

Written Testimony
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House Agriculture Committee
Renegotiating NAFTA: Opportunities for Agriculture

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Good morning Chairman Conaway, Ranking Member Peterson and Members of the Committee. Thank you for calling this important hearing today to discuss renegotiating the North American Free Trade Agreement (NAFTA) and the opportunities to achieve the best deal possible for American Agriculture.

My name is Tom Hammer, President of the National Oilseed Processors Association (NOPA). NOPA is a national trade association that represents 13 companies engaged in the production of food, feed, and renewable fuels from oilseeds. NOPA's members process soybean, sunflower seed, canola, flaxseed and safflower seed. Our member companies process more than 1.8 billion bushels of oilseeds annually at 64 plants located throughout the country, including 58 soybean processing facilities that "crush" over 95% of the U.S. soybean crop.

My comments will focus on the U.S. soybean sector; and, on our most important customer group, the domestic meat and poultry sectors.

Agriculture Represents One of NAFTA's Biggest Success Stories

Agriculture represents one of NAFTA's biggest success stories. Since the agreement was enacted, U.S. food and agricultural exports to Canada and Mexico have more than quadrupled—growing from \$8.9 billion in 1993 to over \$38 billion in 2016. We recognize that NAFTA is now over 23 years old and improvements to the agreement can be made. We stand ready to work with Members of Congress and the Administration to identify ways to renegotiate NAFTA. However, in so doing, it is critical that the core benefits of the Agreement that have greatly expanded U.S. food and agricultural trade within North America must be preserved.

The U.S. food and agriculture sector is heavily dependent on our current level of access to Mexico and Canada. NAFTA has played a significant role in boosting incomes for millions of U.S. farmers, ranchers, and allied manufacturers – and continues to provide important and profitable markets for our nation's rural agriculture-based communities. As the Administration and Congress work together to identify constructive opportunities to modernize NAFTA, it is critical to preserve what has worked well in the current agreement as a "base line" and then build upon this base by expanding the market access, tariff, and non-tariff provisions.

NOPA looks forward to working with Members of Congress and the Administration to develop and implement a modernized trade policy that will promote and expand America's food and agriculture producers' and exporters' interests in the important North American market.

NAFTA Benefits the U.S. Soy Sector in Two Ways:

- 1. Increased exports of soybeans, soy meal, and soybean oil**
- 2. Increased exports of meat and poultry products that use soy meal as animal feed**

NAFTA: U.S. Soy and Soy Product Exports

Thanks to trade agreements with our North American partners, U.S. soy exports have grown significantly over the past 23 years. These agreements reduced tariffs and further integrated the North American market for soybeans and related products. This improved market access allowed the U.S. soy industry to meet Mexico's growing demand for proteins.

In 2016, the U.S. exported \$415 million and \$2.5 billion of soybeans and soy products to Canada and Mexico, respectively. Mexico saw the greatest growth, nearly tripling their imports of U.S. soybeans and soy products since the implementation of NAFTA.

U.S. SOY & SOY PRODUCT EXPORTS - 2016 (CY) Value in Thousands*				
	MEXICO		CANADA	
Products	Value (\$)	Metric Tons	Value (\$)	Metric Tons
Soybeans	1,462,600	3,639,647	115,869	304,089
Soybean Meal	800,501	2,128,983	280,865	755,182
Soybean Oil	226,820	257,374	18,341	16,369
TOTAL SOY EXPORTS	\$2,498,921	6,026,004	\$415,075	1,075,640

*Source: USDA/FAS/GATS

U.S. SOY & SOY PRODUCT EXPORTS - 1993 (CY) Value in Thousands*				
	MEXICO		CANADA	
Products	Value (\$)	Metric Tons	Value (\$)	Metric Tons
Soybeans	415,723	1,758,386	58,227	231,709
Soybean Meal	58,514	251,641	162,973	655,706
Soybean Oil	14,854	33,130	11,345	20,650
TOTAL SOY EXPORTS	\$489,091	2,043,157	\$232,545	908,065

*Source: USDA/FAS/GATS

NAFTA has led to Enormous U.S. Soy Export Gains:

- *Increase in Value of all U.S. Soy and Soy Products Exports to Canada and Mexico from 1993 to 2016: \$2.19 Billion*
- *Increase in Volume of all U.S. Soy and Soy Products Exports to Canada and Mexico from 1993 to 2016: 4.15 Million Metric Tons*

NAFTA: U.S. Meat and Poultry Product Exports

Because of trade agreements with our North American partners, U.S. meat and poultry exports have also grown significantly over the past 23 years. NAFTA has reduced tariffs and further integrated the North American market for meat and poultry products. This improved market access allowed the U.S. meat and poultry industries to meet the demands for quality food and feed products from Mexico, which are essential to meet Mexico's growing demand for proteins.

In 2016, the U.S. exported \$3.25 billion of meat and poultry products to Mexico. Exports to Canada of meat products and poultry have also grown, totaling in 2016, total exports of meat and poultry products were \$2.07 billion in 2016. Yet, exports of U.S. dairy and poultry products could be higher – this will be discussed later in my comments.

U.S. MEAT PRODUCT EXPORTS - 2016 (CY) Value in Thousands*				
	MEXICO		CANADA	
Products	Value (\$)	Metric Tons	Value (\$)	Metric Tons
Pork & Pork Products	1,355,028	730,314	798,518	205,372
Beef & Beef Products	974,903	242,374	758,117	116,265
Poultry & Poultry Products	924,649	841,940	509,172	184,637
TOTAL MEAT EXPORTS	\$3,254,580	1,814,628	\$2,065,807	506,274

*Source: USDA/FAS/GATS

U.S. MEAT PRODUCT EXPORTS – 1993 (CY) Value in Thousands*				
	MEXICO		CANADA	
Products	Value (\$)	Metric Tons	Value (\$)	Metric Tons
Pork & Pork Products	112,103	95,345	36,717	15,250
Beef & Beef Products	163,803	80,314	361,096	94,429
Poultry & Poultry Products	204,965	171,091	164,439	65,521
TOTAL MEAT EXPORTS	\$480,871	346,750	\$562,252	175,200

*Source: USDA/FAS/GATS

NAFTA has led to Enormous U.S. Meat Product Export Gains:

- *Increase in Value of all U.S. Meat and Poultry Exports to Canada and Mexico from 1993 to 2016: \$4.27 Billion*
- *Increase in Volume of all Meat and Poultry Exports to Canada and Mexico from 1993 to 2016: 1.79 Million M/T*

Animal Agriculture is the Single Largest User of U.S. Soybean Meal

Conversion Rates = Pounds of Soybean Meal used to Produce One (1) Metric Ton of Meat	
Turkey	1,618
Pork	1,508
Chicken	1,156
Beef	568

NAFTA Objectives: Trade in Soybean and Soybean Products

Since NAFTA was signed over 23 years ago and during that time, virtually all tariff barriers for trade in oilseeds and oilseed products have been eliminated – creating a seamless North American market for such products as soybeans, soybean meal and soy oil.

As I have stated, NAFTA has created significant market opportunities for U.S. exports of soybeans and soy products. For the past calendar year (Jan-Dec 2016), Mexico ranked number two (2) for our exports of soybeans, and number one (1) for both soybean meal and soy oil. This has been the case for several years running. For the past calendar year, Canada ranks number three (3) for U.S. exports of soybean meal and number ten (10) for our exports of soybean oil. This also has been the case for several years.

In anticipation of the renegotiation of NAFTA, we recently polled NOPA's members to determine if they have experienced any trade irritants or non-tariff trade barriers with either Mexico or Canada. At this point in time, our members have not identified any major issues or disputes that could not be handled between U.S. exporters and their importing customers. Thus, it appears that the North American supply chain for trade in soybeans and soybean products is operating in an efficient and seamless manner.

Since Mexico and Canada have become our leading export markets for soybean meal and soy oil under NAFTA, NOPA's top priority must be to "do no harm" to the positive trading terms we currently enjoy. Nevertheless, there are several major opportunities to modernize and improve the Agreement.

NAFTA Objectives: Trade in Meat and Poultry Products

NOPA's members have benefited from the NAFTA in two major ways. First, from the greatly expanded trade in soybean meal and soy oil. But, also due to the significant growth in U.S. exports to both Mexico and Canada of meat and poultry product exports over the past 23 years. This is important to NOPA members because American poultry, pork, beef and dairy producers and exporters are our principal customers. When these customers sell more meat products to Mexico and Canada, by definition, they consume more U.S. soybean meal.

However, unlike the tremendous "success stories" that we hear from NOPA members about unfettered exports of soymeal and soy oil to Mexico and Canada, we are aware that there are still some major unresolved market access issues for U.S. exports of dairy, poultry and eggs to Canada. These trade barriers stand in sharp contrast to nearly all other U.S. agricultural exports which enjoy duty-free and quota-free access to Mexican and Canadian consumers.

- For U.S. dairy exports, Canada continues to use a variety of unfair trade policies, including the use of trade restricting tariffs and limited in-quota volumes, which impede access to their market and impair the value of the concessions Canada has granted to the U.S. dairy industry.
- While U.S. poultry exports to Canada have been significant and Canada is the U.S. poultry industry's second largest export market, the U.S. poultry industry has had more limited access to the Canadian market than most other sectors. Market access to Canada for highly competitive U.S. chicken, turkey and eggs is limited by restrictive quotas.

The renegotiation, or modernization, of the NAFTA represents a most important opportunity for the further expansion of U.S. dairy, poultry and egg product exports, particularly to Canada.

Therefore, fully liberalizing access to the Canadian market for these important agricultural products is a key negotiating objective for NOPA.

Specific Negotiating Objectives for the Initiation of NAFTA Negotiations

On July 17, 2017, the Office of the United States Trade Representative (USTR) provided a summary of the Administration's specific objectives with respect to the NAFTA negotiations.

I would like to comment on several of the key negotiating objectives that are of importance to NOPA. As these specific negotiating objectives have just been made available to the Congress

and to the public, NOPA is still in its internal review process and may have more to say on these negotiating objectives later.

Trade in Agricultural Goods:

- Maintaining existing reciprocal duty-free market access for agricultural goods is our number one objective; any renegotiation of NAFTA must preserve current market access, including all tariff and duty preferences. In simple terms, “do no harm” to our current excellent export positions in Mexico and Canada is NOPA’s main objective.
- Eliminating non-tariff barriers to U.S. agricultural exports including discriminatory barriers, restrictive administration of tariff rate quotas, other unjustified measures that unfairly limit access to markets for U.S. goods is another major objective for NOPA. Particularly, resolving the long-standing Canadian policies designed to negatively impact dairy, poultry and egg trade, and obtaining significantly greater market access for U.S. dairy and poultry exports to Canada, is a top objective.
- Promoting greater regulatory cooperation to reduce burden associated with unnecessary differences should be an overarching goal of NAFTA renegotiation which embraces provisions to foster an open, fair and predictable regulatory environment. This objective will be achieved by promoting the use of widely-accepted good regulatory practices including core principles such as science-based risk assessment, transparency, impartiality and due process paired with coordination across governments to ensure a coherent regulatory approach.

Sanitary and Phytosanitary Measures (SPS):

- Implementing an expanded “Sanitary Phytosanitary (SPS)-Plus and Rapid Response Mechanism” consistent with, but improving on the Trans-Pacific Partnership (TPP) text, to ensure that science-based SPS measures are developed and implemented in a transparent, predictable, and non-discriminatory manner is a major objective for NOPA. At the same time, it is important to preserve the ability of NAFTA partner regulatory agencies to take necessary steps to ensure food safety and protect plant and animal health.
- Adoption of expanded WTO SPS-Plus standards should include:
 - Creation of a Rapid Response Mechanism, including tighter standards and deadlines for adverse import checks.
 - Adoption of cooperative technical consultations and increased reporting, transparency and record keeping.
 - Creation of a more robust single inquiry point standard for SPS contacts (including increased transparency of SPS requirements, databases for SPS regulations etc.).
 - High standards for risk assessment and risk management, including language that elaborates on current WTO provisions.
 - Adopt trade facilitative residue levels and adventitious presence mechanisms.
 - Include low level tolerance principles.
 - Enhance enforcement mechanisms for unjustified SPS barriers, including potential compensation, three strikes policy or retroactive damages to help enforce and hold trading partners accountable to persistent and unscientific SPS measures.

Biotechnology:

- Adding a new NAFTA Chapter on Biotechnology is also a major objective for NOPA.
- Under a modernized NAFTA, NOPA requests that the U.S. government:
 - Enter a mutual recognition agreement with Canada and Mexico on the safety determination of biotech crops intended for food, feed and for further processing.
 - Develop a consistent approach to managing low-level presence (LLP) of products that have undergone a complete safety assessment and are approved for use in another country/ies but not yet approved by a NAFTA member.

Other NAFTA Chapters:

Improved and modernized Chapters dealing with such important trade issues as: (1) **Rules of Origin**, (2) **Technical Barriers to Trade (TBT)**, (3) **Good Regulatory Practices**, (4) **Transparency**, and (5) **Dispute Settlement** are also important objectives for NOPA.

We will have more to say about these Chapters, and possibly others, once NOPA's Committees and its Board of Directors have had adequate time to evaluate these important elements of a renegotiated NAFTA.

Summary:

In summary, NOPA recognizes that NAFTA has become outdated and that improvements to the Agreement can be made. We welcome this opportunity to identify ways to renegotiate the NAFTA while preserving the core benefits of the Agreement. NAFTA has led to an expansion of the U.S. oilseed processing sector and our domestic meat and poultry customers during the past two-plus decades, with ripple effects that have benefitted the broader U.S. economy. Our business sectors have grown, people have been hired, and strong supply chains have been built based upon the current Agreement, so "do no harm" should be a guiding, overarching objective in the negotiations. A renegotiation of NAFTA should, first and foremost, preserve current market access, including all tariff and duty preferences. Additionally, we ask that our negotiators fiercely protect the gains achieved in NAFTA to date to ensure these gains are not eroded in tradeoffs for gains to be achieved in other sectors of the American economy.

Thank you again for the opportunity to testify before this Committee. NOPA stands ready to work with the Members of Congress and the Administration as we commence this critically important renegotiation of NAFTA with our Canadian and Mexican trading partners.