Statement of
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U.S. Trade Representative
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Thank you Chairman Goodlatte, Mr. Stenholm, Members of the Committee.

I appreciate the opportunity to be here today with my close colleague and friend, Secretary Ann Veneman. Working together closely, we have sought to ensure that the Department of Agriculture and the Office of the U.S. Trade Representative operate effectively as partners pursuing the interests of America's farmers and ranchers around the world.

I want to thank you for your leadership on trade. Your hard work has helped propel the U.S. trade agenda forward—and American agriculture is stronger as a result. I look forward to continuing to work with the two of you and the Committee in the weeks and months ahead as agriculture negotiations intensify in the WTO and other fora.

I also want to thank you, Mr. Chairman, and many others on this Committee for your support of our recent request for consultations in the WTO over the EU's ongoing moratorium on agricultural biotech products, which is in complete violation of international trade rules, the European Community's rules, and Europe's own scientific analysis. This case underscores our commitment to enforcing global trading rules. Upholding standards based on sound science, not irrational fears, is critical to U.S. agricultural productivity and profitability—and to the lives and health of poor people around the globe.

Why trade is important to U.S. agriculture

As Secretary Veneman has emphasized, U.S. agriculture must look overseas to generate sales and the expansion of farm income. U.S. population and consumption growth are relatively flat, which means growth prospects for farmers and ranchers in our home market are limited. At the same time, U.S. agricultural productivity continues to climb, driving increased domestic output that can only be sold profitably if we expand overseas markets.

Foreign customers are already critical for U.S. producers and processors. Twenty-five percent of all cash receipts for agriculture are generated by exports. Nearly half of American wheat and rice, about one-third of our soybean and meat production, and 20 percent of U.S. corn is sold for export. For a number of specialty crops, foreign markets are even more important: 65 percent of U.S. almonds, nearly 50 percent of U.S. walnuts and dried plums, and a third of U.S. raisins and table grapes are sold overseas.

The importance of exports to American agriculture is certain to rise in the future. Ninety-six percent of the world's consumers live outside the United States. Population and food consumption are expanding quickly in the developing world, and consumers overseas are increasingly demanding the high-value products in which the United States has a comparative advantage.

Exports of U.S. agricultural products generate additional economic activity that ripples through the domestic economy. According to USDA's Economic Research Service, every dollar of agricultural exports generates another $1.47 in supporting activities such as processing, packaging, shipping, and finance. The $53 billion worth of agricultural products that the United States exported in 2002 generated an estimated $78 billion in supporting activities. Nearly 800,000 Americans, on and off farm, depend on agricultural exports for their livelihoods.

So we have immediate, tangible interests in expanding export markets for U.S. producers. But we also have structural reasons for opening markets globally. An open trading system fosters the development of many of the virtues sparked by other free market policies: it encourages competition, prompts investment, spurs technological innovation, rewards initiative and hard work, and allocates resources more efficiently. Open markets provide a conducive environment for opportunity, hope, and development that enables the spread of liberty, democracy, and peace. For the developing world, free trade for farmers offers a ladder of opportunity to a better, more prosperous future.

Overview of the U.S. Trade Strategy since 2001

As President Bush made clear on the day he interviewed me for the post of U.S. Trade Representative, agriculture is at the heart of this administration's trade agenda. We recognize as well that America's farmers, ranchers, and agribusiness have provided the critical momentum for launching WTO negotiations and granting the President Trade Promotion Authority (TPA) as part of the Trade Act of 2002.

Since securing TPA, the President has had the key backing we needed to press ahead with trade liberalization globally, regionally, and bilaterally. By advancing on multiple fronts, we are creating a competition in liberalization, placing America at the heart of a network of initiatives to open markets. If others are ready to open their markets, America will be their partner. If some are not ready, the United States will proceed with countries that are.

This competition in liberalization strengthens U.S. leverage, which is already considerable given the size, innovation, and appeal of the American economy. Countries now knock on our door to ask for free trade agreements. By encouraging a reciprocity in openness, we can strengthen the domestic politics of trade: The United States is already a highly open economy and the biggest single importer in the world; to maintain support for trade at home we need to open markets—and opportunities—for American interests around the world.

We have made important progress over the past two years, including helping bring China and Taiwan into the rules-based multilateral trading system through their accession to the WTO; launching a new global trade round at Doha in November 2001; advancing bold proposals and principles in the WTO's Doha Development Agenda for free trade in agriculture, manufactured goods, and services; securing Congressional approval for a Free Trade Agreement with Jordan; completing FTA negotiations with Chile and Singapore; beginning new FTA negotiations with the five nations of the Central American Common Market, the five countries of the Southern

African Customs Union, Morocco, and Australia; pressing ahead with negotiations among 34 democracies for a Free Trade Area of the Americas; and launching regional trade initiatives in Asia and the Middle East that expand access to U.S. markets for the world's poorest nations.

The United States is once again seizing the global initiative on trade. This committee and its leaders have been instrumental in this effort.

Our bilateral and regional agendas have the potential to yield major benefits for U.S. agriculture, even as we work on the WTO negotiations. These initiatives will allow us to level the playing field where other countries—the EU and Canada in particular—have already negotiated preferential access that disadvantages American exports. Bilateral and regional agreements can help address specific market-access problems—including SPS and other challenging standards issues—in a manner not possible in multilateral negotiations. In the Chile FTA talks, for example, the United States focused the attention of Chilean regulators on unjustified sanitary requirements for U.S. dairy and meat exports and made rapid progress by removing some of those barriers in a way that would have been impossible otherwise. These negotiations help secure open markets for U.S. agricultural exports while reserving subsidy reform commitments for the WTO.

Although it is not the subject of today's hearing, I also want to stress the priority we place on enforcing existing trade rules. USTR and USDA have been working hard on issues concerning China, Mexico, Russia, the European Union, and other countries to ensure that U.S. farm exports get the treatment that has been promised by our trading partners.

Today, however, I have been asked to speak about the WTO negotiations on agriculture. The remainder of my remarks will focus on the developments to date and plans for the future.

The Doha Development Agenda in the WTO

The WTO negotiations launched in Doha in November 2001 are the cornerstone of our trade agenda because the most important reforms in the international agricultural trading system can only be attained through substantial changes in global rules. The prior global negotiating effort—the Uruguay Round (1986-94)—was the first serious attempt to impose reforming disciplines on the world agricultural trade. Yet like many first efforts, the concluding compromise left much work to do: The agreement's disciplines came at the price of the accepting of great differences in subsidy and tariff levels. The WTO's Doha Agenda provides the opportunity to address the barriers and asymmetries in each of the three key problem areas in the agricultural trade: market access; export subsidies; and trade-distorting domestic support.

The United States has set a bold mark in WTO agricultural negotiations, pointing the way towards what should be done by submitting the first comprehensive proposal that set out an ambitious plan for reform. Our goal is to secure substantial improvements in market access, the elimination of export subsidies, and the reduction and harmonization of trade-distorting subsidies on a path to their elimination. By negotiating ambitious cuts in tariffs and trade-distorting subsidies, the U.S. proposal lays the foundation for growth in agriculture, lower prices for consumers, and higher incomes for all.

First, we want to expand market access. In the Uruguay Round, restrictions on trade were turned into tariffs and capped, and developed countries were required to cut their tariffs by 36 percent on average, with individual tariff lines subject to cuts as small as 15 percent. Today, the average WTO-allowed tariff on agricultural products is still 62 percent—with some peak tariffs ranging from 500 to 1,000 percent.

Bringing these tariffs down—particularly the peak tariffs on priority products in selected countries—is a principal aim of the U.S. proposal. Utilizing a "Swiss 25" formula, the U.S. plan would substantially reduce tariffs in all WTO countries, bringing down the global average by 75 percent over 5 years, from 62 percent to 15 percent. Countries with the highest tariffs would be required to make the deepest cuts.

Second, we seek to increase export competition. Currently, export subsidies and export monopolies—including state trading enterprises—are permitted by WTO rules, subject to certain disciplines. These policies distort markets and hurt U.S. export sales and productive farmers in the developed and developing world. The EU spent about $3 billion on agricultural export subsidies in 2000, compared to U.S. spending of just $15 million that year.

Eliminating export subsidies has been a core U.S. objective for nearly 20 years—and we have made progress. The Uruguay Round cut export subsidies by 36 percent on budgetary outlays and 21 percent on volume. The United States is now proposing the outright elimination of export subsidies within five years and an immediate end to single desk exporter privileges. We have also proposed disciplines for export credit and food aid programs to guard against market disruption while maintaining the viability of these programs.

Third, we want to harmonize and reduce trade-distorting domestic support. The Uruguay Round only started the job of tackling trade-distorting domestic subsidies. That agreement allocated domestic subsidies into three categories: "green box" subsidies, which involved payments "decoupled" from production incentives, were permitted without limit; "amber box" subsidies, which includes payments linked to production, were capped at current levels and then cut by 20 percent; "blue box" subsidies, for payments linked to reductions in production, were allowed subject to specific criteria. Furthermore, amber box subsidies below a 5 percent *de minimis* level were not counted toward annual limits—that is, if the support is less than 5 percent of the value of production of a specific commodity, or if the non-product specific support is less than 5 percent of total agricultural production, it does not count against the ceiling for trade-distorting support.

As a result, the EU's current limit for amber box is around $67 billion annually, Japan's limit is around $33 billion, and the U.S. limit is $19.1 billion. In addition, the EU and Japan use blue box subsidies. All other countries have much lower levels of amber or blue subsidies, if any.

The U.S. agriculture proposal in the Doha negotiations seeks to build on the first step of the Uruguay Round by pressing for much more substantial reductions to achieve a more level playing field. In particular, the U.S. proposal calls for a cut of over $100 billion in trade-distorting support globally, undertaken in a manner that harmonizes levels across countries, with the eventual goal of eliminating such subsidies altogether. The United States proposes maintaining current rules on non-trade distorting support (the green box)—spending in areas such as conservation, research, food stamps, and the environment—as long as such spending is de-linked from production incentives. We have also proposed maintaining the current *de minimis* exceptions.

As Members of this Committee know, reactions to the far-reaching U.S. agriculture proposal reflect differing levels of commitment to support fundamental agriculture reform in the WTO. Many countries have voiced strong support for the ambitious reforms we are proposing. Others, such as the Cairns group of agricultural exporters, China, Egypt, and Mexico, have offered their own constructive proposals. The EU, which subsidizes the most—and consequently, would be required to make the deepest cuts—has proposed cuts along the lines of the Uruguay Round method. (For tariffs, the EU proposed a 36 percent average tariff cut, with a minimum cut for each product of 15 percent; for amber box subsidies, a 55 percent cut; and for export subsidies a 45 percent average cut in budget expenditures and a substantial but unspecified cut in volume.) Japan's proposal would actually move agriculture negotiations backward by reducing quotas on imported rice; even though Japan could cut its subsidy caps and eliminate export subsidies, it remains resistant as it holds out on rice. Many developing countries have participated in only the most narrow sense, calling for protection of their domestic markets while pushing for reforms by developed countries.

Negotiations have been complicated by the EU's and Japan's insistence that "non-trade concerns" be specifically addressed in the negotiations. All countries value agriculture for reasons beyond food production, such as national heritage, environmental quality, rural employment, and so on. These non-trade concerns play an important role in U.S. farm policy, too. However, we believe they are generally best addressed through targeted and non-trade distorting measures, which are both more effective and cause less collateral damage than blanket trade restrictions. The EU, arguing that it must shield non-competitive producers in the negotiations, has proposed rules that would allow trade-distorting measures—such as market access barriers and new subsidies—to achieve its non-trade objectives.

After considering the differences between reformers and resisters, earlier this year the chair of the WTO agriculture negotiations group, Stuart Harbinson, offered a draft of modalities to guide the negotiations. (Modalities are the formulas and rules to structure more detailed negotiations.) Chairman Harbinson obviously faced a difficult task. His draft proposed more substantial reforms than the Uruguay Round—including the elimination of export subsidies and some use of harmonizing formulas. This draft largely maintained the current approach to non-trade concerns, leaving unchanged existing provisions for non-trade distorting support and health and safety measures without opening new justifications for support and protection. We seek more ambitious reform than that offered in the Harbinson proposal. Many countries, however, are vehemently opposed to even working with Harbinson's suggested approach.

Nevertheless, despite the opposition, at this point the Harbinson draft has set the framework for further discussion. Therefore, it is helpful to draw out five areas of particular importance in the text:

<u>First, the draft incorporates substantial progress on export subsidies and export monopolies,</u> including their eventual elimination. The proposed timeframe is disappointing: nine years instead of the five years in the U.S. proposal. There are also other significant unresolved issues

in the chair's draft. The treatment of export credits in the text, for example, has not been fully specified, and food aid rules will be tightened with provisions that the chair left for further consideration by WTO members.

<u>Second, the draft proposes some important progress on market access.</u> Improving access for U.S. exports overseas continues to be our key interest. The draft modalities propose cutting the highest tariffs by at least 45 percent—larger than the Uruguay Round cuts. The chair's text also adopted the principle we advocated of deeper cuts for higher tariffs. And it ends the current safeguard provisions for developed countries.

Yet the chair's tariff reduction formula is less aggressive than our proposal. For example, whereas the result of the U.S. plan would be to cut the average agricultural tariff worldwide from 62 to 15 percent, the average under the chair's proposal would be reduced to around 36 percent. The draft text does not end the use of monopoly importers, as we sought. Important issues left open in the text are the extent of special and differential treatment for developing countries, particularly as applied to the new concepts of a special agricultural safeguard for developing countries and limited tariff cuts for so-called "special products" in developing countries.

<u>Third, the draft makes proposals to cut domestic trade-distorting support, but with insufficient harmonization.</u> The draft is much more ambitious than the Uruguay Round agreement in this area: It calls for a 60 percent cut (versus 20 percent in the Uruguay Round) and substantial reform of blue-box subsidies, yet the draft modalities do not harmonize subsidies sufficiently to achieve the level playing field that the United States advocates strongly. To achieve a successful WTO agreement, we must bring EU trade-distorting subsidies much closer to the levels of the United States and others.

The draft text would lower the EU's amber box subsidy limits by $40 billion, in comparison to a $12 billion reduction for the United States. The draft also proposes capping and reducing—and possibly eliminating—the blue box.   Yet the draft text would leave the EU amber box cap at $27 billion (plus an uncertain blue box number) and the United States at $7.6 billion. The draft text also cuts the *de minimis* allowance in half. A key open issue in the draft is the extent of special and differential treatment for developing countries' use of subsidies.

<u>Fourth, the draft's provisions on special and differential treatment undermine developing countries' potential benefits as exporters and importers.</u> The United States recognizes that developing countries need special treatment as they make the transition to open market economies. In some countries, up to 70 percent of the population lives in rural areas, often on small, inefficient farms. In India, for example, about 650 million people live outside urban centers, and many survive through subsistence farming. If undertaken too rapidly, the economic restructuring could lead to social and political turmoil.

Yet flexible transitions and special needs should not degenerate into perpetual protectionism. "Good intentions" that cover up trade barriers raise prices for the poorest people, profit cosseted interests, increase costs for competitive businesses, and block exports from productive farmers in other developing countries. The draft modalities suggest the creation of too many new subsidy loopholes and provide an unhealthy level of perpetual protection for producers in developing countries. We need to strike the proper balance: We should address special needs of particularly poor countries or sectors that need sensible transitions while still advancing open markets for exporters and consumers in all countries, including developing nations.

Fifth, non-trade concerns cannot be used to justify disguised barriers to trade. The draft modalities maintain the integrity of current WTO rules on non-trade concerns: countries have full access to non-trade distorting policies, but possibly trade-distorting measures such as SPS barriers and labeling requirements must be consistent with WTO requirements. We will continue to advance market-based farm policy, although others will press for wider latitude to interfere with trade to meet non-trade objectives.

Looking Ahead

As described above, the United States and other major agricultural exporters generally seek greater reforms—more cuts in tariffs and subsidies—than those proposed by the chair's draft text. Yet others—particularly the EU, Japan, and Korea—believe Harbinson's text is far too ambitious.

In the coming months, we will be pressing to see if we come closer to finding a way forward. Without substantial reform of the agricultural trading system—as 144 economies pledged in the Doha negotiating mandate—we are highly unlikely to progress with the rest of the topics under negotiation.

A group of about 25 WTO Minsters are scheduled to gather in Egypt in June to discuss key issues. In September, all trade ministers will meet in Cancun to assess progress.

During this period, I would suggest to the Committee that two developments are of special importance.

Reform of the EU's Common Agricultural Policy (CAP). First, the European Commission has proposed a package of reforms of the CAP to the EU's member states. The purpose of these proposals is to prepare for EU enlargement, better support rural and environmental objectives, and move toward market reforms. A key element of the package is to decouple farm subsidies from production. (Fully decoupled payments would qualify for the green box, as they do in the United States.) The Commission is pressing EU member states to approve its proposal by mid-June.

Although these CAP reforms are being pursued for the EU's own internal reasons, they offer a second benefit for one action: The decoupling and other reforms would give the European Commission more flexibility in the Doha negotiations, especially to cut subsidies.

Without the prospect of substantial movement by the European Union on CAP reform—and then in the Doha agricultural negotiations—we cannot achieve the necessary reforms in the world agricultural trade.

Second, we need innovative special and differential treatment for developing countries. Countries that are seeking to avoid an ambitious result in agriculture will try to gain the support of developing nations by warning of the difficulties of liberalization and organizing a coalition that favors only modest change. For example, the EU and some 70 countries circulated a letter advocating the use of the Uruguay Round's approach of percentage cuts for tariff reductions rather than harmonizing formulas.

The challenge for the United States and other major agricultural exporters is to help design special and differential treatment provisions that facilitate reform and development, not frustrate it. Therefore, we have suggested a discussion of combining ambitious tariff cuts with safeguards for developing countries that enable them to temporarily restrict imports that displace subsistence farmers. We are also examining special subsidy provisions that would allow developing countries to support domestic industries with minimal market distortions. Striking the right balance is critical: Developing countries should have their legitimate concerns addressed; at the same time, we have made it clear that the negotiations must result in meaningful reforms by all members.

As the negotiating process proceeds, we will be able to better assess the possible CAP reforms and the EU's willingness to reform the world agricultural trade, Japan's and Korea's willingness to permit agricultural intransigence to subvert the Doha negotiators, and the developing countries' willingness to open their own markets while meeting special concerns. If there is positive movement, the key question we need to consider together is this: Given the foreign subsidies and market-access barriers that U.S. producers must contend with currently—and also taking into account our own sensitive sectors—what combination of major reforms can be achieved that represents a successful step forward? Of course, this is a question without an easy or direct answer.

Since agriculture was not governed meaningfully by multilateral trade rules until the Uruguay Round, the industrial sector has had a nearly 50-year head start on eliminating trade barriers. We need agriculture to catch up quickly, recognizing carefully and realistically our own interests, given our current position. We will work closely with this Committee, your Senate counterpart, and others in Congress—and with American agriculture—to make a clear-eyed assessment of how to maximize benefits for U.S. farmers and ranchers and of what is best for the United States.

Conclusion

In conclusion, I would like to stress again how much we value the support and guidance that we have received from Members of this Committee. The administration is working hard to promote the interests of U.S. farmers, ranchers, processors, consumers, and families through global agricultural reform. A close consultative relationship with Congress will be particularly important as we face challenges in the months ahead.

We also hope that Members of this Committee will help us through your contacts with foreign government officials, legislators, and opinion leaders—stressing the message sent by the combination of last year's farm bill and Trade Promotion Authority: that America's farmers and Congress back open markets and lower subsidies, but that we expect our trading partners to move with us.

We also appreciate the need to follow through on past trade pacts. We will be monitoring compliance closely, working to solve problems constructively where possible, and insisting on enforcement of our rights when necessary.

Finally, I want to make a special note of the progress that we have made on concluding trade agreements this year. We will present the Singapore and Chile FTAs to the Congress this year. We are pleased with the support from farm groups for approving these agreements. We look forward to continued close cooperation with this Committee on those two FTAs.

Thank you, and I would be pleased to take your questions.