over Europe including Eastern Europe and Russia, the Middle East and North Africa as well as China, India, Singapore and Bangladesh. About 85% of the products we have shipped to date are almonds and therefore, in the interest of time, I will focus on almonds as the example commodity for the rest of this testimony.

The California almond industry is a great example of a strong US industry that dominates the world market because of significant long term investment, innovation, high food safety standards and strong global marketing. California almonds, at $2.82B in export value 2012/2013 season, ranks as California's largest agriculture export and the US' largest specialty crop export. Currently, more than 80% of the world's supply of almonds are grown and produced in California. The US is the largest buyer of California almonds consuming on average 1/3 of domestic supply. However, that means that on average, 2/3 of California almonds are exported. The top five export countries are China at approximately 10% of the US crop, followed by Spain at 8%, India at 6.5%, Germany at 6% and UAE at 4%. In total, California exported directly to 57 countries in the 2012/2013 season. The California almond industry is dependent on export for the long term sustainability of the industry, but is also a huge success story. Over the past decade, export growth has averaged nearly 10% year after year. The industry has not been able to wait for trade agreements in many countries but have forged ahead tackling major import challenges to open

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new markets around the globe. However, these challenges come at a high risk to California farmers, processors and exporters as well as overseas processors and the end user, ultimately increasing the cost to our products to consumers worldwide. {*Source for the statistics in this section is the "2013 Almond Almanac" provided by the California Almond Board*}

WTC faces export challenges head on every day due to trade barriers that exist in markets around the globe; from tariffs and SPS differences, to banking and finance rules, as well as labeling requirements, port protocols, documentation requirements and dispute resolution protocols.

The almond industry faces import tariffs in dozens of its markets. However, like in other industries where the product is in strong demand, grey market activities are developed to avoid such tariffs. The biggest examples exist in two of our largest export markets, China and India. The vast majority of almonds exported to China are shipped from California to Hong Kong then redirected through Vietnam and then trucked north to various points for delivery to processing plants in mainland China. Most US exporters ship to Hong Kong and are paid for the product at that point. While it customarily takes 16-18 days to ship a container from California to Hong Kong, it can take an additional 3-4 weeks for the product to move through the grey channels to the end user. While a larger percentage of customers actually pay the tariff in India and take delivery in major ports, more and more importers have begun to smuggle the product

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through Kashmir. This product is mostly shipped from US to Dubai then shipped in via trucks saving the importer the tariff. While lower trade barriers and relatively strong business protections of Dubai and Hong Kong keep risk lower for US exporters, the risks born by our end customers through grey channels increases their risk and delay shipment of the product. In addition to the grey markets where product is physically moved to avoid tariffs, many markets in the Middle East rely on falsification of documents to reduce tariff exposure. These practices create challenges that differ in each market which require exporters to constantly stay on defense to insure that grey market behaviors do not put our companies and products at risk.

The US produces the safest food and food products in the world. Agriculture and food safety regulations, coupled with the innovations of farmers and processors themselves, have given our products the strongest reputation for quality. However, differing SPS standards in some of our export markets create major problems, add costs, and at times significantly put our products at risk. Whether it is lower allowable levels of aflatoxin in the EU or the ever increasing, ever changing, and sometimes arbitrary standards in other parts of the world, it is extremely important that SPS standards must be at a minimum, based on science. We have had many loads returned to the US and more held at ports for long periods of time to subjecting our products to additional testing and fees with results that we never see.

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It is very important for any new trade agreements to address banking, finance and dispute resolution protocols, so that exporters such as WTC can have more confidence in international collection and contract enforcement. We have had minor typographical errors lead to major searches for funds, we have had several international banks release documents prior to payment, we have had ports release containers without proper documentation, we have had money rerouted and lost through illegal foreign currency traders. These are just a few of our examples caused by a lack of uniform trade standards.

In conclusion, multi-faceted and comprehensive regional trade agreements that not only level the playing field but normalize business practices between the US and its trading partners will allow us to grow export markets faster and more reliably. Thank you for your time.

Chairman NUNES. Thank you, Mr. Turner. Mr. Stewart, you are recognized for five minutes.

STATEMENT OF TERENCE STEWART, MANAGING PARTNER, STEWART AND STEWART

Mr. STEWART. Thank you, Mr. Chairman, Ranking Member Rangel, Members of the Subcommittee. I am here in my personal capacity, not representing any particular clients. We have had the opportunity to work with agricultural fishery groups over the years.

There is little doubt that the United States, as the world's largest agricultural exporter, faces many unwarranted barriers abroad, and that a key priority in any trade negotiation should be the liberalization of tariffs, quotas, and non-tariff barriers, such as SPS measures, and an effort to restrict our friends in Europe in their effort to claim that nothing can be shipped that doesn't come from Europe because of geographical indications. Those are givens.

Global trade in agriculture in 2012 was $1.6 trillion. The United States occupied about 8 to 9 percent of that, at 148 billion. And what our true exports could have been, if we had had much more open markets, is anybody's guess. But it certainly would be a far larger percentage and a far larger dollar amount. So there are, obviously, enormous opportunities for American business, American workers, and rural America, in terms of liberalization of agriculture.

At the same time, when one looks at SPS measures, there is a tension between food safety, on the one hand, and control of the SPS measures on the other. The World Trade Agreement's sanitary/phytosanitary agreement is the first global effort to try to put some discipline into SPS measures. The United States has tried to use that agreement to upgrade or harmonize, in an upward direction, international standards. That is a desirable objective. At the same time, we run into serious cultural and political problems in other major trading partners. Europe has been identified as one, and certainly the problems our beef industry has faced from the BSE and that our grains exporters have faced from genetically modified challenges around the world are significant challenges.

When you look at it from the import side, which, from a U.S. perspective, is relevant, as well, to consumers, the issue is not whether there should be liberalization, the issue is whether or not the liberalization is coupled with the ability to ensure that products that enter the United States maintain the food quality that the United States has been famous for, and that U.S. consumers expect. That is an issue which, as trade has developed with a lot of developing countries, is a much more complicated matter. The United States engages in a lot of technical assistance to try to help other countries raise their standards, and that is important to do. But there are many stories, including in seafood, but certainly also in other agricultural products, where imported products contain elements which are banned in the United States and yet have made it into our food supply.

So, there are legitimate concerns from consumers about the safety of their food supply. And, as you look at trade negotiations, it is important that that aspect be dealt with. At the same time, the

merits of an SPS measure are often in the eyes of the beholder. We—USTR puts out an annual report. There is more than 100 measures that we identify abroad that are problematic to U.S. exporters. Europe puts out its own report, and there is a large list of things that they complain about in terms of the United States. Dialogue is a critical element if you are, in fact, going to get past disputes, and if you are, in fact, going to facilitate the liberalization in agriculture, particularly an SPS measure.

Technical assistance is important. With that I think that you have a big challenge ahead of you, in terms of getting our trading partners to comply. Japan is a classic example, and I wish you great success, and the Administration great success in that effort. Thank you.

[The prepared statement of Mr. Stewart follows:]

House Ways and Means Trade Subcommittee Hearing
Advancing the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade
and Eliminating Barriers to U.S. Exports
June 11, 2014
Written Statement of Terence P. Stewart, Managing Partner
Law Offices of Stewart and Stewart

Mr. Chairman and members of the Subcommittee:

My name is Terence Stewart, a trade lawyer here in Washington, D.C. Over the years our firm has represented various agricultural and fishing interests in the United States. The views expressed today are my personal views and do not reflect the views of any of our current or prior clients.

The topic of today's hearing is both timely and important for agricultural interests across our country. Trade in agricultural products plays a large part in the global economy, with world exports of agricultural products totaling $1,657 billion and accounting for 9.2% of world merchandise exports in 2012.[1] While the U.S. is a large net exporter of agricultural products, there is no serious question but that tariffs and non-tariff barriers abroad have reduced the trade potential of our agricultural sector by huge amounts.

Liberalizing agricultural trade not only holds out the promise of improved incomes for our farmers and ranchers and for those who process agricultural products, but also can improve the global response to increased food needs over the next decades and better balance our trade flows. Handled properly, such liberalization can be a win/win. Trade liberalization, that is good for American agriculture writ large and for our nation overall should be achievable whether a multilateral, plurilateral or bilateral basis. However to make the liberalization politically acceptable, Congress traditionally expects an Administration to factor in special provisions for import sensitive sectors.

As anyone familiar with the WTO knows, agriculture has lagged far behind other goods in terms of trade growth and liberalization. Tariffs are substantially higher on agricultural goods than on other

[1] The World Trade Organization, *International Trade Statistics 2013*, at 59, Table II-1.

goods.[2] Tariffs and quotas have historically been the preferred means of restricting agricultural trade. However, as some liberalization has occurred in agricultural goods with declining tariffs and increased export opportunities under tariff rate quotas (TRQs), concerns have shifted to the many restrictions on trade in agricultural goods that flow from measures purportedly meant to ensure the safety of products, but in reality can be new non-transparent methods to protect markets abroad. While these measures are often implemented due to societal or cultural pressures, they can arise from legitimate concerns about the safety of food products. Trade agreements should be designed to encourage upward harmonization of food safety and other consumer based standards.

The Agreement on the Application of Sanitary and Phytosanitary Measures ("SPS Agreement") that is part of the World Trade Organization was the first effort to establish a global approach to addressing and managing the twin concerns of liberalizing trade while protecting human, animal and plant health. As recent meetings of the WTO Committee on SPS measures have shown, many WTO members have concerns with SPS measures taken by their trading partners and whether those measures unduly restrict trade flows.

For example in the October 2013 meeting of the committee countries raising SPS concerns with trading partners included China, the EU, Japan, Indonesia, India, Brazil, Argentina, the United States, Australia, Norway, Paraguay, and Peru. The WTO reports that, between 1995 and 2013, 368 specific trade concerns have been raised before the Committee on Sanitary and Phytosanitary Measures, 141 of which have been resolved.[3] Obviously despite some successes at the Committee level, many SPS concerns remain unresolved, sometimes despite years of bilateral negotiations.

USTR for the last five years has compiled a report on Sanitary and Phytosanitary Measures. The 2014 report released earlier this year can only be described as a depressing document – literally dozens

[2] *See* The World Trade Organization, *World Tariff Profiles 2013*, at 12-23.
[3] Committee on Sanitary and Phytosanitary Measures, *Note by the Secretariat: Specific Trade Concerns*, G/SPS/GEN/204/Rev.14 (March 4, 2014) at 5.

of problems around the world, some going back decades, with limited forward movement on some issues but with an awful lot of intractable situations. The United States Trade Representative has "reported about 150 ongoing trade concerns in more than 50 counties or trade regions involving agricultural products under both the SPS and [Technical Barriers to Trade] Agreements."[4] The examples of BSE restrictions on U.S. exports of beef and the inability to open Europe up to genetically engineered (genetically modified) crops are two notable examples.

Concerns exist here in the U.S. that the restrictions are unfounded, not science-based and essentially either protectionist or driven by fear unrelated to facts. However, for some societies, consumers have spoken fairly forcefully of their unwillingness to accept certain products and governments have faced the dilemma of whether consumers can be persuaded to accept those products. Europe has a spotty record historically of transparency with their citizens at the nation-state level on health risks from diseases or food contamination which fuels problems of consumer acceptance of EU decisions today.

At the same time, the concern about the safety of food imports is not limited to our trading partners. Many consumers have concerns about the safety of imported foods and fish products. While the U.S. has historically had an excellent food safety record, our agencies are stretched thin in terms of inspections and testing particularly of imports. Unfortunately, newer sources of imported product may have far less regard for rule of law issues (e.g., conformance with U.S. legal requirements). On some aquatic products that are imported, there have been reports of the use of many banned chemicals, including some that are carcinogenic. With ongoing disputes as to whether various agricultural and seafood will be labeled for consumers with sufficient information to permit informed consumer choice, it is not surprising that consumer and other groups have concerns about our ability to handle more

[4] Renée Johnson, Congressional Research Service, *Sanitary and Phytosanitary (SPS) and Related Non-Tariff Barriers to Agricultural Trade* (March 31, 2014) at 27.

liberalized trade in these sectors. These problems are heightened when we don't simultaneously provide with new trade liberalization the additional resources to maintain historic safety review.

Moreover, SPS measures are adopted by all countries to protect human, animal and plant health. So the legitimacy of individual measures or their administration is often in the eye of the beholder. Our trading partners are not necessarily sanguine about U.S. SPS measures and the time it takes to achieve access to the U.S. market. At the same time, consumer interests and domestic producer interests often are concerned about whether the justification for lifting a ban meets domestic requirements/safety interests.

Consider the EU's Trade and Investment Barriers Report 2014 (page 7) and its review of what has been accomplished with U.S. provisions and what concerns continue:

> The United States has expanded the list of EU Member States or regions that are considered free of Classical Swine Fever (CSF), Avian Influenza, Newcastle disease, and partially Swine Vesicular Disease (SVD). A final rule on Bovine Spongiform Encephalopathy (BSE) was published by the end of 2013 after several years of discussion. The EU expects that exports to the US of beef will now shortly resume. However, animal disease assessments are still pending for some EU Member States that have the same disease status in accordance with EU harmonized legislation. Rather than treating Member States individually, US import conditions should reflect the reality of the EU single entity and single market as well as the animal health management decisions adopted by the EU in due time and the existing provisions of international standardization bodies (e.g., Office International des Epizooties). EU applications for exporting products of animal origin face long delays for example as regards Grade A dairy products, live bivalve molluscs and small ruminant products. The EU also remains worried by the extremely long delays in treating other Sanitary and Phytosanitary (SPS) export applications submitted by the EU, e.g., for apples, pears, stone fruits and bell peppers. The ongoing negotiations with the US on a Transatlantic Trade and Investment Partnership (TTIP) off the opportunity to discuss SPS issues in a new context.

More broadly, the European Union has identified seventy-one SPS measures imposed by twenty-nine different countries that act as barriers to EU exports.[5]

[5] European Commission, *Market Access Database, SPS: Sanitary and Phytosanitary Issues*, http://madb.europa.eu/madb/sps_crossTables.htm?table=countryproduct.

And it is not only tariffs and SPS measures that restrict trade. The EU has aggressively promoted geographical indications to shut down exports from new world countries and has used FTAs to achieve what they have not been able to achieve in the WTO Doha Development Agenda negotiations.

So the challenges for the Administration and Congress are many and they are formidable as you look at leveling the playing field for U.S. agriculture and fishing. In considering what types of provisions to include in FTAs involving the U.S. or in any TPA negotiating authority, it is important to seek broad liberalization in agriculture. In addition, addressing particular import sensitivities, harmonization of SPS measures with countries with developed SPS systems and ensuring that in fact agreed standards on met on imports into the U.S. and all critical objectives.

The United States provides technical assistance to developing countries to help them develop science based risk assessment, but many nations fail to meet necessary higher standards. Congress should evaluate the adequacy of Administration resources to both ensure compliance of foreign food sources to meet U.S. standards (or foreign standards that are in fact comparable in protection) and to improve the review of imports to ensure compliance in fact. It has never been the intention of Congress or any Administration to sacrifice U.S. consumer interests in a safe food supply. Yet without adequate enforcement resources and the ability to provide consumers information to permit informed choices, we risk losing the trust of the electorate on a matter of national importance – a safe food supply whether domestic or imported.

Thank you for the opportunity to appear today before the Trade Subcommittee. I look forward to your questions.

Chairman NUNES. Thank you, Mr. Stewart. Since you discussed SPS measures, we will start on SPS. The real issue is whether or not we are going to have dispute resolution. Because, as all of you are well aware, all of the other areas of the economy and all the previous trade agreements are subject to dispute resolution. Agriculture, however, has always been left at the table without dispute resolution, and so they are forced to go to the WTO, which can take years and years to come to resolution.

So, do you see any problem with having—and I will just start with Mr. Stewart and I will ask the same question—a dispute resolution mechanism in TPP?

Mr. STEWART. The answer is I don't see a problem with having dispute resolution in any free trade agreement. The real issue is how it will be administered, and whether there is agreement, in terms of the basic terms and conditions. The challenge that we face in the WTO, as an example, where there is dispute settlement, is that we are the subject of 8 of 41 challenges that have been made. If you were to step back and ask yourself would you expect the United States to be one of the worst offenders in terms of SPS measures, I think your answer would be the same as mine: obviously not.

So, part of the challenge is whether the rules actually work to conform practice to what you have agreed to, or whether it becomes a forum for people to achieve that which they haven't achieved through the negotiations themselves. But I don't have a philosophical issue with having dispute settlement in TPP or any other agreement.

Chairman NUNES. Thank you, Mr. Stewart. One of the reasons I wanted to have Mr. Turner here is because he is an exporter. Mr. Turner, I don't know if you could walk the committee through a real-life example of the problems that you face. If you could pick one example and just kind of walk the committee through where you faced an SPS measure that has blocked the entry of your product.

Mr. TURNER. The most consistent SPS issue that we deal with is in Europe. And Europe has, as I mentioned, lower allowable levels for aflatoxin. And so, there is now an entirely different process to deal with and work with the EU in getting product in.

But basically, because they require a lower allowable level, the almond board has worked with the industry to create what we call a—or what is called a VASP. So it is a voluntary aflatoxin sampling program—I believe it is program. And so, every single load that is going to go to Europe has to basically have this additional test. Right? And it is a—sampling procedures that are required by Europe. Then we go through the entire process, and then it has got to have this VASP report.

We have probably had a—I would say maybe about 10 loads that we have had stuck for any sort of reason, but just related to not having the proper VASP. So when we ship product, all of it has been certified, inspected by USDA, internal, as well—internals, as well. And we shop that product. Europe requires the VASP, though. So if you—we have had product that we have shipped to the Middle East. We need to redirect it, it can't go to Europe. So that is it.

Chairman NUNES. Thank you, Mr. Turner. I am going to shift gears, Mr. Mikhalevsky, to talk about TPP. Specifically, you are probably well aware, but there has been rumors floating around that Japan has hundreds of items that they want to take off the table. And in your testimony you mentioned how butter was left out of the South Korean agreement. What do you think the solution is?

For example, if Japan does not want to reduce these tariffs and take them to zero, should we wait and have Japan come in later? Or do you have any other options of how we could move forward?

Mr. MIKHALEVSKY. Well, I truly believe, optimistically, that with proper negotiation we can get Japan in. And it is very important. Japan is a highly developed market in dairy. It is very important to us. There is a lot of things in TPP and TTIP. Ultimately, they will probably be the blueprint for maybe 70 percent of the traded dairy around the world. So it is important we get these first ones right. And I would be optimistic about getting Japan in. And, from our perspective, dairy has to be one of those items in, not just because we are in the industry. We think it is because it is also very important, as you look at the other countries that are involved, and how important dairy is to them. So that would be kind of my response.

Chairman NUNES. Mr. McCan, can you answer the same question?

Mr. MCCAN. Yes. I think that it is—you know, Japan needs to comply by the same rules that all the other TPP countries have to comply with. And, you know, we don't—I don't think we are at that point yet to where—in our negotiations where we—they really tried to shift the weight towards us, which—I think Japan really wants to be part of this trade pact more than they are letting on. And so I think, you know, we just need to work through it. It may take more time, but it is important, as Andrei mentioned, that this is a 21st century type modern trade pact. Because, as we look forward towards TTIP and the European negotiations, we need to make sure that it is that type of a trade pact with tariff elimination.

And the beef industry has certainly put pressure on Japan for the tariff elimination, and that is what we would look forward to.

Chairman NUNES. Thank you, Mr. McCan. In the interest of time, I will go ahead and recognize the ranking member, Mr. Rangel.

Mr. RANGEL. Thank you so much, Mr. Chairman. Do any of you, as exporters, see any sound economic or political reasons why we should continue the embargo against Cuba? Are there any reasons that you could suggest to guide the Congress as to what is in our best national security or economic interests?

[No response.]

Mr. RANGEL. Then I assume, by your silence, that all of you think that it would be sound trade policy for us to resume negotiation with Cuba, for the Cubans and for the United States, and let competition be an element where we can gain, as we would with any trade agreements.

I hope that you don't find yourself being placed in a political position because of this, but we are talking about exports, we are

talking about jobs, we are talking about improving our economy. And if there is no reason why we should not expand these exports, I think that, under American system, you have to be heard.

The second question is that all of you agree that we should have—maintain a high quality of imports that come into the United States because, while you cannot expect each and every product, the reputation of our country in having high standards is something that has to be maintained. Have any of you ever thought about the issue as to whether or not the Congress provides enough resources to make certain that we can do this? Has that ever been an issue that you discuss? Anybody? Mr. Stewart.

Mr. STEWART. Thank you, Congressman Rangel. The issue is that, for many industries that confront imports, where there are issues of quality there is a perception that the Administration does not have the resources to be able to ensure the safety of the product. Some of that flows from the change in patterns of trade that have occurred over the last decade or so, where we are dealing with a lot more developing countries, and developing countries have greater challenges, in terms of getting their standards up to what the U.S. requires. And some of it has to do with practices in certain countries where, whatever the agreement is as to the standard they should export, individual producers choose to go around that and ship product in that clearly is not suitable.

When you take a look at the small percent of products that can be inspected at the border, the answer is that the security of the food supply system in the United States can be at risk. And so it is an important issue for Congress to consider, to be sure that we don't let ourselves get into that situation.

Mr. RANGEL. Well, I am hoping that when you have your trade associations meetings, and you have your priorities, which we, as Americans, support because it is good for our great country, that you also put in there what you expect the Congress to do to maintain these standards, to help us to have less of a political problem, and more that is related to the expertise which you bring to the field, which—clearly, you have more than any of us.

Lastly, you very strong about—say in Japan—that they maintain their international standards, that they don't protect just their products, in terms of our exports, and allow theirs to come in. Now, how would you expect the Congress to support the positions that we agree with? Most of you know that the Constitution gives this authority to the Congress, and nobody would want to have 535 negotiators with these countries. And so, therefore, we agree to give the trade promotion authority to the President.

Now, when the bill finally comes to the Congress, it is just yes or no. In order to protect some of the things that you advocate, and we support, wouldn't you believe that we have to get that into the trade promotion authority, that what authority we give the President has to include the things that we are talking about in terms of fairness in trade?

There is another way to do it, and that is just to give them authority to do whatever he wants to do. And after they negotiate, then we have to say, well, it doesn't help our dairy people, doesn't help our cattle people, and then we are left either swallowing the whole trade package, or rejecting it because of something that

could be local. Have you discussed the trade promotion authority? I know you should be advocating that we give that authority to the President. Without doing it, our trade ambassador cannot adequate negotiate. Isn't that correct?

How could he negotiate—if he is negotiating with people that have the authority to cut a deal, and we are sending an ambassador that can't cut the deal unless he comes back to the Congress, doesn't it make sense that he should have—the President should have some authority to close the deal and bring it back to us?

[No response.]

Mr. RANGEL. The answer is yes. Well, you better give some thought to it, because I can see that you haven't. And it is going to be a big political problem. We want to make certain that the President is able to authorize the negotiations of deals that are good for the American people in international trade.

By the same token, it just doesn't make sense to have included or excluded from agreements the things that may cause us not to be able to support it. Some of them is labor standards, some is environmental issues. Some of it is just the quality of the products. But please help your congresspeople to resolve these problems and not leave it to us to seek a political solution to come and—problems that we have to resolve.

Thank you, Mr. Chairman.

Chairman NUNES. Thank you, Mr. Rangel. Mr. Reichert is recognized for five minutes.

Mr. REICHERT. Thank you, Mr. Chairman, and thank you all for taking time to be here today. I am from Washington State, so I visit with my farmers, apple growers, cherries, heading into the wine—little bit of—I think we are second from California now, with the amount of wine we produce out of Washington State.

So, you know, when I talk to my Washington farmers, they are pro-trade, obviously. Washington State is the most trade-dependent state in the country. And they also recognize, though, that the way to get there is—and I am going to jump on Mr. Rangel's bandwagon and the chairman's bandwagon—and that is TPA.

And I talked to some business folks yesterday, and explained the need for TPA and how important it is for us to proceed forward with TPP, and asked for their help. And I think that is what Mr. Rangel is saying today, too, is we need your help to convince others in Congress that TPA is a needed tool here to move forward with this trade agreement.

And—but I am also interested in your testimony that you shared today about the benefits incurred from previous trade agreements, the benefits as it relates to jobs. And if we don't work hard to continue to increase American ag exports, what happens? What is the negative impact, Professor Hayes, if we don't continue to increase our ag imports, United States?

Mr. HAYES. Our agricultural exports. If we——

Mr. REICHERT. I am sorry, exports, yes.

Mr. HAYES. Yes, yes. Argentina is a great example of how you can go wrong. Fifty years ago, it was the seventh wealthiest country in the world. Then it began to look for import substitution. It began to fight trade. It taxed exports. It tried to create domestic

alternatives for imports. And it fell from number 7 to number 75 in wealth tables. And so it essentially created poverty.

Singapore is an example of the other side. Average person in Singapore makes 20 percent more than the average American. And it is a complete free trade country; they even import their water. They have no resources, and they are a very wealthy country, based on the principle of free trade. Wealth is created when you move from surplus to deficit areas.

Mr. REICHERT. So if TPP doesn't move forward, what do you see happening in the United States?

Mr. HAYES. A stagnation. But, more importantly, other countries are concurrently negotiating free trade agreements. Europe has a negotiation with Japan. Canada, outside of TPP, has a negotiation with Japan. If we don't participate and keep up with those countries, they will form free trade agreements, and we will be left out.

Mr. REICHERT. It is already happening, isn't it?

Mr. HAYES. Yes, it is already happening.

Mr. REICHERT. Yes, sir. Anyone else wish to comment?

Mr. MCCAN. I would add that, in the free trade agreement that was negotiated recently, that the United States gained a pretty good advantage over our Australian friends because we were able to negotiate a quicker phase-in of tariff elimination. And so we are benefiting from a good advantage of being able to export bigger volumes of beef to Korea because of that. We got in there with a free trade agreement before the Australians did. They have ultimately got one now, but they are behind us because we have got a better tariff advantage to them. So we are able to get more volume there. So——

Mr. REICHERT. That is a great point. And—yes, sir?

Mr. MIKHALEVSKY. I thought I would just add, too, we were—two subjects to address your questions.

First, in terms of jobs, when a—there is $1 billion worth of exports generated out of the manufacturing sector. It generates about 5,500 jobs in the U.S. When you have $1 billion worth of agriculture products go, you generate about 6,800 jobs. So, moving agriculture and moving more into agriculture exports actually does more for job creation, we believe, in the United States.

Secondly, the power of free trade agreements. While, from my company's point of view, we are not satisfied with the South Korean free trade agreement due to exclusion of products, dairy actually gained nine share points just increasing exports of cheese, whey, and lactose after that agreement was signed. And that is share of imported products. So it actually has a real benefit, once you get these free trade agreements. And expanding exports and agriculture products also generates more jobs.

Mr. REICHERT. Well, appreciate your testimony. And, remember, we do need your help. I yield back.

Chairman NUNES. The gentleman from Massachusetts is recognized for five minutes.

Mr. NEAL. Thank you, Mr. Chairman. Mr. McCan, you seem to indicate during your testimony that you had some inside knowledge as to the Japanese coming around on some of these issues. Do

you perhaps have some perspective that you want to share with us on currency manipulation?

Mr. MCCAN. It is just my personal opinion that——

Chairman NUNES. Mr. McCan, your mike is not on.

Mr. MCCAN. I think it is just my personal observation. I think they would like to try to shift the weight to us that we really need them in here, whereas I really feel that Japan, you know, wants to be part of this trade pact pretty badly. They were a latecomer into the negotiations, and I think they are—they really want it worse than what they are letting on to us.

But, you know, I think eventually we will get there with them, but I don't have any particular intelligence that I could base that on.

Mr. NEAL. Okay. And perhaps—Mr. Stewart, would you expound on the whole notion of currency manipulation and remind us again of why it is such a barrier?

Mr. STEWART. Thank you, Congressman. You know, if you—well, it has primarily arisen from industrial users such as the auto sector vis a vis Japan. We have had problems with misaligned currencies that are driven by government policies for several decades with countries in Asia, Japan being one of the major ones, Korea being another. And, obviously, China is the one that has received most of the attention.

And it is—if you think about liberalizing trade and reducing tariffs, if you permit a false exchange rate, you basically create a new tariff, which, in many ways, is often higher than the average tariff that is being eliminated. So it is a question of whether you are really liberalizing trade or not. And currency manipulation, when it occurs, can drive a dramatic false competitive advantage.

Mr. NEAL. As you know, the President has set out a pretty assertive and a pretty aggressive trade agenda, and he has been able to, I think, highlight some pretty encouraging statistical data, as well. But there are, as it relates to Asia and the Pacific, there are a number of very stubborn problems, as we go forward. And we are going to have to wait and see how they are best resolved. But I think it is fair to say that, whether it is beef, or whether it is currency manipulation, there is a ways to go on all of this. Thank you, Mr. Chairman.

Chairman NUNES. The gentleman yields back. Mr. Buchanan is recognized for five minutes.

Mr. BUCHANAN. Thank you, Mr. Chairman. I want to thank all our panelists. As one of my colleagues mentioned from a different state, I am from Florida, and I can just tell you, over the last four or five years, where it has been difficult construction and tourism is up, but it was also impaired to some extent. Agriculture kind of carried along the state. It is a gigantic industry in our state. So I appreciate the opportunity to visit with everybody here today.

Let me mention, Mr. Stewart—I want to start off with you—I just got back about 30 days—or it seems like 30 days or maybe 60 days ago—one of the largest delegations, Democrats and Republicans, we went to Tokyo. We are talking about China and the Japanese, but all of us—a lot of us were concerned. I think we had 13 Democrats, 7 Republicans, so we had a large delegation, I think the largest in 30 years.

But everybody—and some of my colleagues have brought up about the whole thing of the—we spent a lot of time on TPP. But the thought was—is that, you know, the idea is a lot of them were for the free trade agreement, but they want to make sure it is fair.

And one of the things they bring up as it relates to these industries, even if you get an agreement—and I can tell you, the prime minister, we had a chance to meet with him, he seems like he would like to move, you know, clearly, in this direction—but as we look to the ag industry and we talk about Japan, the thought was, by some of the Members, is that when you look to the auto industry, we have somewhat of a free trade agreement, but they have 30 percent of the marketplace here in the U.S., or whatever that number is—and I am in the car business, so I will say that—but the other side is we had less than one percent there.

So, even if you get the trade agreement, and you get a point where it looks like it is fairly fair, the question is, does it work both ways, and why hasn't it worked that way in the auto industry. But that was one of the concerns they brought forward, and it is a concern I have, as well. So I will boot it to you.

Mr. STEWART. Well, I think that that is a very valid concern with certain of our trading partners, where it is not—for Japan it has not been an issue of what the tariff levels are, although in agriculture they can be extraordinary. My recollection is that the end of the Uruguay round they had a deal on rice where they could charge 600 percent duties and have a 400 percent minimum markup, and they still wouldn't let any rice in the country, even it could come in and compete at those prices.

But in industrial goods, and I think in agriculture, if a country is not, in fact, committed to opening its market, there are lots of ways to do that, and you will spend your time in disputes, trying to go step by step. But we have had the same problem with Europe on beef. I mean how long ago was the beef case? It was back in the 1980s, as I recall. And we are 25 years later, and we have had a little bit of progress, but hardly the kind of progress that the——

Mr. BUCHANAN. I think the mindset—let me just say this, because we are limited time—is that a lot of us are free trade. But at the end of the day, my idea of negotiation—I have been in business 40 years—at the end of the day, in 6 months, a year, 5 years, it has got to be somewhat a win-win.

Mr. STEWART. That is right.

Mr. BUCHANAN. And that is the attitude I take to it, because I want to fight for our industries. I want to—and I think if we do, we got a good chance to win.

Dr. Hayes, let me just mention just quickly, you had mentioned that these trade agreements would transform our exports. Could you expand on that a little bit, what you mean by that?

Mr. HAYES. Sure. As I indicated, most of what we export now without duty are raw materials, such as corn and soybeans. The duties that are in place against our products are typically against value-added products like pork or milk or beef. And so it is as if those countries are artificially located value-added industries in their own countries. And, with free trade, those industries would naturally migrate back to the U.S. because it is far more efficient

to move the final product than it is to move the bulkier raw material.

But to put this in an example, free trade with China, we could double or triple some of our livestock industries just to access—just because of the potential demand out of that market.

Mr. BUCHANAN. Thank you. And I am going to go with Andrei. The—you had mentioned about tariffs being 250, 300 percent. That is unbelievable to me. I mean maybe it is something I should know about, but why is it so high?

Mr. MIKHALEVSKY. I think generally, for Canada and for Japan, they are protecting their internal dairy industry. But it also has the added detriment to the people in those countries that they are paying an awful lot for the dairy products that they have. And if you look at the price of dairy products in Canada, it is much higher than you might find in the United States.

Similarly, I believe Japan probably has the highest priced dairy products on shelf for their consumers of anywhere in the world. So it is really, I believe, just protectionism of the local industries. And I think that is pretty much the simple answer.

Although there are areas—for example, China—where the duty is around 10 percent on dairy products. But their countries get an advantage of five percent for a product. And that puts us on an unlevel playing field. And that is why it is so important we have a level playing field as we look out around the world.

Mr. BUCHANAN. Yes. And let me just say, Mr. McCan, in terms of the beef industry, you know, I have eaten a lot of meat around the world, been in 60, 70 countries. We have got the best beef in the world. And the bottom line, you know, what more can we do, or should we do, to help get our exports, as it relates to your industry out there? Because, obviously, you know, you are getting blocked in a lot of different directions. But is there a couple of things that we could do to make a big difference on it? Because I think that is an industry that has enormous opportunity, worldwide.

Mr. MCCAN. Well, I think, from the beef industry standpoint, you know, we adding about $300 a head to every animal, fed animal, harvested right now that is due to our international export market. So it is significant, what that trade does for our industry. And, you know, I think what—all we would ask is that, you know, we try to get all these trade pacts back to sound science negotiations, and non-tariff-type trade barriers, and it would help tremendously. It really adds a lot.

In 2013 we exported $6.1 billion worth of beef, internationally. And it was pretty much all due to a lot of the trade pacts of the past. However, as Andrei mentioned, we have a very high tariff in Japan. We exported $1.4 billion worth of beef in Japan in 2013. They love our beef. It is the highest quality, we feel like, in the world. And so they want it. And if we could remove that tariff, it would mean a lot for our producers and for our market, certainly.

Mr. BUCHANAN. Thank you and I yield back.

Chairman NUNES. Thank you. Thank the gentleman. Mr. Smith is recognized for five minutes.

Mr. SMITH. Thank you, Mr. Chairman. Thank you to our witnesses today.

Dr. Hayes, if you could, touch a little bit more on the impact to consumers, foreign consumers, for example. You mentioned a little bit about how wealth is created when you move away from a surplus. And also, how protectionism—and then I think we heard also how the price of dairy to consumers with protectionism is much higher. Could you elaborate more on that?

Mr. HAYES. Sure. I will give you an example. In Colombia they have almost no feed grains, and so, therefore, pork production is extremely expensive. And people in Colombia can literally not afford to eat pork. However, we now have a free trade agreement with them. And their per capita pork consumption is skyrocketing. They literally have access to something they didn't have before.

I have been in supermarkets in Korea and seen pork selling at four or five times the U.S. price. When those consumers eventually get access to our product, they will benefit from having a much more affordable product. And, in that sense, their wealth grows.

Mr. SMITH. Is—are there any examples of where consumers—perhaps in Japan, because Japan is such a central point of discussion here this morning, with protectionism—do Japanese consumers benefit from any of their protectionism? Can anyone point to such a thing?

Mr. HAYES. I will take a stab at it. They believe that they have food self-security because of protectionism. But, as I mentioned, they are importing all their animal feed, so it doesn't make a lot of sense.

Mr. SMITH. Anyone else? Mr. Stewart.

Mr. MIKHALEVSKY. Yes. I would just say that they import a tremendous amount, as Dr. Hayes said, import a tremendous amount of their product. And there is a very small percentage of the population that are actually ag producers there. So it is—and it is a—they are very protectionist.

Mr. SMITH. Mr. Stewart.

Mr. STEWART. Just address the food security issue, because it has been a big issue in Japan and in a number of other countries.

If you go back to 2007, 2008, grain prices, rice prices went up 200, 300, 400 percent because there ended up being a few shortages. And I think it was 35 or 40 countries imposed export restraints on key agricultural products, including rice, including wheat, including a number of other products.

If you are an import-dependent country like Japan, right now the international trading system doesn't guarantee them access to food supplies. Every country has a right to restrict exports if they perceive it to be in their national interests. That is a legitimate issue. Whether it drives the high tariffs and other things, I would say probably not. That is large political. But that is an issue that the overall trading system has not addressed.

Mr. SMITH. Okay. All right. I thank you, Mr. Chairman. I yield back.

Chairman NUNES. I thank the gentleman. The gentleman from Oregon is recognized for five minutes.

Mr. BLUMENAUER. Thank you, Mr. Chairman. I would like to just continue the discussion dealing with Japan. I am wondering if we are going to reach a point where the Japanese political system, or their philosophy regarding trade negotiations, just makes it no

longer reasonable for us to pursue. Or do we reach a point where we just decide that it is not worth it to fight to keep Japan in the agreement?

Mr. MCCAN. I would just say I don't think we are at that point yet, Mr. Congressman. I hope. I think, from our industry, we certainly view Japan as an important part of this negotiation. And we just remain confident that we—in the future we will be able to bring them on board at the level of all the other TPP countries.

Mr. BLUMENAUER. Mr. Turner.

Mr. TURNER. Yes, I would just say that the framework of the TPP itself is supposed to be a living treaty, you know, to grow and to adapt. And I think to—not to fight through those issues with Japan now—Japan gives the TPP much more credibility with the size being added to it, and it is important.

And I just relate to a lot of my packers and suppliers. You either ship to Japan or you don't. There is no middle ground. Because you have to do certain things, you have to work through it. But, at the end of the day, good business opportunities, and a big market, and I think it should be included—at least fought for.

Mr. BLUMENAUER. Well, certainly that is the philosophy with which we have pursued it. And, all things being equal, we are all better off in a comprehensive agreement that speaks to some of the problems that you are alluding to.

But I just wonder—and perhaps, just in terms of making the negotiations work better, if it is clear that there is a point where we do pull the plug, where we are just not going to continue down this path, that we will reach a point, if we can't reach reasonable accord on things that give our producers access, and we are not facing pretty grotesque barriers, that it is clear that we are not going to play.

I must admit I was blown away recently in conversation with some Japanese officials about their expectations dealing with fisheries. Pretty unsettling, in terms of what their plans were, and some of their practices that are going to pose a challenge for us, I think, in reaching an agreement that is acceptable for most of us. And I am just curious at your reflections. Appreciate your feedback. Thank you.

Thank you, Mr. Chairman.

Chairman NUNES. The gentleman yields back. The gentlelady from Kansas, Ms. Jenkins, recognized for five minutes.

Ms. JENKINS. Thank you, Mr. Chairman, and thank you all on the panel for being here today. I represent eastern Kansas, and I have seen firsthand how strong trade agreements open international markets to Kansas beef, pork, Kansas wheat and cereal grains, as well as planes and other products manufactured in Kansas.

I also know that the best way for Congress to ensure that we can get strong agreements that include congressional priorities is to pass legislation like the bipartisan Congressional Trade Priorities Act that Chairman Camp has introduced, along with our chairman and Chairman Sessions. And it is my hope that we can get that important legislation through the House and the Senate this summer.

Mr. McCan, as president of the National Cattlemen's Beef Association, you are well aware that the World Organization for Animal

Health places U.S. beef at its lowest possible risk category. Unfortunately, some countries, including some of those who are currently participating in the Trans-Pacific Partnership negotiations, continue to either ban or limit U.S. beef exports.

So, Mr. McCan, could you please discuss the markets that are still closed to U.S. beef and pork, and the impact this has on U.S. producers? I would also like you to discuss the challenges that the mandatory country-of-origin labeling, or COOL standards, created by the USDA plays on our negotiators when they try to get other countries to end non-tariff based barriers.

I specifically mention COOL because, over the past couple of years, I have heard from many Kansas producers that these standards are placing an unworkable burden on their operations. In addition, a study done back in November of 2012 by Professors Glynn Tonsor, Ted Schroeder, Michael Taylor from Kansas State University, and Jayson Lusk of Oklahoma State University found that U.S. consumers are not willing to pay a premium for labels that distinguish between livestock born in Canada but raised in Montana and those born and raised anywhere else in the U.S. So it appears that these standards may be more trouble than they are worth. Could you comment?

Mr. MCCAN. Yes, ma'am. I will answer your concerns about the BSE status first. We are a negligible risk status country now, which is the lowest status you can be for BSE. And there are other countries who are exporting beef that don't have as low a status for BSE than we do that are exporting beef to China. China we view as a really huge future market for us. We were locked out of China in 2003 with the BSE cattle from Canada, and we have not been able to get access back into China.

So, we certainly view that as something that we need to—our Administration, I think, needs to work hard on. And our industry views that as a very important market. And we don't see any reason why we should be kept out at this point.

As to the country—mandatory country-of-origin labeling, it has—in our opinion, in the beef industry, we—it has not really benefited anyone. Referring to the study that you referred to done at Kansas State and other universities, our domestic consumers really don't seem to really care, really pay a lot of attention to that origin label. So it has certainly not shown any economic benefit to any of our producers in the United States, although it has been a really tough rule to comply with.

And we handle Mexican steers on our family's operation. And so, every year, when we market them, we are faced with anywhere from a $35 to a $50 a head discount for no apparent reason. And when those cattle come in to this country, they are lightweight calves, usually. And it is an added value type of a program. We add value at the ranch level, the feed lot operators add value, the packers add value. By the time those animals are processed and ready for distribution in the retail markets, the majority of the value of that animal is value that has been put on them here in this country.

So, another reason why we don't see any real benefit to the mandatory country-of-origin labeling rule right now. And I—and it has caused some serious disruption on the borders, south and north.

There are some processing facilities that have recently gone out of business that depend on a lot of that border trade, and because of mandatory COOL have been hurt and had to go out of business.

So, we have limited infrastructure now across the country for processing cattle. We want to protect that infrastructure as much as we can to keep a good, robust competition in our industry.

Ms. JENKINS. Thank you, Mr. Chairman. I would yield back.

Chairman NUNES. Thank the gentlelady. The gentleman from Louisiana is recognized for minutes.

Mr. BOUSTANY. Thank you, Mr. Chairman. And I thank all the witnesses for their testimony. My home state of Louisiana is a maritime state, highly dependent on trade. And agricultural exports are the top—our top export item. Rice is very important in my district, and getting a high level agreement that opens up markets for rice and some of our other agricultural commodities is of major importance to me.

But I would submit that, even with all the work done on TPP and TTIP, the negotiations, very difficult negotiations, much more needs to be done. And these are much more than commercial agreements. They are not static. This is the way we get back to a rules-based trading system. And I will tell you. American leadership is in demand more so than ever before to get this done. And the first step, I think, that is critical in exerting this American leadership in this engagement is to get trade promotion authority.

Now, we have a bill, the Bipartisan Congressional Trade Priorities Act of 2014. It was introduced on January 9th. A lot of work was put into that. It is much more—it is a much more-evolved piece of legislation than the previous TPA. And I believe it addresses all the 21st century issues, from SPS to, you know, the global digital economy, state-owned enterprises. It also enhances the consultative role of Congress as it engages with the executive branch and USTR.

So, my question to all of you is—I want each of you to answer this for the record. Do you believe that our negotiators can get the best possible deal, which I believe is essential, the best possible deal in these negotiations, if we don't have trade promotion authority, and specifically, this legislation we have before us?

Why don't we start with Dr. Hayes?

Mr. HAYES. Common sense suggests that you don't give your best deal until the very last minute. And you can't do that under the current situation. Because without trade promotion authority, there is always the possibility we will go back and reopen the deal. So I absolutely agree with you.

Mr. BOUSTANY. And would you agree that time is slipping by? There are a lot of external events going on, both politically and economically?

Mr. HAYES. Yes, just——

Mr. BOUSTANY. That is why we need to have a sense of urgency?

Mr. HAYES. Absolutely. Just looking at the congressional timeline and the U.S. election process, this is a very critical moment.

Mr. BOUSTANY. Thank you. Mr. McCan.

Mr. MCCAN. I would concur that I think the trade promotion authority is critical in being able to get these negotiations done in a timely manner, and get the right trade pact that we are looking for, and a good, modern, 21st century-type trade pact. I think we need to give the Administration all of the latitude that we can, and the agencies that they have at their disposal.

Mr. BOUSTANY. Thank you. Yes, sir?

Mr. MIKHALEVSKY. Thank you. Two comments. First, as I said in my comments, we are highly supportive of the trade promotion authority. Right on board, we believe that it is essential to make this thing go forward, and so we are right on with that.

The second Part I wanted to answer a little bit differently, and I just wanted to talk about time running out, and the sense of urgency. From a dairy industry perspective, the EU has caps on dairy products today that go off in 2014 and 2015. Those products—there is a significant amount of product that is going to flood into the world market at that point in time. So it is really important that we tie these things up very quickly. Otherwise, we will be at a competitive disadvantage in the dairy industry in the future.

Mr. BOUSTANY. Thank you. Mr. Turner.

Mr. TURNER. I agree that trade promotion authority is not only urgent, but required. The sooner, the better.

Mr. BOUSTANY. Thank you. Mr. Stewart.

Mr. STEWART. Thank you, Congressman. I will be—take a contrarian view, simply because I am a bit of a historian. We didn't have TPA before 1974, and we managed to do lots of trade agreements. I am not opposed to TPA, and the bill that was introduced is a good start. And for some trading partners it may be a help. But I don't actually believe that it is critical to have before you have a deal.

Most of the trading partners we deal with have a process that is not a lot different than ours. And, theoretically, the deals could be taken back and reopened. And they don't do TPA, we are the only country that does. So, I am in favor of TPA, but I don't view it as a critical element, legally or historically.

Mr. BOUSTANY. I would just simply submit that history is a nice guide, but we are in a much more complex negotiating environment with many very difficult 21st century issues. And I do believe that the full weight of the U.S. Government needs to be exerted in these negotiations. And if we get bipartisan trade promotion authority, that sends a very powerful signal to all of our negotiating partners that we mean business. It is essential to get the best possible deal.

And, with that, I will yield back, Mr. Chairman, thank you.

Chairman NUNES. Thank you, Dr. Boustany. The gentleman from Wisconsin, Mr. Kind, is recognized for five minutes.

Mr. KIND. Thank you, Mr. Chairman. I want to thank the panelists for your testimony today. Obviously, being from Wisconsin, agriculture is a very important part of our state's economy. Dairy, in particular, second in the nation when it comes to dairy exports.

And I would agree with my friend from Louisiana, Dr. Boustany. I would have preferred to see TPA dealt with sooner, rather than later. Obviously, I am concerned that we are not going to get the last best offer from those in TPP, unless they have some assurance

that the President can ultimately deliver the agreement at the end of the day, and trying to negotiate with 535 independent Members of Congress is going to make that a little bit dicey.

But let me also paint a little political scenario which would make TPA passage eventually very difficult in this Congress. I think the political reality is we are not going to be able to move it before the elections. If there is a flip in the Senate, if there is any backing away from the May 10th agreement, which was embraced by the previous Bush Administration, involving core international labor and environmental standards and access to prescription medicine in the developing world, it is going to make getting the votes for TPA very, very difficult in this place. And so, I think the November elections are going to be very important to where the trade agenda goes in the future.

We have also—I have also done a lot of outreach with our TPP negotiating partners. I have had meetings, breakfast and lunch meetings, with the TPP ambassadors, including the Japanese ambassador. It would be weird, to say the least, if we moved forward on TPP without Japan being there at the end of the day.

And my impression, Mr. McCan—I think I agree with you—a little more optimistic. I think all the nations involved in negotiations want to get to yes, they want to get to an agreement. But, naturally, all eyes are on Japan right now. I would like to be able to support a good negotiated agreement, but I have a hard time supporting a bad agreement. I think a lot of Members in this place probably feel the same way. And agricultural access to these markets is going to play a crucial role in where this agreement ultimately ends up. And we all know that there is more work to be done.

But let's face it. We have got work to do in our own Congress when it comes to our own agriculture policy to be good stewards of the global trading system. So I have been so active in the past on farm bill debates, trying to move us away from these market and trade-distorting commodity subsidy programs that tend to get us into trouble, globally.

Probably the most salient one that we are dealing with right now is the box we are in with Brazil and our domestic cotton subsidy program, and the WTO implications of that. I understand this week there are important negotiations to see if we can resolve this with Brazil. They are convinced that this Congress did not fix it—neither am I—in the last farm bill. And, because of that, we have been, in effect, bribing Brazil with $150 million worth of payments that now go to subsidize Brazil cotton farmers. It just shows you how crazy this farm bill has gotten in this country.

And we have a responsibility to be living up to some of our trade obligations and the challenges that we face in the WTO on the front end, as well. So I am hoping that, as we continue talking about our own agricultural reform programs, that trade and the implications of trade are considered a little more deeply in it, rather than kind of shoulders being shrugged, and we taking our chances through WTO claims and cases. That puts us in a bad spot.

Mr. Turner, you came and talked about SPS and that, too, is kind of a new phenomenon that we have in our trade agreements,

and certainly with the trade promotion authority legislation that was introduced earlier. Is there any concern on your part in regards to the standards used for SPS—because it is a two-way street—that they might ultimately be used against us or our products?

Or do you see the way it is being negotiated and the language that is being used right now is going to create a livable world for us when it comes to some of the nuances of SPS and some of the non-tariff barriers that we face, especially for agriculture in recent years?

Mr. TURNER. Everything I have seen so far, I mean, looks good. You know the two-edged sword. As a farmer I used to struggle with the stringent requirements that we had growing our food with both federal standards and state standards and everything else in California. But now, as an exporter, and someone who spends time traveling the world, I have a great appreciation for the reputation that we have built globally, based on our high standards. And so I do think it is very important.

You know, we have to respect foreign countries' standards, and the reasons why they want to do things the way they want to do them. And they have a right to protect the food in the best way that they seek. However, at the end of the day, transparency, and if it is based on science, I think we can all agree with that.

Mr. KIND. I think it really comes back to whether it is science-based research that we can agree to, as far as the equivalency standards and what not. That will be crucial, moving forward.

Mr. Mikhalevsky, obviously we would like to be able to work with you a little bit more about how we can take advantage of some of the greater export opportunities in the dairy market that exist in the Pacific Rim, China, right now. One of the—I think the tragedies of Russia and Crimea was we had talks in regards to Russia with dairy that suddenly collapsed overnight. We have been shut out since 2010. Hopefully there will be an avenue to try to revive them when things start settling down again over there.

Thank you, Mr. Chairman. I yield back.

Chairman NUNES. Thank you, Mr. Kind. Mr. Paulsen is recognized for five minutes.

Mr. PAULSEN. Thank you, Mr. Chairman. And this is a topic that is important to my home state of Minnesota, as well. And while I don't have a district that is necessarily agriculture-oriented, there is no doubt that Minnesota is an agriculturally-oriented state. In fact, Minnesota is the fourth largest agriculture exporting state in the country.

In 2012, our agriculture exports totaled about $8.2 billion. That was a 14 percent increase over the year before, which is a pretty common pattern, I am thinking, from—based on some of the testimony we have had here, and what I have read, and has happened in other states. And so the agriculture and food industry accounts for more Minnesota exports, actually, than any other industry in our state. More than double, actually, than the next closest industry, which is machinery. So, we are absolutely helping feed the world, much as you and the folks that you represent are. And so it is absolutely vital to our economy.

I just want to associate my comments about the importance of getting TPA authority so we can get the best-negotiated deals possible that will benefit American consumers and American exporters. And I just want to thank you for your testimony, for your help, for asserting that relevance of having trade promotion authority. It is actually really, really critical.

And, of course, as you mention, we are not just dealing about tariffs, which are issues, though. It is also these non-tariff barriers and the opportunity to think about 21st century trade agreements, modernizing high-standard agreements so that other countries will then follow our lead. Right?

And the United States has definitely gotten back into the game with the passage of the recent agreements that occurred with Korea, and Colombia, and Panama. And so, we are back on the playing field. But we need to push forward with these huge opportunities with both the Trans-Pacific Partnership and the TTIP.

Let me do this. I just want to ask a question real quick, because it is not just, as we mentioned, tariffs, it is non-tariff barriers. But, Mr. Turner, I was interested in your testimony. You are directly involved in getting agriculture products through this myriad of administrative and regulatory hurdles to get those products into foreign markets. You deal with that every day for your customers.

Can you describe a little bit just your experience in dealing with countries that have multiple entry requirements, and the lack of harmonization of customs procedures between countries, and the opportunity that we should be looking at with these agreements in trade?

Mr. TURNER. Yes. Are you looking for a specific example, or just kind of talk about——

Mr. PAULSEN. Yes, anecdotal stories. I mean give some perspective of why this is important, and why this is something that we should address, or help address, that can benefit us in the United States.

Mr. TURNER. Yes. You know, there—when you look at the SPS issues in particular, there are just so many different things to get products from one place to another. And we look at—you know, the easy part, when we talk about the businesses doing the commodity trade and doing the sale, and then we have to, you know, then send that through the office and the conference room, where the ladies do the real work, and deal with all the different layers and all the different things. And it is just—every single country is different, you know.

We have import permits required in some places. Import permits are very, very challenging. We have products that need to get shipped out, but we can't ship the product until it has been labeled properly with an import permit number. We face that mostly in India. Fumigation requirements are different. Biggest challenge is Chilean fumigation. Chilean fumigation has to—is a—even the packers themselves have to weave a fine little line to be able to accomplish what needs to be accomplished to get into Chile with still being legal in the U.S. It just goes on and on and on.

Mr. PAULSEN. Let me just follow up on your comment about India, because U.S. agriculture exports to India are actually really small, or paltry, with a mere $863 million in 2013, and it has gone

up a little bit in 2012. But you think about India, it should be a booming market of opportunity, right? Growing middle class, rapidly growing population becoming wealthier.

Can all of you maybe just comment and just follow up on that regarding what are some of the barriers to agriculture that we see right now with—dealing with India? Maybe Mr. McCan? Or you can go right down the line.

Mr. MCCAN. I am not terribly familiar with all of those issues, but I know that, because of their—because of the—their feeling towards bovines in that country—and I am not sure how it really relates to beef consumption—that there is just not a huge interest to negotiate with the beef industry for importing much of our product.

They also have a huge population of water buffalos, which they export. And they don't put on the same equivalency as a bovine animal over there. So there is lots of kind of cultural issues there that seem to complicate the trade over there. And, yes, we haven't had much opportunity there at all.

Mr. PAULSEN. Mr. Mikhalevsky, on the dairy side, can you speak to that just a little bit?

Mr. MIKHALEVSKY. Sure. The—one of the issues that we have when we ship to countries—and I will primarily speak about India in a second—is we are actually testing for 933 separate substances today in order to meet different export requirements, which creates a lot of cost in our system. But there is a number of things that you test for that are related to food safety, and then there are other things that you test for that are related to food quality and perception of quality. And, for us, the food safety one is essential. The food quality one is a matter of judgement.

When it comes to India specifically, they do have a wonderful market there. They have tariffs there. They do give tariff holidays occasionally when they need product to come into the market. But we have generally had problem with the SPS standards there. One example of that would be testing for things like Para tuberculosis in milk and that. There are a number of standards that they impose that are more food quality standards, as opposed to food safety.

And so, the way I would respond is it is a closed market to us and many of the other dairy exporters around the world, and it is a wonderful opportunity.

The last piece on dairy, which might be interesting, is dairy in India is different than dairy here. We assume that our dairy comes from cows. Over there it may come from buffalo or other sources.

Mr. PAULSEN. Thank you, Mr. Chairman. Yield back.

Chairman NUNES. I thank the gentleman. The gentleman from Pennsylvania is recognized for five minutes.

Mr. KELLY. I thank the chairman, and thank you all for being here. I am greatly interested in this. I come out of the automobile industry—in fact, the retail end of it. We do a lot of bid work. But as we would go through the bid process, there were—sometimes the bid specs were set up so that no matter what the final price was, I couldn't have met the specs.

And I am looking at each of you. You are producers. So, first of all, you better have a product that everybody wants to own. Right? And then you better be able to put it at a price point that is afford-

able. And we are looking now at—talking with you about these trade agreements. One of the things for me that was very important, if I was sitting across from a perspective owner I had to have the decision-maker at the table. Or none of the negotiations mattered. It was just chatter.

And the other thing was time was always of the essence, because I would know that if I wasn't able to satisfy a need at that time, or fill a need at that time, this person is probably going to leave our dealership and go someplace else. And the next day there would be an automobile in their driveway with somebody else's name on the back of it, which really didn't help me, because I still had payrolls to meet.

I think sometimes we get really involved in these things as to what it is that we're trying to do.

So, American products, globally. Globally. And did I read there somewhere—one of you say that the consumers, as a percentage, consumers—outside of the United States, how big is the market?

Mr. MCCAN. I would just tell you for the beef market we consider that 96 percent of our product's consumers are outside of this country.

Mr. KELLY. So out of 10 buyers, 9.6 of them are not here. You are trying to fill a market that is someplace else.

Mr. MCCAN. Ninety-six percent.

Mr. KELLY. Ninety-six percent. Well, okay. But my whole point is your market is not just the United States. And you are producing not just for the United States, because there is no way in heck we could digest the product that you are producing. There is an overcapacity, which we have watched in the automobile industry with some of the domestics. You can't overproduce for a market that isn't there. And if you do, you better look at the market that is available, and then produce for that and get your share of it. You are all looking for your share of the market. Is that not true? And all you are asking for is to be treated fairly, and not to get gamed.

So, my question is, when we go into these other places, and we are trying to drive these trade negotiations—and I am with Dr. Boustany, because I do believe time is of the essence. And if we think we can sit back and the world will wait for us to come around, I guarantee you somebody will put a product in somebody else's driveway, and we will never get a chance to get back in that home again.

So this TPA, a lot of question about that back home. In Pennsylvania ag is the number-one business. There is a lack of confidence, or a lack of trust that it is going to be handled the right way. I have people tell me, "No, you guys better keep track of that. You better not let him do something that really hurts us. Okay?" Now, whether you agree with the President or don't agree with the President, there is a real perception out there that we have a problem in negotiations.

You are all here for a very particular reason. And I like what Mr. Rangel said. You have got to help congresspeople understand what is going on. But, more importantly, we have got to help the American people to understand what it is we are trying to get to. Don't we?

I mean if we don't get a bigger share of this global economy, we won't have a dynamic and robust economy. We will not have jobs. We will not have the ability to fuel all these wonderful programs we have, because they are all revenue-driven. Tell us. What would be the best way right now? Because I know you are all looking for something.

Mr. McCan, you are in beef. Mr. Turner, you are in almonds. Andrei, you are with the dairy products. Mr. Stewart, you have been on both sides of it, right? Mr. Hayes, just tell us, please, because I think it is critical that the American people understand where it is we are trying to get.

And I got to tell you, from my perspective, I wanted to be in everybody's driveway every day. I didn't want to get there from time to time. But I didn't want to get gamed, either, by the process. How badly gamed are we right now, in order to get our products around the world? If 96 percent of the market is outside our shores, then that is the target we have got to shoot for.

What else can we do, gentlemen?

Mr. MCCAN. Well, I will take a stab at it, Mr. Congressman. But, you know, we view trade promotion authority as very critical in the negotiations. The Administration——

Mr. KELLY. But tell me why. Why is it important?

Mr. MCCAN. Well——

Mr. KELLY. Because the American people need to know why——

Mr. MCCAN. My personal view, the President has his different agencies, the USTR, USDA, FAS, they are all very critical in these negotiations and these trade pacts. And, you know, without TPA, I view it that they are somewhat weakened if they don't have that strength of the TPA authority. And those are the people that are at the table on these things, more so than anybody.

Mr. KELLY. Decision-makers are at the table.

Mr. MCCAN. Exactly.

Mr. KELLY. The people who are going to say yes or no are at the table.

Mr. MCCAN. Exactly.

Mr. KELLY. So if we are going to negotiation, but the person or the entity that needs to be there to go ahead and compete head to head doesn't have that same authority——

Mr. MCCAN. They have the expertise for these negotiations, whether it is technical, you know, non-tariff stuff, SPS, they have the expertise within these agencies, and those agencies are part of this Administration.

Mr. KELLY. Okay. Any of you? I know you are all facing a difficult challenge. Tell us—and not so much Congress, but the American people—about the market and how we have to go about getting a bigger market share. Because, at the end of the day, it is good for America. And our products, I don't think it is a matter of not having the right product, it is just not having the right policies. At least that seems to me—and the other thing is time. We cannot continue to let this time slip away. It is the one thing you can never get back. And another thing you will never get back, you will never claw back market share.

Andrei, were you going to say something? Because the dairy products that we put out are phenomenal.

Mr. MIKHALEVSKY. Well, I was just going to say that you asked about why TPA is so important and how we might explain that——

Mr. KELLY. Right.

Mr. Mikhalevsky [continuing]. Outside of this room. And my view on that is whenever you do a negotiation, as you mentioned, if you don't think you have someone across the desk that can make a decision, or that had some authority, your negotiation is not going to go very far. And if you believe that negotiation, when you bring it back, is going to get modifications or twisted or turned around, you are very unsure of how you are going to negotiate. You may not put your best foot forward, because you don't believe that you are actually negotiating the final and best deal for both countries.

So, our support for TPA is we believe that is the fastest way to get the best deal, and then you bring it back to Congress for an up or down vote. But you have to have the authority sitting at the table, and people have to believe it. And that is the way I would explain it to anyone in our area.

Mr. KELLY. Mr. Turner? Anything at all on that?

Mr. TURNER. I would just expand on your prior question, which is, you know, we are competing globally. When you look at the population growth in India and China, Southeast Asia, you know, there is limited ag land, there is limited water, globally speaking. And we are here, the time is now, to position ourselves in the best possible way that we can to compete globally to feed the world and the next generation.

Mr. KELLY. Okay. Well, I got to tell you, just from what I have done all my life, if I didn't have the decision-maker sitting across from me, I knew there was no sense in going forward with it, because I couldn't finish the deal. And I think that is what we are looking at right now. You all do such great things with the product, you work so hard. At the end of the day we are looking to get market share that grows and grows and grows and gets the American people back to work and does an awful lot of things.

I think people want to own American products. I think sometimes we get to the point and we forget we are not the only person in town with a product. There is other people that will work just as hard for the market. But I just don't like the way we get gamed sometimes. Sometimes the specs are set up that, no matter what we do, we can't get there. And I guess that is where the oversight part comes in. But I want to thank you all for what you do. Not just what you—by coming here today.

But would you please do me a favor, and to everybody in Congress, and the country? You all have such great credentials. You have great credibility. Your associations have the ability to get the message out to the American people in a way that they will believe it and they will understand it. That is the real challenge we have right now, the lack of understanding of how we get to market domination. How we get to growing our market share all lies in the fact that people just don't understand, and they seem to think that there is somehow that we can just sit back and they will come to us, the world will flow to us.

I really do believe, with the market opportunity we have, the sky is the limit. We never had bluer skies or a stronger wind at our

back in America than we have right now, of all the assets that we have. So it is just a time now to put ourselves in order, get out, win these trade negotiations. But we better have somebody at the table that can actually drive a hard bargain and come back home and say, "You know what? I closed the deal, and it is good for everybody." It is a win-win situation.

Thanks so much. Mr. Chairman, thank you for allowing me to be here. I appreciate that.

Chairman NUNES. The gentleman yields back. I will just say that Congress has the authority vested by the Constitution. If we look at what has happened in the previous few years, whether it is the implementation of different laws that have passed the Congress, the various different executive orders, and not to get into the politics of this, but the situation with the Bergdahl-Taliban five swap, clearly—and I will just reiterate—we have to have trade promotion authority, or you could very well kill TPP in its infancy. That is the reality of the politics that we face, and it is the law.

And so, I would encourage the Administration to work as quickly as they can with Chairman Camp and others to pass TPA as quickly as possible.

Our record will remain open until June 25th. I urge interested parties to submit statements to inform the Committee's consideration of the issues discussed today.

I want to thank all of you for your testimony. This Committee is now adjourned.

[Whereupon, at 11:49, the subcommittee was adjourned.]

[Questions for the record follow:]

Questions for the Record for the Committee on Ways and Means Subcommittee on Trade Hearing on Advancing the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports

June 11, 2014

Question from Rep. Charles Rangel for Dermot Hayes:

1) You state that the United States usually includes equivalence in its trade deals.

   Other than NAFTA and the WTO, in what agreements has the United States included equivalence?

   Answer: I am most familiar with equivalence in meat inspection because I have worked on this topic in several prior negotiations. Colombia and Panama agreed to accept the US meat inspection system as equivalent to their own. This is documented in published facts sheets describing these FTAs. With respect to CAFTA, a USDA fact sheet states: "As a result of USDA's Food Safety and Inspection Service meat inspection course in May 2007, El Salvador, Guatemala, Honduras, and Nicaragua passed laws that recognize the U.S. meat and poultry inspection system as equivalent. This was a pre-condition for CAFTA-DR implementation."

2) You cite an example of the Chinese keeping out a genetically modified variety of corn and state that if the Chinese considered the U.S. system equivalent, then the problem of keeping the corn out would not exist.

   Do you think the Chinese government would accept our system as equivalent without having us likewise accept their system as equivalent?

   Answer: I would expect scientists in both countries to agree on a set of protocols that, if followed would lead to acceptance of GMOs. Once these protocols are agreed, then both parties would be expected to follow these rules.

3) If not, do you think the average U.S. citizen would be comfortable with the assessment that the Chinese food safety system is equivalent to ours?

Answer: China has had serious and well documented problems with food safety. Some of these problems have been due to corrupt behavior that violated China's own rules and others may be due to lax enforcement of these rules. In either case the food safety system has failed. I would expect that US scientists would recognize these problems and refuse to accept this system as equivalent until the problems have been addressed. To my knowledge this is exactly what happened when the USDA inspected Chinese poultry production facilities.

4) As yet, we have not reached equivalence agreements in the biotech field even with like-minded countries, such as Canada. Therefore, even though NAFTA – which is 20 years old - has more extensive equivalence rules than our other FTAs, it has not resulted in equivalence determinations in the biotech field.

   Does this example suggest that free trade agreements are not particularly relevant when it comes to parties' decisions to find their systems equivalent – or not?

   Answer: The example you cite is a disappointing one. Nevertheless, I believe that the pressures that can be exerted during an FTA provide an opportunity to introduce equivalence rules between countries. The meat inspection examples I mentioned earlier and the subsequent surge of US meat exports to these countries provides a counter-example to the Canadian one.

5) You also state that EU regulators have "let down" their consumers, and you list examples, including thalidomide, BSE, and dioxin. You describe them as having a "poor regulatory performance." Yet you go on to state that "in an ideal world, the U.S. and EU systems will be viewed as equivalent."

   If our systems were deemed equivalent, how would U.S. regulators prevent the EU "failures" you have described from becoming our failures?

   Answer: I believe that the failures I described are due to the fragmented failure of regulation in the EU. It is important to note that these failures occurred in some EU countries and not in others. The US regulatory system is not fragmented and I would expect that our scientific capacity in this area would prevent us from accepting regulations that might lead to failures of this sort.

6) You state that consumers should have the choice to purchase genetically modified goods -- or not.

   In order for consumers to know whether they're purchasing GMOs or not, the products would have to be labeled. Do you support labeling identified goods made with GMOs?

   Answer: As I mentioned in my remarks, I believe that consumers should know what they are eating and be allowed to pay premiums for foods that avoid certain production technologies even if these technologies are safe. In the US, where GM products are so commonplace it makes financial sense to label the very small proportion of food that is non-GM rather than generate billions of labels for GM foods.

7) The hearing included calls for having enforceable "SPS plus" disciplines in our trade agreements. Some agricultural crops are vulnerable to invasive pests. For example, California agriculture in particular has suffered from invasive pests; a recent concern is damage to California citrus from an invasive pest from Asia. Florida orange growers are similarly concerned. These recent examples highlight the nature of the risks to crops more generally.

   How do we ensure that in the course of agreeing to enforceable disciplines, we don't end up compromising our regulators' ability to make sure that our farmers' crops are protected against invasive pests?

   Answer: This is a good point. Free trade with South America has generated a large seasonal flow of fruits and vegetables into the US. This benefits the US consumer but increases risks to producers. Possible solutions would be the SPS plus you mention or linking the funding for port inspections to the volume of imports.

[Submissions for the record follow:]

American Farm Bureau Federation, Statement

The American Farm Bureau Federation, a U.S. general farm organization, supports efforts to increase agricultural trade through comprehensive trade agreements that reduce and eliminate government imposed barriers to agricultural trade.

Transatlantic Trade and Investment Partnership

Farm Bureau supports efforts to increase agricultural trade flows and remove trade barriers that currently exist between the United States and the European Union.

The Transatlantic Trade and Investment Partnership (TTIP) negotiations between the U.S. and the EU must deal with the many substantive issues that impede U.S.-EU agricultural trade, such as long-standing barriers against conventionally raised U.S. beef, ongoing restrictions against U.S. poultry and pork, and actions that limit U.S. exports of goods produced using biotechnology.

The U.S. and the EU are major international trading partners in agriculture. U.S. farmers and ranchers exported more than 11.5 billion dollars' worth of agricultural and food products to the EU in 2013, while the EU exported more than 17 billion dollars' worth of agricultural products to the U.S. last year.

Just 10 years ago, the EU was the third-largest destination for U.S. agricultural exports. Today, it has fallen to our FIFTH-largest export market.

Over the last decade, growth of U.S. agricultural exports to the EU has been the slowest among our top 10 export destinations.

If U.S. farmers and ranchers were provided an opportunity to compete, the EU market could be a growth market for them. However, regulatory barriers have become a significant impediment to that growth.

Unless these trade barriers are properly addressed within the Transatlantic Trade and Investment Partnership or TTIP negotiations, they will continue to limit the potential for agricultural trade. It is imperative that TTIP be a high-standard trade agreement that covers all significant barriers in a single, comprehensive agreement. Scientific standards are the only basis for resolving these issues.

Continuing barriers to the export of U.S. beef, pork and poultry, along with the slow approval process for biotech products, are major areas of interest to the U.S. in the TTIP negotiations. Both the U.S. and the EU adhere to the World Trade Organization's Agreement on Sanitary and Phytosanitary Measures, which states that measures taken to protect human, animal or plant health should be science-based and applied only to the extent necessary to protect life or health.

The U.S. follows a risk-assessment approach for food safety. The EU is additionally guided by the "precautionary principle," which holds that where the possibility of a harmful effect has not been disproven, non-scientific risk management strategies may be adopted.

The use of the "precautionary principle" is inconsistent with the WTO SPS Agreement and is used as a basis for scientifically unjustified barriers to trade. The TTIP negotiations must result in a modern, science- and risk-based approach, based on international standards that can truly resolve SPS disputes.

SPS issues must be directly addressed as a part of the negotiations, and these provisions must be enforceable.

The EU approach for approving products of biotechnology combines a lengthy approval process with the ability of EU member states to ban approvals. The result is restrictive import policies and substantial reductions in U.S. exports of corn and soybeans to the EU.

The EU system of geographic indications for foods and beverages designates products from specific regions as legally protected for original producers. The U.S. has opposed recognizing geographical names for foods when it would inhibit the marketability or competitiveness of U.S. products. The TTIP must not become an avenue to erect a new barrier to U.S. agricultural exports through the use of geographic indications.

Negotiations on bilateral concerns move in both directions. There must be positive outcomes for all sides. The European Union has concerns about U.S. rules on EU beef and dairy products. An emphasis on finding trade-opening solutions to sanitary barriers will assist in resolving our many trade issues.

The TTIP negotiation proposal calls for working toward the elimination of tariffs. The average U.S. tariff on imported agricultural products is 5 percent, with 75 percent of our tariff lines at between zero and 5 percent. For the EU, the average tariff is 14 percent, with 42 percent of tariff of lines at zero to 5 percent. In order to expand market opportunities for U.S. agricultural products in the EU, tariff reductions will be necessary.

We call for an ambitious agreement that addresses the real barriers to the growth of agricultural trade between the United States and the EU.

Trans Pacific Partnership (TPP)

A major regional trade effort for the United States is the Trans Pacific Partnership (TPP) negotiations between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States.

The addition of Japan to full participation in the TPP talks enhances the significance of the negotiations and makes the agreement much more encompassing of North American goals for agricultural trade. It will also fuel interest among other Asia-Pacific nations for similar opportunities to improve trade relations with the U.S. and other participating countries.

Japan is the fourth-largest agricultural export destination for the U.S. with more than 12.4 billion dollars in sales in 2013. It also has several restrictive policies in place that inhibit U.S. exports, such as high tariffs on dairy, horticulture, rice and other products, along with various Sanitary and Phytosanitary barriers. By joining the TPP negotiations under the same conditions as other participants, Japan must negotiate to resolve long-standing tariff and SPS barriers for all agricultural products.

The TPP will only fulfill its promise of improved and increased trade in the Pacific region by including the elimination of tariffs on agricultural products.

We are looking for a substantive outcome for American agriculture from these talks. This can only be achieved by removing tariffs and other trade barriers that intentionally reduce U.S. agricultural opportunities to compete in export markets.

Trade Priorities Act

Farm Bureau has long supported trade promotion authority in order to complete and pass into law trade agreements. For our important TPP and TTIP negotiations to maintain their focus on improving and expanding trade with our negotiating partners we need to have the TPA in place.

Agricultural market access measures are usually finalized at the end of negotiations when the certainty of TPA is crucial to a successful negotiation.

We urge the House to pass the Congressional Trade Priorities Act of 2014, H.R. 3830, as a necessary and critical component for trade negotiation outcomes that reduce barriers and improve market access for U.S. agricultural exports.

Corn Refiners Association, Letter

June 10, 2014

The Honorable Devin Nunes
Chairman
Subcommittee on Trade
Committee on Ways and Means
1102 Longworth HOB
Washington, DC 20515

The Honorable Charles B. Rangel
Ranking Member
Subcommittee on Trade
Committee on Ways and Means
1102 Longworth HOB
Washington, DC 20515

Dear Chairman Nunes and Ranking Member Rangel,

Thank you for convening your June 11, 2014 hearing on "Advancing the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports." Your leadership in keeping the export facing portion of our economy strong is appreciated.

I write to advise you of our grave concern about the potential for a World Trade Organization ruling that the U.S. is violating its international trade obligations through the effects of the Country of Origin Labeling (COOL) requirements for muscle cuts of meat. An issue paper prepared by the COOL Reform Coalition on the subject is enclosed for your information.

The Corn Refiners Association respectfully urges Congress to authorize and direct the Secretary of Agriculture to immediately suspend the meat COOL regulations upon a final WTO adjudication of noncompliance with international trade obligations. Such a Congressional action would neither pre-judge the pending WTO litigation on this matter nor allow an on-going period of knowing violation of international trade obligations.

We submit that jeopardizing the U.S. trading relationship with our two leading agricultural export markets due to a U.S. failure to meet international trade obligations would be intolerable. In the event the U.S. meat COOL rule is found non-compliant, the rule should immediately be suspended.

Thank you for your consideration.

Sincerely,

John W. Bode
President and C.E.O.
Corn Refiners Association

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Supplemental Information

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Title of Hearing: Advancing the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports

European Union, Letter

EUROPEAN UNION
DELEGATION TO THE UNITED STATES OF AMERICA

The Head of Delegation

Washington, June 9, 2014
del-usa.002.dir(2014)2034251
JVA/GM/mcvl

The Honorable Devin Nunes
Chairman, Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman,

I have noted that you will be holding a hearing on the issue of US agricultural trade. The European Union is committed to an ambitious result in the Transatlantic Trade and Investment Partnership, including in agriculture.

The European Union shares your view that in addition to tariffs, non-tariff barriers and sanitary and phytosanitary (SPS) issues should also be tackled to allow our respective food sectors to fully benefit from new market opportunities. To this end, we have engaged with the United States to negotiate an effective bilateral framework for SPS rules that facilitate trade while fully respecting food safety legislation on both sides. The EU agrees that science should form the basis for sanitary measures; accordingly we base our decisions in this area on scientific results provided by EU scientific agencies, and implement our measures transparently, in line with the EU legal processes.

On a related issue, there has recently been a renewed focus and debate on the European Union's negotiating objectives regarding the protection of geographical indications (GIs) for food products. Unfortunately, the discussion has included some inaccuracies regarding the EU position. With a view to contribute to the debate, I would like to request inclusion of the attached letter as part of the official record of June 11 Trade Subcommittee hearing. The letter was sent recently to House Dairy Caucus members to clarify the EU position on GIs.

I thank you in advance for your consideration of this request.

João Vale de Almeida
Ambassador

Encl. 1

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http://www.EUintheUS.org

Express Association of America, Statement

TESTIMONY OF
THE
EXPRESS ASSOCIATION OF AMERICA
TO THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE
UNITED STATES HOUSE OF REPRESENTATIVES
Hearing on Advancing the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports
June 11, 2014

Express Association of America (EAA) members are DHL, Federal Express, TNT and UPS, the four largest express delivery service providers in the world, providing fast and reliable service to the U.S. and more than 200 other countries and territories. These four EAA member companies have estimated annual revenues in excess of $200 billion, employ more than 1.1 million people, utilize more than 1700 aircraft, and deliver more than 30 million packages each day.

EAA strongly supports the mission of the U.S. Government to protect the agricultural industry in the United States and ensure the safety of the U.S. food supply. But EAA also believes U.S. agricultural trade is hampered by the fact that the U.S. Department of Agriculture (USDA) does not have an international trade facilitation strategy that centers on risk management and rapid clearance of highly compliant shipments from certified operators. The lack of this policy creates barriers for exporting and importing. U.S. Customs and Border Protection (CBP) manages the procedures for clearing agricultural shipments across the U.S. border in accordance with policies determined by the Animal and Plant Health Inspection Service (APHIS) of USDA. This clearance process is highly inefficient and does not employ modern concepts of risk management that provide segmentation of high and low risk shipments, with inspection resources focused on the high risk while allowing expedited clearance of the low risk. For example, in the hubs and facilities of EAA's four members, U.S. Customs and Border Protection (CBP), in accordance with APHIS policies, currently is stopping 3,000 to 5,000 shipments per week for some type of inspection, document review or other purpose. Of these, less than 2 percent, or 50-70 shipments per week, are found to be non-compliant products that are denied entry. This is an extremely poor level of operational efficiency, which could be improved through refinements to targeting and selection procedures and a more focused approach to risk management. As it is, CBP agriculture inspectors are wasting significant amounts of their time on fully compliant shipments.

EAA recommends that Congress direct the GAO to conduct a review of the clearance process for agricultural shipments crossing the U.S. border with a view toward identifying approaches to improving the operational efficiency of the process and facilitating the clearance of low risk products. One such improvement would be creating a trusted trader program in which shipments from importers with strong security and product safety procedures in place and an established history of compliance would be accorded reduced inspections and expedited treatment at the border. The program would recognize that some trade pathways are inherently lower risk than others, for example products being shipped by express air services compared to trucks crossing the U.S.-Mexico border.

Improving the efficiency of the border clearance process for agricultural shipments would provide significant benefits for U.S. exporters and importers and would generate cost savings through more targeted utilization of Government inspection resources. The express industry is ready to assist in the effort to achieve these improvements through application of best practices developed through our extensive experience with facilitating trade.

For additional information or to answer any questions please contact:
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Humane Society International and World Animal Protection, Statement

Transatlantic Trade and Investment Partnership (TTIP)

TTIP and Animal Welfare

Humane Society International (HSI) and World Animal Protection would like to thank Chairman Nunes for holding the "Hearing on Advancing the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports" and his leadership on this issue. Our organizations represent two of the largest animal protection organizations in the world, with millions of supporters. HSI and World Animal Protection (formerly the World Society for the Protection of Animals (WSPA)) are active TTIP stakeholders, participating in the negotiations in a variety of ways. We are cleared Trade and Environment Policy Advisory Committee (TEPAC) advisors to the U.S. Trade Representative's Office. We are also members of an active coalition both in the United States and in Europe, consisting of numerous environmental, conservation, and animal protection groups. Additionally, we have presented our joint positions at stakeholder events held during each negotiating round since July 2013. We meet regularly with U.S. and EU negotiators to share our expertise on a variety of TTIP issues, some of which relate to animal welfare concerns both in the Sanitary and Phytosanitary chapters as well as broadly in the agreement as whole. We thank Chairman Nunes and the House Ways and Means Committee for the opportunity to submit our comments for this hearing.

Transatlantic Trade and Investment Partnership (TTIP)

Animal products represent around 10 percent of all agricultural trade between the U.S. and EU. According to the European Commission, in 2013, the trade in farm animal products represented approximately $3.4 billion. TTIP is highly likely to increase this trade - or, at a minimum, increase trade opportunities - in agricultural products, including meat, egg, and milk products. Farm animal welfare standards observed during the production of these products is currently much higher in the European Union. However, public opinion indicates that both U.S. and EU citizens recognize the importance of higher animal welfare and the private sector is reacting to these consumer concerns.

HSI and World Animal Protection see trade policy as an essential driver to improve animal welfare standards. We recommend that farm animal welfare standards be harmonised upwards in TTIP, setting the more advanced EU standards as a minimum starting point for negotiation on specific animal product categories.

Animal Welfare Advances in the European Union

In the European Union, animal welfare has been incorporated in all major Treaties affecting the functioning of the EU: the 1992 Maastricht Treaty, the 1997 Amsterdam Treaty and more recently the Lisbon Treaty of 2009. The Lisbon Treaty lists the key principles the EU should respect and Article 13 states that "the Union and the Member States shall, since animals are sentient beings, pay full regard to the welfare requirements of animals." This puts animal welfare on equal footing with other key principles mentioned in the Treaty, such as gender equality, sustainable development, consumer and data protection. The EU has made substantial progress in the area of farm animal welfare, with bans and restrictions on the most extreme confinement systems. The following EU Directives cover the welfare of a range of farm animals:

Transatlantic Trade and Investment Partnership (TTIP)

- Council Directive 2001/88/EC on minimum standards for the protection of pigs: prohibiting sow stalls except for the first four weeks of pregnancy the sow stall for most of a sow's pregnancy from 2013.
- Council Directive 98/58/EC concerning the protection of animals kept for farming purposes: states that animals should not be bred or fed in ways that may cause suffering.
- Council Directive 1999/74/EC of 19 July 1999 establishing minimum standards for the protection of laying hens: bans the barren battery cage in the EU from 2012.
- Council Directive 2007/43/EC laying down minimum rules for the protection of chickens kept for meat production: sets maximum stocking densities to avoid overcrowding and defines other minimum housing and management conditions.
- Council Directive 2008/120/EC of 18 December 2008 (consolidating previous legislation) laying down minimum standards for the protection of pigs: prohibits routine tail docking of growing pigs and requires sufficient enrichment material to allow the pigs "proper investigation and manipulation activities."
- Council Directive 2008/119/EC (consolidating previous legislation) laying down minimum standards for the protection of calves: prohibiting the use of crates to confine young calves.

Additionally, the EU has progressively sought global leadership in animal welfare through trade policy, having negotiated the inclusion of animal welfare considerations in the EU-Chile Free Trade Agreement (FTA) and, most recently, in the EU-Korea FTA. The Sanitary and Phytosanitary (SPS) Chapter of the EU-Chile FTA states that, "given the importance of animal welfare, with the aim of developing animal welfare standards and given its relation with veterinary matters, it is appropriate to include this issue in this Agreement and to examine animal welfare standards taking into account the development in the competent international standards organisations."[1] The SPS Chapter of the EU-Korea FTA states in its objectives "this Chapter aims to enhance cooperation between the Parties on animal welfare issues, taking into consideration various factors such as livestock industry conditions of the Parties."[2]

Since the adoption of the Lisbon Treaty in 2009, all EU Free Trade Agreements include animal welfare provisions and TTIP should be no exception. If TTIP seeks to become a model 21st century FTA, it must build on progress already made on this issue.

Animal Welfare Considerations in the United States

Unfortunately, the U.S. has been less active than the EU with respect to animal welfare. At the Federal level, the Humane Methods of Slaughter Act (HMSA) and the Twenty-Eight Hour Law of 1873 protect farm animals in some capacity. HMSA requires that livestock be rendered unconscious in a humane manner prior to slaughter. It applies to farm animals on only one day of their lives and is lacking in terms of enforcement and penalties for violators. Significantly, HMSA has been interpreted by the USDA not to apply to poultry, which account for approximately 95 percent of all land animals raised for food in the United States.

[1] EU-Chile Free Trade Agreement, ANNEX IV, 1045 (2003).
[2] EU-South Korea Free Trade Agreement, Chapter 5, Article 5.1, L 127/18 (2011).

Transatlantic Trade and Investment Partnership (TTIP)

The Twenty-Eight Hour Law, states that transporters may not confine animals in a vehicle or vessel for more than 28 consecutive hours without unloading for feeding, water, and rest. This is contrasted with EU Council Regulation No 1/2005 which has similar requirements after only 8 hours of transport.

Another major federal law in the U.S. pertaining to animal protection is the 1966 Animal Welfare Act (AWA). But this Act specifically excludes animals raised for food, which are not considered "animals" within this legislation, and therefore AWA provisions do not apply to them. There are also state laws against animal cruelty, but many have agriculture exceptions, whereby they do not apply to farm animals or exempt customary agriculture practices that effectively cover almost everything that occurs on a farm. In cases where the state animal cruelty laws do not have such exceptions, enforcement can be weak with respect to farm animals.

Animal welfare is, however, an issue of importance to American consumers and individual states have begun to pass additional protections for farm animals. California and Michigan have already imposed restrictions on barren battery cage confinement of egg laying hens. Nine U.S. states (California, Oregon, Colorado, Rhode Island, Maine, Michigan, Ohio, Florida, and Arizona) have passed laws that will prohibit the use of individual sow stalls to confine breeding sows. Seven states (California, Colorado, Rhode Island, Maine, Michigan, Ohio, and Arizona) have similar laws prohibiting veal crates.

Additionally, leading food companies in the U.S. have acted upon the marketing opportunity afforded by higher animal welfare standards. These include Burger King, Walmart, Kraft Foods, General Mills, and Con Agra Foods which have adopted cage-free egg procurement policies, and many more have announced that they will eliminate sow stalls from their supply chains in the United States. The latter include McDonald's, Wendy's, SUBWAY, and Oscar Mayer. An American Farm Bureau poll found that 95 percent of Americans believe farm animals should be well-cared for.[3]

Conclusion

While farm animal welfare standards are currently higher in the EU, both EU and U.S. citizens recognize the importance of higher animal welfare. Farm animal welfare standards must be harmonized upwards, setting the more advanced EU standards as a minimum starting point for negotiation on specific animal product categories. Mutual recognition of standards is not an acceptable approach since it requires that the European Union accept market entrance for products that do not meet animal welfare standards imposed on domestic producers. HSI and World Animal Protection recommend that TTIP go further to protect farm animals, specifically on issues relating to housing, painful mutilations, and feeding practices. With the regulatory differences highlighted in these comments, we seek reassurance that TTIP's regulatory coherence agenda – described by the negotiators as an opportunity to develop cross-cutting disciplines on regulatory practices - will not lead to a race to the bottom.

[3] http://asp.okstate.edu/baileynorwood/Survey4/files/InitialReporttoAFB.pdf

Transatlantic Trade and Investment Partnership (TTIP)

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National Farmers Union, Statement

Submitted Testimony of Roger Johnson and Jon Wooster
President, National Farmers Union
President, United States Cattlemen's Association
Before the House Ways and Means Subcommittee on Trade
Concerning the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports
June 25, 2014

Introduction

On behalf of the family farmers, ranchers, fishermen and rural members of National Farmers Union (NFU) and the United States Cattlemen's Association, thank you for the opportunity to submit testimony on trade and the agriculture sector. Organized in 1902, NFU represents around 200,000 producers nationwide. We have members in all 50 states with organized divisions in 32 states. Our grassroots membership comprises agricultural producers in all sectors of the agricultural economy, including livestock producers, commodity growers, fishermen, specialty crop producers, and organic farmers.

The U.S. Cattlemen's Association, established in 2007, represents a nationwide membership of cow-calf producers, backgrounders and feedlot operators.

Our members believe that trade policy should help U.S. producers gain greater market access, increase the quality of life for the citizens of all parties in a trade agreement, and provide other mutual economic, social and governance benefits. NFU takes a holistic approach to trade. There is much to be gained from trade, and foreign markets have the potential to increase demand for American products. At the same time, in today's marketplace consumers are demanding to know significantly more information about where their food comes from. NFU and USCA strongly believe that U.S. trade policies should benefit producers at the same time as they should respect consumers' right to information.

Country-of-Origin Labeling (COOL)

In any present or future trade agreement, Country-of-Origin Labeling (COOL) must be protected. Consumers have overwhelmingly demonstrated that they want more information about the origin of the food they eat. In fact, a 2008 Consumer Reports poll found that 95 percent of consumers support COOL on processed and packaged foods at the point of sale.[1]

While providing valuable information to consumers, COOL also serves as an excellent marketing opportunity for America's ranchers. Several studies have shown that consumers are more likely

[1] "Food Labeling Poll". Consumer Reports. November 11, 2008. <http://greenerchoices.org/pdf/Food%20Labeling%20Poll-final_rev.pdf>

to buy American-made products than foreign-made products. For example, a 2013 Boston Consulting Group study found that "93 percent said that they would pay more for U.S.-made goods in order to keep jobs in the U.S., and 80 percent said that buying U.S. products demonstrates patriotism."[2] Similarly, a 2012 Perception Research Services survey found that when having seen the "made in the USA" claim, 73 percent of respondents say the claim influences their purchase decision.

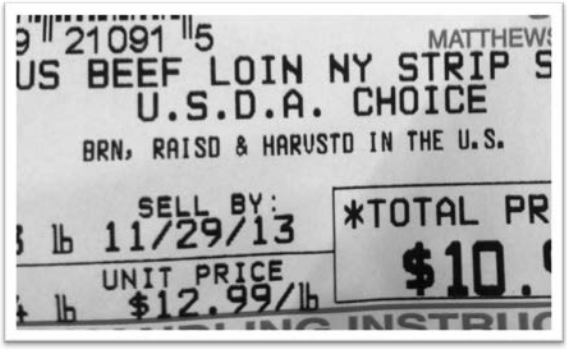

Figure 1: A compliant COOL label, 2013.

COOL was first put in place in the 2002 farm bill and then amended in the 2008 farm bill. The law required labeling of the source of nearly all muscle cuts and ground meat, along with fish, fruits, vegetables, nuts and a variety of other generally unprocessed products. For five years, appropriations riders prohibited the implementation of COOL, which was again included in the 2008 Farm Bill. The final COOL rule took effect in 2009. COOL is now in line with our World Trade Organization (WTO) obligations. In 2009, Canada and Mexico challenged the U.S COOL law in front of the WTO. This was despite the fact that Canada, as well as 70 other WTO countries, have COOL laws of their own. The WTO appellate body found that the law itself was not out of compliance, and it supported consumers' right to information. WTO simply ruled that the implementation of the COOL law did not sufficiently achieve the goal of providing consumers with accurate information.

In reaction to this ruling, the U.S. Department of Agriculture (USDA) enacted rules to require processors to label the production steps "Born, Raised, and Harvested" (See Figure 1). This

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2 https://www.bcgperspectives.com/content/commentary/consumer_products_retail_that_made_in_usa_label_may_be_worth_more_than_you_think/

administrative action addressed the concerns of the WTO while also providing consumers with additional information regarding the production steps.

Despite evidence to the contrary, some constituencies continue to claim that COOL is overly burdensome-costing American jobs and driving up prices. Industry-supported studies claimed that COOL would cost $1.6 billion for the beef and pork industries. In 2013 these constituencies called COOL "onerous, disruptive, and expensive." These groups have been proven wrong, and COOL does not hinder products from moving across borders. A 2013 analysis by USDA found that changing COOL labels and eliminating flexibility for meatpackers to commingle animals would cost between $52.1 million to $137.8 million—far short of the unrealistic expectations made by those fighting against COOL.[3]

NFU and USCA strongly oppose any changes to COOL that would undermine enforcement, implementation, legal defense or study of the law.

Conclusion

We look forward to working with the U.S. House of Representatives Ways and Means Subcommittee on Trade to achieve fair returns for farmers and ranchers in trade agreements and provide consumers with information on the origin of the food they consume. Thank you for the opportunity to submit testimony.

Sincerely,

Roger Johnson
President
National Farmers Union

[3] Butschli, Jim. "Made in the USA Influences Shoppers". Perception Research Services. September 13, 2012. <http://www.prsresearch.com/fileUploads/PackagingWorld_2012MadeintheUSA.pdf>

National Milk Producers Federation, Statement

Written Comments for the Record by the National Milk Producers Federation
and the U.S. Dairy Export Council
to the House Ways and Means Subcommittee on Trade
On
Advancing the U.S. Trade Agenda: Benefits of Expanding U.S. Agriculture Trade and
Eliminating Barriers to U.S. Exports

The National Milk Producers Federation (NMPF) and the U.S. Dairy Export Council (USDEC) appreciate the opportunity to express the views of America's dairy farmers on the benefits of expanding agricultural trade and eliminating barriers to U.S. dairy products. The U.S. dairy industry has become a significant player in the world market, and these markets are playing a greater role in determining prices for dairy products in the United States. As exports have become more important to our industry, so have unfair trade barriers, which is why this hearing was so important and timely.

The National Milk Producers Federation (NMPF) develops and carries out policies that advance the well-being of dairy producers and the cooperatives they own. The members of NMPF's 31 cooperatives produce the majority of the U.S. milk supply, making NMPF the voice of more than 40,000 dairy producers on Capitol Hill and with government agencies. The U.S. Dairy Export Council (USDEC) is a non-profit, independent membership organization that represents the export trade interests of U.S. milk producers, proprietary processors, dairy cooperatives, and export traders. The Council was founded in 1995 by Dairy Management Inc. (DMI), the farmer-funded marketing, promotion and research organization, to build global demand for U.S. dairy products and assist the industry in increasing the volume and value of exports.

Over the past 20 years, trade has taken on an increasingly important role in determining the economic well-being of the U.S. dairy industry. Our nation has gone from exporting less than $1 billion in 1995, a time when a large portion of those sales were government-assisted, to exporting a record $6.7 billion last year, none of which used export subsidies[1][2]. This growth has accelerated in the past 10 years with exports experiencing average annual value growth of 21%[3]. We are now the world's leading single-country exporter of skim milk powder, cheese, whey products and lactose[4].

The U.S. market for dairy products is large, diversified and wealthy, which makes the fact that one day's milking now goes to products for the export market so impressive. As impressive as this is, dairy exports could be even greater if not for foreign trade barriers and unfair regulatory measures. These restrictions affect not only dairy farmers but many others across the U.S. economy, as well.

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[1] Trade Data: Foreign Agricultural Service's Global Agricultural Trade
[2] Subsidies: U.S. Dairy Export Council
[3] Foreign Agricultural Service's Global Agricultural Trade
[4] U.S. Dairy Export Council

The dairy industry plays a critical role in providing and supporting thousands of jobs, a large portion of which are require skilled labor and support this country's manufacturing sector. The U.S. is home to approximately 47,000 dairy farms, spread across all 50 states, These farms are virtually all family owned.[5]

Dairy farm receipts alone contribute approximately $39 billion a year to the U.S. economy[6]. The addition of supporting and downstream sectors, such as dairy processing, combined with farming's economic contributions, account for 1.47 million jobs and over $61 billion in earnings tied to the U.S. dairy industry.[7] These benefits are impressive on their own, but they are particularly important given the fact that they are predominantly concentrated in rural areas.

Exports have accounted for approximately two-thirds of the growth in milk production in the U.S. over the past decade and exports are forecast to continue to grow, with expectations for expansion on a value basis of approximately 40% over the next five years. This means that for farmers to continue to grow and processing companies to continue to likewise expand, overseas markets are critical.

Current Barriers to Dairy Export Growth

Tariffs and Other Border Measures:

As promising as opportunities are in global dairy markets, we do face sizable government constraints around the world. This is a key reason the industry has supported trade negotiations to reduce or eliminates such measures. Many of the world's largest dairy consumers, such as Canada, Japan and the EU, retain high tariffs on dairy products. Canadian dairy tariffs typically range from 250 – 300%, for example[8]. Japan's tariffs on milk powder and butter are similarly astronomical, while their tariffs for cheese and whey products are effective in restricting market opportunities.[9] EU tariffs don't reach these peaks but still typically far exceed U.S. dairy tariffs and constrain access to that market of 500 million dairy-loving consumers.[10]

Tariffs are also a challenge in developing countries, particularly if they have free trade deals with one or more of our competitors and we do not. For example, China, the world's fastest growing market by far, has negotiated an FTA with New Zealand, which provides New Zealand a distinct advantage over us. China's dairy tariffs aren't extremely high[11], but our products are

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[5] Dairy Farming Today; USDA National Agricultural Statistics Service
[6] USDA National Agricultural Statistics Service
[7] Department of Commerce's Bureau of Economic Analysis; National Milk Producers Federation
[8] World Trade Organization notifications
[9] World Trade Organization notifications
[10] World Trade Organization notifications
[11] World Trade Organization notifications

charged a 10 to 15% tariff, while New Zealand's can largely enter freely can put U.S. exporters at a sizable disadvantage.

Canada's dairy tariff system severely limits the ability of U.S. producers to increase exports to Canada above TRQ levels and inflates the prices Canadians pay for dairy products. Under the current system, U.S. imports above quota levels are subject to prohibitively high tariffs (e.g., 245 percent for cheese, 298 percent for butter). We expect TPP to tackle this tremendous constraint on U.S. exports to a market where we are best positioned to service.

Canada also employs other measures to limit the access of U.S. exporters to the Canadian dairy market. For example, Canada recently changed the way in which it applies import duties to certain commercial "food preparations" that contain cheese such that these food preparations are now subject to prohibitively high tariff rates. A few years ago, Canada took similar steps when it introduced compositional standards for cheese in December 2008 that further restricted access of certain U.S. dairy products to the Canadian dairy market. Other regulatory shifts intended to impair access for U.S. dairy exports, such as for ultra-filtered milk sales, are reportedly are under active consideration in Canada as well. There are serious and systemic concerns with Canada's compliance with its existing trade obligations to the U.S.

Geographical Indications:

One of our fastest-growing current challenges in world dairy trade is the EU's abuse of geographical indications (GIs) to erect barriers to the use of many common food names. Names that have been directly targeted by the EU for monopolization include ones such as feta, parmesan, asiago, gorgonzola, fontina, gruyere, munster and others. In addition to these direct attacks on commonly used names, the EU's policies also make unclear what may happen, particularly in third country markets, to other terms that form part of a compound (i.e. more than 1 word) GI such as provolone, emmental, grana, camembert, ricotta, romano, pecorino and others.

At its heart, the problem is the EU's view that names of products that originated in Europe should be able to be effectively reclaimed for use only by products produced in Europe, no matter how wide-spread the commercial use of the name by other nations has become. The EU has banned the use of such names in its own market by any product produced outside a specific named region and has been demanding that other nations adopt such bans in their markets as part of FTAs it negotiates with them.

If successful, the EU's efforts will significantly impair current U.S. cheese exports and will also greatly limit the future global potential for the U.S. industry. The U.S. industry appreciates the attention the Administration has paid to this issue and stresses how critically important it is for the Administration and industry to work together in a very concerted manner to ensure that the customary use of common cheese names can continue in foreign markets. Furthermore, the potential degree of impact would be magnified many times over if the EU were to be

successful in its efforts to impose these types of restrictions on the U.S. market itself through the TTIP. This cannot be allowed to happen.

Roughly $21 billion in U.S. cheese production utilizes European-origin names. Over $1 billion in U.S. cheeses were exported last year. Cheese exports are a particular growth opportunity for our industry, registering a six-fold increase over the past 10 years. The extent of the damage to U.S. exports will depend on the degree of EU success in limiting our ability to label these products with names customers know and look for at the market.

Unjustifiable Sanitary Measures:

Various types of nontariff barriers also pose sizable challenges to U.S. exports. Some of these are intentionally obstructive requirements; i.e., where tariffs are insufficient to protect their domestic producers, governments step in with regulatory measures that are often unjustified by science to restrict imports.

A prime example is the *de facto* ban India has placed on U.S. dairy exports. Over a decade ago, India revised its dairy certificate to require unscientifically justified statements that effectively halted imports from the U.S. Despite repeated efforts by U.S. officials to negotiate a good-faith solution with India, India has done nothing but continually move the goal posts farther from a resolution that is WTO compliant.

In Russia, we have also faced a closed market for several years due to unjustified certificate and inspection requirements. This is particularly galling since Russia was admitted to the WTO with strong U.S. backing precisely because it was hoped that Russia would be compelled to bring unfair measure into line with WTO rules. This has not happened in virtually any sector. We applaud the steps forward taken this spring to restore access to this major dairy market, but more work is needed to complete the process to restore access to this market, particularly by FDA and USDA.

The WTO Agreement on Sanitary and Phytosanitary (SPS) Measures is a critically important agreement and it has proven helpful in resolving some disputes, but WTO dispute settlement is relatively slow and cumbersome and, with limited resources, USTR is unable to take on all cases. It is clear that improvements to the SPS agreement are needed to ensure that international SPS commitments keep pace with the evolving nature of international trade.

Since there are no WTO negotiations on the SPS Agreement contemplated, we have looked to including "SPS-Plus" provisions in free trade agreements, particularly the TransPacific Partnership (TPP) negotiations. TPP is a key area for building upon the existing WTO SPS agreement to help ensure that abrupt and unjustified regulatory requirements do not block trade. We have urged that the new obligations to be undertaken as part of a "SPS-Plus" agreement in TPP be enforceable and, therefore, subject to some form of dispute settlement. Such obligations could not be challenged in the WTO and without an enforcement mechanism in the TPP, the obligations would only be hortatory.

We hope to see the TransAtlantic Trade and Investment Partnership (TTIP) also build upon efforts to improve disciplines on SPS measures, particularly given the EU's deeply concerning track record of using such regulations to block trade. We face numerous such nontariff barriers in the EU, largely related to overly onerous and obscure certification requirements. A broad recognition of the safety of the U.S. dairy system, and a commitment to avoid future trade blockages absent a new and clear food safety problem, are needed in order to ensure that TTIP genuinely opens up transatlantic trade. Otherwise, the removal of tariffs will simply leave the SPS and nontariff barrier measures in place to block trade.

Future Trade Initiatives

NMPF strongly supports ongoing TPP and TTIP negotiations. We hope that the final TPP and TTIP packages result in outcomes that will be positive for America's dairy industry. There is clear potential in both agreements if key elements are successfully negotiated.

TPP:

Market Access – The U.S. dairy industry needs to see comprehensive and meaningful dairy market access into Canada and Japan in order to provide sizable new export opportunities for our industry. It is clear, however, that Japan, as well as Canada, continues to strongly resist living up to the ambitious trade goals it obligated itself to undertake upon joining TPP negotiations. The U.S. dairy industry has been a leading and long-standing advocate for comprehensive market access and the inclusion of Japan and Canada in TPP. Yet, we have held realistic expectations and recognize that the perfect should not be the enemy of the good. However, as reported in the media, Japan's recent comments on market access progress show appallingly little substantive movement, and come nowhere close to our expectations.

Canada will likely try to base its decisions on dairy market access off of what Japan commits to do for its most sensitive agricultural sectors, thus heightening the importance of achieving meaningful dairy market access to Japan. We believe that TPP must remain a high standard trade agreement that can be used as a model for future U.S. free trade agreements. All TPP countries must do their part to ensure that this undertaking lives up to its founding goals of comprehensive and meaningful market access. We are prepared to match the level of ambition of those countries. However, our industry must not provide any new access in this agreement that has not been given by Japan and Canada.

Open access to the Vietnamese and Malaysia markets will also offer new sales opportunities. Both are already important markets for U.S. dairy exports and it will be helpful to see U.S. exporters restored to a level playing field with respect to market access compared to their competitors in Oceania that have an FTA already with both countries.

As critical as market access is to a good agreement, tariffs are not the only element of importance in TPP.

- Anti-competitive New Zealand Policies – TPP should address the anti-competitive New Zealand dairy industry structure by lowering the level of market concentration that government policies have granted to a single dairy company. This point was most recently underscored in a letter sent this month by approximately forty U.S. dairy producer and processor companies to the Administration.

- Enforceable WTO and SPS Commitments – As mentioned previously, unscientific and unpredictable sanitary and phytosanitary (SPS) barriers wreak havoc on global ag trade. Strengthened and legally binding SPS disciplines are critical to addressing this.

- Geographical Indications & Generic Names – As also referred to previously, TPP should provide improved safeguards for the use of common food names (e.g. parmesan, feta, romano) to combat aggressive efforts by the EU to monopolize these terms by including Geographical Indications restrictions on these terms via EU FTAs with U.S. trading partners.

TTIP:

Our overarching goals for TTIP are the mutual elimination of tariffs on dairy products in concert with removal of various nontariff barriers to U.S.-EU dairy trade including GI barriers to common names. These issues were covered in earlier sections.

Trade Promotion Authority (TPA):

The dairy industry supports the passage of trade promotion authority for the purpose of facilitating and completing potentially beneficial trade negotiations with other nations. Key elements of a TPA bill of importance to the U.S. dairy industry include:

- Prioritization of tariff reduction for U.S. products that face significantly higher foreign tariffs or subsidy regimes by major producing countries, both of which are global challenges for U.S. dairy exports;

- The pursuit of strong and enforceable rules on sanitary and phytosanitary (SPS) measures;

- Direction urging the Administration to eliminate and prevent the undermining of market access for U.S. products through improper use of geographical indications, and;

- A specific negotiating focus on goods subject to U.S. tariff rate quotas, as is the case for most dairy products.

Thank you for the opportunity to comment on these issues.

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National Oilseed Processors Association,

Statement of Thomas A. Hammer, President, National Oilseed Processors Association
Submission for the record to the United States
House Committee on Ways and Means, Subcommittee on Trade
Hearing on Advancing the U.S. Trade Agenda:
Benefits of Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports
June 11, 2014

Chairman Nunes, Ranking Member Rangel and members of the Subcommittee, on behalf of the U.S. oilseed industry, thank you for holding this hearing on the benefits of expanding U.S. agricultural trade and eliminating barriers to U.S. exports.

My name is Thomas Hammer, President of the National Oilseed Processors Association (NOPA). NOPA represents the U.S. soybean, canola, flaxseed, sunflower seed and safflower seed processing industries. NOPA's 13 member companies crush approximately 95% of all soybeans processed in the United States. NOPA member companies process more than 1.6 billion bushels of oilseeds annually at 63 plants in 19 states located throughout the country.

NOPA would like to bring to the Committee's attention Argentina's use of Differential Export Taxes (DETs). DETs have transformed Argentina's soybean crushing industry. The DET system depresses the price of soybeans, the main raw material input, to an artificially low level relative to the processed products, such as soybean meal, soy oil and soy biodiesel. In so doing, DETs have increased the domestic crush margin for Argentine soybean processors. This makes crushing more profitable in Argentina and encourages further investment in crushing capacity. As a result, DETs have enabled Argentina to become the world's largest exporter of soybean meal, soy oil and soy biodiesel at the expense of growers and processors in the United States and in other countries such as Brazil, Mexico, the European Community, Turkey, Thailand and South Korea.

A recent economic analysis performed by LMC International Ltd on behalf of the U.S. soybean industry (summarized below) "conservatively" estimated the potential increase in U.S. soy product exports that would result from removing Argentine DETs at $US428 million.

Exports of Soybean and Soybean Products

Robust exports of soybean and soybean products are critical to the prosperity and profitability of the entire U.S. soybean value chain (biotech companies, seed companies, transportation industries, soybean farmers, oilseed processors and exporters). Expanded volumes of U.S. soybean exports (especially value-added products such as soybean meal, soy oil and soy biodiesel) translate to an increased number of high-quality U.S. jobs.

U.S. soybean growers and processors are among the most competitive in the world. In 2013, the industry achieved another strong year of soybean and soybean product exports, according to USDA, *e.g.*:

- The value of U.S. soybean exports totaled $21.5 billion, compared to $24.6 billion in 2012.
- The value of U.S. soybean meal exports totaled $5.4 billion, compared to $4.8 billion in 2012.
- The value of U.S. soybean oil exports totaled $0.9 billion, compared to $1.2 billion in 2012.
- The total value of these exports in 2013 equals $27.8 billion.

U.S. exports of soybean products could be significantly higher, capturing a greater global market share, if the U.S. soybean industry did not have to compete with Argentina's DETs for soybeans and soybean products.

Impact of Argentine DETs on the Global Soybean Crushing Industry

To better understand the impact of Argentine DETs on the U.S. soybean industry and what that would mean financially to domestic soybean processors and growers, the United States Soybean Export Council (USSEC) on behalf of the domestic soybean industry initiated the most extensive economic analysis to date. The initial study was prepared by LMC International Ltd. in 2008. LMC updated this study in March 2013, expanding upon its earlier work into the impact of Argentine DETs to cover several countries with significant soybean crushing industries. The updated study quantifies the benefit that ending DETs would provide to the U.S. crushing sector as well as crushing industries in other countries, including the European Union, Canada, Colombia, Egypt, Japan, South Korea, Mexico, South Africa, Thailand, Turkey and Brazil.

LMC INTERNATIONAL LTD ECONOMIC ANALYSIS OF ARGENTINA'S SYSTEM OF DETS

LMC International Ltd was requested by USSEC, representing soybean growers, processors and exporters, to perform the 2008 and 2013 economic analyses of Argentina's system of DETs.

LMC is an independent international consulting firm, specializing in economic and market analysis of agricultural commodities and agro-industrial products. Since 1980 it has provided specialized expertise in the oilseeds sector to clients in the public and private sectors in the U.S. and around the world.

Summary of 2013 LMC Study

The following is taken directly from the *LMC International Report* prepared for the U.S. Soybean Export Council, dated March 2013, entitled *"Assessing the Impact of Argentina DETs,"* pp. S1-S2, 1-5. (A complete copy of the report is available from NOPA.)

Measuring the effect of the Differential Export Tax (DET) system

Argentina applies a higher tax rate (35%) on soybean exports than on exports of soy meal and oil (32%). Because most Argentine soybean products are exported, export taxes reduce local prices. From the perspective of an Argentine crusher, a higher soybean tax rate reduces the local cost of soybeans by more than the reduction caused by export taxes in the revenues from the meal and oil. In this manner, DETs raise crushing margins above the level that would exist in their absence, creating an incentive to process soybeans for export. Despite being only the world's third largest soybean producer (behind the U.S. and Brazil), DETs have enabled Argentina to become the world's largest exporter of soybean oil and meal.

(Excerpt cont'd)

Argentine crushers benefit further from lower export taxes on biodiesel and of soy meal-corn combinations. Biodiesel exports are taxed at a net rate of 17.5%, helping soybean crushers integrated with biodiesel processing. Soybean meal-corn combinations are taxed at only 5%.

Since 1995, DETs have increased the crushing margin inside Argentina by an average of $8.4 per metric ton. The value of this DET advantage fluctuates; over the last full year, 2011, DETs provided an advantage of $11.9 per metric ton. The DET advantage has also meant that, on a number of occasions, crushers in Argentina were able to break even in the face of world market crushing margins at which their competitors overseas could not make a profit.

Argentina's DET advantage has changed the global balance of crushing capacity. By enabling Argentina to shift its exports away from soybeans and towards their products, other countries have been forced in the opposite direction. The DETs encouraged investment in Argentine crushing capacity, giving local crushers greater economies of scale than their competitors.

Without a DET advantage, Argentine crushers would be less competitive internationally. The decline in Argentine crushing would allow crushers in other countries to expand and capture some oil, meal and biodiesel sales from Argentina. Brazil illustrates the impact of ending DETs. Until 1996 it applied sales taxes that functioned similarly to the Argentine DETs. After these incentives were removed, exports of processed products from Brazil fell sharply as a share of soybean output, while exports of soybeans in an unprocessed form increased considerably.

This study uses an econometric model to determine the cost that DETs have imposed on crushers in other countries, by enabling Argentina to capture a larger share of global crushing. The model takes account of differences in the costs of transportation and of crushing in the countries covered in the study. The crushing cost estimates reflect economies of scale, as well as local input prices and capacity utilization in these countries.

Crushing supply curves are generated, relating crushing margins in Rotterdam to individual plants' costs and freight rates for soybeans and products. They allow us to quantify the impact of the DETs upon crushers across the world. To ensure consistency in the approach across countries, the analysis is undertaken in terms of crushing margins in Rotterdam, a pivotal point in world trade as a large importer of all soybean products: beans, meal, oil and biodiesel.

Conclusions

- The benefit from an end to DETs for the U.S. is $428 million, for Brazil $405 million and for our new selection of countries a further $798 million per annum.
- For Mexico and the EU, the two largest markets added to the scope of the analysis, the value of removing DETs is $110 and $318 million, respectively.
- For all but one of the other countries the benefits would lie between $29 and $71 million. Only for Turkey would the benefits be lower, at around $13 million.
- Because the structure of the crushing industry differs between countries the distribution of the benefits will also vary. In Thailand and Korea, with very concentrated crushing industries, the benefit would be $17 and $30 million per plant, respectively.

(Excerpt cont'd)

- The typical benefit per plant in the other countries is roughly $7 million. However, in Turkey, where there are many small crushing plants, the benefit per plant is around $1 million. In Colombia, which currently has no active crushing plants, the $29 million gain created by the removal of DETs is generated by a resumption of crushing.

- A number of the smaller markets are growing quickly through income and population growth. In these countries the future cost of DETs is set to increase. If DETs remain in their present form, the overall cost to the selected countries listed in Table S.1 is set to increase to $870 million by 2020.

In addition, LMC's calculations indicate that:

- The lower export tax on biodiesel, through crusher-biodiesel integration, has benefited Argentine soybean crushers by $3.6 per metric ton of beans.

- Lower taxes on soymeal-corn combination shipments could provide a benefit of $8.8 per metric ton of beans in meal exports, the equivalent of $310 million a year.

Understanding DETs

DETs are Differential Export Taxes. In Argentina, export taxes are levied on beans as well as soybean products; however, they create an incentive to process soybeans in the country for export. This is done by applying different tax rates on soybeans and the products from crushing which decline with the degree of processing, being higher on beans than on products. DETs the government to change the balance of exports between beans and products away from that balance that would exist in a free market, with a knock-on effect on soybean crushers elsewhere in the world.

Soybeans can either be used directly as beans, or can be crushed to produce soybean oil and meal. The **crush margin** is the difference between the cost of the beans and the revenue from the meal and oil. This is determined, in turn, by the relative price of the beans compared to the prices of the meal and oil. If the beans become cheaper in relation to products, crushing becomes more profitable and the crush margin increases.

This "differential" in the DETs arises because, as Table 1 indicates, soybean exports are taxed at the highest rate in Argentina; this is currently set at 35%. A lower export tax rate of 32% is charged on oil and meal. These differences in the rates of taxation increase the profitability of crushing in Argentina, as we explain below. The export tax on biodiesel until very recently was set at a net rate of 17.5% (calculated after deducting a 2.5% tax refund from the nominal export tax of 20%). This provides an incentive to process soybean oil into biodiesel for export.

The key element to understanding how this works is that Argentina's soybeans and products are almost entirely destined for export. Including the oil used in biodiesel, Argentina exported over 90% of its oil as oil or biodiesel in 2009-2011. Less than 5% of meal produced in the country was consumed domestically. As a result, local soybean and product prices are linked to the prices on the international market.

(Excerpt cont'd)

Diagram 2 compares **free on board (f.o.b.) Rosario crushing margins**, calculated by applying the bean, oil and meal prices quoted once Argentine products have passed through Customs and paid their export taxes, with internal **free alongside ship (f.a.s.) Rosario margins**, applying prices inside the domestic market.

When export taxes are applied on beans and products, they reduce their internal prices. This is because a seller will require, at a minimum, a price equal to that it could receive by selling to the export market. When a trader sells soybean products to the world market, the net revenue equals the c.i.f. prices in Rotterdam, the pivotal point of reference for import prices in world trade in soybean products, *minus* freight costs from Argentina to Rotterdam (this yields the f.o.b. Argentina price) and *minus* the export tax (to derive the f.a.s. price).

A higher export tax, therefore, reduces the price that Argentine sellers receive from selling soybean products on the export market. As long as Argentina remains a net exporter of a product, the export tax will reduce the price that its producers can command domestically.

By applying higher export taxes on soybeans than on oil and meal, crushing margins are altered. Higher export tax rates on beans thank on products mean, from the perspective of an Argentine crusher, that the cost of the beans is lowered by more than the reduction in the revenue from the meal and oil.

As a result, DETs will reduce the price received by domestic growers and do so by more than the reduction in product prices. In this manner, DETs assist crushers in Argentina.

Table 1: Argentine Differential Export Taxes in 2011

Soybeans	Soy oil	Soymeal	Biodiesel
35.0%	32.0%	32.0%	17.5%

Note: Biodiesel exports actually incurred a 20% export tax, but coupled with a 2.5% tax rebate this yielded an effective tax rate of 17.5%.

The Argentine DET advantage

The extent to which DETs assist Argentine crushers (the **DET advantage**) is calculated as the difference between the crushing margin on an **f.o.b. basis** and the margin on an **f.a.s. basis**, which reflects the impact of the DETs. Diagram 3 compares the two crushing margins.

(Excerpt cont'd)

Diagram 2: Internal (f.a.s. Rosario) and international (f.o.b. Rosario) crushing margins

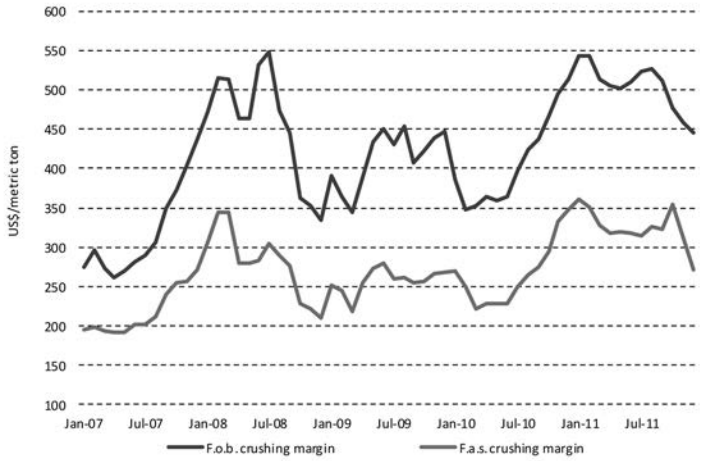


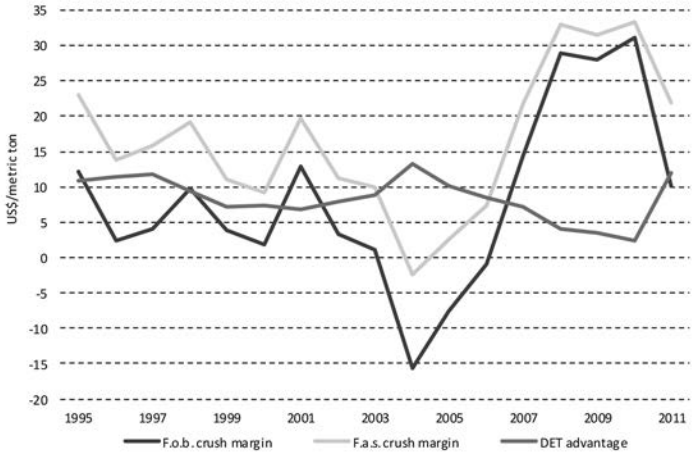
Diagram 3 reveals that the f.o.b. and f.a.s. crush margins have fluctuated greatly since 1995. The assistance from the DET has also varied from around $2.3 to almost $12 per metric ton. On a number of occasions it has meant that Argentine crushers were able to break even, thanks to the assistance from the DETs, when their competitors overseas were not. **On average, DETs increased the crush margin in Argentina by $8.4 per metric ton from 1995 to 2011.**

In 2011, the latest year with full data and one which may be considered representative of current conditions, the DETs increased the crush margin in Argentina by $11.9 per metric ton. This benefited Argentine crushers by approximately $450 million.

The aim of this study is to calculate the impact of the Argentine DETs on crushing margins and on the incentives to soybeans elsewhere in the world. At a very basic level, the boost to crush margins of $8.4 per metric ton quantifies the support given to domestic crushers in Argentina by DETs. (In addition, there is the boost the integrated crushers-biodiesel producers receive from higher biodiesel margins; this boost is discussed later). However, the $8.4 figure does not convey the full worldwide implications of Argentine DETs.

(Excerpt cont'd)

Diagram 3: Comparing crush margins and the annual DET advantage



To understand how these DETs have affected the global balance of crushing capacity, it is crucial to remember that countries can chose to import (or export) either soybeans or their products. As Argentina shifts its exports away from soybeans towards their products, thanks to the DET advantage, importers and other exporters are forced in the opposite direction.

The DETs therefore assist crushers in Argentina to the disadvantage of crushers elsewhere. Over a long period they have encouraged additional investment in crushing capacity in Argentina and have tilted exports from the country away from beans towards their products.

By exporting more meal and oil than it would have done otherwise, Argentina has altered crushing decisions around the world. This has affect Argentina's competitors (primarily Brazil and the U.S.), as well as countries which import soybeans and their products. This is because such governmental incentives distort normal market signals and competition among crushers.

(Excerpt cont'd)

The attraction of DETs

The primary appeal of differential export taxes to a government is that they encourage the growth of domestic processing, which may not be able to survive in a free market.

As with all export taxes, they also provide a source of revenue. It should be noted, however, that the *differential* in this case reduces the amount of revenue, compared to a normal export tax, by levying lower taxes on the processed product.

In order to create these benefits, the differential export tax reduces the internal price of the raw material. This has strong local redistributional implications, favouring the processor over the farmer and at the expense of the farmer.

Within the oilseeds sector DETs have been used as a major instrument of policy in several leading exporting countries to promote their downstream industries. For soybeans, they are applied in Argentina, and were also applied in Brazil in the past. For sunflowerseed they are applied in Ukraine and Russia. For palm oil, they are applied in Indonesia and Malaysia.

With Argentina exporting more products and fewer beans, the U.S. and Brazil have found their crushers under pressure and have to export more beans. At the same time, importing country crushers have found investment in their own capacities less profitable, and tilted their imports towards products rather than beans. If Argentina's DETs no longer existed to benefit local crushers, there would be a number of changes:

- Argentine crushers would no longer benefit from higher margins than those that would prevail under a free market and would become less competitive internationally.
- Argentina would export more soybeans and smaller quantities of processed products.
- As crushing in Argentina declines, soybean product prices would rise in other markets, increasing crush margins outside Argentina. This would allow crushers from other countries to capture some of the markets for oil, meal and biodiesel from Argentina:
- For importers, higher crushing margins would directly boost local crushing activity.
- For exporters, the consequences would be less direct. They compete with Argentina in third country markets. Higher margins in these markets would be transmitted back to exporting countries, notably the U.S. and Brazil, generating a stimulus to increase the crushing of soybeans for the export of higher-value products from these countries.

[End of Excerpt]

A complete copy of the LMC International Report is available from NOPA.

LMC International Ltd Conclusion

The potential increase in the export value of U.S. soybean sector products as a result of the removal of the Argentine system of differential export tax rates is conservatively estimated at US$428 million annually.

DETs MUST BE ELIMINATED

We greatly appreciate the Subcommittee's recognition of the fact that "as traditional trade barriers are reduced, U.S. agriculture exports are facing more non-tariff barriers that are difficult to identify and address." Differential Export Taxes definitely fall into this category. NOPA has been attempting to have **DETs classified as a "prohibited export subsidy" within the terms of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) for over thirty years.**

We sincerely hope that our statement will result in an understanding (1) of the extremely negative effects of DET systems upon exports of U.S. value-added soybean products and (2) that actions must be taken to eliminate Argentina's use of DETs on soybeans and soybean products. NOPA believes that DETs are inconsistent with Argentina's WTO obligations. Because differential export taxes have been left unchecked, the use of DETs on oilseeds and other agriculture products continues to spread to countries such as Russia, Ukraine, Malaysia, Indonesia and possibly Uruguay.

Thank you for allowing NOPA to share its views on the benefits of expanding U.S. agricultural trade and eliminating barriers to U.S. exports. Without DETs, the United States would be able to capture a much larger share of the global export market for value-added soybean products, including soybean meal, soy oil and soy biodiesel.

We look forward to working with you and the Subcommittee in facilitating additional growth in U.S. agricultural trade and creating economic growth in rural communities across the country.

# # #

National Pork Producers Council, Statement

The National Pork Producers Council (NPPC) hereby submits comments in response to the Committee on Ways and Means – Subcommittee on Trade hearing on advancing the benefits of expanding U.S. agriculture trade and eliminating barriers to U.S. exports for consideration by the Committee for inclusion in the printed record of the hearing.

Introduction

The National Pork Producers Council (NPPC) is an association of 44 state pork producer organizations that serves as the voice in Washington for the nation's pork producers. The U.S. pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. Nationwide, more than 69,000 pork producers marketed more than 111 million hogs in 2013, and those animals provided total gross receipts of over $20 billion. Overall, an estimated $21 billion of personal income and $35 billion of gross national product are supported by the U.S. hog industry. Economists Dan Otto and John Lawrence at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of nearly 35,000 full-time equivalent pork producing jobs and generates about 128,000 jobs in the rest of agriculture. It is responsible for approximately 111,000 jobs in the manufacturing sector, mostly in the packing industry, and 65,000 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry is responsible for more than 550,000 mostly rural jobs in the United States.

Exports of pork continue to grow. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for 20 of the past 22 years. In 2013, the United States exported more than $6 billion of pork, which added about $54 to the price that producers received for each hog marketed. Net exports last year represented almost 26 percent of pork production. The U.S. pork industry today provides 23 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide.

The following are barriers/issues facing the U.S. pork industry and impeding U.S. pork exports.

Trans-Pacific Partnership

The Trans-Pacific Partnership (TPP) presents an opportunity to open additional markets to U.S. pork and to expand many existing ones in the Asia-Pacific region. The negotiation includes the United States, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. NPPC supports a high-standard, 21st century TPP Agreement that eliminates the gate price and all tariff and non-tariff barriers to trade. The elimination of tariffs is the heart of an FTA. An agreement that does not eliminate the gate price and tariffs will negatively affect U.S. pork exports for the next 20 years, meaning billions of dollars less in U.S. pork sales and tens of thousands less U.S. jobs. Industry analysts estimate that if all tariff and non-tariff barriers are eliminated on pork in each TPP nation, more than 15,500 new jobs will be created in the United States, and pork exports will grow significantly.

Japan

Japan is the most significant market among the countries in TPP for increased U.S. pork exports. Japan currently is the largest U.S. pork export market in terms of value and the second largest volume market; Japan in 2013 imported approximately 425,000 metric tons of U.S. pork valued at over $2 billion. The high volume of U.S. pork exports to Japan takes place despite significant import protection that country provides through a complex system commonly referred to as the "Gate Price" system. that is described below.

Japan joined the TPP negotiations last year, with strong support from NPPC and virtually all of U.S. agriculture, under the assumption that Japan would accept and implement the already agreed TPP goal of tariff elimination in all products. Japan had every reason to seek membership in TPP in order to keep pace with other neighboring nations such as South Korea. And, most Japanese officials understand that Japan should reform and liberalize its agricultural sector.

Unfortunately, Japan is pushing hard a proposal on market access in TPP that, if accepted, would have devastating consequences for pork producers and all of U.S. agriculture. Japan seeks to exempt 586 tariff lines or 11 percent of its tariff schedule (at the 6-digit level) from going to zero with the United States. In order for the TPP to be a high standard, 21century agreement, Japan's deal on market access should EXCEED the deal that Korea and other U.S. FTA partners made this century with the United States. Yet, Japan, by seeking special treatment that no other U.S. FTA partner has received, is insisting that the United States move backward. Japan's market access offer, if accepted, would be a radical departure from past U.S. trade policy. Japan's offer would exempt 2.7 times more tariff lines from going to zero than in all 17 previous U.S. FTAs this century combined.

The current Japanese offer on pork is completely unacceptable to pork producers. When Japan's current offer on pork is compared to what the U.S. industry has received to date in all previous FTAs – tariff elimination – the frustration of pork producers is easily understood. While Japan's current offer on pork, if implemented, might allow a modest increase in U.S. pork exports, it would rob the U.S. pork industry of hundreds of millions in annual pork exports to Japan that the industry would otherwise realize if the gate price and tariffs on pork were eliminated. By giving Japan special treatment so it can protect its farmers, U.S. producers are being cheated out of hundreds of millions in annual sales. To make matters worse, the precedent established with Japan will have a long tail. It will diminish the value of all future FTAs to pork producers. The EU and all future FTA partners, such as China and The Philippines, will use the Japan deal as the starting point in their negotiations with the United States. This is the most important commercial issue ever to face U.S. pork producers. NPPC would not be able to support either TPP or TPA if the Japanese proposal were to be incorporated into the final TPP agreement.

Likewise, there is tremendous concern among the other so-called sensitive sectors of beef, dairy, wheat, and rice. The Japanese proposal, if implemented, would cheat these sectors out of hundreds of millions – collectively billions – in annual sales to Japan. A toxic precedent would be set that would follow U.S. agriculture the next 25 years diminishing the value of all future FTAs. There has never been a more important trade issue for U.S. agriculture.

The U.S. umbrella business organizations correctly understand the significance of this issue transcends agriculture. If the United States acquiesces to Japan's demands, it is not difficult to envision other trading partners asking for exemptions on non-agricultural products. If Japan is permitted to shield a massive number of tariff lines from tariff elimination, other TPP countries are likely to pull back their sensitive products in the market access negotiations and/or scale back the concessions they are willing to make in the rules negotiations. Even if a final TPP deal could be consummated under such circumstances it will be "TPP lite" and a far cry from a high standard, 21st century agreement. An unacceptable precedent will be set that all future TPP acceding nations will seek to exploit. Clearly, the U.S. must reject Japan's offer and insist that Japan do what every other U.S. trading partner has done, and what all the other TPP nations are willing to do, eliminate tariffs on virtually all products. For pork, this unequivocally means elimination of the gate price, tariffs, and all protection. If Japan is unwilling to open its markets fully to our products, then it should exit the negotiations so that the U.S. and the other nations can expeditiously conclude the negotiations.

We acknowledge and deeply appreciate the support of the Chairman and members of this subcommittee. We call on all members of the Congress to call out Japan for its unacceptable and counterproductive position in the TPP negotiations. A small, vocal group of protectionist farmers in Japan have high jacked the TPP negotiations. Japan needs to break the gridlock and make a decision: either it fully opens its market to all our products – like every other nation – or it gets out.

Vietnam

With the exception of Japan, Vietnam offers the most potential for expanded U.S. pork exports through the Trans-Pacific Partnership (TPP) negotiations. Domestic pork consumption is 2.0 million metric tons per year, bigger than Mexico.

The steep decline in U.S. pork sales to Vietnam since its accession to the World Trade Organization (WTO) can be attributed to a series of import barriers. These restrictions are clearly designed to protect Vietnam's producers from imports. All of these restrictions must be removed as a result of the TPP negotiations.

Pork Offal Ban: In July 2010 Vietnam instituted a ban on the importation of all pork offals. No explanation was given for the import ban. In March 2011 Vietnam lifted the import ban on "red offals" (heart, liver, kidney), but left the ban on "white offals" in place. Vietnam officially lifted its ban on "white offals" in February 2014. The new import conditions for white offal, however, include additional certification requirements and entry into the country through only three ports.

MRLs on Pork Offals: Vietnam refuses to recognize the scientific process of applying a "reference" maximum residue level (MRL) for compounds in pork offals. This process is recognized by the Codex Alimentarius (Codex), the U.S. and most other countries. This practice may continue to inhibit our exports of offals. However, Vietnam recently adopted Codex MRLs for several veterinary drugs, which shows a willingness to recognize international standards.

Zero Tolerance for Pathogens on Pork Products: Vietnam also appears to be enforcing a zero tolerance policy for pathogens on raw meat products, including pork. No country in the world, including Vietnam, can guarantee the complete absence of pathogens on raw meat products. Vietnam's zero tolerance policy for pathogens is not based on science, and likely violates numerous provisions of the WTO's Agreement on the Application of Sanitary and Phytosanitary Measures.

Plant Registration Requirements: In May 2010, Vietnam issued "Circular 25", which requires U.S. exporting establishments to provide the Vietnamese government with company-specific information that is administratively burdensome and irrelevant to ensuring food safety. Both the USDA and U.S. companies have worked with Vietnam to supply some of the requested information, but because of the extensive nature of Vietnam's information requests, only a fraction of interested U.S. companies are eligible to export pork to Vietnam.

In the context of its accession to the WTO, Vietnam, by an exchange of letters dated May 31, 2006, made a bilateral commitment to recognize the U.S. pork plant inspection and approval system as equivalent to its inspection system. Vietnam is in clear violation of the equivalence commitment it made to the United States. This issue must be addressed for the U.S. pork industry to benefit from the elimination of duties through the TPP.

Reference Price System: Vietnam recently implemented a reference price scheme to assess import duties on pork and other products. Under the reference price scheme, certain pork cuts are assessed import duties not based on CIF import prices (i.e. delivered price to the importing country) but reference prices established by the Vietnamese government. WTO rules stipulate that import duties should be based on the actual value of the imported product, and not on "arbitrary and fictitious values." The reference price scheme creates significant uncertainty in doing trade with Vietnam, and in many cases raises the cost of imported pork for Vietnamese consumers. Vietnamese import duties on U.S. pork should be reduced and eventually eliminated as a result of the Trans Pacific Partnership negotiations.

Malaysia

Malaysia is currently a small market for U.S. pork exports. However, there is a large ethnic Chinese population in Malaysia that consumes large quantities of pork, and there is potential for significant U.S. pork sales to this market. Malaysia applies a duty of five to ten percent on most pork imports. These duties should be eliminated as an outcome of the TPP. In addition, Malaysia has a de facto ban on imports of many kinds of pork, and often refuses to issue import licenses even for those pork cuts that are allowed entry. Recently the Malaysians halted virtually all pork imports.

Australia

Pork is the largest U.S. agricultural export to Australia. U.S. pork sales to Australia have surged from 3,400 MT in 2004, the year before the FTA went into effect, to 53,840 MT in 2013 valued at $176 million.

In spite of the recent surge in U.S. pork sales, Australia still maintains very significant non-tariff SPS barriers to U.S. pork imports. The U.S. currently is restricted to sending either processed pork or frozen, boneless pork for further processing to Australia. Both the Bush Administration and the Howard government committed after the negotiation of the U.S. - Australia FTA to moving quickly to remove these impediments to trade. But, to date, no progress has been made.

Australia's non-tariff barriers include restrictions on U.S. pork based on two diseases: Porcine Reproductive and Respiratory Syndrome (PRRS) and Postweaning Multisystemic Wasting Syndrome (PMWS). The presence of these diseases in the U.S. does NOT constitute a valid scientific basis to restrict U.S. pork exports.

Porcine Reproductive and Respiratory Syndrome (PRRS): Australia limits the import of U.S. pork to heat processed pork and frozen boneless pork for further processing, due to what it claims is a threat of transmission of PRRS to the Australian swine herd by U.S. pork. The risk of introduction of PRRS into the Australian swine herd due to the import of U.S. pork is negligible. There has never been a case of PRRS having been transmitted through legally imported fresh, chilled or frozen pork to any country free of PRRS. For example, Switzerland is free of PRRS and has imported without restriction hundreds of thousands of tons of pork from countries known to have PRRS, without a single transmission of the disease having taken place.

Australia's PRRS related restrictions on U.S. pork are inconsistent with international standards. The World Organization of Animal Health (OIE) focuses on trade in live animals and genetics as posing a PRRS threat, and does not recognize trade in pork as posing a threat of transmitting the disease.

New Zealand, another country with PRRS related restrictions on U.S. pork, undertook a risk assessment aimed at determining the risk of PRRS transmission posed by imported pork. New Zealand came to the conclusion that the risk of transmission of PRRS to domestic hogs through imported pork from PRRS positive countries is negligible. According to the New Zealand analysis, risk of PRRS transmission posed by the import of pork from PRRS endemic countries is one case every 1,227 years.

Australia has not conducted an assessment of the health risks posed by U.S. pork since 2003. In addition to the New Zealand findings, over the last ten years a significant amount of research has taken place demonstrating the negligible risk of PRRS transmission related to trade in pork. Australia should use this research, the results of the New Zealand risk assessment, and the OIE health standard, as a basis for eliminating PRRS related restrictions on U.S. pork.

Postweaning Multisystemic Wasting Syndrome (PMWS): Australia also restricts U.S. pork imports because of unfounded concerns regarding the presence of PMWS in the United States. However, most countries, including Australia also have an incidence of PMWS in their herd. In 2007 Australian researchers concluded that PMWS and the circovirus genotype associated with it, PCV2b, existed in the Australian herd, and had been present for a number of years.

Australia's PMWS related restrictions on U.S. pork violate fundamental principles in the WTO SPS Agreement requiring that SPS measures be based on science and legitimate human or animal health related concerns. It also violates the national treatment principle contained in Article 2.3 of the SPS Agreement, which states in part that SPS measures should not "arbitrarily or unjustifiably discriminate between Members where identical or similar conditions exist."

Australia is the only country in the world that imposes PMWS related restrictions on U.S. pork and pork products. Other countries, as well as the OIE, recognize that trade in pork products does not present a risk of transmission of PMWS. Australia's PMWS related restrictions on U.S. pork should be eliminated through the TPP negotiations.

Pork Plant Approval: Australia limits imports from the United States to U.S. facilities that have been approved by Australia. Australia should recognize the U.S. pork inspection and approval system as equivalent to its own, and accept U.S. pork from all USDA approved pork facilities.

New Zealand

In 2013, the U.S. exported 8,413 metric tons of pork and pork products, valued at $25 million. However, current protections remain that inhibit growth of U.S. pork exports to New Zealand.

Import Duty: New Zealand allows duty free access for pork from Australia, China and Canada, but the U.S. has to pay an import duty or tariff. It is very important that New Zealand provide the United States with immediate duty free access (i.e. no phase in period) for all pork products as part of the TPP in order for the U.S. pork industry to operate on an even playing field with other suppliers to this market.

Porcine Reproductive and Respiratory Syndrome (PRRS): In 2001, New Zealand restricted imports from countries where porcine reproductive and respiratory syndrome (PRRS) is present, including the United States. The restrictions limited U.S. pork exports to New Zealand to cooked products, canned (or equivalent) products and unprocessed fresh/frozen pork to be shipped to a designated facility in New Zealand for cooking. After a decade of assessing scientific studies on PRRS and the biosecurity risks of importing raw pork, New Zealand's Ministry for Primary Industries (MPI) issued a new Import Health Standard (IHS) for importing pork and pork products from countries with PRRS. The IHS allows the importation of consumer-ready cuts of uncooked pork less than three kilograms from the United States. The New Zealand Pork Industry Board (NZPork) in 2011 asked the New Zealand High Court for judicial review of the IHS and in 2012 the Court ruled in favor of the MPI. The High Court's decision was appealed, ultimately resulting in the dismissal of NZPork's appeal by the New Zealand Supreme Court in December 2013.

PRRS is not a food-safety issue, and there is negligible risk of PRRS transmission from the legal importation of pork from countries with the disease. Thanks to the work of experts nominated by NPPC to the New Zealand Independent Working Group and the New Zealand PRRS Expert Working Group, scientific evidence was used to illustrate the minimal risk of spreading the virus. In fact, based on a conservative risk assessment model, New Zealand's chances of getting PRRS from legally imported uncooked pork products are such that it would get one case every 1,227 years.

European Union/Transatlantic Trade and Investment Partnership (TTIP)

The United States is a global leader in the production of low cost, safe, high quality pork. The

European Union, with 450 million mostly affluent consumers, is the second largest pork consuming market in the world, yet U.S. pork sales to the EU are lower than our shipments to small countries such as Honduras. Current EU sanitary and phytosanitary (SPS) and tariff barriers have resulted in U.S. pork exports to the EU totaling only 5,080 metric tons (MT) in 2013, which is less than 0.04 percent of EU pork consumption

In the absence of tariff rate quotas and SPS restrictions, the EU would be one of the largest markets in the world for U.S. pork exports. According to Iowa State University economist Dermot Hayes, the increased U.S. pork exports that will be generated by TTIP will create 17,680 new jobs in the United States.

The following barriers are just a few of the major impediments to increased U.S. pork exports.

Ractopamine: The EU bans the use of ractopamine in pork production and the import of pork produced with ractopamine despite the absence of a science-based risk assessment to justify its actions. The EU ban on ractopamine means that only a small fraction of U.S. pork, which is verified to be free of ractopamine, can be shipped to the EU.

In July 2012, the Codex Alimentarius Commission established a maximum residue level (MRL) for ractopamine. In recognizing the safety of ractopamine, the Codex joins the U.S. Food and Drug Administration (FDA) and 25 other countries that have approved the product for use in pork production.

Trichinae Mitigation: The EU currently requires that the U.S. conduct trichinae risk mitigation such as testing or freezing as a condition for market access. These mitigation requirements are costly and unnecessary. The USDA has determined that there is negligible risk for trichinosis in the U.S. commercial herd. U.S. animal disease experts estimate the chance of a human getting trichinosis from the consumption of U.S. pork at 1-in-300 million.

Tariff Rate Quotas: During the World Trade Organization (WTO) Uruguay Round, the EU refused to adopt the agreed minimum access quantity for its tariff rate quota on pork. Although the agreement called for a minimum quota of 1 percent of domestic consumption – which would have been around 1 million metric tons – the EU approved quotas totaling only 70,000 MT. Moreover, taking advantage of that small total quota is made difficult by high in-quota duties and a licensing system that makes it difficult to adjust to market conditions. And shipping pork to the EU outside the quotas is impossible because out-of-quota duties are set at prohibitively high rates.

Pork producers' support for a final Transatlantic Trade and Investment Partnership (TTIP) is conditioned on the elimination of all tariff and non-tariff barriers to U.S. pork exports to the EU. This outcome for pork was achieved in every other U.S. FTA, and TTIP should be no different.

China

China is by far the largest potential market for U.S. pork exports in the world today. In 2013, the U.S. exported 333,000 MT in pork and pork variety meats to China valued at $703 million making China the third largest export destination by volume and fourth by value. Over the past few years China has been one of the fastest growing markets in the world for U.S. pork exports -- in spite of the import barriers that range from subsidies to value added taxes. However, the major barriers to U.S. pork exports are China's unscientific restrictions to pork imports in particular its ban on ractopmine.

Since 2007, China has restricted imports from the United States through a ban on the feed additive ractopamine. The U.S. Food and Drug Administration conducted a risk assessment and approved ractopamine for use in animal feed for pork production in 1999, and twenty five other countries around the world have also approved the use of this product. In July 2012, the Codex Alimentarius (Codex) voted to approve an international standard that set maximum residue levels for ractopamine as a feed additive, thus recognizing the product as safe for use in beef and pork production. In 2010 the scientists reviewed China's risk assessment on ractopamine and concluded that in fact, China's scientific data supported the safety of the product. In spite of years of bilateral discussion, China has given the United States no legitimate science-based reason for its ractopamine ban. Chinese officials know very well that this ban has the effect of limiting U.S. pork exports. In addition to the ban on ractopamine, China now requires that USDA's Food Safety and Inspection Service (FSIS) certify that pork from the U.S. destined for China was produced without using ractopamine by certifying to a costly process verified program or testing program.

China has recently indicated that they expect all U.S. pork meet their requirements for other veterinary drugs, but have provided no scientific evidence to prove why after decades of use in numerous countries around the world, the use of these vet drugs are restricted. The truth of the matter is that without the use of these veterinary drugs, it threatens the herd health of the U.S. swine herd and the welfare of these animals at a time when our industry desperately needs all safe and approved tools to ensure a healthy herd.

Taiwan

Since 2007 Taiwan has disrupted market access for U.S. pork exports through an unscientific, zero tolerance policy regarding the feed additive ractopamine. There is an overwhelming body of scientific evidence which

demonstrates the safety of ractopamine. Ractopamine has been determined to be safe by the U.S. Food and Drug Administration (FDA) and is approved for use in pork production in 25 other countries. In July 2012, the UN's Codex Alimentarius, which sets international standards for food safety, approved a maximum residue limit (MRL) for ractopamine, which U.S. pork meets.

In August 2007, the Taiwanese government notified the World Trade Organization of its intention to establish an MRL for ractopamine in pork, basing that decision on the draft Codex MRL. Unfortunately, that WTO notification was withdrawn a short time later as a result of intense political pressure from Taiwanese pork producers. Taiwanese officials assured the United States that the ractopamine ban would be rescinded once national elections in May 2008 had passed. That did not happen.

In early 2011, government officials stated that Taiwan would not review its ban on ractopamine until Codex Alimentarius made its recommendation for residue levels. Then in July 2012 the Taiwanese legislature passed legislation that set an MRL for imported beef but not for pork. This and other recent efforts by Taiwanese officials to address the ractopamine issue have been met with strong protests from domestic pig farmers.

According to industry analysts, the U.S. would ship significant amounts of pork to Taiwan if it lifted its ractopamine ban. Taiwan should immediately lift its unjustified ractopamine ban on all U.S. pork and pork products, and at the very least establish an import MRL based on the U.S. or Codex standard. The United States should not finalize TIFA negotiations or accept Taiwan into the TPP until Taiwan eliminates its ractopamine ban and otherwise fully opens its market to U.S. pork.

The Philippines

The Philippines has become a very good market for U.S. pork, with U.S. sales totaling $112 million in 2013 – now the U.S. pork industry's 8th largest export market. However, U.S. pork sales to the Philippines could be much larger. The Philippine government, sensitive to its strong agricultural lobby, has an unfortunate history of erecting barriers to pork imports, dating back to the implementation of its Uruguay Round obligations on pork. Taken together, Philippine trade barriers are robbing the U.S. of tens of millions of dollars– if not hundreds of millions – in annual pork exports and the thousands of associated jobs. The following are just a couple of the major trade barriers that the U.S. pork industry faces in the Philippines. The elimination of these trade barriers is a major priority for the U.S. pork industry.

Reference Price Scheme: The Philippines maintains a reference price scheme that it uses to determine import duties on frozen pork and poultry. Under the reference price scheme, imported frozen pork cuts may be assessed duties based on reference prices established by the Philippines government, rather than declared import prices.

SPS Import Clearance Certificates: Over the years, the Philippine government has periodically revised its meat import regulations through a series of Administrative Orders (AOs), to address what it says are food safety concerns. A major component of current Philippine import requirements for meat imports is the SPS Import Clearance Certificate, a veterinary certification that is required in order to import meat into the Philippines. The Import Clearance Certificate is widely viewed by importers as a means of controlling Philippine meat imports, which was implemented by the Philippine Department of Agriculture in response to pressure from domestic meat and poultry producers. And, just recently the Philippines began plans to implement a pre-inspection program for most Philippine agricultural imports, including meat products. This new pre-inspection program could be implemented as early as July 2014. This new measure has the potential to needlessly disrupt U.S. pork shipments to the Philippines.

South Africa

South Africa blocks U.S. pork exports based on what the South African government says is concern about porcine reproductive and respiratory syndrome (PRRS), pseudorabies (PRV) and trichinae, in addition to

several other issues, while the United States government and the U.S. pork industry have provided a wealth of information to the South African government demonstrating that U.S. pork is completely safe, and poses a negligible risk of transmission of PRRS, PRV and trichinae.

In May 2013 South African officials broke off negotiations with the U.S. government on a new export certificate for pork shipments -- a certificate that U.S. officials had hoped would allow for improved access into the South African market. Instead, South Africa forced the United States to use a new and highly onerous generic export certificate, which effectively bans U.S. pork by demanding new non-science based guarantees related to PRRS, PRV and trichinae -- guarantees that the United States government cannot provide.

No other country in the world imposes such unscientific PRRS, PRV and trichinae related restrictions on U.S. pork.

PRRS: In May 2012, South Africa notified the World Trade Organization (WTO) that it would impose import restrictions on pork from countries with PRRS, claiming that it is free from the disease despite the fact that they have had two recent outbreaks of PRRS. South Africa claims that imported pork from countries where PRRS is present poses a risk of spreading the disease to the South African swine herd.

South Africa has no scientific justification for imposing PRRS related restriction on pork from the United States. There has never been a case of PRRS having been transmitted through legally imported fresh, chilled or frozen pork anywhere in the world.

Trichinae: According to USDA's Animal and Plant Health Inspection Service (APHIS), there is negligible risk of trichinae in the United States commercial herd and the USDA's Food Safety and Inspection Service (FSIS) do not require trichinae mitigation due to such negligible risks. In addition the U.S. Centers for Disease control have concluded that U.S. commercial pork poses a low risk to consumers and does not recommend any mitigation measures.

PRV: The U.S. commercial herd was declared free of PRV in 2003. There is no scientific justification for South Africa to impose any barriers on U.S. pork or pork products.

GSP/AGOA Benefits: South Africa is a major recipient of U.S. economic aid, and U.S. trade benefits. In recent years, South Africa has received over $700 million annually in economic assistance from the United States. In 2012, South Africa received $2.3 billion in preferential trade benefits from the United States under the African Growth Opportunity Act (AGOA), and $1.2 billion in trade benefits under the U.S. Generalized System of Preferences (GSP) which makes South Africa the fifth largest GSP beneficiary nation.

U.S. laws pertaining to the U.S. GSP program (19 U.S.C. 2462(c)(4)) require that the President take into account whether or not a country is providing "equitable and reasonable access" as a factor in determining whether, and the extent to which, that country should be a recipient of GSP benefits.

Given the policy measures that the South African government has put in place to restrict pork imports from the United States, South Africa is not providing "equitable and reasonable access" to its pork market.

Thailand

Thailand, a country that consumes around one million metric tons of pork per year, maintains a number of bans on pork that have limited the United States, the leading pork exporter in the world, exporting only 186 metric tons of pork to Thailand in 2013.

Ractopamine: Thailand maintains a ban on the import of pork produced with ractopamine despite the fact that their competent authority approved it as safe years ago, but it was never granted approval for use domestically. In 2012 the Codex Commission adopted a final international standard in the form of a

maximum residue level (MRL) for pork and beef muscle, liver, kidney and fat. Following the Codex outcome, the Government of Thailand indicated it will begin to amend its ractopamine standard.

Import Licenses: The Thai Department of Livestock and Development (DLD) rarely, if ever, grants import licenses for U.S. pork, other than cooked pork. This policy has been in place for a number of years. The Thai government has never provided reasoning for the arbitrary import permit refusals.

Even in those rare circumstances where import permits have been granted, Thailand imposes an import permit fee of 5 Baht per kilogram (excess of the cost of any legitimate inspection fees), currently equal to about $150 per metric ton (MT), on import permits for pork and pork offal.

Russia

As a part of Russia's WTO Accession commitments, Russia agreed to establish tariff rate quotas arrangements for pork that should offer enhanced opportunities for U.S. pork exports. Russia established a global TRQ of 400,000 metric tons for pork, and 30,000 MT for pork trimmings. The in quota duty on the pork TRQs is zero and the out of quota rate will be set at 65 percent. Russia also agreed that in 2020 it will eliminate the pork TRQs, replacing them with a flat 25 percent import duty. However, the benefits of WTO accession have been nullified by Russia's failure to abide by WTO rules.

Today, Russia maintains numerous barriers on U.S. pork exports through its zero tolerance on pathogens (which no country, not even Russia, can guarantee) to its ban on ractopamine and the unjustifiable delisting of U.S. pork plants as eligible to ship product to Russia. All these and other barriers have reduced U.S. pork exports to only $17 million in 2013, down from nearly $440 million in 2008.

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