

PERSPECTIVES ON U.S. AGRICULTURAL TRADE

HEARING BEFORE THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE ONE HUNDRED FIFTEENTH CONGRESS SECOND SESSION

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PERSPECTIVES ON U.S. AGRICULTURAL TRADE

Thursday, September 13, 2018

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

The Committee met, pursuant to notice, at 10:11 a.m., in room 328A, Russell Senate Office Building, Hon. Pat Roberts, Chairman of the Committee, presiding.

Present: Senators Roberts, Boozman, Hoeven, Ernst, Grassley, Thune, Daines, Fischer, Hyde-Smith, Stabenow, Brown, Klobuchar, Bennet, Gillibrand, Donnelly, Casey, and Smith.

STATEMENT OF HON. PAT ROBERTS, U.S. SENATOR FROM THE STATE OF KANSAS, CHAIRMAN, U.S. COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman ROBERTS. Good morning. I call this meeting of the Senate Committee on Agriculture, Nutrition, and Forestry to order.

The last couple of years have been very busy for members of the Senate Ag Committee as we have worked hard to produce a 2018 farm bill that will provide certainty and predictability for United States farmers, ranchers, growers, and everybody up and down the food chain.

As I have traveled Kansas and other areas around the country, having a farm bill in place certainly tops the list of concerns that I hear about, and the Conference Committee is doing our work, our very best to get a bill to the finish line as soon as possible.

Along with that, I also hear about trade. I hear from wheat growers about the need for market access to sell what they have produced. I hear from beef producers about barriers to trade that are preventing their product from entering an export market. I hear from producers all across the agriculture industry and all across our value chain about how trade policies impact their prices, their decisions, and their livelihoods.

These are not new concerns. The United States has long had to work to overcome barriers to trade around the world. Sometimes those barriers are regulations not based on sound science. They might impact specific regions or products. Sometimes barriers are foreign governments that consistently choose not to adhere to or abide by the same rules to which we all have agreed.

We need to hold our trading partners accountable, but I am concerned that some of the trade actions we have seen in recent years are causing uncertainty and unpredictability for the agriculture industry. On top of already low prices, the agriculture sector has

seen immediate negative impacts as a result of retaliatory trade actions.

As time goes on without resolution the concern of losing long-term market access only grows. I know that Secretary Perdue and the Department of Agriculture also recognize the need for long-term certainty and have made efforts to provide temporary relief to our hardworking producers.

For years, the United States has worked to establish itself as a reliable supplier around the world through domestic agriculture policies, like the farm bill, and through strong international trade policies. Free trade agreements, including CAFTA, Korea, and many others, have boosted the agriculture economy and supported broader U.S. economic growth. And, of course, there is NAFTA.

In the early 1990's, as Ranking Member of the House Agriculture Committee, I traveled with my dear friend Chairman Kika de la Garza of Texas to build support for the brand-new North America Free Trade Agreement, or NAFTA. At that time the total value of U.S. agriculture exports was \$43 billion. Since 1994, when NAFTA went into force, the value of U.S. agriculture exports to Canada has increased by 271 percent, and to Mexico by 305 percent, and in 2017, the total value of U.S. agriculture exports was over \$138 billion.

Let me repeat that. Over the time that NAFTA has been in force, the total value of U.S. agriculture exports has increased from \$43 billion to over \$138 billion. I have been encouraged to hear that the effort to modernize and strengthen NAFTA has been progressing. The announcement a couple of weeks ago that the U.S. and Mexico had reached an agreement that will preserve the trading relationship the agriculture industry already enjoys was certainly very welcome news—the light at the end of the tunnel, if you will. I know that our team at the Office of U.S. Trade Representative is working hard, even as we speak, to bring our friends from Canada into the agreement as well. I hope that we hear news on a strong NAFTA agreement very soon.

Progress on NAFTA is extremely important, but equally so is the need for the United States to aggressively continue pursuing new free trade agreements all around the world. Simply put, the entire food and agriculture value chain relies on that effort.

This was particularly recognized in the last farm bill process when Congress, led by this Committee, created the position of the Under Secretary for Trade and Foreign Agricultural Affairs at the Department of Agriculture. I thank Secretary Perdue for implementing this new position, and, Under Secretary McKinney, thank you so much for your willingness to lead these efforts and for joining us today.

Ambassador Doud, it is great to have you at the USTR working on behalf of agriculture. Welcome back to the Agriculture Committee, your former stomping grounds.

Thank you to Rob Johansson, Chief Economist at the Department of Agriculture, for being willing to share your expertise this morning as well. I look forward to hearing from all of you on your perspectives on U.S. agricultural trade.

With that, I recognize Senator Stabenow for any remarks she might have to make.

**STATEMENT OF HON. DEBBIE STABENOW, U.S. SENATOR
FROM THE STATE OF MICHIGAN**

Senator STABENOW. Well, thank you, Mr. Chairman, for holding this hearing to discuss what we know is one of the most pressing issues facing agriculture. I also just want to indicate my gratitude and thanks for your leadership as we are continuing to work hard to get a farm bill done. I appreciate very much our working relationship on behalf of the Senate.

I also would note that even though the Senate completed its voting last night, members are here rather than on planes because of the importance of this subject. This is critically important to all of our producers. So, Ambassador Doud and Under Secretary McKinney and Dr. Johansson, welcome. It is good to see you again.

We all know that our farmers are no strangers to uncertainty. They experience it every day when they check the weather forecasts, when they look at the markets, when their crops are challenged by invasive pests and diseases. On top of all that, there are now more unknowns around agricultural exports and trade.

Mr. Chairman, you and I have worked together on this not only here but as senior members of the Finance Committee, and we sit in a lot of meetings where we are bringing agriculture's needs forward. Ahead of this hearing, I had a call with agriculture leaders from across Michigan to hear directly from them, and no surprise, I heard loudly and clearly that our farmers need markets in order to be successful, and there are impacts that are occurring right now because of the uncertainty.

Agricultural exports add over \$8.4 billion to the U.S. economy each year, while supporting more than 1 million American jobs on and off the farm. We recognized this in the Senate farm bill by providing permanent expanded investments for critical trade promotion initiatives that open new markets to American-grown agricultural products. This kind of long-term market development has helped Michigan-grown crops like cherries and navy beans make it onto plates all across the world.

However, retaliatory tariffs are putting these trading relationships and so many more in jeopardy. It is estimated that American dairy farmers will take a \$1.5 billion hit this year due to tariffs imposed by Mexico and China. That is on top of the \$40 million that Michigan dairies lost in income last year due to Canada's unfair Class 7 pricing system.

Our farmers are also feeling the impact indirectly. When Washington State can no longer ship their apples to China, it makes it harder for Michigan apple growers to be able to compete at home.

To address the impact of the tariffs, the administration has proposed up to \$12 billion in emergency aid for some farmers—some farmers—affected. The reaction from many of the farmers I have spoken with is not surprising. They want trade, not aid.

While I look forward to hearing more about the details and the methodology behind this package, we must acknowledge that temporary solutions only go so far. We need to be mindful of the long-term impacts for agriculture. Producers in my State are concerned that current and future administrative actions could result in agriculture permanently losing important trading partners. I agree that we need strong, meaningful trade enforcement when countries

like China break the rules. I have certainly been out there strongly and vocally on that. I also agree that it makes sense to update—and I also agree it makes sense to update NAFTA. A lot has changed since its inception in 1994. There is certainly room for improvement in a number of areas when it comes to certainly dairy in Canada and others. However, all negotiations must be done thoughtfully, looking at the long-term impact. We also need to get them done so there is certainty.

Mr. Chairman, you and I have urged the administration to get it right. American farmers cannot be collateral damage. There are many actions this administration can and should take now that will help our farmers with long-term stability, not just short-term relief, from trade negotiations that affect exports to stopping unfair competition from imports. I intend to raise several of these issues today as well as in writing to each of you.

The bottom line is that agriculture should not be an afterthought when it comes to trade, which is why we are here, and all of us care deeply about this. So I look forward to hearing from our witnesses, and we are anxious to know how we can work with you to ensure our farmers are not left behind.

Thank you, Mr. Chairman.

Chairman ROBERTS. I thank the Senator. Welcome to our panel of witnesses before the Committee as of this morning.

Our first witness is Ambassador Gregg Doud, who serves as our Chief Agricultural Negotiator in the Office of U.S. Trade Representative. Gregg was raised on a farm in Mankato, Kansas, America, and graduated from Kansas State University, formerly the home of the ever optimistic and fighting Wildcats. From his time working to develop markets for the U.S. Wheat Association and later the National Cattlemen's Beef Association, he certainly has an understanding of trade's impact on agriculture and, finally, he worked on another important issue, something called a "farm bill" as a staffer on the Senate Ag Committee during my time as Ranking Member. With his notable experience with global agricultural trade, I am confident that he has and will continue to represent the voices of farmers and ranchers in his current role at the USTR. Ambassador Doud, welcome back. I look forward to your testimony.

Next we have Under Secretary for Trade and Foreign Agricultural Affairs Ted McKinney, who coordinates agricultural trade across the Department of Agriculture. Under Secretary McKinney formerly served as Director of the Indiana State Department of Agriculture under then-Governors Mike Pence and Eric Holcomb. He also worked for 19 years with Dow AgroSciences and 14 years with Elanco as Director of Corporate Global Affairs. Under Secretary McKinney hails from Tipton, Indiana, and is a graduate of Purdue University. Ted is no stranger to the Committee as he was here for his confirmation hearings almost a year ago. Welcome back, Under Secretary McKinney. I look forward to your testimony.

Additionally, Dr. Rob Johansson has agreed to join our witness panel as a resource for any question related to trade mitigation payments or activities at the Department of Agriculture. Dr. Johansson serves as the Chief Economist at the Department. Thank you for joining us today. Gregg, why don't you start off?

STATEMENT OF THE HONORABLE GREGG DOUD, CHIEF AGRICULTURAL NEGOTIATOR, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, WASHINGTON, D.C.

Ambassador DOUD. Chairman Roberts, Ranking Member Stabenow, and all members of the Committee, thank you for the opportunity to join my colleagues from the Department of Agriculture this morning in testifying on the administration's agricultural trade policy agenda on behalf of President Trump and Ambassador Lighthizer.

It is impossible to testify today without first mentioning the renegotiation of NAFTA and the benefits for U.S. agriculture. We are working diligently to bring a successful closure to NAFTA that fulfills our Trade Promotion Authority requirements. We have recently reached an agreement with Mexico that improves on NAFTA in almost every way. On agriculture, it maintains our farmers' and ranchers' tariff-free access to the Mexican market and modernizes the agreement in important ways that will cut red tape on our southern border. Currently, Ambassador Lighthizer and my colleagues at USTR are working to improve our agricultural situation with Canada, particularly in the areas of dairy, poultry, eggs, grain, wine, and other products.

When I first testified to the Senate Finance Committee during my confirmation process, I discussed how, in terms of U.S. agriculture, we play offense. Since the confirmation of my fellow deputies and myself, we are undergoing thorough analyses of future FTA partners.

We are looking into the benefits of potential partners in Southeast Asia and Africa, and I look forward to working with Congress through the TPA process as these considerations evolve.

Increasing our dialog with Japan continues to be a priority for us at USTR. A high-level delegation of Japanese officials came to USTR last month to discuss ways to expand and improve our bilateral trade.

These discussions are continuing, and we fully recognize the importance to U.S. agriculture of expanding market access into Japan. We are determined to put our producers and agribusinesses on a level playing field with other countries, such as Australia, Canada, and the European Union.

In July, President Trump and European Commission President Juncker launched an initiative to promote more free, fair, and reciprocal trade. We understand that there are many sensitivities surrounding agricultural trade, but including agriculture in any negotiations with the EU remains a priority for this administration. Currently, the United States runs an agricultural trade deficit of over \$15 billion with the EU, which is partly indicative of the scope of market access issues and nontariff barriers for U.S. agriculture into the EU.

In May, I traveled to Geneva to deliver the United States' first ever counter-notification to the WTO's Committee on Agriculture concerning India's market price support for rice and wheat. Every rice-and wheat-producing country around the world should be concerned about the trade effects of India's trade-distorting domestic supports.

At the WTO, we are pushing forward the largest agricultural disputes in history against China for its market price support policies and unfair administration of its tariff rate quotas. We estimate that China has exceeded its *de minimis* levels of domestic support for rice, wheat, and corn by some \$100 billion. We also estimate that if China had administered its TRQs for rice, wheat, and corn according to its WTO commitments, they would have imported billions more in rice, wheat, and corn from all sources. We currently have seven offensive WTO disputes exclusively for U.S. agriculture and six more on retaliatory duties by our trading partners on agriculture and other products.

Under section 301 of the 1974 Trade Act, USTR launched an investigation into China's unfair technology transfer regime. In response, USTR implemented tariffs on \$50 billion of Chinese imports, while another \$200 billion is under active consideration. These tariffs are intended to address longstanding unfair and discriminatory Chinese trade and investment practices with respect to intellectual property and to encourage China to eliminate its harmful behavior and adopt policies that will lead to fairer markets for all citizens.

The correct response would be for China to change its unfair and discriminatory IP practices, and until then the President is committed to having the backs of our farmers and ranchers by working to address the damage inflicted by China's unjustified retaliatory actions.

Finally, I am disappointed that in recent months our trading partners have decided to retaliate against nearly \$30 billion of our \$143 billion in agricultural exports following necessary actions taken under our trade laws to defend our national security or to respond to unfair trade practices. We are taking action at the WTO to counter this unjustified retaliation.

I often tell people that the easy issues in agriculture were resolved a long time ago. For example, earlier this year USTR and USDA announced market access to Argentina for U.S. pork and poultry to Morocco. These are longstanding issues. Under Secretary McKinney and I will continue to work closely together to coordinate our efforts to expand upon our \$143 billion in ag exports, and I thank the members of this Committee for their time today, and I look forward to answering your questions.

[The prepared statement of Ambassador Doud can be found on page 38 in the appendix.]

Chairman ROBERTS. We thank you for your testimony, Gregg.

STATEMENT OF THE HONORABLE TED McKINNEY, UNDER SECRETARY FOR TRADE AND FOREIGN AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.;

ACCOMPANIED BY ROBERT JOHANSSON, PH.D., CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Mr. McKINNEY. Thank you, Mr. Chairman, Ranking Member Stabenow, and members of the Committee. It is good to be back with you.

I am pleased to appear before you and welcome the opportunity to discuss the efforts of USDA on behalf of U.S. ag exporters. First,

I must thank the President and Secretary Sonny Perdue for their faith in me to take on this first-ever role as Under Secretary for Trade and Foreign Agricultural Affairs and thank this Committee for creating the opportunity for this position in the 2014 farm bill, and Secretary Perdue for making it happen.

First, about the mission area I lead, the mission area promotes ag exports, works to reduce trade barriers, and opens new markets for farm products, all in collaboration with our friends at USTR and other agencies. My area includes the Foreign Agricultural Service and now the U.S. Codex Alimentarius Office.

As Under Secretary, I embraced the charge from Secretary Perdue to be American agriculture's unapologetic advocate around the world, and since my confirmation, I have done my best to earn that Million Miler Club participant that Secretary Perdue expects. I think I am at about 300,000 right now.

My travels began 2 weeks after the confirmation when we led a full ag trade mission group to India. Since then I have been to Mexico, Central America, Colombia, Europe, Brazil, Japan, Dubai, China, Vietnam, Southeast Asia, and some of these twice—all to advance our trade issues and expand exports.

Last week, as an example, I provided the keynote address at Ireland's Ag Science Association, very good and interesting group, and prior to that was in Brussels to meet with key members of the European Commission. At all of these stops, as with all others, I make clear that we seek only free and fair two-way trade, always based on science-based decisionmaking, and those are all very important.

Looking ahead, before the year is out, I will lead an ag trade mission to South Africa. Simultaneously, my colleagues at FAS will lead a similar group to South Africa. Thereafter, we will be in the Philippines and Thailand. All told, when the year is complete, we will have doubled the number of formal ag trade missions from years past, and that does not include the bilateral, singular, sort of "me only" meetings on bilateral trips.

A bit about ag trade accomplishments. Ambassador Doud testified on a couple of these. We are making some headway. Last year, these included easing of regulations on U.S. citrus into the EU, resumption of U.S. DDGs into Vietnam, reentry of U.S. chipping potatoes in Japan, and, very importantly, lifting of South Korea's ban on the imports of U.S. poultry.

In July, Secretary Perdue celebrated the reintroduction of pork into Argentina after more than 25 years by slicing a 10-pound U.S. honey-baked ham. In August, Ambassador Lighthizer and Secretary Perdue announced that Morocco has agreed to allow commercial imports of U.S. poultry meat and products for the first time ever. We continue to work with Gregg and his colleague on NAFTA. At any given time, I have got 6 to 20 people supporting NAFTA and other negotiations, and glad to do it. That does not touch many, many more we hope can be announced in coming weeks and months.

A moment on CODEX. With respect to this office, we have strengthened the group in numbers. We will add outreach to the regions of the world and always will base it on good science but with great vigor. I am trying to earn what I said to you would be a happy warrior.

A little bit about mitigation, and you spoke about this, Mr. Chairman. In response to unjustified retaliation by China in particular and other countries, the President directed Secretary Perdue to craft a short-term relief strategy to protect agricultural producers while the administration works on free, fair, and reciprocal trade deals. As you mentioned, it is a \$12 billion, three-part mitigation program. Let me touch very quickly.

The first leg of the stool is the Market Facilitation Program administered by my colleague Bill Northey and his team at the Farm Service Agency. It provides payments to producers of certain crops and livestock that are negatively affected by these unfair counter-tariffs.

The second leg involves the Food Purchase and Distribution Program that is managed by my colleague Greg Ibach, Under Secretary for the ag marketing area, and deals with affected commodities.

The third leg of the stool, the Agricultural Trade Promotion Program, will be administered by my team. This is \$200 million in cost-share assistance—let me repeat that. It is cost-share, which is the hallmark of that program. It will be made available to eligible U.S. organizations who have suffered damage from these unjustified retaliated trade activity. That program will focus on new markets and mitigation in select existing markets, but more the former than the latter. Areas of work include advertising, PR, points of sale demonstration, trade fairs, exhibits, market research, and other activities. Our group does this very well through a similar programs that you know well, the Market Access Program and the Foreign Market Development Program.

In conclusion, the agricultural exports contribute to prosperity in and well beyond rural America. It is a privilege to serve as a strong advocate for U.S. agricultural worldwide.

Mr. Chairman, that concludes my statement. I would be interested and pleased to answer any questions.

[The prepared statement of Mr. McKinney can be found on page 41 in the Appendix.]

Chairman ROBERTS. Thank you very much Dr. Johansson.

Mr. JOHANSSON. Thank you, Chairman and Ranking Member. I am happy to answer any questions that you may have regarding the Marketing Facilitation Programs or on the Food Purchase and Distribution Program.

Thank you.

Chairman ROBERTS. If only we had more witnesses like yourself. [Laughter.]

Chairman ROBERTS. Ambassador Doud, I have been pleased to hear of progress on finalizing a NAFTA agreement, I hope, that preserves the strong trading relationship between the United States, Mexico, and Canada, if we can bring them along. There has been a great deal of discussion surrounding the success of the existing NAFTA agreement.

Generally for agriculture, the benefits of the agreement are without question. There are examples, however, such as restrictive policies, more especially with Canada, on grain grading standards or dairy where there is room for improvement. With “Do no harm” remaining the top priority of the ag sector, what opportunities do you

see for farmers and ranchers and growers in a new and improved NAFTA?

Ambassador DOUD. Thank you, Mr. Chairman. You know, the first thing you have to do in these kinds of discussions is look toward the future and, you know, it has been 25 years since NAFTA. We have to think about what things are going to look like in another 25 years. I think the first piece of this is obviously we keep the tariffs at zero. Obviously, you know, the mantra of "Do no harm" has been throughout this discussion. In sanitary and phytosanitary land, the issues that we deal with so very often between USDA and USTR in agriculture, we have got to set the stage to improve the discussion and the dialog in NAFTA and around the world. I think we have done that with the additional ability to have conversations with regard to SPS and also, in particular, with Ag biotechnology. The goal with ag biotechnology is to not talk about current technology, but to anticipate what we have coming around the corner in terms of the new gene-editing technology, CRISPR, et cetera, and those are the areas that we work very hard on with Mexico in this agreement.

Chairman ROBERTS. Under Secretary McKinney, beyond strengthening current agreements, we should be aggressively seeking new trade agreements with countries like Japan, Vietnam, and the United Kingdom, and others as well. How do you view the strategy on new free trade agreements working alongside what we are currently facing in market loss due to retaliatory tariffs?

Mr. MCKINNEY. Thank you, Mr. Chairman. Well, there are two or three points.

First, I think we have already exhibited some success. Most of the countries that you heard me cite that we visited are ones we have not normally paid a lot of attention to. Let me cite the ag trade mission to Guatemala. I went thinking this would be a nice trip; we would have some good results. The visit to Guatemala, Honduras, and El Salvador set the all-time record high in sales of agricultural products from across the U.S. in the history of the Foreign Agricultural Service, so much so that we had to set the top two aside to validate that they got the message to estimate conservatively what their sales might look like over the next 12 months. Now, not all are this way, but we are seeing record attendance and record sales through these trade missions. So that is the first thing.

The second thing is we look proactively as we go on offense, as Ambassador Doud said. You will be pleased to know that, as we cited and listed the candidate countries we want to go pursue for free trade agreements or bilaterals, the good news it was almost identical to the list that Gregg and his team cited. I think if we flipped one or two countries, they would have been identical. Certainly the top five were in the same category. We took that as positive. Many of the countries I listed are the ones that we are going to followup later or USTR will take the lead on. So we are cultivating those and developing them.

Finally, you know, I think that there is some evidence that we are seeing some growth in the countries that we have already opened. Beef and pork, for example, into South Korea after the

KORUS agreement has been at record levels, and this is the pattern we would like to emulate across the board.

So I hope that we are already starting to pave the way with many of these countries that we need to go back to. For sure, some will be long and arduous. I cite India—great country, one we must invest in. I think for a while they are going to be very difficult, with a tendency to throw tariffs up, as are many others.

This is where I appreciate the strong hand of the President, Secretary Perdue, and Ambassador Lighthizer. People know that we mean what we say, that we believe that GSP, for example, is a serious thing that cannot be abused, that when you introduce non-tariff trade barriers, which is very, very common, there is a consequence.

So I think we are rounding a corner, and I am very optimistic for the future.

Chairman ROBERTS. Do you have any comment on this, Ambassador Doud?

Ambassador DOUD. I think Under Secretary McKinney summed it up very well, Senator.

Chairman ROBERTS. I want to get into trade mitigation here for just a moment. The trade assistance package that the Department is implementing includes the Agricultural Trade Promotion Program. ATP—I beg my colleagues' deference here in going over time; I know you will forgive me—will assist exporters in market access around the world. What I want to know is, this program, does it complement existing export programs? You mentioned the Market Access Program or the Foreign Market Development Program. How will you ensure resources are not duplicative? Real quick, Ambassador.

Mr. MCKINNEY. Sure, I can be quick.

Chairman ROBERTS. Pardon me. Under Secretary.

Mr. MCKINNEY. That is okay. I have a twin brother, so I answer to "Hey, you."

[Laughter.]

Mr. MCKINNEY. They are highly complementary, and let me remind you, if you have not already heard, the Market Access Program and now the complementary program that we are introducing are beloved. They might just be one of the finest creations of U.S. Government. They are that highly regarded.

What people are looking at is, first and primarily, where can these moneys be applied where we have not had the funds to invest in the future. I heard that many people lobby you folks for additional funds to MAP and FMD. So consider this as an opportunity for folks to finally dive into export markets where they have not been or at least not at the presence they would like to. I think that is the first and primary focus. And, for sure, some would like to dedicate some of these new funds—the "surge," if I can use that word—into maybe mitigating some lost sales or some hurt feelings or whatever the case might be in existing markets.

So as we speak, there is a lot of discussion going with all the commodity organizations you might imagine, and they include the organizations and the products that come from all the farms and ranches in your States, and we are working with them. We encour-

age creativity, new markets, some mitigation, and products or programs that will work full-time.

So certainly this is very much like the Market Access or Foreign Market Development Program, but boy, oh, boy, is it exciting for them to finally get into some territories they have not experienced yet—at least not very much.

Chairman ROBERTS. Senator Bennet had to leave in that he is booked on a plane to Colorado, but he had this question for Dr. Johansson, and, Under Secretary McKinney, you can weigh in if you want, which means I have another 2 minutes.

The largest program in the administration's trade mitigation package is the Market Facilitation Program. Can you offer some background on how the Department determined the methodology and the payment rates for the different commodities eligible for the program? I say this, when the Secretary called me, Secretary Perdue, indicating that there would be a program like this, even though many groups had come to the White House and said we do not want aid, we want trade, and that has sort of been the hallmark. We do have this mitigation program, and I think that is probably the best description. How is the methodology and the payment rates for different commodities eligible for the program? The reason I ask that is I told the Secretary that once you announce a program like this, you are going to have a heck of a time stopping it for the next year and the next year and the next year, and every possible farm organization and commodity group will complain that it is not equal to their circumstance, which I have heard virtually from every commodity organization and farm organization I know of. I think probably everybody here has.

Could you elucidate on the methodology and how you came to that?

Mr. JOHANSSON. Thank you, Mr. Chairman, and, of course, Senator Bennet for his question. I am sure we have heard a similar question and ideas about how such a program could be designed from a variety of commodity groups, as you can imagine, as you mentioned.

So putting such a program together, we were faced with the objective of trying to be fair across commodity groups, as fair as possible. We were also constrained a little bit by some of the existing tools that we have for developing such a program. So, as you know, we utilized authorities under CCC Section 5, and that has certain prescriptions on how we should go about setting up such programs.

I think the main point that I want to make today—and I will point out that we are going to be publishing a white paper today and putting it on the USDA Office of the Chief Economist website that explains this fully. You know, we have been trying to do that in in-person meetings, but we have written it down, and we are going to be putting it out shortly.

This is a trade program, retaliatory tariffs, that we are trying to address. We were not trying to address the vast array of other trade issues that have come up already today. This was specifically targeted to the 232 and 301 retaliatory tariffs, and so we wanted to make sure that our program was able to reflect those tariffs and those tariff levels from the countries that are levying those tariffs on the specific commodities that are listed under those tariff re-

gimes. We wanted to do so in, as I mentioned, an equitable and consistent manner across the different commodity groups.

So there are a lot of different models that can be developed from an economic perspective to reflect trade damage. We wanted to focus on a trade damage approach, which is similar to what we would normally use if we were to go and support USTR and actions at the WTO in Geneva when we go there to argue that a country's actions are unwarranted and we are claiming damage from those actions.

In that sense, we used a trade model that reflects essentially, as Senator Bennet pointed out, those commodities that were exported to the countries that are retaliating, are going to show the highest trade damage effects from these tariffs. That is why you see such a large component of the program being directed to producers of soybeans since soybeans was our largest export to China and, on the other hand, for producers of corn, for example, we do not sell as much corn for a lot of reasons understandably, to the retaliating countries, the EU and China, and that is why the payments to corn producers are so much smaller.

So, essentially, again, we just wanted to be consistent. We did know that for the majority of this program, we were going to have to do a rulemaking. In that sense, we also needed to follow the prescriptions that we would normally have to go through in order to publish a rule in the Federal Register and incorporating inter-agency comments from OMB as well as other White House offices, USTR included.

So I will stop there and see if we have any follow-up questions from some of the other members here.

Chairman ROBERTS. Obviously, Senator Bennet's time has expired, but Senator Hoeven just left. He wanted 5 minutes and whispered to me the question that he wanted to be answered. Senators were up there at the White House on the day that the President announced the decision along with the President of the European Common Market that they had decided no tariffs would be the best policy, and we all applauded that. Then we went around the room, and Congressman Newhouse from Washington pointed out he was a cherry producer, and he lost his whole crop. Then I find there is nothing for cherries. Now, I am not here to advocate cherries in particular, but Senator Stabenow was on the floor. She gets that from everybody on her side of the aisle. I get it from my side of the aisle with regards to commodity versus commodity versus commodity.

So I am very interested in your white paper. I know you are doing the best you can, and it is a difficult job. You can understand our concern when people come and say, "Well, wait a minute." Then, of course, you can get on the exclusion or the addition list, whichever one we are talking about, of which there must be at least a thousand or two already on that list.

Senator Stabenow?

Senator STABENOW. Well, thank you, Mr. Chairman. You do a good lead-in because I actually do advocate for cherries as well as a wide variety of commodities that we grow in Michigan. And, of course, we care about what is happening all over the country.

I do want to say thank you—my question was going to be about releasing the methodology and assumptions in calculating the amount of trade mitigation, and so I will look forward as well, I know my growers do, in terms of seeing the white paper.

First, for our USTR Ag Negotiator, Gregg Doud, thank you for all of your efforts, Ambassador, and I want to thank you and Ambassador Lighthizer for considering the cherry industry's petition to revoke Turkey's unfair duty-free access for imports of cherry juice. We have a huge issue going on right now for that industry, as you know. I hope we can expect a timely and favorable decision on this critical issue.

Let me talk about and ask you a question about NAFTA. We have heard about the initial agreement with Mexico, which contains a zero tariff on U.S. agricultural exports to Mexico. However, many of our U.S. agricultural products, including dairy and apples and pork, face substantial tariffs in Mexico due to the steel and aluminum tariffs. What is the path forward and timeline to reach an agreement with Mexico to resolve these tariffs in a key export market for our U.S. farmers?

Ambassador DOUD. Senator, I appreciate the question. The answer is, first of all, that Section 232 tariffs are administered by the Department of Commerce—

Senator STABENOW. Sure.

Ambassador DOUD.—not by USTR, so that is not really something that is in our job jar at—

Senator STABENOW. I hope you will weigh in, though, because of what is happening.

Ambassador DOUD. I appreciate your comments. My understanding is that part of the discussion is on a separate track and not a part of what we are working on right now.

Senator STABENOW. Really? Okay. Because, unfortunately, all of this is coming together from a producer's standpoint, as you know. It does not matter which department, which agency, what effort. It lands on them. So they are deeply concerned.

I want to talk a little bit more and ask Dr. Johansson about the Market Facilitation Program, and I am anxious to see the methodology and so on. I had send the Department and the Secretary a list of the commodities in Michigan and their concerns in a number of ways—tariffs, nontariff barriers, and a number of things that are happening that I had hoped would be considered. They have pushed back on me about the fact that—about the fairness of what is happening already, and here is what I get asked: Through the Market Facilitation Program to assist producers harmed by trade disruptions, USDA is planning to provide \$277 million in payments to our cotton producers. This is despite strong cotton prices in 2018 and recent forecasts that cotton prices will continue to increase over the coming months.

In March, USDA used the same CCC charter act authority to make \$150 million in direct payments only to cotton farmers. Certainly, you know, this is not about picking on cotton farmers, but we have a lot of folks that have been hit. At the same time, commodities that we produce in Michigan—dairy, corn, dry beans, fruit, and others—continue to struggle with very low prices and receive less help through the administration's Trade Assistance Plan.

So can you explain how USDA determined that a commodity with increasing prices that received significant assistance earlier in the year should receive more assistance than the other commodities who have seen their prices go down?

Mr. JOHANSSON. Thank you, Ranking Member, for the question. Obviously, as I mentioned, there are a lot of different ways that we could have used estimation techniques to develop the program. This particular program that we are talking about today, the Trade Facilitation Mitigation Programs that the Department has put together, as Under Secretary McKinney mentioned, the three different programs, and some are intended to address pieces that the others may not.

In the case of prices, for example, as you mentioned, a lot of the commodity groups have come in to talk to us, have pointed at perhaps how much prices have changed since the late spring, early summer period when the countries that were retaliating announced their activities, and prices have fallen dramatically since that point.

Now, of course, we have seen a lot of other reasons why prices may have fallen, whether that be through increased production or other activities or weather conditions in other countries, for example.

So when we put this program together, you know, certainly one way we could have done it is by keying off of prices. We decided not to use the price-driven methodology but to look at gross trade damages. Trade damages are going to be simply higher for those commodities that have exported significant quantities to China or to the other countries that are retaliating. And, of course, we sell a lot of cotton to China, and that is the reason why we would expect these tariffs to significantly impact cotton exports to China.

So because we use the trade—sort of the WTO approach of looking at trade damages and not necessarily looking specifically to prices, we show damages from the tariffs to the 232 and 301 actions to be what they are for soybeans, cotton, sorghum, and down the list, including some of the specialty crops and fruit and commodities.

That being said, going forward into the fall, as we see harvests continue and we see market conditions change, as you will note, we announced for the Market Facilitation Program in particular, the first phase of the program, and the second phase if needed will be developed over the coming months and announced in December, and that may include consideration of other factors such as prices, trade, other tariffs that may occur, or as some of the other Senators are likely to ask later today, basis effects that you may see in different parts of the country.

So, again, hopefully that answers your question.

Senator STABENOW. Well, it—sort of. I appreciate the answer. I guess I would say I am still confused by an area where we see prices continuing to go up, maybe not as high as they would have gone, but are still going up, and we have so many producers where it is actually going down in real terms.

I have one more quick followup, though, Dr. Johansson, to you. Not every commodity affected by retaliatory tariffs has faced the same impacts from trade disruptions. For example, many producers

of perishable commodities such as dairy and specialty crops were impacted immediately while other producers may have utilized forward contracting or futures markets to sell their crop before prices fell. How were these factors considered in allocating assistance under the Tariff Mitigation Plan?

Mr. JOHANSSON. Now, I think your questions are raising a lot of the real key considerations that make developing this program and launching it in an equitable fashion as possible very difficult. There are a lot of considerations such as, you know, we wanted to put the program out there in time for producers to respond to in a fairly rapid fashion. That is why the Secretary announced this program at the beginning of September. We could have waited over time to see how sales and harvests had been affected, but we wanted to try and get these mitigation measures in place as quickly as possible. I would say that we are trying to move forward on the perishable commodities in a similar fashion. We are working to address, for example, almonds and cherries. We are still working on those since they were a little bit more difficult to work into two of three types of programs that we had. And, of course, all of the commodities are eligible and are encouraged to work with Under Secretary McKinney and his team on developing new markets, and I would maybe ask Under Secretary McKinney if he wants to add anything to that effect.

Mr. MCKINNEY. Just that we have been meeting with I think every commodity group known to man and woman alike, and they are answering the challenge of being creative and looking at those new markets. Again, it is open to all the cooperators who have been negatively affected, so that certainly includes, well, many—I would say all of the crops that I am familiar with in Michigan.

So we will have to see how they come out because we have not finalized and have not received their final proposals. Those are due November 2. We will then take until early January and then funds will be released. I did not add that in my testimony.

Senator STABENOW. Thank you very much. I will add some additional questions in writing, but as you know, it is not just retaliatory tariffs that are affecting us, but all of the other things that are happening around that. So I would urge you to look at all of those impacts. Thank you.

Thank you, Mr. Chairman.

Chairman ROBERTS. Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman.

Today's hearing is so important in regard to trade. It is all about trying to provide some certainty to our farm community that is struggling so, so very much. Then also the other thing that we have got going on is the farm bill, and I want to thank Senator Stabenow and Senator Roberts of providing the leadership that we need to get that done. Again, that is all about certainty and trying to put the safety nets in place. So we do appreciate you and, even more importantly, your staffs, for their hard work. We know who actually does the work around here. They are working hard.

I just got off my ag tour a couple weeks ago, traveling all around. We do that every year in Arkansas. Certainly trade was right at the top, you know, regarding in the sense that always—it does not matter what the situation. We have got a very difficult situation

now. The retaliatory actions are always against agriculture first, and that is the situation that we are in.

So I think, you know, the farmers in Arkansas are willing to work with the administration. They understand, you know, that we need not only free trade but fair trade. On the other hand, they are anxious to wrap this up as quickly as possible.

The other thing—and our farmers are smart. They understand that we have got 95—we have got five customers in the United States. We have got 95 all over the world that we need to be selling to, people like Japan, people like Cuba, things like that.

So can you tell us, Ambassador Doud and Under Secretary McKinney, you talked about the trade relationship with Japan. Can you expand on what the next steps should be in regard to getting a market like that in place? Do you see an opportunity for the U.S.-Japan bilateral free trade agreement to come to fruition?

Ambassador DOUD. Senator, this is probably, other than NAFTA, top of mind. Our concern is that I believe it is in April of next year that Europe, their trade agreement with Japan will enter into force. Obviously, Canada and Australia have trade agreements with Japan as part of the TPP apparatus. So we are right here right now, but sometime next year, those three countries' tariffs are going to go down here, and we are going to still be up here. The U.S. industries are already coming in to see me saying, "We need to address this." Let me assure you, we at USTR completely agree. There is not anyone in the building that does not want to do a trade agreement with Japan. We understand this is a sensitive issue. We understand Japan would like us to be a part of TPP. We are committed to engaging with this, and I know for Ambassador Lighthizer, this is a top priority issue for him and the administration, and we are going to continue to work on it. We have got to get there at some point, definitely.

Senator BOOZMAN. What other countries hold the greatest potential for getting an agreement worked out?

Ambassador DOUD. When we refer to Southeast Asia, you know, the other country that is important to us is Vietnam, obviously, and if you do Vietnam and Japan, that is—we have agreements with essentially every other country. That is TPP.

Another country that is quite interesting is the Philippines. You know, as the Chairman knows, I am an old wheat guy from Kansas. Even I was surprised to learn that the Philippines is our No. 3 market for U.S. wheat today. In my mind, Senator, the Philippines is a legitimate top-ten market for U.S. agriculture. In a lot of ways—and, Ted, you can talk about this—it is probably about where Mexico was 25 years ago. You know, we are having conversations with Indonesia, not in terms of a bilateral but in terms of overall trade discussions. We are very interested in Africa and getting something going there. Obviously, down the road next year we will see what evolves with the U.K. and Brexit.

I have to tell you, what I appreciate more than anything else is my boss, Ambassador Lighthizer, was in Europe this week, and he said here in the Senate when he testified, the first thing he said to Commissioner Malmstrom when he was over there this week is, "Agriculture has to be a part of any trade discussion." That to me is just an incredibly important thing for U.S. agriculture. As we all

know here, dealing with the Europeans in agriculture has been a difficult issue for all the time that we can remember, and I cannot tell you how gratifying it is for the U.S. Trade Representative to say that the first thing in these kinds of discussions.

Senator BOOZMAN. That is excellent. I think I can speak for the Committee that we will help you any way we can in that regard.

Very quickly, because my time is out, but the Iraqi tenders regarding rice, we had a situation where in the past they have disregarded—we have had bids that were actually lower, better-quality rice. The Iraqis went with other countries for some reasons. We have reached a little bit of an agreement there. I guess what I would like is just kind of a yes or no. Will you help us hold their feet to the fire in the sense of keeping their agreements and making sure that we have a free and fair situation in that regard, not only with rice but with whatever comes up.

Mr. MCKINNEY. Yes, always.

Senator BOOZMAN. Thank you very much.

Mr. MCKINNEY. I would just in 30 seconds—

Ambassador DOUD. Absolutely.

Mr. MCKINNEY. You should know that we talk, gosh, at least once and usually two or three times a week so that we are aligned. Part of the reason for my going to some of these countries is we have a little bit more bandwidth, particularly with what is going on with NAFTA and all the different other countries. So we intend to collaborate fully, still want to travel together to one or two locations, and, again, I think—I would not want to suggest that there is no business going on in some of these countries where we want a new free trade agreement or a bilateral or whatever you want to call it. We certainly can build on that. So not just the new ones, but I tell you, the Guatemala experience that I told you about, there are countries where we already have a free trade agreement or something of that sort that we can continue to build on. I will remind you that when we go in, I tell them that we believe in two-way trade. I think there is an intimidation factor out there that we have to address. We are most certainly looking at two-way trade, and when we get there, I think it is a very positive relationship. So we are, once again, looking forward to these.

Senator BOOZMAN. Thank you.

Chairman ROBERTS. Senator Klobuchar.

Senator KLOBUCHAR. Thank you very much. Thank you to all of you. I spoke with you earlier today.

First of all, Minnesota is fourth in the country for ag exports. It is very important to us, and certainly being a State where we can see Canada from our porch, Canada trade is very important. As I have told the Ambassador before, we would like to see Canada as part of any NAFTA agreement, so let me start with Canada.

The administration has signaled its intent to prioritize ending Canada's Class 7 program, Ambassador, which is essentially close the market to U.S. dairy producers as part of the NAFTA negotiations. How have you engaged in these negotiations to ensure that U.S. dairy producers can once again compete in the Canadian market? Is this still a high priority?

Ambassador DOUD. Senator, this is the priority of the moment for us in agriculture. I want to take a moment to tell you that it

has been an extraordinary effort to help Ambassador Lighthizer learn dairy. Chairman Roberts, I remember being on this Committee and having conversations about learning dairy and how difficult that is. Let me assure you that Ambassador Lighthizer has—we spent an enormous amount of time working on this issue, and in good faith both countries are trying to resolve this issue.

Senator KLOBUCHAR. I understand.

Ambassador DOUD. The challenge is how disparate these two systems are between Canada and the U.S., their closed supply management system versus our open system. We are working really hard to try to manage this, and we are going to do our best.

Senator KLOBUCHAR. Okay. Turkey, we are No. 1 for turkeys in Minnesota. I always like to say that. Are you focused on that market as well for turkeys? The other thing would be pork, making sure that Mexico and Canada are No. 2 and three markets for pork. What is happening with those?

Ambassador DOUD. Yes, Senator, the vernacular in these discussions is dairy, poultry, and eggs, and poultry certainly includes dairy—or turkey, excuse me. With regard to pork, obviously that is a very high priority item as well. It is one of our major exports.

Senator KLOBUCHAR. Good. I know Japan came up earlier, but in your testimony you mentioned looking into the benefits of potential partners in Southeast Asia, an increasing dialog with Japan, a critical market. What is the latest on the administration's effort to engage Japan in serious talks about a free trade agreement?

Ambassador DOUD. Well, as I indicated in my testimony, we had conversations last month. This is an issue that the Vice President has directly engaged in, and I believe there will be continuing conversations coming up here. This is a very high priority issue for us.

Senator KLOBUCHAR. Okay. The 25 percent duty placed on soybeans to China has caused significant disruptions given that 57 percent of all U.S. soybeans went to China last year. These duties have hit my State hard because about 60 percent of our State's soybeans are shipped to the west coast. Dr. Johansson, when preparing the methodology to determine payments under the Market Facilitation Program, was any consideration given to regional shipping disparities within each commodity?

Mr. JOHANSSON. So, yes, that is a great question. Basis effects are very obviously complicated to consider, but certainly we have been asked to look at that issue. When we put the current methodology together, we did not do regional effects. There were a number of factors to consider there, transportation certainly being one of them; availability of storage, storage capacity being another; and availability, as you know, of rail shipment capacity to the Pacific Northeast relative to barge capacity down to the gulf. Those are all factors that we are actively examining and looking at, and we will be, you know, continuing to provide the Secretary with that type of information going forward.

Senator KLOBUCHAR. So will you take these unique regional impacts into account if USDA determines that a second round of assistance is necessary?

Mr. JOHANSSON. Well, certainly we are continuing to consider that. I cannot speak for the Secretary or the interagency process, but I would imagine we will bring that information to bear in

terms of putting together the second—if a second phase is required, we will be considering that information, yes.

Senator KLOBUCHAR. Thank you. Under Secretary McKinney, I will spare you questions, as my colleagues are waiting, but I want to thank you again for your good work and your Minnesota connections, which we appreciate.

Mr. MCKINNEY. Thank you very much.

Senator KLOBUCHAR. Thank you.

Chairman ROBERTS. Senator Ernst.

Senator ERNST. Thank you, Mr. Chair, and thanks to our witnesses today for being here. This is a really important topic, as you can tell by the attendance at this Committee. Trade is something that we are very, very engaged in here in the U.S. Congress, and we want to make sure we are doing the right thing for our constituents.

Since the trade spat turned really more into a trade war, we have seen our grain prices drop by anywhere from about 15 to 25 percent. When we look at pork, we have seen their prices drop about 25 percent as well. I do want to thank President Trump and Secretary Perdue for their commitment to America's farmers by providing some relief, but we have heard time and time again today trade, not aid.

So while a lot of our farmers and ranchers will be out there cashing those assistance checks, we have to make sure that our markets are being opened. So I am encouraged to hear that we are looking at Japan and the EU and others, but we have got to get them done, folks. So I await the day when we actually see that done.

Dr. Johansson, many farmers across Iowa were really shocked when they saw that mere 1 percent—or, excuse me, 1-cent point for our corn for the reimbursement or the payment assistance, and through the Market Facilitation Program, despite the significant losses that we have seen since the trade tensions took hold. So we have seen higher tariffs from China that have resulted in a 70-percent tax on U.S. ethanol exports, and prior to the tariff increases, U.S. ethanol exports to China had been up 57 percent year over year. U.S. ethanol is now essentially shut out a growing market while China is transitioning to E10. So we are really missing out in that area.

Can you walk me through how the USDA arrived at the payment rate for those corn farmers? Did your model calculate for the rate for the lost ethanol exports?

Mr. JOHANSSON. So those are great questions. I will just say quickly on the ethanol side, while we did see some increases in ethanol exports, China had already taken some actions relative to our ethanol exports there that had reduced our exports of ethanol to China prior to the 232 and 301 actions being taken. Now, of course, they are also listed as being affected by the tariffs.

That being said, the amount of ethanol we do sell to China would not have been affected specifically looking at the 232 and 301 actions to a significant degree, and the programs were intended primarily to address producers, farmers, and ranchers that were producing primary commodities and not on the process side.

Senator ERNST. But it does have a direct effect for those corn farmers, though.

Mr. JOHANSSON. That is right. It certainly would.

On the corn side, as I mentioned earlier, we looked at a trade model that is keying off of 2017 exports to the affected commodities, and I will just provide a highlight here. On soybeans, for example, the value of soybean exports that were being affected by the tariffs was roughly \$13.9, \$14 billion, and on corn, for example, it was \$300 million. So there is a significant difference between the amount of soybeans and other types of commodities relative to corn, just because corn shipments to the countries that are retaliating were relatively low compared to those other ones, and the methodology that we used for the reasons I talked about earlier were focused on being consistent across the commodities. We are teeing off of our export values to those countries.

Senator ERNST. Okay. Well, I appreciate that, and, again, we would rather have trade, not aid. So we hope that we do not have to see a second round.

Mr. Doud, just very briefly, I met with some pork producers from Iowa yesterday, and they are encouraged by the administration's announcement regarding the modernized trade agreement with Mexico, and we are a large exporter of pork to Mexico. So hog prices are at a 15-year low, and what approach are we using to alleviate this pressure on the pork producers?

Ambassador DOUD. Well, Senator, I think the biggest thing we can do is get NAFTA wrapped up, and we are working on that as aggressively as we can, and obviously, another critical market for our pork producers is Japan. The Chinese, you know, we exported, I think, \$1.25 billion worth of pork to China. My understanding is that, you know, they keep ratcheting the tariffs up there. Some pork was still getting in over the tariff because most of that is variety meats. I would say, you know, we have seen some really interesting things occurring here recently in the lean hog futures contract related to African swine flu in China. I think we all need to keep a very close eye on that.

Senator ERNST. We certainly do, and just in wrapping up, Mr. Chair, I was on the production floor of a meat processor, a pork processor in Iowa just a few weeks ago, and they are currently throwing away some very valuable organs that are normally imported to China, but because of the tariffs, all of that is going to rendering. So a very unfortunate situation for those producers.

Thank you.

Chairman ROBERTS. Senator Bennet, I regret to tell you that on your way up, you—

Senator BENNET. I am here to reclaim my time, Mr. Chairman. [Laughter.]

Chairman ROBERTS. I have already used 5 minutes of your time. But out of the goodness of my heart—

Senator BENNET. You restore my dignity—

Chairman ROBERTS. Out of the goodness of my heart and the good neighborly process with Colorado and Kansas—

Senator BENNET. Thank you, my friend.

Chairman ROBERTS [continuing]. and since you are no longer in the Big 12—

Senator BENNET. I will not go over my time. I appreciate it.

Chairman ROBERTS. I recognize the Senator.

Senator BENNET. I am grateful to you, Mr. Chairman, for holding this hearing. As you can see, there is enormous bipartisan interest, and I think that relates to the uncertainty that has been created here. And, in fairness, it is not just that—Senator Ernst called it the “trade war.” It is also low commodity prices, and in my part of the country drought, that is creating really a huge amount of strain for our farmers and ranchers.

My agriculture commissioner the other day said that you only get to be 22 once, and a young farmer only gets the chance once to decide whether they are going to stay in the business or not. This kind of uncertainty really does not help, and our adversaries understand that, which is why they are doing what they are doing to us.

I raised this with Ambassador Lighthizer once, and he said, “Well, your farmers have my sympathy.” And I said, “They do not need your sympathy. They need you to act rationally and reasonably.”

I appreciate your all being here today. I wanted to ask a little bit about not the uncertainty that I just discussed, but the opportunity cost that is happening to us since the beginning of the Trump administration. There have been 11, by my count, free trade agreements that have been signed without the United States, and these are opportunities we have missed to open new export markets that cause real concern for my farmers and ranchers in Colorado. I am deeply worried, and I wanted to ask you about this, Ambassador Doud, about the long-term consequences as other companies open up to fill these markets. Pork exports to China and Singapore are down by 14 and 40 percent, respectively. Meanwhile, Brazil’s soy exports to China are increasing, and Brazil is on track to capture more market share there. In June alone, China imported 1.6 million tons more soybeans from Brazil than in the previous year. Due to TPP and Japan’s new deal with the EU, U.S. beef annual export losses by 2023 are estimated at \$550 million.

Here are some of the headlines from around the world. Bloomberg: “China reaches into Russia’s Far East and hunt for crop supplies.”

Reuters: “Trade spat with Mexico speeds U.S. decline as global wheat supplier.”

Reuters: “Brazil, China trade to reach new levels in global trade spat.”

It goes on and on. “While U.S. frets over tariffs, Europe and Japan close a trade deal.”

Reuters: “Brazil farmers vie for soy contracts during U.S.-China trade war.”

Mr. Doud, the present approach to trade is changing the global trade dynamics in agricultural production, and I wonder, in your experience are shifts of this magnitude in agricultural markets and supply chains only temporary and that everything will just go back to the way it was before these kinds of shifts? Can you tell us how this trade war ends without American agriculture taking a step backward?

Ambassador DOUD. Senator, there are a lot of things to discuss there. Let me talk about a couple.

Senator BENNET. I will give you the rest of my time.

Ambassador DOUD. Thank you.

Your point about the world being divvied up while we have been watching is a point that I have made many, many, many times. It is a point I made with Ambassador Lighthizer when I interviewed for this job. Oh, by the way, I would comment that it took me 49 weeks from the time he offered me the job until the time that I got in the job. And that has been valuable time that it has cost us in terms of getting aggressive.

I was recently in Argentina, and my counterpart a young guy—his father actually works for JPMorgan in New York City. He worked for the Argentine Government. He asked me, “Senator,” he said, “How are things going between the U.S. and the U.K. in a free trade agreement?” I said, “Well, you know, we have to see what happens with regard to Brexit.” He said, “Well, I really hope you guys stumble and fall, because if you do, we are going to swoop right in and tell the U.K., ‘We can offer you a much better deal. You do not have to do something with the U.S.’”

You are absolutely correct, the world is watching. I want to make one point here while I have an opportunity with regard to China, and we all understand that we export \$20 billion worth of agricultural products to China. It is our biggest market. We also understand that China retaliated against U.S. agricultural products, in my opinion, because they viewed the power of this Committee and the power of U.S. agriculture politically to sway opinion on this. I do not think U.S. farmers are swayed, and here is why:

We have one of the biggest WTO cases in the world right now with regard to China and their domestic subsidies. We have another one with regard to their tariff rate quota administration. They do not buy the wheat that they said they would buy when they became a member of the WTO. They do not buy the corn. They buy no rice from us. Their tariff on distillers grains is 80 percent. Their tariff on ethanol is 70 percent. They do not buy any poultry from us because of “high path” AI. We finally got a thimbleful of beef in there after 15 years of me personally working on that. The grain sorghum thing is difficult, and we are not selling them almost what we think would be \$1 billion worth of pet food.

The point being with China is that they need to change their behavior, and this is going on not just in agriculture but in other things. This is an administration, the President has said, “We need to do something about this.”

Senator BENNET. I could not agree with you more. I mean, I do not need the lecture on that. That is my view. It would seem to me that provoking a trade war with Mexico, Canada, and the EU, when the issue fundamentally is with China, and when the growth for all of our farmers and ranchers in the West is going to come from the Pacific Rim, seems insane.

Thank you, Mr. Chairman.

Chairman ROBERTS. Senator Fischer.

Senator FISCHER. Thank you, Mr. Chairman.

Ambassador Doud, thank you for being in Nebraska earlier this week, and we had a great roundtable discussion with about 50 ag

producers and ag business people within the State, and they agreed with you and your comments with China. What I hear across my State, what you heard on Monday, is, "It is about time."

Also, when you talked about the bilateral agreements that you are looking for, you heard from a Nebraska cattle feeder asking you, "When are we going to see that happen with Japan?" You kind of touched on that in an earlier question. Do you want to elaborate on how you would answer that cattle feeder on how we are going to get that Japanese market back and be able to grow it?

Ambassador DOUD. Senator, first of all, let me say that as you can tell, when we begin to have these conversations, I get pretty passionate. These are issues that—you know, I have been in town, this is now my 26th year, and the vast majority of time has been working on these kinds of things. These are very, very difficult issues to resolve.

When I was in Omaha this week, I gave an impassioned speech—or what I thought was, anyway—with our friends from Japan in the room and the importance of that relationship between U.S. farmers and Japanese consumers. You know, my first job out of graduate school was with U.S. Wheat in Portland, Oregon, and got to work on that discussion between—involving the relationship between our two countries. To me, that is a critically important relationship, and it is personal between farmer and consumer with the Japanese people. We take that very, very seriously, and I hope we have an opportunity here to sit down and engage with Japan and really solidify that relationship for decades to come.

Senator FISCHER. You know, I had the opportunity the opportunity on Monday to also meet with the Japanese Ambassador to the United States, and we had a cordial but very frank conversation as well. I appreciated, again, you being there with a round-table of Nebraskans and alleviating a lot of their concerns about where we are on these agreements and carrying that message to the Japanese Ambassador that we are serious about these negotiations. There is, as you know, that uncertainty out there.

Ambassador DOUD. Yes.

Senator FISCHER. I would ask you, when we are looking at the United States and working on bilateral agreements with Southeast Asia, people understand that is going to be a great new market, and you heard, we all hear about the importance of not just maintaining the markets we have but growing market opportunities for the great ag products that we have. Can you give us any information at this point on what the status is on negotiating with countries in Southeast Asia? What are you hearing about for issues and possibly concerns? I understand negotiations are delicate, but if you can give any kind of information to this Committee, I certainly would appreciate it.

Ambassador DOUD. Senator, I would be happy to talk to you, I think, privately more about what specifically we are looking at, but I can assure you that an enormous amount of ground work has been done on this particularly with regard to countries in Southeast Asia, and hopefully very soon we will be able to talk more about that.

Senator FISCHER. So that was a no?

Ambassador DOUD. Well, we are not quite ready yet, Senator.

Senator FISCHER. I understand. I understand, but I again would say to you when these agreements can be reached in quickly, that is important for all of our producers, and it is important to every citizen in the State of Nebraska because of the impact that agriculture has on our economy in the State.

Mr. Under Secretary, you were also in Nebraska, and I thank you for returning to our State. It is important that we hear from you, but it is also important that USDA has a seat at the table when we have these trade negotiations. That is why Congress created your position in 2014 in the farm bill. We want to make sure that ag is there and is at the front of any agreement.

Can you tell us if you are working with Ambassador Doud and with Ambassador Lighthizer to advocate for market access opportunities as this administration works to improve and update and negotiate existing and also new free trade agreements?

Mr. MCKINNEY. Well, simply put, yes and yes. Gregg and I talk at least once a week, usually it is together, and here lately it has been two, three, four times. We have called each other internationally to give each a heads-up on things that have paid dividends—I will not cite the country, but have paid dividends.

Like I said, because we have got a larger group that does policy and all kinds of trade work at any given time. We have six to a dozen and sometimes more dairy and NAFTA specialists working in support of his team. So I hope we can be a model of how the two agencies should collaborate.

I would add further that Secretary Perdue and Ambassador Lighthizer talk frequently, as needed. They are both busy, but certainly there is no hesitancy to pick up the phone or pass a message or in some way collaborate.

I would just say that, yes, our team is already hard at work. Gregg talked about ground work laid. You can pick any number of countries, and we have already begun to lay some of the basic work. What are the facts, figures? What would you like out of that? We look at their needs. I meant what I said that trade has got to be a two-way street; otherwise, it is not a very productive relationship.

So those kinds of work have been going on for some time, and when our friends with USTR are ready to reveal those names, I bet you will find that we are right there echoing those same countries.

Senator FISCHER. Well, I thank you for that. I thank both of you again for coming to Nebraska. I thank both of you for standing up for ag producers and working hard to get us better deals, because we hear a lot of examples of neglect for the needs of ag producers, and I am a cattle rancher. I fully understand the neglect over the years, and I look forward to good deals in the future.

Thank you.

Mr. MCKINNEY. Senator, I would like to add one thing. I did not touch on the role I played out there. We each gave a bit of a keynote talk, and I was with different groups, because you and I had been together a few months ago, and I appreciated that very much.

We go out of our way to touch and keep in touch with all the Japanese activities, I mean from Cherry Blossom Festival to food and ag receptions. I have been to Japan twice—the Ambassador, I have met his wife, his daughter. I mean, whatever we can do

across the board, we are doing to sustain that relationship, and I think it is a matter of settling on some other negotiations, and then we can get there. We are ready to go when the time comes. We are ready to go.

Senator FISCHER. Thank you both.

Chairman ROBERTS. Senator Donnelly, I am going to recognize you first. I know you are on a very tight time schedule. Senator Smith, I apologize.

Senator DONNELLY. Thank you, Mr. Chairman. I want to thank my colleague Senator Smith. It is incredibly kind of you. Thank you very, very much.

Ambassador Doud, I get pretty passionate about this as well, as do my friends here on the Committee. These are the lives and the farms of my fellow Hoosiers that are at stake. I was with a group again this weekend. We have friends who are going to lose their farms because of what is going on right now. They are going to lose their life, the dreams of their life, because of what we are dealing with. Secretary McKinney, as you well know, these are very, very, very hard times for Indiana farmers. We have known each other fairly well for a long time. We have both been deeply involved in advocating on behalf of Hoosier agriculture.

Yesterday I had Hoosier pork farmers. They are getting crushed. I also had in the hardwood lumber companies. They are getting crushed. Frick Services in Wyatt, which you are very familiar with, Mr. Secretary, the cash price for a bushel of beans this morning, \$7.75. The cash price for corn, \$3.13. At 180 bushels, your cost for production is about \$3.60. The math does not work.

The question I have for you is: What banker next spring, if these prices are still the same, Mr. Under Secretary, is going to make a loan for seeds or make a loan for inputs if the cash price is \$7.75, the cost of production is about \$9.20? What banker in our home State is going to make that loan?

Mr. MCKINNEY. Thank you, Senator. Good to see you again. Yes, your point is very valid. I think what we are facing here is we have been 4 or 5 years with very depressed farm prices, and that is for a number of factors. I would characterize a lot of them to unfair practices. When I was in front of you at the confirmation hearing—

Senator DONNELLY. We were at about \$10.70 before this price war started. That was the cash price for beans at that time.

Mr. MCKINNEY. Right. Thank you.

Senator DONNELLY. I am sorry.

Mr. MCKINNEY. No. That is Okay. Thank you. Yes, we are taking some short-term pain with the hopes of long-term gain.

Senator DONNELLY. How do you explain that to the farmer who is going to lose everything?

Mr. MCKINNEY. Well, that is very difficult, and there will be some losses. When we talk to the majority of farmers—

Senator DONNELLY. What if you are that person?

Mr. MCKINNEY. Excuse me, sir?

Senator DONNELLY. You said, you know, we will take some losses. What if it is the folks I was with recently in Kokomo who took me aside and said, "Down the road there is a fellow who is

going to lose everything"? What do you tell his kids, Mr. McKinney?

Mr. MCKINNEY. It is very difficult. The answer I would give is that we are trying to make some correction that will fix many of the trade issues that we have been suffering from for a long time. I can cite many of those. My twin brother was out pulling weeds out of soybeans because China has not approved 10 biotech traits, the longest one has been there 83 months, the last one 53. We are trying to right-size this so we can make a better day for those future farmers.

Senator DONNELLY. He was able to be in the field pulling those soybeans. We have people who are going to lose everything unless something changes. We have seen in the last week that the administration has said—and you may know when—that they are about to implement another \$200 billion in tariffs. Then there is a third tranche that is coming for \$267 billion. My farmers keep coming in and asking, and it is about as valid a question as you would ever get: "When does this end?" Mr. Secretary?

Mr. MCKINNEY. Well, my hope is that the work going on by our friends at USTR on things like NAFTA and then Japan, and then all the other bilaterals, will bring this back. That is my intent, and that is what we are doing to support them.

Senator DONNELLY. So how do we bring this back when we are in the process of another \$200 billion in tariffs in the next month or so? I mean, I do not—they will not tell us the exact date when it is coming. That is 200 more. They have said another 267 is coming. It seems like the light at the end of the tunnel is a train coming at my farmers, and there are farmers—because we both know them, care about them, love them. They are our friends. They need to know that there is an off-ramp or an end to this, because what young man or woman graduating from Purdue right now is going to go into farming when they look and see that this is the situation?

Mr. MCKINNEY. It is tough, and I have talked to several, and all I can say is we are right-sizing things that should have been right-sized over the many years past. When I was in front of you, I talked about the slippery slope of sanitary/phytosanitary barriers. We are actually making headway in changing those, sir, and that is the only answer I can provide, is that we have got to right-size this so that that bright light is not a train but the bright sunshine of a bright and sunny day.

It is like the 1980's, and I went through those just as you were. I hope we found that we right-sized things and made it better for farmers.

Senator DONNELLY. Mr. Secretary, with all due respect, those are not regrets. Those are our neighbors. Those are our neighbors who are losing their farmers, who are losing their life's dreams, whose kids are wondering why Dad cannot do this anymore or Mom cannot do this anymore. This is completely self-inflicted.

Thank you, Mr. Chairman.

Chairman ROBERTS. Senator Thune.

Senator THUNE. Thank you, Mr. Chairman. Gentlemen, thank you. I believe we all share the common goal of ensuring that U.S. companies and farmers and ranchers are able to compete on a level

global playing field without being subject to unfair trade practices by other countries. As a result of some of the attempts this administration has made to correct unfair trade, farmers and ranchers who depend on sending much of what they produce across our borders are living in an economic nightmare because their products have been targeted by retaliatory tariffs.

I am deeply concerned about the impact that today's retaliatory tariffs are having on U.S. agricultural products, especially considering that farmers and ranchers were already struggling with a weak ag economy before the tariffs were imposed and commodity prices dropped. My greatest concern is not only for the 2018 net farm income drop, but for the next year and succeeding years, losses due to lost global market share of our agricultural products, which may take years or decades to recapture.

I know there has been some discussion already about the potential for bilateral trade agreements. I would ask you a question I have asked other members of the administration because it seems to me at least that if you want to send a message to China, the best way to do that is to start doing business with their competitors. You know, under TPP, the tariff on American beef going into Japan was going to drop from 38 percent down to 9 percent. I guess my question is: Is there a possibility of rejoining the TPP? If not, when can we expect negotiations to begin on a bilateral agreement with Japan, which is a substantial market for U.S. beef, among other things, as are many of the countries in that region that were a part of the Trans-Pacific Partnership? Mr. Doud.

Ambassador DOUD. Senator, I think the answer to that—I do not know what the answer is on TPP other than I think the President has indicated clearly when I was in the room at one point, he said, you know, “I would rather do a bilateral. I get a better deal.” I think economically speaking, theoretically speaking, he is exactly right. So your question is: How do we get that down the road with Japan? The question is—we are having those conversations, we will continue to have those conversations. I think the Vice President is working on that. Certainly my boss is working on that. Hopefully we can get there as quickly as possible.

Your point is extremely valid. Other countries have beat us to the punch, and we have got to get busy.

Senator THUNE. I appreciate that, and I have heard that now for the last couple of years since we decided to pull out of TPP, that we are working on bilateral trade agreements. I do not see any evidence that we are. Maybe there are discussions going on in a back channel way that are not visible to the rest of us, but it strikes me at least that these are huge missed opportunities from an economic standpoint, from a trading standpoint, not to mention the role that the U.S. plays in that region of the world, which has national security implications among other things.

So I am just really frustrated, and, obviously, with the State of play in agriculture today where June 1st soybeans were \$10 a bushel, I was in an elevator in South Dakota 2 days ago, and they were \$7.05 on the board. The basis, the transportation cost continues to go up. Most of the farmers tell me that, to break even, you need at least about \$8 a bushel. If you did not forward contract—some of ours did, but a lot of them did not. They are having

now to look at the prospect of storing a lot of their soybeans because this market is just shot for the moment. There are no bids coming in from the PNW, which is where 65 percent of our soybeans in South Dakota go. And so the concern and anxiety level is continuing to rise in farm country, and my impression is that it seems to fall on deaf ears around here. And I know that the attempt—the MFP program is designed to try and provide some temporary relief, and perhaps it will again. It is nothing more than Band-Aid. We need to open up markets. Even the implementation of that, which I have expressed concerns about how that is being rolled out and how the formulas that are being used, they are using this year's production to make the payments to the soybean producers per bushel, when, in fact, there are a lot of areas in South Dakota, and I am sure other areas of the country, where you had drought, you had floods, you do not have bushels this year. And we came up with several other ways that we think make more sense in terms of determining how those payments might be distributed and suggested those to the Department of Agriculture, but those two were rejected.

So just understand that these impacts are real. The economy in farm country continues to deteriorate. There will be more and more producers who are not going to be able to get operating loans next year and are going to be at risk of losing their operations. It does not seem to me at least that that message, as hard as we have tried, seems to be getting across to the administration. We need bilateral trade agreements or let us get back into—let us reopen the discussions with TPP. I am still at a loss as to why, you know, that is not something that is an option that is on the table.

Thank you, Mr. Chairman.

Chairman ROBERTS. Senator Smith.

Senator SMITH. Thank you, Chair Roberts. I would like to start out by thanking you for this, you and Senator Stabenow as well.

I want to particularly note in the discussion that we are having here about the intense pressures in farm country all across this country, and certainly in Minnesota, I am reminded about how grateful I am for how hard you and Debbie are working to get the farm bill done. You know, it is desperately needed, and I do not use that word “desperate” lightly.

I feel that the members of this Committee on—I have had a chance to hear comments and answers to questions from all of my colleagues on both sides of the aisle, and I detect a strong, bipartisan agreement that there is desperation in farm country. I am just going to be direct. My sense is that the three of you gentlemen understand that very well. Honest to God, I just wish the person who sits in the Oval Office understood it as well.

I think, Dr. Johansson, that you understand that this aid package that we have all been talking about is at best a small Band-Aid on a very big wound. You are doing the best you can with what you are dealing with, but, I mean, I heard that time and time again from Minnesota farmers, who said, you know, “I need a hand. This is barely covering a penny on what I need.” I know you know that. You know, the two of you, both of you are very respected in farm country in Minnesota, and I appreciate the conversations that we have had. I also appreciate that this is not the

time and the place to try to negotiate in plain view what you are trying to accomplish with our trading partners around the world. I am wanting to convey to you the sense of urgency that I hear from the Farm Bureau members from Minnesota that are sitting right behind you today and what I heard—I am going to go here—from the Farmers Union members that I am going to be a little bit late to talk to because I am here.

So let me just go to something that you said, Ambassador Doud, that concerned me a little bit. Senator Stabenow was asking about the interplay between the 232 tariffs that Commerce is working on and the work that you are doing on the ag side to address these retaliatory tariffs. What can you tell this Committee broadly about how the administration is working together and what plan there is to try to bring this complex situation together with some coherence?

Ambassador DOUD. Senator, I will be honest with you. I think a lot of that is above discussions that I have been a part of.

Senator SMITH. That is probably part of the problem.

Ambassador DOUD. I will tell you, I very much want to convey our sense of urgency at USTR on dealing with these agricultural trade issues. There is no question about it. My sincere hope is that we can get things wrapped up with NAFTA here and we can begin to move on to other issues to begin to address these issues.

We are behind the curve. There is no question about it. I cannot tell you enough how much I agree with your comments on the sense of urgency.

Senator SMITH. With regard to NAFTA and Canada, my colleague Senator Klobuchar raised this, but I just want to come back to it briefly. As you are working, as you and Ambassador Lighthizer are working on this right now, you are working—I just want to make sure I understand. I can go back to Minnesota and say that you folks are working on Canada's Class 7 pricing scheme, and you are working on expanding market access, and you understand that we need a situation where we have got Mexico and Canada and the United States together?

Ambassador DOUD. Absolutely, Senator.

Senator SMITH. Okay. Thank you.

Let me just touch on one other thing. Senator Bennet raised this concern about the—I think it was Senator Bennet talked about how the administration is considering placing tariffs on foreign autos and SUVs and auto parts and the impact that that would have on agriculture. I am thinking right now of Minnesota's pork producers particularly. Can you address quickly what is the plan to stop future retaliatory tariffs on U.S. agriculture from countries like Japan and South Korea as we are pursuing with the other hand these potential retaliatory tariffs?

Ambassador DOUD. Senator, again, I do not know—again, 232 is the Department of Commerce. It is not something that I have been involved with. For my part, in terms of agriculture, what we are trying to do is get to an opportunity where we can increase our access into countries like Japan, Canada, et cetera, and we are trying to do that as quickly as possible.

Senator SMITH. I urge you to appreciate, as I know you do, that what happens with the one hand over here in Commerce has a deep impact on what you are trying to do on the other hand.

Thank you.

Chairman ROBERTS. Senator Hoeven.

Senator HOEVEN. Thank you, Mr. Chairman. I appreciate all of you being here today.

Ambassador Doud, what are the major issues left to resolve in terms of getting Canada into an agreement on NAFTA? What are the major issues, and how are we doing on getting that done?

Ambassador DOUD. The major issues—they are a priority for us, Senator, obviously—are dairy, the grain grading issue, and there are some wine issues that we are working on as well.

Senator HOEVEN. On the grain grading—you know, when we take our grain up there and it goes to inspection, they immediately classify it as feed grain.

Ambassador DOUD. Yes.

Senator HOEVEN. I trust that is something that you are going to get—I mean, that is ridiculous, right? And you are going to get that addressed?

Ambassador DOUD. That is a top priority issue for us, Senator.

Senator HOEVEN. Good to hear. What is your sense that we are going to get resolution of this in the near term, for example, in time to get Canada in the agreement with Mexico so that we can vote on it, you know, before the end of the year?

Ambassador DOUD. Senator, you are asking a lot of legal questions and TPA questions that I do not necessarily know the answer to. I think our goal at this point here is—my understanding of it is that Congress has been notified of the intent to bring both Mexico and Canada into this agreement, and for my part in this, we are working day and night and as hard as we can to bring Canada into this discussion and finalize it.

Senator HOEVEN. There is another issue with table potatoes, red and yellow table potatoes, whereby the Canadians have restrictions under their Canadian ministerial exemption—and it is part of the Canada Ag Product Act—whereby they restrict shipment of table potatoes between provinces and, of course, our exports to their country. At the same time, they are increasingly bringing fresh potatoes down and putting them into our market. Are you addressing that in your negotiations?

Ambassador DOUD. Senator, we have just recently become aware of that issue, and I believe your staff joined the industry in my office to discuss that, and that is definitely a priority we are looking at to figure out and resolve, and I would be happy to discuss that with you privately on some of the ideas that we have.

Senator HOEVEN. Let us do that, because this is a clear trade barrier, and there may be subsidies going on as well, which would not meet WTO requirements, and as they continue to push on dairy and on pork and on poultry, you know, they are doing exactly what we are trying to overcome, which are these trade barriers. So they have to put all this product into our market, and they are putting up restrictions and barriers on our products. So I hope you are addressing those, and I believe you are. That is what you are telling us here today, that you will address those issues.

Ambassador DOUD. We are having some conversations and looking into that as we speak.

Senator HOEVEN. And I want to be clear, we have no greater ally and they are our friends and neighbors no matter what. We want reciprocity in our trade with Canada.

Again, the sense I am getting from you is that Canada wants to get a deal in terms of to be part of a NAFTA vote before the end of the year. It is your sense they are working toward that.

Ambassador DOUD. Senator, I can tell you that both side—in the conversations that I have been a part of, both sides are working very hard together.

Senator HOEVEN. Okay. Secretary, anything you want to add as far as those questions?

Mr. MCKINNEY. Just that we are dedicating resources to help these folks with all that heavy lifting, absolutely.

Senator HOEVEN. As you all pushed it to try to NAFTA squared away, make progress with the EU, not only does that help in terms of our farmers, but I think it puts pressure on China. Shifting to China for a minute, our State alone, North Dakota alone, sends \$1.5 billion worth of soybeans to China every year. Just our State. And we have put an incredible amount of work into the shipping, both the rail and the shipping companies, built up customers, containerized shipping, identity preserve—all these things, and when our producers cannot ship to China, that creates basis, right? Because now we have to try to go down to the gulf or to the east coast. And we are behind all the States that are to the east of us.

As you work on this assistance for the negotiations, you need to take that into account. So I do not know if this is something for Dr. Johansson, but there are two questions here. If it is going to take long with China, where do we move these soybeans in the meantime, one? And, two, as you put out the second half of this assistance, how are you going to accommodate some of that basis which producers have built up over many years and is a significant part of the disruption that you need to take into account? So those two questions: the markets and then the basis on the assistance.

Mr. JOHANSSON. Thank you, Senator, for the question. Certainly, we have been asked to look at the basis issue, and, of course, we know that the Dakotas in the past have had basis problems with respect to transportation to the PNW, for example, in 2014, 2015.

Senator HOEVEN. Be careful here, because I talked directly to the Secretary, and he came back to me with a positive answer, which I appreciate your looking at this, but that basis was overcome by all this work, and that is disrupted by the tariffs, so it is not just a locational issue. It is a function of the tariff disruption, which is why it needs to be part of this calculation.

Mr. JOHANSSON. That is right. So we have been looking at this particular issue to try and take into account regional differences by basis relative to previous years' basis. As you can imagine, with this many commodities, it is a fairly complicated issue. We are looking at regional basis as well as differences of those bases across time, so in order to try and identify whether and to what extent they are being affected most by these tariffs right now, and we will continue to do that. And as the Secretary mentioned, we are con-

sidering those factors as we look to the calculations for a potential second round of payments coming later this fall.

Senator HOEVEN. And then, Mr. Secretary, again, how do we help move some product here in the meantime, right? Because the elevators right now, I mean, it is hard for them to even take crop, right?

Mr. MCKINNEY. No, I would just understand that we—I have made two or three notes about basis, regionalization, and taking that into account. You raise the point that this is a temporary thing. The mitigation plan is not meant to be repeated. So I think the best thing we can say is—and it is a more intermediate to long-term play, to get those markets reopened. If China is a problem, we have got to keep looking at other markets, and that is why we are spending so much time in Southeast Asia that does feed from and feed to the Pacific Northwest markets.

Senator HOEVEN. We need that push on right now as aggressively as you can do it.

Mr. MCKINNEY. Yes. I will just say again, my travels have been to Myanmar, Vietnam, soon to the Philippines, Indonesia, Japan, of course. So I would say we are focusing on that area. Again, that is a more intermediate to longer-term play. I think you understand that.

Senator HOEVEN. Okay. Thank you.

Mr. MCKINNEY. Thank you.

Chairman ROBERTS. Senator Daines.

Senator GRASSLEY. First of all, let me thank you—

Senator DAINES. Senator Grassley, I just wrapped up my 56-county tour, Senator Grassley—okay, well, he has wrapped up his 99-county tour, I know. He had a DQ Blizzard in Indianola when he wrapped up his tour for the 38th time he has done that. My last 48 hours, Mr. Chairman, have been—48 hours ago, I was in Jordan, Montana, Winnett, Montana, and Hysham, Montana. I do a 56-county tour. It is not the 99 counties that the Chairman has here, Mr. Grassley, but it is 56 counties in Montana. I can tell you I heard a lot about the anxiety and the concern that is going on right now on prices in our commodities, pulse crops, wheat, barley, we talked about cows a lot. There are three cows per person in Montana. Ag is our No. 1 industry in our State. That was on Tuesday.

Today, meeting with the Farm Bureau just this morning, meeting with our grain growers, in fact, I cut short my Farm Bureau meeting so I could get down here for the Committee. And, in fact, the Farm Bureau folks have a lot of things they want to talk about, a long list, good issues. And they said, “Senator, get down to that Ag Committee hearing because you are talking about trade, and that is our single biggest concern we have here today, that and the farm bill getting passed.”

And with 95 percent of the world’s population outside the United States, I think our farmers and ranchers, they clearly see the incredible opportunity we have before us to get to fair, free markets, to reciprocity. That really is the future of agriculture, getting access to those markets.

In the short term, there is a lot of concern, a lot of anxiety. This relates to—and I think you have heard that today from several

Senators who literally it is an existential threat to certain operations. As we speak right now, they may lose everything related to what is going on right now with prices.

I think it is critical that we work in concert with our allies so that our U.S. businesses, our farmers, our ranchers are able to compete on a level playing field abroad. As you may know, I spent a lot of time working in international markets. I spent 6 years on the ground in China. I had two kids born in Hong Kong back in the 1990's as I was working on behalf of U.S. business to expand into those markets. And I believe that we should continue to re-engage on TPP as we think about our strategy as it relates to China. And I do see some merit in a lot of bilateral agreements. The problem as we see it right now in these negotiations, they take a lot of time. They are complicated. And in agriculture, as is true in business, time is money.

And so as we step back and look at the big picture, I would highly encourage that we rethink reengaging on TPP that will serve as a counterweight to China's growing influence not only in the region, but around the world. In fact, at a recent hearing, Secretary Perdue agreed with me concerning the strong benefits of TPP.

Mr. McKinney, could you summarize some of the tariff reductions? And are there benefits that TPP would provide to specific American ag commodities?

Mr. MCKINNEY. Well, I will try to answer that specific to any tariff reductions, because, you know, TPP has been here and I think is in the wings or going to be replaced by a bilateral.

My sense is what is going on here is we have been facing unfair trade barriers for a long time, and if you are wondering whether some of these actions are helping us right-size trade, the answer is unequivocally yes. It is true. I have been a part of that. That is one of those calls that Gregg and I shared. It comes slower than we would like, but there has been no leverage for a country that has been misbehaving, particularly on sanitary/phytosanitary. And even inside of rules, we have had some countries that we won WTO suits and still got rejected in terms of trying to right-size that. It is very true, two or three.

So what we are seeing is change. We are seeing change where folks are realizing the U.S. is finally very serious about this. I will have to turn to others who are doing the negotiation, but my hope is that by bringing these tariffs and other pressures to bear, we will see changes in behavior, and then those tariffs will come down. That is my hope. I am not in the middle of the negotiating room, but that is our hope at USDA, that some of the pressures that we are placing will realize the U.S. is serious and, of course, our tariffs coming down. That is our hope.

Senator DAINES. So one of the areas we actually made some great progress on fairly recently was removing the ban on U.S. beef imports that China had placed and that had been there for 16 years. I was over in China a year ago. We actually brought some Montana steaks to the Premier and had a very good discussion, and about 60 days later, that ban on U.S. beef imports was removed, the second largest beef import market in the world.

I remain concerned. We made a lot of progress here, but we may have a significant setback here and are seeing that with China.

And I completely understand and appreciate and respect the fact we needed to confront what is going on with some of the unfair practices in China—intellectual property, unfair trading practices.

Notwithstanding the broader trade dispute with China, do you have any updates regarding the existing opportunities and challenges that U.S. ranchers would face in China's market and the prospects for long-term growth? You spent a lot of time, it sounds like, in Southeast Asia most recently.

Ambassador DOUD. Senator, on the beef side of the equation, you are absolutely correct, it took us 15, 16 years to get in there. We still have some significant issues with regard to their requirements regarding hormones and ractopamine. It is definitely a step forward, but there is a tremendous amount of work that still has to be done here, and I believe the size of the Chinese beef market is now somewhere in the neighborhood of \$4 billion a year in terms of what their imports are, and our exports so far have been in the tens of millions. So, obviously, we have got an enormous amount of work to do there.

You know, it is encouraging that there is going to be another discussion with China here yet this month. This is the issue of our time in agriculture, is to work to build and get that relationship with China where it needs to be, because as I indicated earlier, there are so many problems with China, and beef is just one. But the benefit, if we make progress and get issues resolved, is enormous.

Senator DAINES. Well, it is. I am out of time, but my grain growers this morning were talking about we were starting to make some gains with wheat sales into China. You know how much Montana wheat is going to China this year? Zero.

Mr. MCKINNEY. If I could just add, I think Ag and Energy were the only two that have really seriously totally engaged, and that is when we were over in June, Gregg and I, and we took a whole team to negotiate. And I think progress was made. Not enough, not enough, but progress was made.

When Secretary Mnuchin at Treasury invited some of the folks back, we participated. Ag was very much a part of that, even though ag was not the focus. And just yesterday, Gregg and I co-hosted Vice Minister Han Jun who is the lead ag negotiator from China.

So there are larger issues to solve, but I would like to say that I think once we can renegotiate—ag can pick up where it left off and pick up and go, and that is what we are looking to do whenever that time is right, because there are so many issues across all the sectors. As far as ag, I think we have done everything we can possibly do and then some to sustain and be ready when that time is that we get the green light.

Senator DAINES. Thank you.

Mr. MCKINNEY. Thank you.

Senator DAINES. Thanks for the comments, and I do think we should take into consideration a blend of bilateral and multilateral trade agreements as a good strategy going forward here, because knocking these pins over one at a time in a series fashion is going to take a lot of time and we are running out of time right now in farm and ranch country.

Thank you.

Chairman ROBERTS. Thank you, Senator Daines.

Secretary McKinney, thank you for coming. Ambassador Doud, thank you for coming. Dr. Johansson, thank you for coming. Do not forget that white paper. You might want to get it up to us as soon as you can. You have heard from several Senators their concern about that.

Ted, I know that you are going to work as hard as you can to get this thing turned around, if we can, and I know that to be the case with Gregg.

What concerns me most is what—well, “most,” that does not get it, but I guess equally with regards to restoring our markets is the opportunity that we did have, and I hope we do not stumble on it, and that is to somehow get back engaged with TPP. And the reason I say that, as you just read the news, watch the news, if you can stand to watch the news, but in the news here you have the Russians extending their Blue Water Navy 200 miles. You have got the Philippines upset. You have got—well, you have got everybody in the South China Sea upset. They are holding exercises now with Russia. That falls under the national security matter, but also so does TPP. And it seems to me that instead of going bilateral, bilateral, bilateral, bilateral times 11, to get back into TPP would really send a message to China. I have not visited all of those countries, but I have visited some, and it has been awhile. Every one of them said, “We would prefer to do business with you as opposed to China.” The next thing they said was, “Do you still have our back?” And that is absolutely key. And I think the farther we drift away from that opportunity—I am not saying that you are not trying to get it done—I think we add to our national security woes in that part of the world. I think it is that important.

That will conclude our hearing today. Thank you to each of our witnesses for taking time to share your perspectives on agricultural trade. To my fellow members, we would ask that any additional questions you may have for the record be submitted to the Committee clerk 5 business days from today, or by 5 p.m. next Thursday, September 20th.

The Committee is now adjourned. Thank you.

[Whereupon, at 12:10 p.m., the Committee was adjourned.]

A P P E N D I X

SEPTEMBER 13, 2018

Statement of Ambassador Gregg Doud
 Before the U.S. Senate Committee on Agriculture, Nutrition and Forestry
 September 13, 2018

Chairman Roberts, Ranking Member Stabenow, and all Members of the Committee. Thank you for the opportunity to join my colleagues from the Department of Agriculture in testifying on the Administration's agricultural trade policy agenda on behalf of President Trump and Ambassador Lighthizer.

It is impossible to testify today without first mentioning the renegotiation of the North American Free Trade Agreement (NAFTA) and the benefits for U.S. agriculture. We are working diligently to bring a successful closure to NAFTA that fulfills our Trade Promotion Authority (TPA) requirements. We have recently reached an agreement with Mexico that improves on NAFTA in almost every way. On agriculture, it maintains our farmers' and ranchers' tariff-free access to the Mexican market and modernizes the agreement in important ways that will cut red tape on our southern border. Currently, Ambassador Lighthizer and my colleagues at USTR are working to improve our agricultural situation with Canada, particularly in the areas of dairy, poultry, eggs, grain, wine, and other products. Completing these negotiations will bring enormous benefits to our farmers, ranchers, food manufacturers and workers.

To elaborate further on our agreement with Mexico, we negotiated many positive things that build upon the original NAFTA agreement. For the first time, the agreement specifically addresses agricultural biotechnology to support 21st century innovations in agriculture. The text covers all biotechnologies, including new technologies such as gene editing. Specifically, the United States and Mexico have agreed to provisions to enhance information exchange and cooperation on agricultural biotechnology trade-related matters.

In the Sanitary and Phytosanitary (SPS) Measures chapter, the United States and Mexico have agreed to strengthen disciplines for science-based SPS measures, while ensuring Parties maintain their sovereign right to protect human, animal, and plant life or health. Provisions include increasing transparency on the development and implementation of SPS measures; advancing science-based decision making; improving processes for certification, regionalization and equivalency determinations; conducting systems-based audits; improving transparency for import checks; and working together to enhance compatibility of measures. The new agreement would establish a new mechanism for technical consultations to resolve issues between the Parties.

When I first testified to the Senate Finance committee during my confirmation process, I discussed how, in terms of U.S. agricultural trade, we play offense. Since the confirmation of my fellow Deputies and myself, we are undergoing thorough analyses of future Free Trade Agreement (FTA) partners.

We are looking into the benefits of potential partners in Southeast Asia and Africa. I am positive about the potential to enter into negotiations in the near future, and I look forward to working with Congress through the TPA process as these considerations evolve.

Increasing our dialogue with Japan continues to be a priority for us at USTR. A high-level delegation of Japanese officials came to USTR in August to discuss ways to expand and improve our bilateral trade.

These discussions are continuing, and we fully recognize the importance to U.S. agriculture of expanding market access into Japan. We are determined to put our producers and agribusinesses on a level playing field with other countries, such as Australia, Canada, the European Union and many others.

In July, President Trump and European Commission President Juncker launched an initiative to promote more free, fair, and reciprocal trade. We understand that there are many sensitivities surrounding agricultural trade, but including agriculture in any negotiations with the EU remains a priority for the Administration. Currently, the United States runs an agricultural trade deficit of over \$15 billion with the EU; which is partly indicative of the scope of market access issues and non-tariff barriers for U.S. agriculture into the EU.

In May, I traveled to Geneva to deliver the United States' first ever counter notification to the WTO's Committee on Agriculture concerning India's market price support for rice and wheat. The United States estimates that India supports its rice producers ranging from 74 to 84.2 percent of the value of production and wheat producers ranging between 60.1 to 68.5 percent of the value of production between 2010 and 2014 when India is only allowed to provide up to 10 percent of the value of production of a particular commodity. Over the last five years, India has exported between \$5.3 billion and \$8 billion of rice, which is more rice than any other country in the world. India's global wheat exports ranged between \$70 million to \$1.9 billion during the same time period. Every rice- or wheat-producing country around the world should be concerned about the trade effects of India's trade distorting domestic support.

At the WTO, we are pushing forward the largest agricultural disputes in history against China for its market price support policies and unfair administration of its tariff rate quotas (TRQs). We presented a strong case that China should be held accountable to the same rules as other WTO Members, and on that basis we estimate that China has exceeded its *de minimis* levels of domestic support for rice, wheat and corn by \$100 billion. We also estimate that if China had administered its TRQs for rice, wheat and corn according to its WTO commitments (such as transparency and predictability), they would have imported billions more in rice, wheat, and corn from all sources. Both of these disputes are about China's failure to follow basic WTO rules. We currently have seven offensive WTO disputes exclusively for U.S. agriculture and six more on retaliatory duties by our trading partners on agriculture and other products.

Under Section 301 of the Trade Act of 1974, USTR launched an investigation into China's unfair technology transfer regime. In response, USTR implemented tariffs on \$50 billion of Chinese imports, while another \$200 billion is under active consideration. These tariffs are intended to address longstanding unfair and discriminatory Chinese trade and investment practices with respect to IP and to encourage China to eliminate its harmful behavior and adopt policies that will lead to fairer markets for all citizens.

The correct response would be for China to change its unfair and discriminatory IP practices and until then, the President is committed to having the backs of our farmers and ranchers by working to address the damage inflicted by China's unjustified retaliatory actions.

Finally, I am disappointed that in recent months our trading partners have decided to retaliate against nearly \$30 billion of our \$143 billion in agricultural exports following necessary actions taken under our

trade laws to defend our national security or to respond to unfair trade practices. During my first six months in this role, I have had over 150 meetings with stakeholders and have met hundreds of farmers, ranchers and agribusiness representatives – all of them have communicated to me the impact of the tariffs and the role of trade for all commodities including row crops, livestock, horticulture, and processed products. We are taking action at the WTO to counter this unjustified retaliation. And as previously discussed, the Trump Administration is working to expand market opportunities for U.S. producers.

I often tell people that the easy issues in agricultural trade were resolved a long time ago. For example, earlier this year USTR and USDA announced market access to Argentina for U.S. pork for the first time since 1992. We also announced poultry access to Morocco even though the Moroccan FTA went into effect in January 2006. The United States reached agreement to expand U.S. beef exports to Thailand. The United States and Colombia reached an agreement to expand access and reduce costs for U.S. rough rice exports to Colombia. Under Secretary McKinney and I work closely to coordinate our efforts to expand upon our \$143 billion in agricultural exports in 2017.

I thank the Members of the Committee for their time today and look forward to answering your questions.

Testimony of Ted McKinney
Under Secretary
Trade and Foreign Agricultural Affairs
U.S. Department of Agriculture
Perspectives on U.S. Agricultural Trade
Before the Senate Committee on Agriculture, Nutrition and Forestry
September 13, 2018

Chairman Roberts, Ranking Member Stabenow, Members of the Committee, I am pleased to appear before you with my colleagues, Chief Agricultural Negotiator, Ambassador Gregg Doud from the Office of the United States Trade Representative (USTR) and USDA's Chief Economist, Dr. Robert Johansson. I welcome the opportunity to discuss the efforts of the U.S. Department of Agriculture (USDA) on behalf of U.S. agricultural exporters. I want to thank the President and Secretary Sonny Perdue for their faith in me to serve as the first ever USDA Undersecretary for Trade and Foreign Agricultural Affairs (TFAA) and thank this Committee for recognizing the critical need of this position, directing its establishment in the 2014 Farm Bill.

Trade and Foreign Agricultural Affairs Mission

My Mission Area, within the Department, promotes U.S. agricultural exports, works to reduce trade barriers that impede U.S. agricultural exports, and opens new markets for U.S. farm products. The Mission Area includes the Foreign Agricultural Service (FAS) and the U.S. Codex Alimentarius Office.

As Under Secretary, I have fully embraced the charge of Secretary Perdue to be American agriculture's unapologetic advocate around the world. I believe it is important that foreign buyers and government officials meet you in person and have a direct personal relationship. An integral part of Secretary Perdue's realignment measures was placing the U.S. Codex Office in the TFAA Mission Area. This office manages the participation of the United States in the work of the Codex Alimentarius Commission that sets voluntary international food safety and quality standards to protect the health of consumers and ensure fair practices in the international trade of food.

In July, I attended the most recent Codex Commission meeting in Rome and also met with the Director General of the Food and Agriculture Organization (FAO) to strengthen USDA's relationship with the FAO. I emphasized the importance of FAO's role in trade and global food security by supporting international standard-setting organizations. I stressed the necessity of embracing agricultural innovation, promoting economic development, and providing impartial data and analyses to its members. I also expressed my deep concern with some of the rhetoric and programming coming out of CODEX and FAO. U.S. engagement is vital at this time to advocate for decisions based on scientific and food safety related reasons and not based on protectionist interests of some members.

Since my confirmation last October, I've done my best to be the "million mile flyer" that Secretary Perdue expects. As Under Secretary, I wake up every morning seeking to open markets and champion American agricultural products around the world. I was pleased to accompany two representatives from the Kansas Department of Agriculture (KDA) on the largest-ever USDA led agribusiness and trade-mission in June to Japan. As Mary Soukup of KDA noted it was "exciting to see Kansas products being used and to explore opportunities to strengthen our relationship with Japan."

My travels around the globe to expand markets for U.S. agriculture this year include opening the U.S. pavilion in February at the Gulfood show in the United Arab Emirates, where more than 160 U.S. exhibitors were showing thousands of new products. Since then, I have met with Mexico's Agriculture Minister in Mexico City to advance our trade issues. In India, I met with senior officials to discuss the importance of science-based food safety policies and to promote U.S. exports. I led a trade mission to Central America's Northern Triangle to expand U.S. exports and highlight that strong two-way trade supports a path to prosperity for countries like Guatemala, Honduras, and El Salvador. In March, I traveled to Japan for FoodEx to support more than 50 U.S. exhibitors. In July, I headed up a USDA trade mission, joined by U.S. business and state government leaders seeking to expand agricultural export opportunities in Southeast Asia. The mission based in Jakarta, Indonesia, included agriculture buyers from Malaysia and the Philippines.

Looking ahead, I plan to lead a trade mission to Southern Africa in October. Participants will have the opportunity to engage with potential customers from 11 countries in the region including: South Africa, Angola, Botswana, Lesotho, Madagascar, Mauritius, Mozambique,

Namibia, Swaziland, Zambia, and Zimbabwe. There is growth opportunity for agricultural exports to these countries where shipments grew 25 percent in value in 2017.

Last week, I provided the keynote address at Ireland's premier agricultural conference and traveled to Brussels, where I met with European Union (E.U.) Commissioner Hogan. At both stops I made clear to E.U. counterparts the Administration's expectation for fairness in our trade relationship.

Agricultural Trade Accomplishments

The Trump Administration scored significant government-to-government agricultural trade victories during 2017, including easing of regulations on U.S. citrus into the E.U.; gaining approval for new biotech varieties in China; resumption of U.S. distillers dried grains into Vietnam and China; reentry of U.S. chipping potatoes into Japan; and the lifting of South Korea's ban on imports of U.S. poultry.

This year, the Administration continues to prioritize the opening of new markets for U.S. agricultural products. In July, Secretary Perdue celebrated the reintroduction of American pork products to the Argentine market after more than a 25-year hiatus by slicing a ten-pound U.S. honey baked ham. Also in July, USDA announced that Japan has finalized technical requirements that will allow U.S. sheep and goat exports into the country for the first time in more than 14 years. In August, Ambassador Lighthizer and Secretary Perdue announced that the government of Morocco has agreed to allow commercial imports of U.S. poultry meat and products into Morocco for the first time.

President Trump is delivering on his promise to renegotiate the old, outdated North America Free Trade Agreement. The agreement with Mexico is a victory for U.S. farmers and ranchers. The agreement provides for locking in tariffs on U.S. agricultural exports to Mexico at a continued rate of zero, addressing biotechnology to keep up with 21st Century innovations, enhancing rules for science-based sanitary and phytosanitary measures, and committing to work together in the World Trade Organization on agricultural trade matters. Negotiations to finalize the three-way agreement with Canada are continuing.

Even with recent trade successes, to quote Secretary Perdue, "there is legitimate anxiety in farm country, and any farmer would rather have trade, not aid." The Department is constantly looking at the impact of trade on our farmers and ranchers, with a close eye on the impacts from

the recent retaliatory tariffs. The President is standing up to China, which wrongly believes it can bully our farmers to get America to back away from defending our economy from unfair trading practices. The President understands that our farmers feed, fuel and clothe this nation and the world, and he will not allow U.S. agriculture to bear the brunt of China's retaliatory tactics.

USDA Mitigation for Unjustified Tariff Retaliation

America's hard-working agricultural producers have been treated unfairly by China's trading practices and targeted specifically with retaliatory tariffs in a blatant attempt by China to exert political pressure on Congress and this Administration. In response to this unjustified retaliation by China and other countries, the President directed Secretary Perdue to craft a short-term relief strategy to protect agricultural producers while the Administration works on free, fair, and reciprocal trade deals. Specifically, USDA authorized up to \$12 billion for three mitigation programs to assist agricultural producers. The first program, the Market Facilitation Program administered by Farm Service Agency (FSA), will provide payments to producers of soybeans, sorghum, corn, wheat, cotton, dairy, and hogs. USDA will also run the Food Purchase and Distribution Program through the Agricultural Marketing Service (AMS) for affected commodities such as fruits, nuts, rice, legumes, beef, pork, and milk. The third program, the Agricultural Trade Promotion (ATP) Program administered by FAS in conjunction with the private sector, will assist in developing new export markets for our farm products.

The ATP will provide cost-share assistance to eligible U.S. organizations whose markets have suffered damages from retaliatory trade activity. The cost share assistance will be used to mitigate lost exports and includes funding for activities such as consumer advertising, public relations, point-of-sale demonstrations, participation in trade fairs and exhibits, market research, and other activities to address existing or potential non-tariff barriers to trade. While many aspects of the ATP were designed using the Market Access Program as a guide, the ATP is specifically designed to assist those agricultural producers in market segments that have suffered damages as a result of tariffs imposed on U.S. agricultural products. Up to \$200 million will be made available for ATP implementation under authorities of the Commodity Credit Corporation and applications for the ATP will be accepted until November 2, 2018 or until funding is exhausted. We anticipate allocating funding to eligible participants in early 2019. The ATP is

available to help all sectors of U.S. agriculture, including fish and forest product producers, mainly through partnerships with non-profit national and regional organizations who have suffered damages from U.S. retaliatory trade activity. Under the program, we will give preference to organizations with the broadest base of producer representation and affiliated industry participation for commodities being promoted.

Conclusion

This Committee knows well that agricultural exports contribute vitally to prosperity in and beyond rural America. It is my privilege to serve as USDA's agricultural advocate to the world and help grow these exports.

Mr. Chairman, that concludes my statement. I would be pleased to answer any questions from the Committee.

**STATEMENT OF SENATOR PATRICK LEAHY (D-VT.),
SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
HEARING ON "PERSPECTIVES ON U.S. AGRICULTURAL TRADE"
SEPTEMBER 13, 2018**

Thank you Chairman Roberts and Ranking Member Stabenow for holding this hearing at such a critical time for our nation's agricultural producers. Economic uncertainty, low commodity prices, and increasing costs and accelerating climate change are already putting our family farms in serious trouble. President Trump's reckless and ill-informed trade policies are only further exacerbating a bad situation. We should be doing everything we can to support our farmers and ease some of the intense challenges they face, rather than engaging in trade wars that put our farmers on the front lines.

Farmers cannot be cannon fodder for the President's ego, yet this is what is happening. It is our job as elected officials to work towards solutions by debating policy and negotiating the differences. We do so with the understanding that we all want what is best for our nation's farmers and the communities they serve. However, it is unclear whether the current administration has such a goal in mind. They seem far more concerned with fueling nationalistic passions and trade policy well outside the mainstream than the wellbeing of our struggling farmers.

The dairy industry is a case-in-point. The farm-gate price of milk had just begun to recover this past spring, after 3 very difficult years, when the President began his trade wars, prompting retaliation against agriculture and the price of milk promptly fell by 8 percent. In addition, our dairy farmers are experiencing a greater impact because of the aggressive steps they had taken over the last two decades to develop export markets for their dairy products. Promising markets that were open, markets that had momentum and in which we had made large investments, are now shut off to our farmers and there is no guarantee that we will ever get these markets back.

Thankfully, I led the successful effort to include improvements to the Margin Protection Program for Dairy in the two year budget agreement earlier this year, and the program has already distributed nearly \$6 million to Vermont dairy producers in 2018. I am proud to be able to help dairy farmers across the country during such difficult times, but the sobering reality of this program paying out, is that milk prices were low even before President Trump began making a bad situation worse.

The recent announcement of a bailout for farmers hurt by retaliatory tariffs feels like a band aid for a gigantic, self-inflicted wound. I am especially concerned by the meager payment for dairy producers. There are a number of questions that need to be answered regarding how these damages were calculated and why dairy is getting a raw deal. We must look forward and do better.

Secretary Perdue has promised a second round of assistance to agricultural producers harmed by retaliatory tariffs using his existing authorities. I thank the Secretary, but the next action for dairy must be more than a one-time payment of a few thousand dollars to each farmer, or the purchase of a small amount of product. The Secretary should instead be using his full authority to initiate a program that addresses the oversupply of milk by U.S. dairy farmers as a result of the

loss of export markets and thereby achieve an immediate and lasting positive impact on the price farmers are paid for milk. Dairy farmers need to be sufficiently incentivized to voluntarily reduce the growth in U.S. milk supply until markets recover and prices stabilize, by some estimates merely a 1 to 2 percent reduction in milk production has the potential to raise milk prices 10 to 20 percent. The Secretary can, and must use his existing authorities under the CCC Charter Act, to implement a well-funded voluntary dairy diversion or market stabilization program to help the farm-gate price of milk recover from the current imbalances that are the result of retaliatory actions taken by our trading partners.

I look forward to working closely with the Secretary to address this issue.

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QUESTIONS AND ANSWERS

SEPTEMBER 13, 2018

Senate Committee on Agriculture, Nutrition, & Forestry
Hearing on Perspectives on U.S. Agricultural Trade
September 13, 2018
Questions for the Record
Under Secretary McKinney

Chairman Pat Roberts

1. I understand you have been in Brazil within the last year asking for the implementation of a duty-free TRQ for wheat - a WTO commitment of Brazil's that has gone unfulfilled for over 20 years. Given Brazil's long record of disregarding this commitment, what other actions could be taken to make sure this TRQ is opened as soon as possible?

Response: I share your frustration with Brazil not carrying through on this long-standing commitment to establish a 750,000-ton tariff-rate quota (TRQ). Brazil's lack of action results in a significant commercial advantage for Mercosur countries that enjoy permanent duty-free access to Brazil. In contrast, U.S. farmers are subject to a 10 percent applied duty and contend with additional uncertainty, because Brazil can raise duties on wheat from non-Mercosur countries to as high as 55 percent at any time, per its WTO bound rate. However, when the playing field is level, U.S. producers' high quality wheat is competitive, as demonstrated by the 2013 to 2016 period, when the United States annually exported an average of 2 million tons (\$590 million) of wheat to Brazil under temporary TRQs. But Brazil owes us a larger opportunity. USDA and USTR will continue to engage with Brazil, and, as necessary, at the World Trade Organization (WTO). USDA remains committed to working with U.S. industry, USTR and our Brazilian counterparts to maximize opportunities for U.S. wheat exporters.

2. Mexico is the largest export market by volume for U.S. pork, such that the export value to Mexico averaged nearly \$12.50 for every hog processed in the U.S. last year. In response to the U.S. implementation of Section 232 tariffs in June, Mexico retaliated by implementing a 20 percent duty on U.S. pork. In addition, Mexico is looking for new pork suppliers. What is the administration's plan for getting the 20 percent duty removed from U.S. pork exports to Mexico?

Response: President Trump implemented Section 232 tariffs as a national security measure. Secretary Perdue has been clear that the President instructed him to make sure our farmers do not bear the brunt of unfair and unjustified retaliatory tariffs. USDA recently announced details of the mitigation actions we will take to assist farmers, including pork producers, in response to trade damage from unjustified retaliation by foreign nations, including Mexico. These programs will assist agricultural producers to meet the costs of disrupted markets. USDA's Farm Service Agency (FSA) will administer the Market Facilitation Program (MFP) to provide payments to a number of commodities, including an estimated \$290 million for pork. USDA's Agricultural Marketing Service (AMS) will administer a Food Purchase and Distribution Program to purchase up to \$1.2 billion in commodities,

including more than \$558 million for pork. Through the Foreign Agricultural Service's (FAS) Agricultural Trade Promotion Program (ATP), \$200 million will be made available to develop foreign markets for U.S. agricultural products, including pork. This short-term relief strategy for agricultural producers will be implemented as the Administration continues its work on free, fair, and reciprocal trade deals that open more markets in the long run and help American farmers compete globally.

3. I understand the trade mitigation plan will include approximately \$1.2 billion in targeted commodity purchases through the Food Purchase and Distribution Program. This purchase is a large increase over a typical year of commodity purchases for existing AMS programs, and more especially a substantial increase in perishable foods. Appropriated funds only cover a portion of the storage and distribution costs for food banks operating the Emergency Food Assistance Program. How is the Department of Agriculture going to handle additional costs that food banks and others will incur to store and distribute the commodities?

Response: USDA's Food Nutrition Service and Agricultural Marketing Service (AMS) are working closely with food banks to ensure that they have the tools they need, and capacity, to handle the influx of food. AMS broke up the procurement and distribution of the commodities into four phases with deliveries going well into 2019 to ensure food banks can manage the surplus.

4. The European Union (EU) is revising its legislation related to the use of veterinary medicines in food animal production. The EU Parliament and Council have introduced the concept of "reciprocity" into the legislation, to prohibit the use of antimicrobials in food animal production exported to the EU. If the current draft is adopted, the EU legislation would effectively impose EU hazard-based antibiotic use measures on meat, milk, egg, and fish producers in countries that export to the EU, including the United States. The impact would be severe, as veterinarians in countries wanting to export to the EU would lose their capacity to determine the best options available to prevent, control, and treat animal disease, including options vetted by the science-based risk assessment process for global food safety standards established by the Codex Alimentarius Commission. This could result in negative unintended consequences for food safety, public health, and animal health and welfare. In a letter to EU Commission President Jean-Claude Juncker in June of this year, the United States, along with Argentina, Brazil, Canada, Chile, and Japan, expressed these serious concerns. How does USDA plan to address this issue?

Response: I agree that this regulation could have a severe impact on agricultural exports if implemented in a manner not consistent with risk based assessments or international standards. The United States joined several other WTO Members in communicating our concerns over this measure in a joint letter to EU President Juncker in June. We have also had discussions with individual EU Member States regarding our concerns. We are pressing the EU to wait until the Codex Task Force on Antimicrobial Resistance (TFAMR) completes its work. During my trip to

Brussels in early September, I voiced the Administration's concerns about this legislation with EU Commissioner for Health and Safety Andriukaitis, noting that trade is a two-way street, and stressing the importance of basing regulations on science and risk assessments or international standards. Before that in July, when I attended the Codex Alimentarius Commission in Rome, I spoke at the opening plenary session with 189 Members present to argue that international standards developed by Codex must be based on science. We will continue to raise this issue with the EU, both at the WTO in Geneva, and bilaterally, to help inform the EU of the U.S. and third country approaches, to emphasize the EU's obligation to comply with their WTO obligations, and to help shape the implementing regulations if the EU adopts this legislation.

5. Are you aware of any challenges resulting from requirements that Certificates of Free Sale accompany U.S. food exports? If so, is USDA working to resolve these challenges for U.S. agricultural exporters?

Response: Certificates of Free Sale (COFS) are issued by the Food and Drug Administration (FDA) for the food products that it regulates (some states also issue COFS). Effective October 1, 2018, FDA, as part of its implementation of the Food Safety Modernization Act (FSMA), will no longer issue the COFS for most FDA-regulated food products. Instead, FDA will offer the Certificate to a Foreign Government and the Certificate of Exportability (for export-only products) for a fee to U.S. manufacturers and exporters that request them. While the FDA does not require certificates for imports of low-risk processed food products into the United States, FSMA mandates that the FDA offer export certificates to U.S. manufacturers or exporters upon request as a trade-facilitating measure for exports to countries that require such documentation. This is a voluntary program offered for a fee.

USDA works closely with FDA to ensure that these certificates include information often requested by importing countries, so that these certificates are as trade-facilitative as possible. Moreover, while FDA, certain U.S. states, and other entities offer certificates in order to facilitate trade, FAS will continue to emphasize to our trading partners bilaterally, as well as plurilaterally, that requiring export certification for purposes of product registration and/or import inspection is unnecessary for processed, shelf-stable products that present little to no risk to human health and/or safety. Such certification is burdensome for exporters and often duplicative of other export documents.

USDA continues to work with foreign governments that require COFS for import or registration of U.S. meat products. USDA emphasizes that COFS are unnecessary for export of meat products given that FSIS' form 9060-5 accompanies all meat and poultry exports, and contains the necessary health and safety information and attestations.

6. The United States is currently facing a non-tariff barrier to Chinese imports of soybeans that requires the U.S. soybean quality grade factor for foreign material to be used on phyto-sanitary certificates issued by APHIS for soybeans exported to China. This restriction is unique to the United States. How is USDA working to address this issue? How will USDA coordinate interagency efforts with USTR?

Response: In collaboration with the U.S. grain industry, USDA took immediate action when China expressed concerns about increased detections of weed seeds of quarantine significance in U.S. soybean shipments in October 2017. An interim measure was developed and implemented to fulfill China's mandatory phytosanitary requirements imposed on the United States and other countries exporting soybean to China. USDA and the soybean industry agreed that implementing a systems approach would be preferable to other measures, such as obligatory cleaning or weed seed testing, in order to keep U.S. soybean shipments moving and avoid trade disruption.

As a result of this collaborative effort, China continued to accept U.S. soybeans. USDA continues to work with U.S. soybean producers to develop and implement "best practices" in the field that will minimize the presence of weed seeds in U.S. soybean shipments. Since implementing the program, USDA has received no reports from Chinese inspection authorities of rejected cargo due to China's requirements. Over the past year, USDA consulted with USTR on this effort. USDA will continue to consult with USTR to identify appropriate next steps as needed.

Ranking Member Debbie Stabenow

1. Smithfield Foods, which the Chinese-owned Shuanghui Group (now the WH Group) acquired in 2013, owns about one in four hogs raised in the United States. The Administration is planning to purchase \$558 million in pork products due to unexpected surplus following trade disruptions. As a result, it is likely that American taxpayers will be paying to mitigate the damage of China's retaliatory tariffs by giving lucrative purchasing contracts to a Chinese-owned company that has been closely linked to the Chinese government. According to USDA's Agricultural Marketing Service, Smithfield was awarded contracts for about 25 percent of the total volume and value of USDA commodity purchases of pork and ham products in fiscal years 2016 and 2017. How will you and Under Secretary Ibach ensure that these commodity purchases benefit American farmers, not foreign-owned companies?

Response: AMS awards purchases to the lowest bidder through their procurement process and will not manipulate the integrity of the process to exclude particular companies. The Secretary's goal is to reduce the surplus of American products, including pork, on the domestic market to help reduce long-term damage to commodity prices.

2. How will you and Under Secretary Ibach ensure that the Food Purchase and Distribution program maximizes the benefit to producers while ensuring these purchases do not

impose undue additional costs on food banks and schools? Has USDA considered any modifications to the timing, volume of distribution and ordering timelines for these entities?

Response: USDA's Food Nutrition Service and Agricultural Marketing Service (AMS) are working closely with partners to ensure that they have the tools they need, and capacity, to handle the influx of food. AMS broke-up the procurement and distribution of the commodities into four phases with deliveries going well into 2019 to ensure recipients can manage the surplus.

3. I've heard a concern that becoming an approved vendor for the recently announced fluid milk purchase program is challenging and burdensome. What steps will you and Under Secretary Ibach take to streamline this process?

Response: AMS worked hard to provide additional outreach to the dairy processing community in advance of pre-solicitation notices being posted to ensure that processors enrolled in a timely manner and worked through any troubleshooting. AMS also created a "help desk" within AMS' procurement division to ensure the approved vendor registration process was streamlined and personalized assistance was provided to the influx of companies registering.

4. Developing new markets, which USDA prioritized in the Agricultural Trade Promotion program, takes significant time and resources. How does USDA plan to successfully open new markets if the Agricultural Trade Promotion program is intended only as shorter-term assistance? Will the Department consider administratively extending this program to allow longer term assistance?

Response: The Agricultural Trade Promotion (ATP) program will provide \$200 million in funding in 2019, but awards may be granted for a three year project period. In addition, project agreements can be extended up to a maximum award length of five years, upon request and justification. New markets are important but so is increasing investment in developing markets that may be currently underfunded. Multi-year activity plans will make the program more effective and the additional funding helps U.S. products compete in an increasingly competitive international environment. The ATP is one of the three programs comprising the short-term relief strategy crafted by USDA at the direction of President Trump to protect agricultural producers while the Administration works on free, fair, and reciprocal trade deals to open more markets in the long run to help American farmers compete globally.

5. The new Agricultural Trade Promotion program's structure is largely identical to the existing Market Access Program (MAP), with an additional focus on non-tariff barriers. Why did the Department not include activities allowable through other existing export programs, such as the Foreign Market Development Program (FMD), or additional, new activities? Will the Department consider amending the Agricultural Trade Program to expand its function?

Response: The Agricultural Trade Promotion Program (ATP) includes elements drawn from FAS's Market Access Program (MAP), Foreign Market Development Program (FMD), Technical Assistance for Specialty Crops Program (TASC), and Quality Samples Program (QSP). The ATP structure is largely drawn from MAP, although key elements have been adjusted from the existing MAP program to make the ATP more flexible and more responsive to participants (such as the elimination of the 5 year graduation rule for branded participation and the relaxation of the business class airfare limits for targets of a market development activity). From FMD, the ATP includes legal fees incurred in resolving trade issues with foreign countries as an eligible expense and allows participants to seek reimbursement for limited U.S. office administrative expenses. From TASC, the ATP allows participants to seek reimbursement for expenses associated with addressing certain non-tariff trade barriers. And from QSP, the ATP includes the option of seeking reimbursement for the purchase and transportation cost of U.S. agricultural commodity samples.

6. How will USDA prioritize and allocate resources among applicants for the Agricultural Trade Promotion program? Will a commodity's eligibility for other aspects of the assistance plan affect the level of assistance they may receive for export promotion?

Response: To be eligible for ATP funding, an applicant must demonstrate damages as a result of tariffs imposed on U.S. products in 2018/19 and meet the minimum 10 percent program contribution rate. The proposals will be evaluated on whether they target markets with the greatest growth potential and whether proposed activities are likely to succeed in creating, maintaining, and expanding export markets. Clear strategies, identified synergies with other programming, detailed activities with reasonable budgets, and identified trade-related expected outcomes, increase the likelihood of project success. USDA gives priority to organizations that have the broadest producer representation and affiliated industry participation of the commodity being promoted. Consideration will be given to each applicant's program management, financial stability, prior export promotion experience, and program compliance history. Export promotion allocations are not affected by a commodity's eligibility for other parts of the overall mitigation plan.

7. \$12 billion is a significant expenditure, and the \$6.3 billion that has already been announced will require significant oversight. What safeguards has the Department put in place to ensure that this program is free of waste, fraud, and abuse?

Response: USDA takes program integrity seriously and worked extensively with the Office of Management and Budget and the USDA Office of General Counsel to ensure that "good government" measures were built into the program. Those include the ability to spot-audit recipients of payments, the requirement that producers meet AGI and payment limitations, and prove actual yield, rather than average yields from previous years. USDA has worked closely with our Office of the

Inspector General to ensure there's ample communication and transparency as the programs progress.

8. USDA has announced plans to spend \$6.1 billion for trade mitigation assistance, and may announce further assistance in December. Has USDA provided an administrative PAYGO offset for these funds, either fully or partially? If not, will USDA commit to providing future unidentified offsets?

Response: USDA was not required by the Office of Management and Budget nor the President to provide administrative PAYGO offsets to operate the programs. The Department has not committed to providing future unidentified offsets.

9. Earlier this year USDA used the same Commodity Credit Charter Act authority to provide over \$100 million directly to cotton farmers through the Cotton Ginning Cost Share (CGCS) program. When Secretary Perdue announced this new program, it was reported that he indicated that USDA had to find money for the program as part of a negotiation with the Office of Management and Budget (OMB) and that the money was found before Christmas the previous year. This appears to be referring to OMB requiring an Administrative PAYGO offset for the discretionary spending.
 - a. How much has the 2018 CGCS program paid to cotton producers? Are additional payments expected?
 - b. Can you confirm that USDA provided an offset in order to use the CCC Charter Act Authority for the 2018 Cotton Ginning Cost Share Program?
 - c. Was the removal of the 10% prevented plant option under crop insurance that was announced in late 2017 used as the offset? If not, what was the offset?
 - d. How much savings are estimated from the offset over a 5 year period?

Response: In FY 2018, outlays under the Cotton Ginning Cost Share Program were \$215.5 million. Additional payments are not expected. USDA utilized administrative PAYGO from several sources to fund this program. The Office of Management and Budget and USDA Office of Budget and Policy Analysis keep a running list of administrative PAYGO funding available, so there is not a quid pro quo tradeoff when the PAYGO "bank" is utilized. The estimated 5-year savings from the 10 percent prevented plant elimination were in the neighborhood of \$205 million.

10. It is my understanding that the Technical Assistance for Specialty Crops (TASC) program has been underutilized despite strong interest in the program and an urgent need for resources to expand export opportunities for specialty crops, which have been hard-hit by retaliatory tariffs. Stakeholders have raised concerns that accessing these funds is overly burdensome and challenging. It is my understanding that stakeholders have offered suggestions to improve the program. Has FAS considered implementing these suggestions, and what steps will you take to ensure that stakeholders are better able to access and utilize these funds?

Response: FAS has received the suggestions from the TASC stakeholders and is very interested in working with the stakeholders to ensure the fullest possible use of

the program's funds. FAS has already implemented suggestions over which the Agency has control, such as relaxing the reporting burdens for the program. For those concerns that relate to areas outside of the Agency's control, such as the difficulties in complying with Federal grant laws and registering in the System for Award Management, FAS is willing to provide educational assistance and support to applicants to help them navigate the processes involved. We have also reached out to the specialty crops industry to request their support in securing sufficient eligible proposals to utilize all of the TASC funding each year.

11. Please provide a breakdown of:

- a. The total amount of MAP and FMD funds, over the life of both programs, that have been spent to support exports of U.S. agricultural commodities to China; and
- b. The total amount of resources provided by cooperating organizations as a match for those funds.

Response: Participants are not required to report cost-share contributions by country, so the exact amount of resources provided by cooperating organizations as a match for the funds spent in China are not available. However, an estimate of the matching contributions can be made using the average MAP and FMD contribution rates across all markets. Using those averages, the expected contributions against the program funds spent in China since 1998 would total \$971 million.

Senator Patrick Leahy

Secretary Perdue has promised a second round of assistance to agricultural producers harmed by retaliatory tariffs, again using his authority under the CCC Charter Act. I thank the Secretary, but the next action for dairy must be more than a simple payment of a few thousand dollars to each farmer, or the purchase of a small amount of product. The Secretary should instead take actions that will achieve an immediate positive impact on the price farmers are paid for milk and this can be done by initiating a program that addresses the over production in our milk markets that is plaguing the industry with low prices and has been exacerbated by retaliatory tariffs and the loss of export markets.

Farmers need to be incentivized to voluntarily reduce the growth in U.S. milk supply until markets recover and prices stabilize. By some estimates even just a 1 to 2 percent reduction in milk production has the potential to raise milk prices 10 to 20 percent. I feel strongly that the Secretary can, and must implement a well-funded voluntary dairy diversion or market stabilization program using his existing authorities under the CCC Charter Act, which states that the CCC is authorized to "a.) support the prices of agricultural commodities (other than tobacco) through loans, purchases, payments, and other operations" and "d.) remove and dispose of or aid in the removal or disposition of surplus agricultural commodities (other than tobacco)." Secretary Perdue clearly has the power to address the over production in our milk markets and

offer dairy farmers an opportunity to voluntarily reduce their production which will support their prices and aid in the removal of surplus dairy products.

1. Have you or your staff studied whether utilizing any of the Market Facilitation Program funds to provide payments to dairy farmers to reduce their milk production could result in an immediate and potentially lasting positive impact on the price farmers are paid for milk by addressing the current oversupply that has resulted from the loss of export markets?

Response: The surplus production of milk is a separate issue from the effects of retaliatory tariffs on markets. The Market Facilitation Program (MFP) provides payments to milk producers to adjust to disrupted markets resulting from retaliatory tariffs. In addition, the Food Purchase and Distribution Program (FPDP) will make purchases of dairy products for use in nutrition programs to address some of the surplus caused by the loss of traditional export markets. The level of that assistance provided through MFP and FPDP is based on estimated trade damages and was determined following the same methodology for other affected commodities.

2. Do you believe that market stability for dairy farmers is better achieved through one time cash payments or through a program that incentivizes farmers to voluntarily stabilize production growth that brings the supply of milk more closely into alignment with current demand?

Response: MFP payments are not intended to provide long-term market stability for dairy farmers. The program was developed to assist producers in managing the increased costs related to market disruptions from the current retaliatory tariffs.

3. Do you agree with the estimates that I have been told, that even just a 1 to 2 percent reduction in milk production has the potential to raise milk prices by 10 to 20 percent? If not, what impact do you believe a reduction of 1 to 2 percent of production could have on our farm-gate milk prices?

Response: There are several factors other than production that must be considered in analyzing potential price impacts. A major consideration is current weakness in exports, which have been playing an increasingly important role in supporting U.S. prices. In addition, stocks of some dairy products are large, which also affects milk prices. Although a decrease in milk production would support higher milk prices, growth in both export and domestic demand will also be important factors that affect changes in milk prices.

4. Would you recommend that the Secretary undertake a voluntary dairy diversion or market stabilization program under his clear authority of the CCC Charter Act and use any future Market Facilitation Program payments to dairy farmers to incentivize farmers to reduce their milk production and create an immediate positive impact on milk prices?

Response: The Market Facilitation Program was implemented to assist farmers with managing disrupted markets and developing new markets for their products. Since its enactment in 1948, the CCC Charter Act has not been viewed as providing authority to conduct production control programs.

Senator Heidi Heitkamp

1. Undersecretary McKinney, though MAP and FMD often get most of the attention of the export programs under your direction, the Technical Assistance for Specialty Crops program (TASC) has been extremely effective in resolving complex impediments to fruit and vegetable trade for U.S. producers.

Unfortunately, certain statutory impediments and a growing oversight and compliance burden has resulted in a reduction in program participation in the last year.

The Senate Farm Bill seeks to deal with the statutory limitations. Would you comment on how you believe this program could be administered better? For example, it certainly makes no sense for producers to spend \$25,000 in administrative costs for a \$30,000 grant.

Response: FAS has reviewed the concerns and suggestions from the TASC stakeholders and is very interested in working with the stakeholders to ensure the fullest possible use of the program's funds. FAS has already implemented suggestions over which the Agency has control, such as relaxing the reporting burdens for the program. For those concerns that relate to areas outside of the Agency's control, such as the difficulties in complying with Federal grant laws and registering in the System for Award Management, FAS is willing to provide educational assistance and support to applicants to help them navigate the processes involved. We have also reached out to the specialty crops industry to request their support in securing sufficient eligible proposals to utilize all of the TASC funding each year. FAS is available to advise applicants on structuring applications and project implementation plans to minimize administrative costs for grants.

Senator Tina Smith

1. The United States is the world's largest turkey producer and exporter. Minnesota, as the country's top turkey producing state, exports around 90% of its turkey to foreign markets. U.S. poultry recently got access into the Indian market, which could open up some great opportunities for poultry farmers, but I know it has taken a while to get the first shipments over there.
 - a. Where do we stand on gaining market access in India? Do you have any updates on that process?

Response:

Following successful litigation in the WTO against India's ban on poultry due to unfounded avian influenza concerns, in 2017 the Trump Administration moved forward aggressively to obtain market access for U.S. poultry in India when USTR filed a request for WTO authorization to impose countermeasures as a result of India's failure to lift the ban. In 2018, with the WTO countermeasures arbitration pending, the United States and India agreed to veterinary health certificates for the export of poultry meat and other products from the United States to India. In September, FAS's Office of Agricultural Affairs in New Delhi was notified that the first commercial shipment of U.S. whole turkeys arrived at Mumbai. This shipment represents the first container of U.S. turkey meat to arrive in India in many years. U.S. officials will closely monitor India's treatment of initial shipments. With over 1.3 billion people, India has the potential to be a massive market for U.S. poultry products.

2. It's not news to any of us that farmers are struggling right now because of these retaliatory tariffs. Grain producers in Minnesota are being forced to sell their product at today's low prices or hold on to their harvest until they can find new markets. The USDA's Farm Storage Facility Loan Program has been important for producers in my state, offering them low-interest financing for on-farm storage. This is an excellent program that allows farmers to build and upgrade storage facilities with help from USDA, allowing them to pay back the loans with revenue from their sales. Many grain producers in Minnesota are due to pay back these loans in September, but I have heard from many of them that they're worried about this upcoming deadline. With prices so low, farmers are worried that their ability to repay the loans is in jeopardy.
 - a. Knowing the difficulties these farmers face, does USDA support a temporary loan extension so that grain producers have a few months to explore new markets for their crops?

Response: Under current regulations for the Farm Storage Facility Loan program, the FSA Deputy Administrator may defer annual installment payments for 1 or 2 years. A producer must make a request to extend the loan terms in writing to the local county FSA office, which will be submitted through the State FSA Office for concurrence and recommendation, to the Deputy Administrator for approval. In addition, borrowers who cannot pay on the due date have the opportunity to request up to an additional 120 calendar days to pay an annual installment payment. Under FSA's Farm Operating Loan program, there are two options available to Farm Storage Facility Loan borrowers: 1) use an operating loan to pay the Farm Storage Facility installment in the current year, as long as the account is not delinquent; and 2) use an operating loan to refinance equipment debt to a creditor other than USDA. However, a farm operating loan cannot be used to refinance a farm storage facility loan.

Senate Committee on Agriculture, Nutrition, & Forestry
Hearing on Perspectives on U.S. Agricultural Trade
September 13, 2018
Questions for the Record
Dr. Robert Johansson

Ranking Member Debbie Stabenow

- 1. Please provide a breakout of the Department's estimate of gross trade damage for each affected commodity.**

Response: The table below provides a breakout of the gross trade damages for each commodity estimated by USDA.

Product	Gross Trade Damage (in million \$)	Product	Gross Trade Damage (in million \$)
Cotton	553.8	Kidney beans	14.2
Corn	192.0	Lemons/Limes	3.4
Dairy/milk	339.7	Lentils	1.8
Pork/hogs	1,139.4	Macadamia	7.7
Soybeans	7,259.4	Navy beans	18.0
Sorghum	313.6	Oranges	55.6
Wheat	238.4	Orange Juice	24.0
Almonds	63.3	Peanut Butter	12.3
Sweet Cherries	111.5	Pears	1.4
Apples	93.4	Peas	11.8
Apricots	0.2	Pecans	16.0
Beef	14.8	Pistachios	85.2
Blueberries	1.7	Plums/prunes	18.7
Cranberries	32.8	Potatoes	44.5
Figs	0.02	Rice	48.1
Grapefruit	0.7	Strawberries	1.5
Grapes	48.2	Sweetcorn	2.4
Hazelnuts	2.1	Walnuts	34.6

- 2. USDA initially announced \$111 million in assistance for sweet cherries through the Food Purchase and Distribution program, but has not finalized the means of providing that assistance. What will this assistance look like, and what methodology**

will USDA use to determine it? How and when will producers in Michigan be able to access it?

Response: On September 21, USDA announced that producers of fresh sweet cherry producers may apply for Market Facilitation Program (MFP) payments at their local Farm Service Agency (FSA) office. The sign-up period for MFP for fresh sweet cherries and other eligible commodities is now open and runs through January 15, 2019. The initial MFP payment rate for fresh sweet cherries is \$0.16 per pound, based on the same methodology used to set payment rates for other commodities covered by the MFP program. The initial payment rate will apply to the first 50 percent of the producer's total 2018 production. On or about December 3, 2018, USDA may announce additional payments at a second payment rate. If implemented, the second rate will apply to the remaining 50 percent of the producer's 2018 production. MFP payments at either the initial payment rate or at a second payment rate will be made after a producer harvests 100 percent of the crop and certifies the amount of production.

On September 21, 2018, the Notice of Funds Availability (NOFA) for MFP payments for fresh sweet cherries and shelled almonds was posted to the Federal Register:
https://www.fsa.usda.gov/Internet/FSA_Federal_Notices/mfpnofa_cherriesalmonds.pdf

Details on the methodology used to estimate trade damages is available at:
https://www.usda.gov/oce/trade/USDA_Trade_Methodology_Report.pdf

- 3. It seems likely that aspects of this proposal will need to be reported as trade-distorting "amber box" support at the WTO. How did USDA determine that this assistance will not cause the U.S. to exceed our \$19.1 billion limit on domestic support for agriculture? How has the Department consulted with the United States Trade Representative on this matter?**

Response: Based on the parameters of the trade mitigation programs and the WTO rules for reporting domestic support, USDA has estimated the possible impacts of these programs on our reported levels of domestic support and found that U.S. support levels will remain under the \$19.1 billion limit. These programs will be reported in our 2018 domestic support notification, which is scheduled to be submitted to the WTO in 2020. USDA has consistently consulted with the Office of the U.S. Trade Representative on these programs.

- 4. During the hearing, you indicated that USDA is considering calculating the second round of assistance for producers based on numerous additional factors beyond gross trade damage. Why is the Department altering their methodology for a potential second round of assistance? Why did the Department prioritize announcing assistance quickly over fully and equitably accounting for these additional variables in the first round of assistance?**

Response: USDA will not alter the methodology of calculating trade damages, but a potential second round of assistance may account for other factors, such as new tariff levels, regional basis effects, or other market conditions. The decision to announce a program soon after the

implementation of retaliatory tariffs was made so that producers of commodities subject to retaliatory tariffs would receive assistance in a timely manner to help them manage market disruptions caused by the tariffs.

5. Please provide a list of all additional factors and considerations that USDA will use to calculate allocations for the second round of assistance.

Response: USDA will consider factors such as new tariff levels, regional basis effects, or other market conditions that may be identified for inclusion since the first round of payments.

6. What safeguards will the Department use to prevent duplicative payments or assistance in excess of actual loss? Will USDA consider the likely payments from PLC, ARC, or crop insurance indemnities when determining the payments?

Response: MFP payments are based on estimated trade damages and are not intended to compensate producers for individual losses, but rather to provide assistance to help farmers meet the costs of adjusting to disrupted markets. As such, they do not duplicate payments from other programs that may address individual losses, such as crop insurance, or provide decoupled income support during times of economic stress, such as ARC and PLC.

7. How much in payments or indemnities does USDA project from the following programs related to the trade-related price declines?

- a. Agriculture Risk Coverage**
- b. Price Loss Coverage**
- c. Marketing Assistance Loan Gains or Loan Deficiency Payments**
- d. Indemnities under revenue-based Federal crop insurance products**

Response: USDA has not estimated projected payments or indemnities under these programs due to trade-related price declines.

8. The Department has made it clear that the Market Facilitation assistance will only be targeted to the 2018 crop. What is USDA's estimate of the harm for the remaining 2017 crop, and how is that harm distributed between farmers, elevators and other companies? Why did USDA decide to exclude the remaining 2017 crop, which producers may still be marketing?

Response: The retaliatory tariffs took effect near the end of the 2017/18 marketing year for most crops, after marketing was largely complete. MFP payments are made to farmers, not to elevators or other companies. In order to most effectively assist farmers with managing market disruptions for the 2018 crop, payments are made on 2018 production.

9. Under the Market Facilitation Program (MFP), USDA decided to base the row-crop payments to farmers on actual production under the current crop year. The dairy industry requested that USDA similarly base payments to dairy farmers on current or recent production history. However, USDA decided to use the production history under the Margin Protection Program. This means that payments to dairy farmers

are based on five to seven year old data, and may significantly diverge from actual recent production. Why did USDA decide to use this methodology?

Response: The decision to use MPP production history as the basis for payments to dairy farmers was based on the desire to make payments in as timely a manner as possible. MPP production history is already available for the majority of dairy operations, allowing payments to go out far more quickly than would be possible if producers were required to provide documentation of recent average production. As required by statute, MPP production histories have been increased annually based on the national average increase in milk production, helping to keep those histories relatively close to current average production except for operations that have been increasing production more rapidly than the national average.

Senator Patrick Leahy

Secretary Perdue has promised a second round of assistance to agricultural producers harmed by retaliatory tariffs, again using his authority under the CCC Charter Act. I thank the Secretary, but the next action for dairy must be more than a simple payment of a few thousand dollars to each farmer, or the purchase of a small amount of product. The Secretary should instead take actions that will achieve an immediate positive impact on the price farmers are paid for milk and this can be done by initiating a program that addresses the over production in our milk markets that is plaguing the industry with low prices and has been exacerbated by retaliatory tariffs and the loss of export markets.

Farmers need to be incentivized to voluntarily reduce the growth in U.S. milk supply until markets recover and prices stabilize. By some estimates even just a 1 to 2 percent reduction in milk production has the potential to raise milk prices 10 to 20 percent. I feel strongly that the Secretary can, and must implement a well-funded voluntary dairy diversion or market stabilization program using his existing authorities under the CCC Charter Act, which states that the CCC is authorized to “a.) support the prices of agricultural commodities (other than tobacco) through loans, purchases, payments, and other operations” and “d.) remove and dispose of or aid in the removal or disposition of surplus agricultural commodities (other than tobacco).” Secretary Perdue clearly has the power to address the over production in our milk markets and offer dairy farmers an opportunity to voluntarily reduce their production which will support their prices and aid in the removal of surplus dairy products.

- 1. Have you or your staff studied whether utilizing any of the Market Facilitation Program funds to provide payments to dairy farmers to reduce their milk production could result in an immediate and potentially lasting positive impact on the price farmers are paid for milk by addressing the oversupply that has resulted from the loss of export markets?**

Response: The surplus production of milk is a separate issue from the effects of retaliatory tariffs on markets. The Market Facilitation Program (MFP) provides payments to milk producers to adjust to disrupted markets resulting from retaliatory tariffs. In addition, the Food Purchase and Distribution Program (FPDP) will make purchases of dairy products for use in nutrition

programs to address some of the surplus caused by the loss of traditional export markets. The level of that assistance provided through MFP and FPDP is based on estimated trade damages and was determined following the same methodology for other affected commodities.

2. **Do you believe that market stability for dairy farmers is better achieved through one time cash payments or through a program that incentivizes farmers to voluntarily stabilize production growth and thereby brings the supply of milk more closely into alignment with current demand?**

Response: MFP payments are not intended to provide long-term market stability for dairy farmers. The program was developed to assist producers in managing the increased costs related to market disruptions from the current retaliatory tariffs.

3. **Do you agree with the estimates that I have been told, that even just a 1 to 2 percent reduction in milk production has the potential to raise milk prices by 10 to 20 percent? If not, what impact do you believe a reduction of 1 to 2 percent of production could have on our farm-gate milk prices?**

Response: There are several factors other than production that must be considered in analyzing potential price impacts. A major consideration is current weakness in exports, which have been playing an increasingly important role in supporting U.S. prices. In addition, stocks of some dairy products are large, which also affects milk prices. Although a decrease in milk production would support higher milk prices, growth in both export and domestic demand will also be important factors that affect changes in milk prices.

4. **Would you recommend that the Secretary undertake a voluntary dairy diversion or market stabilization program under his clear authority of the CCC Charter Act and use any future Market Facilitation Program payments to dairy farmers to incentivize farmers to reduce their milk production and create an immediate positive impact on milk prices?**

Response: The Market Facilitation Program was implemented to assist farmers with managing disrupted markets and developing new markets for their products. Since its enactment in 1948, the CCC Charter Act has not been viewed as providing authority to conduct production control programs.

Senator Tina Smith

1. **It's not news to any of us that farmers are struggling right now because of these retaliatory tariffs. Grain producers in Minnesota are being forced to sell their product at today's low prices or hold on to their harvest until they can find new markets. The USDA's Farm Storage Facility Loan Program has been important for producers in my state, offering them low-interest financing for on-farm storage. This is an excellent program that allows farmers to build and upgrade storage facilities with help from USDA, allowing them to pay back the loans with revenue from their sales. Many grain producers in Minnesota are due to pay back these**

loans in September, but I have heard from many of them that they're worried about this upcoming deadline. With prices so low, farmers are worried that their ability to repay the loans is in jeopardy.

- a. **Knowing the difficulties these farmers face, does USDA support a temporary loan extension so that grain producers have a few months to explore new markets for their crops?**

Response: Under current regulations for the Farm Storage Facility Loan program, the FSA Deputy Administrator may defer annual installment payments for 1 or 2 years. A producer must make a request to extend the loan terms in writing to the local county FSA office, which will be submitted through the State FSA Office for concurrence and recommendation, to the Deputy Administrator for approval. In addition, borrowers who cannot pay on the due date have the opportunity to request up to an additional 120 calendar days to pay an annual installment payment.

Under FSA's Farm Operating Loan program, there are two options available to Farm Storage Facility Loan borrowers: 1) use an operating loan to pay the Farm Storage Facility installment in the current year, as long as the account is not delinquent; and 2) use an operating loan to refinance equipment debt to a creditor other than USDA. However, a farm operating loan cannot be used to refinance a farm storage facility loan.

Senate Committee on Agriculture, Nutrition, & Forestry
Hearing on Perspectives on U.S. Agricultural Trade
September 13, 2018
Questions for the Record
Ambassador Gregg Doud

Chairman Pat Roberts

- 1. I understand you have been in Brazil within the last year asking for the implementation of a duty-free TRQ for wheat - a WTO commitment of Brazil's that has gone unfulfilled for over 20 years. Given Brazil's long record of disregarding this commitment, what other actions could be taken to make sure this TRQ is opened as soon as possible?**

A: USTR is actively engaging with Brazil to get Brazil to either implement its original TRQ commitment or offer an alternative that provides an equivalent level of access for U.S. wheat. Unless and until an alternative has been proposed, accepted, and implemented, we expect Brazil to live up to its original WTO commitment. There is clear demand in Brazil for high quality, cost competitive U.S. wheat, and stable U.S. access to the Brazilian wheat market would benefit both Brazil and the United States. USTR is keenly focused on this issue.

- 2. Despite commitments in NAFTA for free trade for most goods, sometimes our trading partners put erroneous anti-dumping or countervailing duties on our exports. NAFTA currently allows illegally targeted industries to fight these duties under Chapter 19 dispute resolution. I have been concerned about efforts to eliminate Chapter 19 in NAFTA 2.0. How will USTR ensure American producers have meaningful procedures for resolving disputes?**

A: The U.S.-Mexico-Canada Agreement as announced on September 30, 2018, maintains the same provisions between the United States and Canada as are included in Chapter 19 of the original NAFTA.

- 3. Mexico is the largest export market by volume for U.S. pork, such that the export value to Mexico averaged nearly \$12.50 for every hog processed in the U.S. last year. In response to the U.S. implementation of Section 232 tariffs in June, Mexico retaliated by implementing a 20 percent duty on U.S. pork. In addition, Mexico is looking for new pork suppliers. What is the administration's plan for getting the 20 percent duty removed from U.S. pork exports to Mexico?**

A: The President's determination to impose tariffs on imports of steel and aluminum is based on a finding by the Secretary of Commerce, arrived at through an investigation conducted pursuant to Section 232 of the Trade Expansion Act of 1962, that the quantity and circumstances of these imports threaten to impair our national security. The President invited allies and partners of the United States to discuss with us possible alternative means to address this threat. The United States has subsequently arrived at

such satisfactory alternative means with several countries. Where countries choose instead to respond to the President's legitimate and fully justified action with retaliatory tariffs, we will take all necessary action to protect U.S. interests, including through litigation we have initiated at the WTO.

4. **USDA projects that U.S. milk production will grow by 23 percent (about 48 billion pounds) over the next 10 years. Given that today we are exporting 15% of our total production (about 30 billion pounds), between exports and rising production, there needs to be increased export opportunities for approximately 80 billion pounds of milk over the next ten years. Free trade agreements that open markets and lower trade barriers are crucial to support the growth of U.S. dairy exports. With more than 95 percent of our potential customers living outside our borders, expanding access to international markets is essential for our future success. The Asia-Pacific region is one such market that is critical if we are to attain our future export potential and continue to support American jobs. Therefore, the U.S. should pursue bilateral trade agreements with key markets in the region. Our competitors in the European Union (EU), New Zealand and Australia are already negotiating with key export markets like China and Japan. Has USTR prioritized which countries it intends to begin bilateral negotiations with and when will those bilateral negotiations begin?**

A: I recognize the importance of making sure that U.S. dairy exports can expand and compete on an even playing field with competitors. U.S. dairy products continue to face unfair trade barriers in a number of foreign markets. In the negotiations of the United States-Mexico-Canada Agreement (USMCA), for example, we negotiated an agreement that expands access into Canada for U.S. dairy products. Beyond USMCA, we are currently assessing likely trading partners with which we would like to pursue new agreements in Asia, Europe, and Africa. President Trump and Prime Minister Abe announced on September 26th that, once domestic procedures are completed, we will begin negotiations for a U.S.-Japan Trade Agreement. We will continue to work together through the TPA process as these considerations evolve. USTR will continue to work closely with the U.S. Department of Agriculture and the U.S. dairy industry to expand export opportunities.

5. **Brexit presents an opportunity to advance U.S. agricultural exports. How do you see negotiations with the European Union and, separately, with the United Kingdom moving forward?**

A: Following the President's meeting with EU President Juncker in July, Ambassador Lighthizer had a constructive meeting with Commissioner Malmström on September 10, 2018, to initiate the Executive Working Group to improve trade relations between the United States and the European Union. In October, professional staff will hold further discussions on identifying and reducing tariff and non-tariff barriers to trade. Ministers plan to meet again in November with the goal of finalizing outcomes in a number of areas. USTR will begin consultations with Congress pursuant to Trade Promotion Authority to facilitate negotiations on longer-term outcomes.

Regarding the United Kingdom, until the United Kingdom officially exits the EU in March 2019, we cannot negotiate with the UK, but we can hold procedural discussions. We could begin to negotiate with the UK, subject to TPA requirements, after March 2019, but any agreement could not be implemented until the United Kingdom has fully exited the EU. The United States and the United Kingdom established a Trade and Investment Working Group in July 2017, which we are using to advance our trade relationship prior to Brexit and lay the groundwork for a potential future FTA. Should the Administration decide to enter into FTA negotiations with the United Kingdom, we will seek comprehensive access to the UK's agricultural market.

- 6. Over the years, we have seen Chinese regulatory activities have a detrimental impact on U.S. agriculture and restrict farmers' access to new innovations. In May, an industry study showed that China's slow, unpredictable approval process for biotech crops cost U.S. farmers more than \$5 billion and our economy nearly 34,000 jobs between 2011-2016. What role is China's regulatory impediments playing in ongoing trade negotiations, and can we expect to see resolutions to systemic problems like these when agreements are reached?**

A: Since I met with the Chinese in early June of 2018 to convey our dissatisfaction, the Administration continues to publicly identify our concerns with the systemic barriers that China maintains that harm U.S. agriculture and restrict farmers' access to innovative products. This Administration has also informed China of the types of steps that it needs to take to address these concerns and restore balance in the U.S.-China trade relationship. We will continue to press China on these issues in the future.

- 7. The European Union is revising its legislation related to the use of veterinary medicines in food animal production. The EU Parliament and Council have introduced the concept of "reciprocity" into the legislation, to prohibit the use of antimicrobials in food animal production exported to the EU. If the current draft is adopted, the EU legislation would effectively impose EU hazard-based antibiotic use measures on meat, milk, egg, and fish producers in countries that export to the EU, including the United States. The impact would be severe, as veterinarians in countries wanting to export to the EU would lose their capacity to determine the best options available to prevent, control, and treat animal disease, including options vetted by the science-based risk assessment process for global food safety standards established by the Codex Alimentarius Commission. This could result in negative unintended consequences for food safety, public health, and animal health and welfare. In a letter to EU Commission President Jean-Claude Juncker in June of this year, the United States, along with Argentina, Brazil, Canada, Chile, and Japan, expressed these serious concerns. How does USTR plan to address this issue?**

A: USTR is tracking this issue closely and, in conjunction with our colleagues in USDA, will continue to engage with the EU to ensure that U.S. exports of animals and animal products to the EU are not harmed by unjustified non-tariff barriers. In particular, we will

press the EU to ensure that any implementing regulations related to this legislation are based on science and risk assessment, and are not more trade-restrictive than necessary.

8. **In your testimony, you discussed the importance of including agriculture in trade agreements, and in particular in a potential agreement between the United States and the EU. Congress has a long history of supporting the role of agriculture in trade deals. As the U.S. continues to dialogue with the EU, and with countries like the United Kingdom, how will USTR continue to ensure a strong framework for agriculture in any potential agreement?**

A: Not only does Trade Promotion Authority establish comprehensive and strong negotiating objectives for agriculture for any trade agreement, but the President, Ambassador Lighthizer, and I are committed to ensuring that any trade agreement is comprehensive and reflects the interests of America's farmers and ranchers.

9. **The United States is currently facing a non-tariff barrier to Chinese imports of soybeans that requires the U.S. soybean quality grade factor for foreign material to be used on phyto-sanitary certificates issued by APHIS for soybeans exported to China. This restriction is unique to the United States. How is USTR working with USDA to address this issue?**

A: USTR is monitoring this issue closely and working with our colleagues at USDA to understand how this new grading requirement will affect U.S. exports of the new crop of soybeans to China.

Ranking Member Debbie Stabenow

1. **It has been widely reported that Chapter 19 dispute settlement is an outstanding item in NAFTA negotiations with Canada, with the Administration proposing to eliminate it. While Chapter 19 has been used to overturn anti-dumping and countervailing duty findings to the detriment of some U.S. sectors, many U.S. agricultural stakeholders have found it to be a valuable tool, particularly in disputes with Mexico. If the Administration moves forward with removing Chapter 19, what alternative will the Administration propose for U.S. agriculture?**

A: See Roberts 2.

2. **I continue to hear concerns from dairy producers that the provisions on geographic indications (GIs) in the US-Mexico agreement may not do enough to protect the use of common cheese names in Mexico, particularly in light of an expanded agreement between Mexico and the EU. What specific protections will the US-Mexico agreement provide for US cheesemakers who export to Mexico?**

A: The U.S.-Mexico-Canada Agreement will require stronger standards for procedural fairness and transparency than any prior U.S. trade agreement. It establishes important

procedural safeguards for recognition of new geographical indications (GIs), to make sure that names that are customary or commonly used are not recognized as GIs, to promote fair market access for U.S. producers. The Agreement will also improve consultation mechanisms between the U.S. and Mexico about this important issue. In addition to GI provisions, we will promote fairness for U.S. cheese producers with Mexico's agreement to not restrict market access for U.S. cheeses labeled with certain names.

- 3. You indicated during the hearing that the Department of Commerce is leading negotiations on the Section 232 case on steel and aluminum, which has prompted retaliation against agriculture from many of our trading partners. Your response also seemed to indicate that you are not involved in discussions with those trading partners to resolve these retaliatory tariffs. Who is representing U.S. agriculture in these discussions?**

A: The President's determination to impose tariffs on imports of steel and aluminum is based on a finding by the Secretary of Commerce, arrived at through investigations conducted pursuant to Section 232 of the Trade Expansion Act of 1962 that the quantity and circumstances of these imports threaten to impair our national security. Where countries have chosen to respond to the President's legitimate and fully justified action with retaliatory tariffs, USTR will take all necessary action to protect U.S. interests, including the interests of our agriculture exporters. We have taken these countries to task through litigation we have initiated at the WTO. The Administration has also taken action to ensure that our agriculture producers are not left to bear the brunt of illegal retaliation by these countries.

- 4. Ambassador Lighthizer was in Brussels recently to continue discussions about trade with the European Union, with plans to continue talks in the coming weeks. Currently, Michigan dry bean producers are facing a 25% tariff on exports to key European markets, including the UK and Italy. While I recognize that the Department of Commerce is leading talks on the Section 232 steel and aluminum cases, will resolving these tariffs be a part of these discussions?**

A: The President has stated that resolving the retaliatory tariffs imposed by the European Union will be among the issues included in the agenda for U.S.-EU trade discussions.

- 5. I appreciate that USTR accepted the cherry industry's petition to remove cherry juice concentrate from Turkey from the Generalized System of Preferences (GSP) program. Now that the September 7th deadline for the ITC to submit their report to USTR has passed, when can we expect USTR to make a recommendation on this critical change?**

A: USTR is currently working to conclude the annual GSP product review. The effective date for any modification that the President proclaims to the list of articles for duty free treatment under GSP resulting from the annual product review is November 1, 2018.

6. **One of the challenges facing the cherry industry in addressing the flood of imports from Turkey is a lack of information about how Turkey supports its domestic industry. Turkey is many years behind in providing notification of their domestic subsidies at the WTO. What steps will USTR take to ensure that Turkey makes these overdue notifications?**

A: I know this is an important issue for you. We have raised our concerns with Turkey's lack of notifications in bilateral meetings and the WTO Committee on Agriculture, and we will continue to do so.

7. **What role did USTR have in developing USDA's trade mitigation assistance? Is USTR confident that this plan is fully compliant with our WTO commitments?**

A: USDA developed the trade mitigation assistance programs consistent with its authorities. USTR officials reviewed USDA's proposals as part of the interagency review process. USTR is confident that the plan is fully compliant with U.S. WTO commitments.

Senator Patrick Leahy

1. **Canada remains one of the largest importers of Vermont dairy, however this administration has introduced a significant amount of uncertainty into this trade relationship. What is the status of NAFTA negotiations regarding dairy trade with Canada?**

A: Canada's pricing policy has harmed U.S. dairy exports, and the Administration successfully negotiated in the U.S.-Mexico-Canada Agreement that Canada will eliminate what is known as its milk classes 6 and 7. The Administration also negotiated new export opportunities in Canada's market for the full range of U.S. dairy (and poultry and egg) products.

Senator Michael Bennet

1. **Last winter, the President's trade rhetoric disrupted grain sorghum markets and put a strain on farmers in Southeast Colorado. During a month and a half period this summer, corn and wheat prices dropped from 15 to 20%. Livestock producers continue to tell me about the lost opportunities to access Asian markets, while holding their breath on NAFTA. And, potato growers in the San Luis Valley are still waiting for fair access to Mexican markets.**
- a. **How would you explain the administration's trade actions to the 22 year old who wants to stick with the family farm or ranch business, but is struggling to access credit and is plagued by market volatility?**

A: Farmers and ranchers across the United States have long been harmed by tariff and non-tariff barriers by China and many other countries. The Administration is seeking to rectify these concerns to expand upon our current export potential and create a level playing field for U.S. farmers, ranchers and businesses. There is no perfect time to tackle our numerous trade concerns with China. If these trade irritants remain unaddressed, then our producers will continue to lose market opportunities, causing economic harm to U.S. farmers and ranchers for years to come.

b. Is the administration committed to not taking any steps backward when it comes to our duty free agricultural trade with Canada and Mexico?

A: The United States, Mexico and Canada have reached an agreement to benefit American farmers, ranchers, and agribusinesses. Canada will provide new access for United States products including fluid milk, cream, butter, skim milk powder, cheese, and other dairy products. It will also eliminate its tariffs on whey and margarine. For poultry, Canada will provide new access for United States chicken and eggs and increase its access for turkey. Under a modernized agreement, all other tariffs on agricultural products traded between the United States and Mexico will remain at zero.

c. What progress on agricultural trade in the last year and a half would you point to for some hope?

A: USTR has an aggressive agenda to expand export opportunities for America's farmers and ranchers. USTR in cooperation with USDA works every day to resolve trade barriers and open new markets to U.S. food and agricultural products. Over the past 18 months, important achievements have been achieved, for example, to resolve barriers in Colombia to U.S. rice, negotiate access for poultry to Central America, India, and Morocco, lamb and potatoes to Japan, and pork to Argentina. We also have a vigorous enforcement agenda, for example pursuing WTO disputes against China on domestic support for corn, rice and wheat, and meat and horticulture access in Indonesia. We have negotiated an agreement with Mexico and Canada in slightly over a year, with important new provisions on sanitary and phytosanitary measures and agricultural biotechnology. And, we are engaging with countries around the world exploring the potential for new free trade agreements.

d. What would a successful outcome to the current trade war look like and what new markets will be open for US agriculture as a result?

A: The investigation conducted by USTR under Section 301 of the Trade Act of 1974 found that Chinese government acts, policies, and practices related to technology transfer, intellectual property, and innovation are unreasonable or discriminatory and burden or restrict U.S. commerce and that these unfair acts, policies, and practices cause tens of billions of dollars in yearly average damage

to the U.S. economy. The actions taken by the United States as a result of the investigation are intended to obtain the elimination of China's unfair and harmful acts, policies, and practices, thereby promoting the interests of all U.S. stakeholders that rely on innovation for their competitiveness.

We have been very clear about the specific changes China should undertake. Regrettably, instead of changing its harmful behavior, China has illegally retaliated against U.S. workers, farmers, ranchers, and businesses. The United States is taking action at the World Trade Organization (WTO) to address China's unfair technology practices that run counter to WTO rules.

The U.S. government continues to closely monitor activities by China to assess whether they are taking inappropriate actions against U.S. agricultural products and will work to address those actions as needed.

2. Colorado's farmers and ranchers report that new overseas markets are where they will see growth. However, it currently appears that the United States is losing influence and market share across Asia, while gaining very little in terms of new access or more fair trade for U.S. agricultural products.

a. What progress has the United States made toward establishing a bilateral trade agreement with Japan? Will this agreement allow U.S. beef producers to have better or equivalent terms as TPP?

A: The agreement between President Trump and Prime Minister Abe on September 26, 2018 to begin negotiations for a U.S.-Japan Trade Agreement is an important step towards achieving more balanced trade with Japan. The negotiations will cover market access for goods, covering agriculture and other products, including U.S. beef products. We expect negotiations to begin early next year, following notification to Congress and the completion of Congressionally-mandated consultations and other procedures under Trade Promotion Authority (TPA).

b. What progress has the United States made toward establishing bilateral trade agreements with other TPP countries such as Vietnam and Malaysia?

A: We are exploring how we move forward on our bilateral trade agenda across the Indo-Pacific region to advance the interests of our farmers and ranchers. The Administration is having conversations with countries across the region on how to expand our trade relationship.

3. The U.S. administration has presented different objectives for various negotiations and rounds of tariffs. At one point, the stated objective of negotiations with China was to close the trade deficit. At other times, the administration has said the objective is Chinese business and regulatory practices reform.

- a. **Is the Administration unified across agencies on a common and specific set of outcomes with respect to trade policy toward China?**
- b. **While I understand your reluctance to make the President's negotiating position public, would you be willing to provide this information to our Committee?**

A: The Administration is clear that China must make a number of specific changes to come back to the table for discussions with the United States. As explained more fully in USTR's 2017 Report to Congress on China's WTO Compliance, the Administration carefully reviewed the past 15 years of the United States' formal high-level trade dialogues with China, including the more recent U.S.-China Comprehensive Economic Dialogue. The Administration found that these dialogues did not lead to fundamental changes in China's trade, investment and intellectual property rights regimes, but rather incremental changes to Chinese policies and practices that it repeatedly failed to fulfill. Currently, despite the absence of a formal high-level dialogue, the Administration has communicated with China about the systemic problems that have given rise to enforcement actions such as USTR's section 301 investigation and the types of steps that China needs to take to make the U.S.-China trade relationship fair, balanced and reciprocal.

Senator Tina Smith

1. **The United States is the world's largest turkey producer and exporter. Minnesota, as the country's top turkey producing state, exports around 90% of its turkey to foreign markets. U.S. poultry recently got access into the Indian market, which could open up some great opportunities for poultry farmers, but I know it has taken a while to get the first shipments over there.**
 - a. **Where do we stand on gaining market access in India? Do you have any updates on that process?**

A: Following years of dispute settlement proceedings in the WTO, in March of this year, the United States and India finalized an export certificate for the shipment of U.S. poultry products to India. We have heard reports from industry that since finalization of the certificate, India has issued a few import permits for poultry products, including turkey meat. With over 1.3 billion people, India has the potential to be a massive market for U.S. poultry products. We will be carefully monitoring the results of initial shipments to see if India in fact provides U.S. poultry products with market access.