RENEGOTIATING NAFTA: OPPORTUNITIES FOR AGRICULTURE

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

JULY 26, 2017

Serial No. 115–11

Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PUBLISHING OFFICE

26–495 PDF WASHINGTON : 2017

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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RENEGOTIATING NAFTA: OPPORTUNITIES FOR AGRICULTURE

WEDNESDAY, JULY 26, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Committee met, pursuant to call, at 10:00 a.m., in Room 1300 of the Longworth House Office Building, Hon. K. Michael Conaway [Chairman of the Committee] presiding.

Members present: Representatives Conaway, Thompson, Lucas, Gibbs, Austin Scott of Georgia, Crawford, DesJarlais, LaMalfa, Davis, Yoho, Allen, Bost, Rouzer, Kelly, Comer, Marshall, Faso, Dunn, Arrington, Peterson, David Scott of Georgia, Costa, Walz, Fudge, McGovern, Vela, Lujan Grisham, Kuster, Nolan, Bustos, Plaskett, Adams, Evans, Lawson, O'Halleran, Panetta, and Soto.

Staff present: Bart Fischer, Darryl Blakey, Jackie Barber, Matthew S. Schertz, Rachel Millard, Stephanie Addison, Anne Simmons, Liz Friedlander, Mary Knigge, Matthew MacKenzie, Mike Stranz, John Konya, Nicole Scott, and Carly Reedholm.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

The CHAIRMAN. Good morning. This hearing of the Committee on Agriculture entitled, *Renegotiating NAFTA: Opportunities for Agriculture,* will come to order. I have asked G.T. Thompson to offer up the prayer. G.T.?

Mr. THOMPSON. Thank you, Mr. Chairman.

Heavenly Father, we just thank You for this blessed day, the rest of the night, and this new day. Lord, we come together as individuals who share a passion and commitment for agriculture, for rural America, and what rural America provides to all of America and much of the world. And so Lord, we just ask Your blessings over these proceedings. We gather here to celebrate all the blessings that You have given us in terms of access to bountiful, affordable food and clothing materials and building materials and energy, all of the resources that you have blessed us with and charged us to utilize. We just ask your blessings over these proceedings, and I ask this in the name of my savior, Jesus Christ. Amen.

The CHAIRMAN. Thank you, G.T.

I want to start by welcoming our witnesses today. Thank you for taking time out of your schedules to share your thoughts with us today.

As we have noted often, American farmers and ranchers are the most efficient, productive and competitive producers in the world.

Their ability to meet the rapidly-growing and ever-changing demands both at home and abroad has allowed our country to become one of the world's most open agricultural economies, supplying our trading partners with a safe and affordable food and fiber supply.

These trade relationships have become an essential part of the U.S. agricultural industry, and nowhere is trade more important than in our relationships with our neighbors to the north and south.

For more than 20 years, NAFTA has governed trade among our three countries, and in that time U.S. agricultural exports to Canada and Mexico have nearly quadrupled. Both countries have remained essential trading partners for the U.S., accounting for roughly 28 percent of total U.S. agricultural trade.

While Canada and Mexico regularly are two of our top three export destinations for agricultural products, they also remain the United States' largest suppliers of agricultural inputs. In 2016, while the U.S. continued to run an overall trade surplus in agriculture, we managed to run a trade imbalance with both Canada and Mexico, totaling over $6 billion.

A lot has changed since the 1994 agreement was signed. All three economies are much larger and production agriculture has evolved and improved, growing to meet ever-changing consumer demands and technological advances. And it is against this backdrop that the Trump Administration prepares to renegotiate the terms of NAFTA.

I recognize there is a certain level of angst about renegotiating the terms of our agreement. But let me reiterate, we have no interest in reversing any of production agriculture's hard-fought gains, and the Administration has made clear that it doesn't either. In fact, the recently-published renegotiation objectives affirmed the importance of maintaining existing reciprocal duty-free market access for agricultural goods.

Whether you are focused on maintaining current market access or you are eager for prospects of expanded trade opportunities, production agriculture stands to benefit from a modernized trade agreement with our neighbors to the north and south. As always, we must stay vigilant and all work together to ensure we achieve the best deal possible for American agriculture.

[The prepared statement of Mr. Conaway follows:]

PREPARED STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

I want to start by welcoming all of our witnesses. Thank you for taking time out of your busy schedules to share your thoughts with us today.

As we have noted time and again, America's farmers and ranchers are the most efficient, productive and competitive producers in the world. Their ability to meet the rapidly-growing and ever-changing demands both at home and abroad has allowed our country to become one of the world's most open agricultural economies, supplying our trading partners with a safe and affordable food and fiber supply.

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With that, I yield to the Ranking Member for any opening remarks he would like to make.

The CHAIRMAN. And with that, I yield to the Ranking Member for any comments he would like to make.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, and I also want to welcome the witnesses to today's hearing. We have a diverse group of industry representatives, and they will share their opinions on changes in NAFTA.

I am supportive of efforts to renegotiate NAFTA, but we need to make sure that the end result will work for agriculture. As well, my producers have said just make sure we do no harm with whatever we end up doing.

I am concerned about some of the issues arising with respect to the agriculture exports from Mexico as a result of some of the rhetoric and uncertainty around this negotiation, but the biggest issue that I have had with NAFTA is the fact that Canada has been allowed to continue their supply management system for dairy and poultry. When they did the original negotiation, they did not have ultra-filtered milk and that was not protected under the agreement, and this Class VII was established and the market was shopped around to some of our producers, and even though it was a month-to-month thing, and then Canada figured out this is undermining their situation and they stopped it. It is part of the problem we have when dealing with them with their supply management system.

The biggest problem, though, is the number three and number five largest dairy companies in the United States are now owned by Canadians, and one of those is actually a Canadian co-op. We have a Canadian co-op that is bigger than Land O'Lakes and DFA and our co-ops, which I am not sure is a good thing for the long-term in the United States.

This is an issue that I have raised with the USTR Ambassador, with Secretary Ross. They are both aware of what is going on, and they said they would work to address it; but, in the last couple of months, I have met with the Canadians, both government higher officials and some of the Agriculture Committee people, and given their response, I am not holding my breath. I hope that in this negotiation we can get some kind of path to get this supply management thing so that we have a level playing field with the Canadians.

Our farmers need a good deal, and that is why we are here to listen to testimony today. I hope that everybody is listening, especially the Administration, as we begin renegotiating NAFTA and that, again, whatever we end up doing, we don't do any harm to the markets that we have been able to establish.

I yield back.

The CHAIRMAN. I thank the gentleman.

I would like to now welcome our witnesses to the hearing this morning.

First off, we have the Honorable Tom Vilsack, President and CEO of U.S. Dairy Export Council, Arlington, Virginia. Mr. Secretary, welcome back. It should be a little bit different for you this morning than we have been to you in the past.

Mr. Kendal Frazier, who is Chief Executive Officer of the National Cattlemen's Beef Association, Centennial, Colorado.

Mr. Kevin Brosch, who is the Principal of BroschTrade, LLC, Woodville, Virginia. He is here on behalf of the National Chicken Council, the National Turkey Federation, and the U.S. Poultry and Egg Export Council.

Mr. Floyd Gaibler, Director, Trade Policy and Biotechnology, U.S. Grains Council here in Washington.

Mr. Thomas Hammer, who is the President, National Oilseed Producers Association in DC.

And Mr. Reggie Brown, who is the Executive Vice President, Florida Tomato Growers Exchange, Maitland, Florida, on behalf of the Florida Fruit and Vegetable Association.

Again, gentlemen, thank you for being here. Secretary Vilsack, when you are ready.

STATEMENT OF HON. THOMAS "TOM" J. VILSACK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, U.S. DAIRY EXPORT COUNCIL, ARLINGTON, VA

Mr. VILSACK. Mr. Chairman, I want to thank you and the Ranking Member of the Committee for the opportunity to be here today on behalf of the nearly 42,000 dairy operators in the United States, the 1,300 plants that process dairy products, and over 100,000 employees that are employed as a result of ag exports, providing a safe, stable, and sustainably produced supply of dairy products.

Mr. Chairman, I want to emphasize the importance of exports to the dairy industry. Since 1994, we have seen an increase of $36 billion to the bottom line for producers and processors as a result of exports. It has added about $1.25 per hundredweight, and one out of every seven tankers today on the road is headed to an export market. It is important for us to focus on trade, and we appreciate the opportunity to comment about the renegotiation and modernization of NAFTA.

We think this offers an opportunity to preserve what is working in NAFTA, to strengthen what can be better, and to fix what is currently not working with our trade relationships with Mexico and Canada. Let me talk briefly about all three.

We need to preserve the reciprocal duty free market access and opportunity that is presented as a result of NAFTA. We have seen the benefit of that, particularly in the Mexican market. Nearly ⅓ of all of our dairy exports go to Mexico. It now represents 73 percent of all of the imported dairy products that go into Mexico come from the U.S. It is an amazing opportunity for us that can grow over time.

We need to strengthen the SPS provisions of NAFTA to ensure that science-based rules continue to be established in a transparent way. We need to focus on rules of origin, and we need to strengthen the geographic indications provisions protecting the use of common names, particularly for cheese products.

Finally, we need to fix, Mr. Chairman, the trade distorting practices that have been implemented by Canada to protect their supply management and their market opportunities. This offers an opportunity and the capacity to enact policies and regulations that will encourage and not inhibit imports from the U.S. The most recent example of Canadian action is the adoption of Class VI and Class VII, which has created a serious problem in our dairy industry.

Mr. Chairman, I appreciate the opportunity to be back here. I look forward to the questions from the Committee, and I yield back the balance of my time.

[The prepared statement of Mr. Vilsack follows:]

PREPARED STATEMENT OF HON. THOMAS "TOM" J. VILSACK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, U.S. DAIRY EXPORT COUNCIL, ARLINGTON, VA

Hearing on the North American Free Trade Agreement

I am Secretary Thomas Vilsack, President and CEO of the U.S. Dairy Export Council (USDEC). USDEC is a nonprofit, independent membership organization that represents the export trade interests of U.S. milk producers, proprietary processors, dairy cooperatives, and export traders. The Council's mission is to build global demand for U.S. dairy products and assist the industry in increasing the volume and value of exports.

I very much appreciate the opportunity to testify before this Committee today about the importance of the North American Free Trade Agreement (NAFTA), its benefits to the U.S. dairy industry, and key areas in urgent need of improvement. Today I will share my perspectives as someone who has worked within the parameters of NAFTA almost since its inception. This important agreement has created both opportunities and challenges for myself and the people I have represented as a two-term farm state Governor, during 8 years as U.S. Secretary of Agriculture, and today as leader of a dairy export organization that counts Mexico as its largest export trade partner.

Vibrant growth in dairy exports over the last 10 to 15 years has had a net impact of about a $1.25 per hundredweight increased price on milk produced in the U.S. That's an additional $36 billion our nation's 42,000 dairy farmers have received thanks to growth in dairy exports, and is further compounded when one accounts for value-added processing at our nation's 1,300 dairy processing facilities. More than 100,000 Americans livelihoods depend on jobs created by expanding markets for U.S. dairy exports, which now account for about 15 percent of all U.S. milk produced.

Executive Summary of Testimony

Within the agricultural sector the three NAFTA partners each have a unique set of needs and expectations. We operate under different economic systems. Yet we all serve consumers who look to the agricultural sectors of their own nations and NAFTA partners to meet their food, fiber and fuel needs as efficiently as possible. Dynamic duty-free North American trade under NAFTA has helped better satisfy

North American consumer needs since the agreement's inception and that has resulted in increased demand for dairy products throughout North America. But NAFTA can be made so much better, for the betterment of all.

Within the U.S. dairy sector, NAFTA has been enormously beneficial in liberalizing dairy trade with Mexico. Under NAFTA, Mexico has grown to become the largest export market for U.S. dairy exports. Through close cooperation, the U.S. and Mexican dairy industries have grown together in a mutually beneficial manner. They are our brethren in a cross-border effort to grow both primary dairy product production and consumption, as well as value-added food production for export.

Canada unfortunately has created a dairy trade relationship with the United States that can best be described as heavily strained. Whenever the U.S. begins to create a small foothold in Canada's dairy market, the Canadian Government creates new classifications, categories or standards to make U.S. dairy exports non-competitive with domestic product. The most recent manifestation of this practice was witnessed earlier this year with Canada's new pricing scheme that essentially wiped out an export market for ultra-filtered milk that U.S. processors had developed and for which many U.S. dairy farmers had come to rely upon as a market for their milk?

Canada argues that they import large quantities of U.S. dairy product. However, what Canada is not transparent about is how these imports are coming under a report program that forces the equivalent amount of dairy coming into Canada to be re-exported in many cases back to the United States. Canada's special class [VII], intended to promote their own production of milk powders, goes against any common sense discussion. How come a country that has supply management, and has one of the highest farm gate dairy prices manages to export product at the lowest prices in the world?

Furthermore, Canada undermine the intellectual property laws of their own country as well as international agreements like NAFTA through the acceptance of trade-limiting geographic cheese names. In short, the United States has a tremendous amount of unfinished business with Canada with respect to NAFTA.

While this hearing will deal with improvements needed to make NAFTA more of a true North American Free Trade Agreement with respect to the agricultural sector, I cannot overstate both the urgency and importance negotiating NAFTA language that addresses the EU's global attempt to win further acceptance of geographic indicators. Canada already recognizes GIs. The EU is talking to Mexico about GIs. And, just recently, Japan struck an agreement with the EU that recognizes Geographic Indicators. Geographical indications can and should be used when they bring value to the consumer to better define a product, but not when they exist solely as a tool for exporters in one country or region to create monopolies and price-setting cartels on what are otherwise common types of cheeses and dairy goods.

The U.S. dairy industry is united in its desire to preserve what is working under NAFTA with Mexico and to address what is not working with Canada. We appreciate the Administration's support for our key priorities, as reflected in the recently released NAFTA trade objectives, and we look forward to working closely with this Committee to help ensure that the United States achieves its stated objectives in a renegotiated NAFTA.

Benefits of Trade and NAFTA to U.S. Dairy Industry

Trade is critical to the U.S. dairy sector. The equivalent of 1 day's worth of milk production each week now gets turned into products that are exported all around the world. The expansion of U.S. dairy exports since 2004 has increased our farmers' milk prices by an average of $1.25 a hundredweight. In other words, rising exports have increased farmers' milk sales income by roughly $36 billion over what they would have gotten in that period if exports had held steady from 2004.

Just as importantly, U.S. dairy exports support up to 100,000 American jobs and cover every state of the Union. Impairing our export sales would therefore deliver a devastating employment hit not only to farmers, but also to workers in companies supplying inputs and services, and downstream processing plant jobs, as well as cities with large port facilities heavily dependent on trade.

As we look at how to ensure we can continue a positive track record of export sales supporting farms and good jobs back here at home, NAFTA, and the ongoing discussions pertaining to modernizing it, is essential to that goal. Mexico is by far the leading export market for U.S. dairy products while Canada clocks in at number two, although a sizable portion of U.S. product shipped to Canada is for further processing and ultimate re-export outside of Canada, including back to the United States.

Last year the U.S. shipped $1.2 billion worth of dairy products to Mexico, up from just $124 million in 1995. For much, if not all, of this we have NAFTA to thank.

Mexico now is the U.S.'s largest export customer, by far. Sales to Mexico are roughly triple those to China, our third largest export market, demonstrating just how irreplaceable the Mexican market is. For example, in 2016 Mexico accounted for 47% of U.S. exports of nonfat dry milk, 31% of cheese, and 38% of butterfat. Before NAFTA and before Mexico joined the predecessor to the WTO (the GATT) the only dairy-related U.S. exports to Mexico were some non-fat dry milk shipments for government feeding programs and a small number of breeding cattle.

NAFTA has been the driving force behind this remarkable growth and is the reason the U.S. share of Mexico's total dairy imports is 73% today. As mentioned earlier, total U.S. dairy exports support some 100,000 jobs in the U.S.; our exports to Mexico support roughly a quarter of them. Preserving those sales is therefore essential not only to American dairy farmers, but also to the workers in companies supplying inputs and services, and downstream processing plant jobs all across this country.

Without NAFTA, the duty-free access U.S. companies enjoy into Mexico could evaporate and be replaced by WTO Most-Favored Nation (MFN) tariff levels. These are the rates that other major dairy exporters are currently required to pay. On an applied basis, Mexico's over-quota MFN tariffs can currently reach as much as 45% for skim milk powder and 60% for cheese (with even in-quota rates for cheese applied at 45%). Mexico has the right, however, to raise its MFN rates to considerably higher over-quota tariff levels of 125% for both powder and cheese.

Changes to that preferential tariff situation would dramatically undermine a core advantage of U.S. suppliers as the only major dairy supplier to Mexico currently benefiting from free trade. As we speak, Mexico is negotiating with the European Union (EU) which is actively working to secure its own preferential access to the Mexican market while New Zealand and Australia discuss with Mexico how to move forward with the Trans-Pacific Partnership with the remaining countries. Conceivably, all three of our major competitors could see improved access to the Mexican market in the coming years.

That is what makes NAFTA absolutely essential for our industry—it currently provides U.S. exporters with uniquely preferential access to the Mexican dairy market and, looking forward, is the vehicle the U.S. will need to ensure that we remain competitive in that market should Mexico decide to use its ongoing FTA discussions with major dairy exporting nations to open up new inroads to its market for them.

Because of NAFTA and Mexico's commitment to a mutually beneficial trading relationship, we currently have very few trade problems with Mexico in dairy—it is our goal to use these discussions to help keep it that way. NAFTA has enabled the development of a partnership with Mexico that's benefited not only the U.S. dairy industry, but also the Mexican dairy sector.

Since 1994, Mexican milk production has increased by 58% which has helped meet the ever-increasing demand of Mexican consumers and visitors to Mexico while at the same time continuing to provide market opportunities for American producers as well. Together, Mexico and the U.S. have collectively grown consumption for a large variety of products offered at affordable prices for both the Mexican and U.S. consumer.

Areas for Improvement

NAFTA has accomplished a great deal over the past 2+ decades, but it has also been overtaken by new, unanticipated forms of trade and trade problems. Our industry looks forward to working with this Committee and with the Administration to explore ways to preserve and strengthen NAFTA to address those issues.

As noted above, NAFTA achieved substantial liberalization in dairy trade between the United States and Mexico, and our aim is to ensure that that open trade remains in place—both with respect to tariffs and non-tariff measures. At the same time, NAFTA left sizable barriers on trade between the U.S. and Canada largely untouched. With Canada's restrictions already in place, reflected in much higher tariffs facing U.S. dairy exports, an imbalance in market access obligations in the sector has existed for over 2 decades. Moreover, Canada has taken additional steps over the years to limit imports whenever Canada's already highly restrictive import restrictions were deemed to be insufficiently limiting.

Here below, I would like to spotlight a few areas on our trading relationships with Mexico and Canada that would benefit from improvement as we update this critically important trade agreement.

Canada: Removing Trade-Distorting Policies and Opening a Sheltered Market

Canada's exorbitant dairy tariffs are well known. Over-quota tariffs top the charts at 241% for fluid milk, 201% for skim milk powder, 298% for butter and 245% for cheese. Among the developed world, only the island nation of Japan in addition to countries such as Norway and Switzerland have maintained similar dairy fortress walls with the U.S. Under NAFTA many are aware of the unfortunate fact that U.S. dairy exports are one of the very few sectors that do not enjoy duty-free access to the Canadian market.

What may be less well known by all Members of this Committee is a more recent threat that has emerged as a result of Canadian policies trialed in Ontario last spring and instituted across Canada this February: Classes [VI] and [VII] respectively. These classes are part of the new Canadian National Ingredients Pricing Strategy.

NAFTA modernization discussions are an unmissable opportunity to address just that type of unfinished business in order to truly open up the North American market and put our dairy exports to Canada on par with the vast majority of the rest of the U.S. economy.

Canada, as a high price country that has refused to enter into the global markets with milk prices at global levels, adopted a new pricing scheme (Class [VII]) to effectively subsidize protein commodity exports without compromising the internal farm price of milk. These new pricing regulations and the broader Pricing Strategy have already negatively impacted bilateral trade with Canada. Most concerning, however, they are poised to unfairly take away the global markets that are our industry's lifeblood.

The new Canadian policies effectively subsidize exports and are already being used to undercut U.S. dairy exports of milk proteins not *just* to Canada but even more importantly to a number of other export markets around the world. Because the U.S. dairy industry depends on a healthy global export market, Canada's strategy poses a very grave threat to America's dairy farmers by unfairly underbidding world market prices.

The shift in Canadian pricing tools has been driven by an uptick in Canadian demand for butter and cream. Rather than meeting this new domestic-demand growth through imports in order to keep its so-called supply management system in balance, Canada has used its government-dictated milk production system to encourage more of its own milk production, therefore supplying more butterfat, while simultaneously creating a surplus of skim milk, as milk contains both products.

Since Canada had to find a way to "solve" this surplus problem of its own creation and rid itself of the excess milk proteins, it has been using its government-controlled system to keep domestic milk prices at almost double the world and comparable U.S. prices, while creating a new scheme to push surplus milk proteins onto world markets and push out competition in its domestic market.

Canada implemented the new Class [VII] pricing system in February 2017. The Class [VII] establishes a protein price based on the lowest of U.S., EU, and Oceania skim milk prices, and then subtracts a very generous processor margin. In recent months, this means that Canada has priced milk proteins available to its processors under Class [VII] for export at approximately 15% less than what U.S. processors typically pay. That incentivizes processors to utilize subsidized Canadian milk proteins to modernize and expand their protein business.

Reports to date from various markets around the world indicate that product is being offered even below the lowest world market price. This below cost pricing avenue applies to the manufacture of skim milk powder (SMP), whole milk powder (WMP), milk protein concentrate (MPC), ultra-filtered milk (UFM) and similar dairy protein products.

This recently introduced provision of below market price milk to produce the listed dairy products provides an incentive to substitute those products for their imported counterparts in Canada while enabling the export of Canada's structural surplus of SMP at below the cost of production. It flies in the face of common sense that a country with one of the world's highest milk prices would be offering a commodity product at levels far below those offered by all other major dairy suppliers.

As a result, these pricing schemes have already harmed U.S. exports to Canada of ultra-filtered milk and have begun facilitating the dumping of milk powder onto the commercial global markets on which the U.S. so strongly relies. This is the latest in a series of narrowly targeted milk classes that have been created over the past few years specifically to displace imports, with the added harm of now also displacing U.S. exports to other markets.

Canada is not alone in having different classes for milk usage and the mere existence of milk classes is not an inherent problem. However, the way Canada has utilized its milk class system is unique and very problematic. Canada's milk class system is regularly evolving in order to constrain imports and—in the latest case—provide an incentive to export. The new Class [VII] pricing allows processors of nonfluid domestic products to allocate or use a proportion of their milk protein to the new Class [VII] pricing. That effectively ensures processors will now use some of the lower priced skim *in lieu of* imported U.S. milk proteins. We expect that the balance not used internally will likely be used to process a reduced-price exportable surplus of subsidized protein products such as skim milk powder and dried milk protein concentrates.

These special pricing classes are put in place by the Canadian Milk Supply Management Committee (CMSMC), whose voting members are provincial boards and provincial governments and which is responsible for policy determination and supervision of the provisions of the National Milk Marketing Plan. The way in which Canada is operating its milk class pricing system indicates a government policy intention to erect trade barriers and distort global markets.

The production and sales data underscore what a pressing concern this program poses to the international milk powder market that is so critical to U.S. dairy farmers and companies. The full size and scope of the threat to the U.S. dairy industry is not reflected only in what Canada is doing today through its new pricing programs but rather is seen in the sharp surge in production, exports and utilization of the new Class [VII] pricing scheme.

For years, Canada's milk production was relatively stable, a situation that should not be surprising for a country that claims to manage its supply to meet internal demand. From 2000 to 2010 for instance, Canadian milk production rose only 2.5% over that decade. However, a distinct upward trend line has more recently emerged with 4% growth per year over the last 2 years.

In some areas this has spiked even further: five leading provincial marketing boards in the East of Canada, working in concert, have collectively increased their government-dictated milk production quotas by an astronomical 12% between August 2016 and July 2017 with the latest hike this month being 5%. Were these responses to normal commercial market signals—as is the case in the U.S. and in most other major dairy producing countries—these may not be problematic.

In contrast to this, typical milk production growth in the U.S. is in a range of 1–2%, even in years with highest prices. In addition to its magnitude on a percentage basis, the dramatic Canadian expansion is so problematic because it is the direct result of government-run programs in a supply management system with some of the highest milk prices in the world.

Likewise, trade data demonstrates a large basis for concern as well. Canadian milk powder exports have surged in recent times. Canada's 2016 SMP exports set a record at approximately 24,000 MTs, a jump of roughly 75% over the prior year's total. (Reminder: Ontario's Class [VI], effectively a pilot program for the national Class [VII], was put in place in the spring of 2016.) The first 5 months of 2017 showed a further year-on-year increase in Canadian SMP exports of 271% to almost 20,000 MT with over 8,000 taking place in May alone—a new monthly record for Canada.

Those SMP exports are going to various markets around the world including Algeria, Mexico, Egypt, Malaysia and Bangladesh, top markets for the U.S. dairy industry. In addition to the substantial increase in SMP exports, Canada is also seeing a spike in milk protein concentrate (MPC) exports with January to May 2017 sales of MPC up 48% over the same period in 2016.

Despite limited information provided by Canada about the Class [VII] program, since the February 7 implementation of the pricing scheme, the volume of high-priced milk used to make domestic non-fluid products has declined, whereas the volume of milk protein going into Class [VII] has risen. During February–April 2017, Canada reported that 24% of the milk volume and 31% of the protein is now allocated to Class [VII]. Not surprisingly, the farm price of milk between last year and this year (since Class [VII] has been implemented) dropped less than one percent despite that sizable shift towards the new lower-priced Class [VII]. That's because other prices under Canada's strict government-calculated class prices have been raised. This still works to the net benefit of Canada's dairy farmers given the surging milk quotas the government is granting (thereby permitting that 1% lower price to be paid on a much larger volume of milk and so generate greater total returns to farmers).

As a result of the new Class [VII] pricing scheme and a 5% expansion in the milk production quota in 2017 to date, Canada is poised to create an even more significant exportable surplus of milk proteins than we've seen take place to date. Furthermore, taking into account not only Class [VII]'s export disposal goal of moving the remaining excess protein product onto world markets at cut-rate prices, but also its twin goal of import substitution through the displacement of U.S. protein exports from its market, the total impact to the rest of the world's protein markets will be even greater still.

What is most concerning here is the trend line, with a harmful situation creating greater damage to our producers over time and a trend line expected to get even worse as time goes on. That's particularly the case if milk quotas continue to be permitted to similarly grow over time.

It is this escalating threat to global dairy markets that united ten of the world's leading dairy associations, including USDEC, from around the world last month to collectively write to their six respective Trade Ministers, including Ambassador Lighthizer, urging prompt action to exhaust all available options to put a stop to Class [VI] & [VII] in light of their violation of Canada's international commitments. As the joint industries letter noted: "Canada's increasingly protectionist policies are diverting trade with attendant global price-depressing impacts, and are in conflict with the principles of free markets and fair and transparent trade." (See attached.)

Examples cited in that letter of united international concern included the following:

- "In December of 2015 at Nairobi, Kenya, Canada became a signatory to the Export Competition Ministerial Decision, thereby undertaking to terminate all scheduled export subsidies by the end of 2020, maintain a quantity standstill at 2003–05 levels until then, and refrain from applying export subsidies to new products or new markets. The 2016 Canadian exports of 23.7 thousand tonnes, noted above, is an amount in excess of the Nairobi standstill agreement amount."
- "As part of the 2003 resolution of the WTO dispute settlement case brought by the United States and New Zealand against Canada's special milk class for exports, Canada agreed 'that, for the marketing year beginning 1 August 2003, and thereafter, Canada's exports of dairy products for which export subsidies have been granted will not exceed the quantities and budgetary outlays specified in its WTO Schedule. The upward trend in Canada's exports of SMP, reported above, is rapidly approaching the 44.9 thousand tonnes Uruguay Round annual quantity commitment.'"

Canada's National Ingredient Strategy and Class [VI]/[VII] contravene the spirit of Canada's World Trade Organization and NAFTA trade commitments. After all, does it make sense that a high-priced milk producer with a closed domestic market using a government-sanctioned export program should take market share from countries with a commercially-based and lower cost of production, like the U.S.? The answer is no.

We must see a repeal of Classes [VI] and [VII] and steps taken to ensure similar programs do not spring up in their place. If Canada wishes to retain a government-run system of micro-managing its milk supply, that is its prerogative but that does not give it the right to use the high returns from that system to disrupt the commercial dairy markets on which competitors in the U.S. and elsewhere rely. If left unchecked, these Canadian programs will grow to become bigger and bigger threats to U.S. exports around the world.

These latest actions are most concerning because they represent a shift by Canada from using policy tools to impede imports into Canada to now also disrupting export markets. Altogether, however, Canada has for years intentionally tried to shirk its dairy commitments, using one policy or regulatory tool after another to chip away at access granted. Another example of this consistent trade-distorting pattern was Canada's decision in its FTA with the EU to impose new restrictions on the use of a number of generic cheese terms (*i.e.,* asiago, feta, fontina, gorgonzola and muenster). Canada provided direct protection to a number of European GIs that have been common names (in order words, generic) in Canada and the United States for decades. By taking this action, Canada abandoned any pretense of due process and the integrity of its own intellectual property system. NAFTA would offer a prime chance to press Canada to hold U.S. companies harmless from this unwarranted non-tariff barrier on U.S. cheese exports.

Given Canada's deliberate creation of an environment of policy uncertainty, there can be no clarity on whether or not current dairy sales to Canada—nor new sales established under the NAFTA modernization process—will be allowed by Canada to take place in the future without addressing this underlying problem of Canada's habitual use of policy tools to distort trade.

We greatly welcomed the Administration's NAFTA Objectives' recognition of the importance of these issues in its Agricultural Goods area in particular.

Mexico: Preventing New Barriers to Trade: Geographical Indications (GIs) and Common Names (CNs)

As I have stressed above, with respect to Mexico our charge is largely to do no harm to market access opportunities. That's relevant not only on the tariff side of the equation but particularly important on the non-tariff barrier portions as well.

The latter is a particularly timely concern given ongoing FTA extension negotiations between Mexico, the U.S.'s largest and most diverse cheese export market, and the EU.

As it seeks to do through all its FTAs, the EU has been attempting to use that process to impose *de facto* barriers to trade and competition on various common name products that the EU falsely claims as GIs.

It is essential that ongoing engagement with Mexico and NAFTA modernization discussions make it clear that the U.S. is vehemently opposed to the imposition of any new restrictions on the market access opportunities for U.S. products relying on common names. We must require that Mexico uphold the letter and spirit of its NAFTA market access commitments in order to ensure it does not impair the value of its prior market concessions to the U.S.

In parallel to these FTA negotiations, Mexico is also dealing with GIs that impact the use of common name products in other avenues as well such as through domestic legislation and ongoing court cases. Each of these venues is an important forum for shaping how Mexico will uphold its market access commitments to the United States.

Mexico & Canada: Improving NAFTA Rules in Key Areas

Improving Upon the WTO-Plus Sanitary & Phytosanitary (SPS) Agreement

To ensure for predictability of trading conditions moving forward and a science-based approach to the development of new regulations impacting trade, NAFTA modernization efforts should incorporate work done in this area within TPP and build further upon that base of "WTO SPS-Plus" commitments. This is needed to guard against the prospect of future problems and also to ensure that the updated NAFTA text can serve as a strong model for future U.S. bilateral FTAs as well. Stronger SPS provisions may have prevented a barrier to the export of U.S. raw milk for pasteurization that Mexico erected a few years ago despite a food safety basis for concern with those exports. We look forward to seeing this issue as well as others that arise from unscientific foreign requirements addressed through the negotiations.

Improving upon the existing WTO SPS rules was cited as a key Trade Promotion Authority (TPA) priority for negotiations and would help to address concerns by agricultural organizations across the board about spotlighting the importance of transparency, predictability and science-based decision-making on SPS matters. We believe this remains a critical area and were glad to see it highlighted accordingly in the Administration's recently published NAFTA objectives document.

Establishing Fair Due Process Systems and Market Access Safeguards for Common Names Through Text on Geographical Indications (GIs)

As noted above, there are unique situations on GIs and Common Names issues with both Mexico and Canada that need to be dealt with appropriately on a bilateral basis. In addition to those efforts, however, NAFTA modernization efforts should incorporate text on the issue of GIs and common names, in keeping with the TPA directive to address this issue. In order to build upon the progress made to date with our trading partners on this issue, the TPP text on GIs should be used as a starting point and further improved upon to effectively preserve U.S. market access opportunities for common name products despite foreign governments' efforts to misuse GIs to erect barriers to those products.

This area too benefited from a clear intended focus in the published NAFTA objectives developed by the Administration; we see this as a very welcome acknowledgement of the critical importance of this issue.

Preserving Dairy Rules of Origin (ROO) Approach to Uphold Integrity of NAFTA Benefits

The driving goal in NAFTA dairy-specific ROO with Mexico for most dairy products was to seek to ensure that high dairy-content products traded under the agreement were being produced from milk from the exporting country. As such, for instance, the U.S. cannot import milk powder from Europe to make cheese and ship that to Mexico, and *vice versa.* Likewise, Mexico should not be able to import concentrated butterfat from outside the NAFTA region, add sugar or cocoa to it, and sell it into the U.S. as a food preparation. The open trade is intended to be between and to benefit the dairy sectors that have opened their markets under the agreement—a goal that is particularly important for a product that is easily traded in various ingredient forms.

Given that the lines most clearly associated as dairy such as those for cheese, butter and yogurt, all require the product to be made from dairy from the exporting country, it is reasonable to insist that other processed food lines also should be subject to these same provisions in cases where they contain a very high level of dairy content. It is important to ensure that Mexico is not a platform for other major dairy exporters to ship butterfat simply as a conduit to inappropriately access the U.S. market. Based on customs rulings and trade data with Mexico and New Zealand this is a reasonable cause for concern.

In addition to the need for movement towards greater consistency in the dairy ROO, we would also encourage negotiators to examine how to improve the process for investigating potential ROO violations to make it easier to chase down potential violations of the ROO. In our view, these measures are a critical element of the agreement and ensuring that the effectiveness of the ROO in concentrating the agreement's benefits on its Parties that have chosen to open their markets to one another is a vital part of ensuring that NAFTA remains such a strongly successful FTA.

We believe that the goals articulated in the Administration's NAFTA objectives document would help to address these concerns.

In Closing

NAFTA is indisputably the most important U.S. FTA. An agreement that has done this much good and that supports tens of thousands of jobs in the dairy sector alone must be preserved. That is why we believe we must ensure that no new trade restrictions arise through the NAFTA modernization discussions and that talks are instead focused on pursuing improvements to the agreement that preserve our open trade relationship with Mexico and address Canada's flouting of its trade commitments.

Even as the U.S. negotiates improvements to this critical FTA, however, we believe it's also essential to move forward on other fronts as well. Our competitors are very active all around the world in negotiating their own agreement. This month's news of the EU-Japan agreement in principle is a fresh reminder that the world is not standing still. Given that, if the U.S. stands still, we will slip behind.

We urgently need a proactive trade policy agenda with key agriculture-importing countries in Asia such as Japan, Vietnam and others in order to keep pace in that growing area of the world. In order to ensure that U.S. negotiating time is best concentrated on agreements likely to yield net agricultural benefits for the U.S. with ag-importing countries, we would also strongly caution against sinking scarce U.S. resources into negotiations with countries unlikely to lead to net dairy and agricultural export gains for the United States. There are only so many staff at our government agencies and only so much time in the day; we need to focus it where it can yield the most benefits to American agriculture.

As we stand poised to commence NAFTA modernization discussions in the very near future, the U.S. Dairy Export Council looks forward to working closely with this Committee and with the Administration to make improvements to this beneficial FTA so that we can continue to deepen our trade relationships throughout North America.

Thank you for the opportunity to testify before this Committee.

ATTACHMENT

June 27, 2017

Hon. STEVEN CIOBO MP,
Minister for Trade, Tourism and Investment,
Parliament House,
Canberra ACT;

CECILIA MALMSTRÖM,
EU Commissioner for Trade,
European Commission,
Brussels, Belgium;

Hon. ILDEFONSO GUAJARDO,
Mexico Secretary of Economy,
Col. Juárez, Del. Cuauhtémoc,
Ciudad de México. C.P.;

Hon. TODD MCCLAY,
Minister of Trade,
Parliament Buildings,
Wellington;

Hon. ROBERT LIGHTHIZER,
United States Trade Representative,
Washington, D.C.;

Hon. MIGUEL BRAUN,
Secretary of Trade,
CABA, Argentina.

Dear Secretary Braun, Minister Ciobo, Commissioner Malmström, Secretary Guajardo, Minister McClay, and Ambassador Lighthizer:

Canada: Access for Dairy Products

Last September the undersigned representatives of the dairy industries of Australia, the EU, Mexico, New Zealand and the U.S. wrote to you (or your predecessor) to express our concern at Canadian dairy policy developments. Specifically, we were concerned that the "Agreement in Principle" that had recently been reached between Canada's dairy producers and processors was designed to incentivize the substitution of Canadian domestic origin dairy ingredients for dairy ingredients imported from our countries, and to position the export of Canadian dairy products to unfairly compete against our products in third country markets. With Canada's adoption of the new special milk Class [VII], that Agreement has become reality; and so too have the substitution of Canadian ingredients for our imports and the undercutting by Canadian protein exports of our exports in third country markets.

We are now writing, joined by a representative of the dairy industry of Argentina, to ask the authorities in Argentina, Australia, the EU, Mexico, New Zealand and the U.S. to pursue all avenues available to challenge these measures, including WTO dispute settlement and bilateral trade agreement relationships. In the absence of such efforts Canada's Class [VII] policy will seriously further distort and disrupt international dairy trade, causing harm to our fa[r]mers.

Background

The present structure of Canada's supply managed dairy industry dates from the early 1970s. As we noted in our earlier correspondence, the system operates by allocating production quotas, setting prices that vary through a range of milk classes, and controlling imports with tariff rate quotas on imports varying between 200% and 300%. Canadian milk production levels were maintained between 74.8 million hectoliters in 2000 and 76.7 million hectoliters in 2010, with no discernible trend line. However, a distinct upward trend line has now emerged with 4% growth per annum over the last 2 years, and 2016 production of 84.7 million hectoliters being the highest in Canadian history. This might not be problematic if there was a market for this additional milk in Canada, but that is not the case. The upward trend in milk production is the result of production quotas being set on estimated butter consumption, which has been growing rapidly. However, the coproduct of butter production—milk protein—has not seen a similar increase in demand. This has resulted in a structural surplus of milk protein, exemplified by excess production of skim milk powder (SMP), ballooning to over 100,000 MT per annum.

Canada's Response

To address this structural surplus a new ingredient milk class—initially Ontario Class [VI] and now National Class [VII]—was created, with milk priced to processors at the lowest world price to produce dairy protein ingredients. The impact has been two-fold: first, the substitution of Canadian dairy ingredients for imported milk proteins, and second, an increase in non-WTO-compliant Canadian exports of milk protein. The first is evidenced by the widely reported cancellation of contracts by Canadian cheese makers for U.S. sourced ultra-filtered (UF) milk. The second, by a review of Canadian exports of skim milk powder (SMP), the most easily produced milk protein product.

Between 2009 and 2014 Canadian exports of SMP increased irregularly from 10.1 thousand tonnes to 12.7 thousand tonnes, and again modestly to 13.6 thousand tonnes in 2015. The adoption of Ontario's Class [VI] in April of 2016 saw 2016 SMP exports jump 74% to 23.7 thousand tonnes. The first 4 months of 2017 showed a further year on year increase of 273% to 11.9 thousand tonnes. Moving this protein onto the thinly traded global market of around 2 million MT of SMP per annum will add to the already swelling global supply of milk protein and depress market prices for farmers around the world.

Canada's Obligations

The adoption of Class [VII] (and Ontario Class [VI] before it) is a measure which is inconsistent with a number of commitments that Canada has undertaken. For example:

- In December of 2015 at Nairobi, Kenya, Canada became a signatory to the Export Competition Ministerial Decision, thereby undertaking to terminate all scheduled export subsidies by the end of 2020, maintain a quantity standstill at 2003–05 levels until then, and refrain from applying export subsidies to new products or new markets. The 2016 Canadian exports of 23.7 thousand tonnes, noted above, is an amount in excess of the Nairobi standstill agreement amount.
- As part of the 2003 resolution of the WTO dispute settlement case brought by the United States and New Zealand against Canada's special milk class for ex-

ports, Canada agreed “that, for the marketing year beginning 1 August 2003, and thereafter, Canada’s exports of dairy products for which export subsidies have been granted will not exceed the quantities and budgetary outlays specified in its WTO Schedule. The upward trend in Canada’s exports of SMP, reported above, is rapidly approaching the 44.9 thousand tonnes Uruguay Round annual quantity commitment.”

Conclusion

Our respective dairy industries are firmly of the view that the operation of Ontario’s Class [VI] and Canada’s Class [VII] contravene Canada’s international commitments. Canada’s increasingly protectionist policies are diverting trade with attendant global price-depressing impacts, and are in conflict with the principles of free markets and fair and transparent trade. We therefore request the authorities of Argentina, Australia, the EU, Mexico, New Zealand, and the U.S. to take all steps available to them to resolve this issue and ensure that Canada complies with its international obligations.

With best regards,

[TERRY RICHARDSON,]
President,
Australian Dairy Industry Council (ADIC);

[ALEXANDER ANTON,]
Secretary General,
European Dairy Association (EDA);

[BÉNÉDICTE MASURE,]
Secretary General,
European Whey Products Association (EWPA);

[JUKKA LIKITALO,]
Secretary General,
European Association of Dairy Trade (Eucolait);

[KIMBERLY CREWTHER,]
Executive Director,
Dairy Companies Association of New Zealand (DCANZ);

[MATT MCKNIGHT,]
Chief Operating Officer,
U.S. Dairy Export Council (USDEC);

[MICHAEL DYKES, D.V.M.,]
President & CEO,
International Dairy Foods Association Federation (IDFA);

[JIM MULHERN,]
President & CEO,
National Milk Producers Federation (NMPF);

[RENÉ FONSECA MEDINA,]
General Director,
Camara Nacional De Industriales de la Leche (Canilec) (Mexico National Chamber of Industrial Milk);

[MIGUEL PAULÓN,]
President,
Centro De La Industria Lechera (CIL) (Centre of the Argentine Dairy Processing Industry).

CC:

The Honorable BARNABY JOYCE MP, *Deputy Prime Minister, Minister for Agriculture and Water Resources,* Australia;
Mr. PHIL HOGAN, *EU Commissioner for Agriculture & Rural Development,* European Commission;
Mr. JEAN-LUC DEMARTY, *Director-General for Trade,* European Commission;
Mr. JERZY BOGDAN PLEWA, *Director-General for Agriculture & Rural Development,* European Commission;
The Honorable NATHAN GUY, *Minister of Primary Industries,* New Zealand;
Mr. MARTYN DUNNE, *Director General, Ministry for Primary Industries,* New Zealand;
Mr. VANGELIS VITALIS, *Deputy Secretary Trade and Economic,* Ministry of Foreign Affairs & Trade, New Zealand;
The Honorable SONNY PERDUE, *Secretary,* U.S. Department of Agriculture;
The Honorable JUAN CARLOS BAKER, *Deputy Secretary of Trade,* Mexico.

The CHAIRMAN. Well thank you, Mr. Secretary.

Mr. Frazier, 5 minutes.

STATEMENT OF KENDAL FRAZIER, CHIEF EXECUTIVE OFFICER, NATIONAL CATTLEMEN'S BEEF ASSOCIATION, CENTENNIAL, CO

Mr. FRAZIER. Good morning. My name is Kendal Frazier and I am the CEO of the National Cattlemen's Beef Association, the oldest and largest national association of cattlemen. I am honored to provide you with our perspective on the importance of the North American Free Trade Agreement, and the risk we face if the U.S. beef industry is saddled with changes to NAFTA that may jeopardize our current access to Canada and Mexico.

According to USDA, the U.S. beef industry consists today of around 900,000 cattle and calf operations, a national herd size of about 100 million head of cattle, accounting for roughly $67.5 billion in annual farm gate receipts. In 2016, our industry sold over $6.3 billion in beef products around the world, with exports alone accounting for over $300 per head for every fed steer and heifer.

NCBA strongly supports NAFTA because the terms of NAFTA developed Canada and Mexico into two very important export markets for U.S. beef. While there may be cause from other segments of agriculture and other industries to update or renegotiate the terms of NAFTA, we strongly encourage our negotiators to focus their efforts on those specific areas and leave alone the terms of NAFTA that have greatly benefitted the U.S. beef and cattle industry. Quite frankly, it is difficult to improve upon duty free, unlimited access to Canada and Mexico, and we are pleased to see that USTR announced its support for continued reciprocal duty free access.

Even still, our message remains the same. Please do no harm and do not jeopardize our access.

On average, Canada and Mexico have been two of our top five export markets, with approximately $1 billion each in annual sales. While Canada has been a high value market for muscle cuts, Mexico has proven to be an excellent market for things like skirts, tongues, and other cuts that Americans find less desirable.

Now opponents to NAFTA try to paint a dark picture of uneven beef trade, saying NAFTA has been our downfall for over 20 years. Opponents pin all our problems on NAFTA, but they fail to acknowledge other key factors that our industry has faced, like a

BSE case in 2003, severe drought that caused beef and cattle shortages, the strength of the U.S. dollar, and continuation of tax policies that encourage the break up of multi-generational cattle operations. Simply put, opponents view NAFTA as a zero sum game and fail to consider important factors such as our incredible growth in global exports and the value that exports bring to all segments of our industry. This view is a great disservice to all producers.

In addition, the NCBA strongly opposes any attempts to use NAFTA as a vehicle to resurrect failed policies of the past, such as mandatory Country-of-Origin Labeling, also known as COOL. COOL was a U.S. law for over 6 years, and failed to deliver on its promises to build consumer confidence and add value to our products. Instead, COOL resulted in long battle with the World Trade Organization with the United States facing the promise of more than $1 billion in retaliatory tariffs from Mexico and Canada unless COOL was repealed. Canada and Mexico still have the authority to retaliate against the United States if COOL is brought back into effect, and rest assured, they will retaliate against us if necessary.

We encourage you to build on the success that current NAFTA provisions have given U.S. beef producers. I thank you for asking me to appear this morning.

[The prepared statement of Mr. Frazier follows:]

PREPARED STATEMENT OF KENDAL FRAZIER, CHIEF EXECUTIVE OFFICER, NATIONAL CATTLEMEN'S BEEF ASSOCIATION, CENTENNIAL, CO

On behalf of the National Cattlemen's Beef Association (NCBA), I submit to you the following comments regarding the North American Free Trade Agreement.

Comments of the National Cattlemen's Beef Association Regarding Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement With Canada and Mexico

The National Cattlemen's Beef Association (NCBA) has represented America's cattlemen and women since 1898, preserving the heritage and strength of the industry through education and public policy. As the largest and oldest national association of cattle producers, NCBA represents a very diverse beef industry that strives to meet demand in emerging markets and increase demand for beef. NCBA appreciates the opportunity to provide comments for the Office of the United States Trade Representative (USTR) regarding USTR–2017–0006, "Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement With Canada and Mexico".

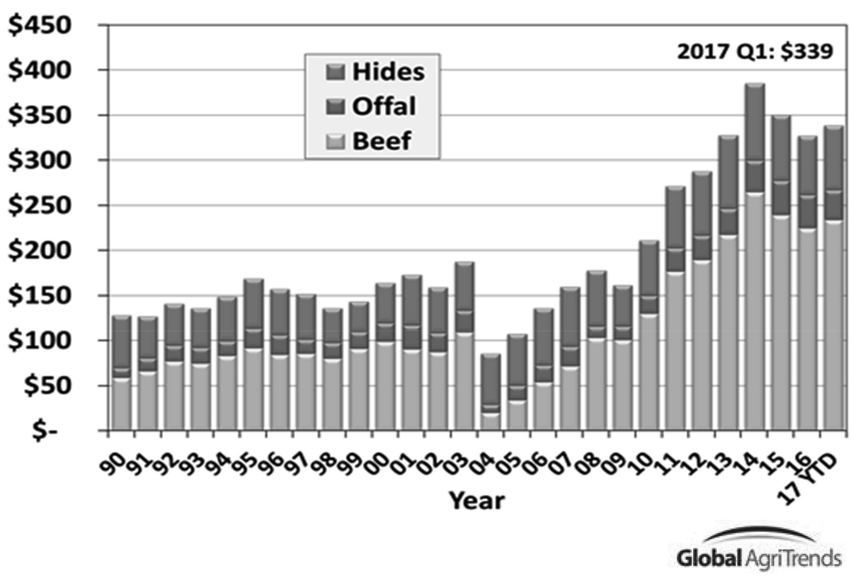
Brief Summary of U.S. Beef Industry's Position on "NAFTA Negotiations"

NCBA strongly supports the North American Free Trade Agreement (NAFTA) because the terms of NAFTA have made it possible for the U.S. beef and cattle industry to develop two very important export markets in Canada and Mexico as well as allowing all sectors of the U.S. beef and cattle industry to compete and operate at optimal levels when trade-restrictive policies were eliminated and repealed. While we understand that there may be calls from other segments of the agriculture industry and other industries to update or renegotiate the terms of NAFTA, NCBA strongly encourages you to focus and contain your efforts on those areas and leave alone the terms of NAFTA that have greatly benefitted the U.S. beef and cattle industry. Quite frankly, it is difficult to improve upon duty-free, unlimited access to Canada and Mexico—two of the top five export markets for U.S. beef. Furthermore, NCBA strongly opposes any attempt to use NAFTA as a vehicle to resurrect failed protectionist policies of the past including mandatory Country-of-Origin Labeling (MCOOL). MCOOL was U.S. law for over 6 years and failed to deliver on its promises to build consumer confidence and add value to our producers. Instead, MCOOL resulted in a long battle in the World Trade Organization with the United States facing the promise of $1 billion in retaliatory tariffs from Mexico and Canada unless MCOOL was repealed by Congress. We must learn from the mistakes of the past and not repeat them. NCBA hopes that negotiations with Canada and Mexico will be swift and successful and will build upon the success that current NAFTA provisions have given U.S. beef producers.

Overview of Imports and Exports in Beef and Cattle Trade

Over the past 7 years we have seen a significant growth in U.S. beef exports due to the implementation of free trade agreements and the lifting of non-science based restrictions on U.S. beef specifically in countries in Asia and Latin America. While Canada and Mexico have traditionally battled for first and second place among U.S. beef export markets, they have been surpassed by growing demand in Japan and Korea who currently top the list as top export markets for U.S. beef. According to the U.S. Census Bureau the total world population is estimated at nearly 7.4 billion people. Of that total the United States accounts for 325 million people, Mexico's population is estimated at 130 million people, and Canada surpassed 35 million people in 2016. While North America represents a small fraction of the global population, it also represents a strong consumer base for beef. Throughout its lifetime, NAFTA has developed all of North America into a premium market for U.S. beef sales. Another benefit of NAFTA has been the development of an efficient and competitive supply chain that allows each sector of the supply chain, from cow/calf producer to feed yard to retail, to capitalize U.S. beef sales to the 96 percent of the global consumers who reside outside our borders, especially those consumers who will pay a premium for U.S. beef products that are undervalued in our domestic market. For U.S. beef producers, the value of exports alone accounted for $339 per head in the first quarter of 2017.

Beef and Offal Exports (U.S.$/Hd)

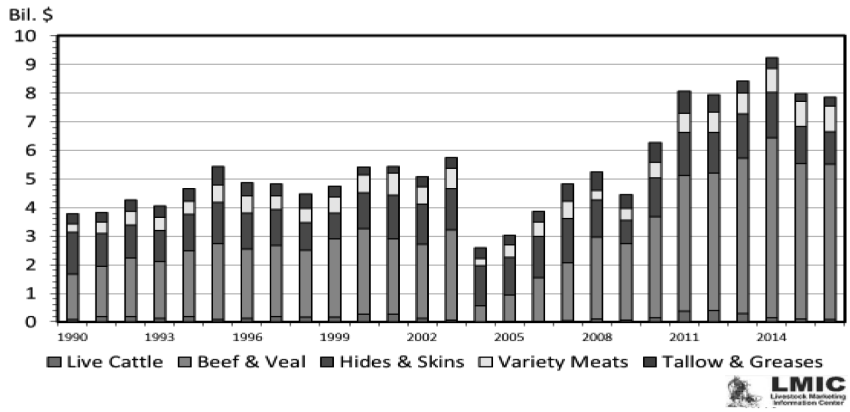


According to the U.S. Meat Export Federation (USMEF), the top five export markets for U.S. beef in 2016:

Country	Sales	Volume (metric tons)
(1) Japan	$1.5 billion	258,653 MT
(2) Korea	$1.06 billion	179,280 MT
(3) Mexico	$975 million	242,373 MT
(4) Canada	$758 million	116,266 MT
(5) Hong Kong	$684 million	112,770 MT

Beef Industry Export Values

Annual



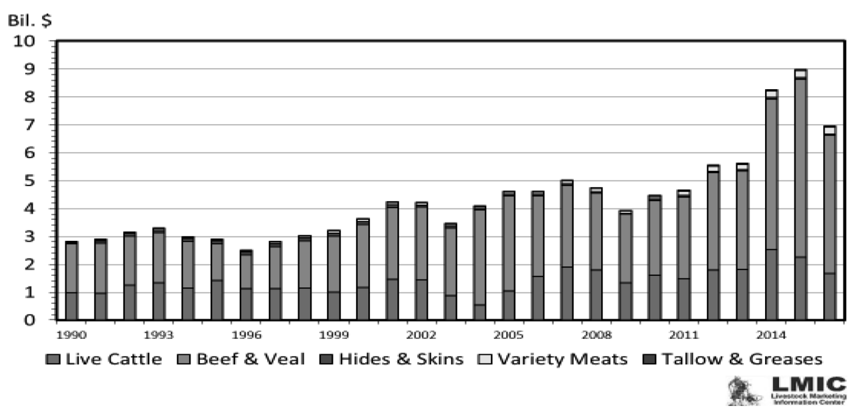
Data Source: USDA–FAS, Compiled & Analysis by LMIC; I–N–70, 3–22–17.

Livestock Marketing Information Center.

The United States is also one of the top beef importers in the world. The common misconception is that we import the same "beef" that we export, but the truth is we export higher-value cuts like tongues and other offals while we import grass-finished beef trimmings to mix with our fattier trimmings to meet U.S. ground beef demand in commercial markets. Without beef imports we could not meet domestic demand for commercial ground beef and would likely lose those consumers to other lesser-value proteins.

Beef Industry Imports Values

Annual



Data Source: USDA–FAS, Compiled & Analysis by LMIC; I–N–71, 3–22–17.

Livestock Marketing Information Center.

Summary of Beef Trade with Canada and Mexico

Without question, the North American Free Trade Agreement (NAFTA) has given U.S. beef a strong advantage over other countries in competition for North American consumers. Today, Mexico and Canada are two of the leading export markets for U.S. beef. Duty-free access, close proximity, and our vast transportation infrastructure system are a few of the main reasons why Canada and Mexico are such strong markets for U.S. beef. According to the U.S. Department of Agriculture's Foreign Agriculture Service, the 1993 pre-NAFTA level of U.S. beef exports to Mexico was

39,000 tons valued at $116 million. As a result of NAFTA, Mexico eliminated its 15 percent tariff on live slaughter cattle, its 20 percent tariff on chilled beef and its 25 percent tariff on frozen beef. According to USMEF, Mexican consumers purchased 242,373 metric tons of U.S. beef at a total of $975 million in 2016. Likewise, Canadian consumers purchased 116,266 metric tons of U.S. beef at a value of $758 million.

The United States has a significantly larger human population and work force, cattle herd, beef-production industrial complex, and a vastly superior transportation infrastructure system that allows U.S. beef and cattle to move freely and efficiently to meet beef demand all across North America. These are a few reasons why approximately 85 percent of U.S. beef production is destined for the U.S. market. The U.S. customer likes our grain-finished flavor profile and is willing to pay some of the best prices in the world for U.S. beef. American consumers prefer higher value cuts such as tenderloins and ribeyes, and we have found that while Canadian customers have similar preferences, Mexico has become a high-volume high-value market for cuts like rounds, skirts, tongues, intestines, and other cuts that Americans find less desirable.

In 2016 the United States became a net importer of beef from Canada and Mexico, one of the rare occasions under NAFTA.

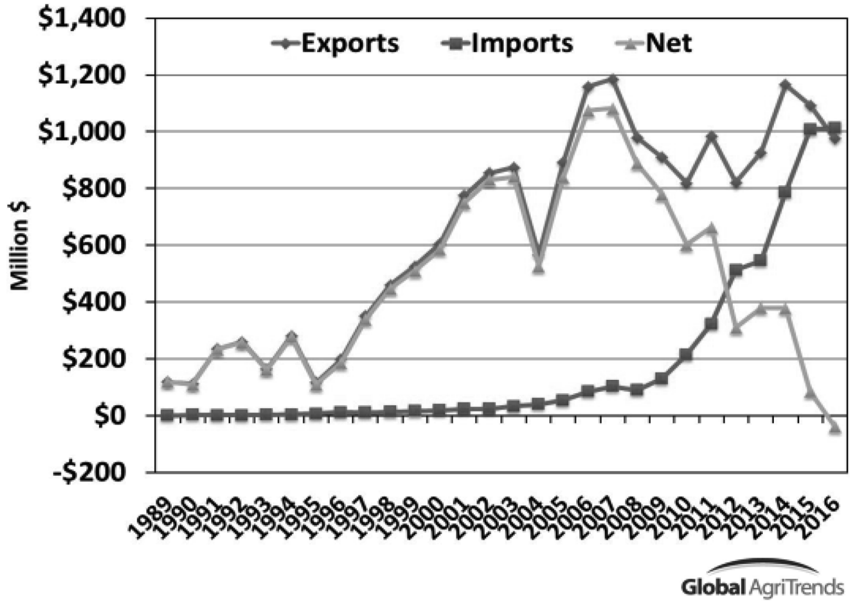
2016 Beef Export Sales to Canada = $758 million
2016 Beef Imports from Canada = $1.23 billion
2016 Beef Export Sales to Mexico = $975 million
2016 Beef Imports from Mexico = $1.05 billion

While opponents of NAFTA will point to the recent decline in sales as another reason to put in place trade barriers to restrict imports it is important to remember that Americans will not absorb the exports we would lose to Canada and Mexico. If Americans wanted to purchase these cuts it would be evident in the market. Who else will absorb that volume and value of beef we export to Canada and Mexico? Furthermore, restricting imports from Mexico and Canada would also result in those markets becoming restricted for U.S. pork and poultry exports which would ultimately come back on the U.S. market and depress protein prices even further. Is it worthwhile to jeopardize our access to Canada and Mexico? Absolutely not.

Imposing tariffs or quotas will do nothing to offset the power of the U.S. dollar in cross-border trade with Mexico or Canada. It's a simple fact that having cheaper currency value makes a country's exports more competitive. This is the case for Canada and Mexican beef exports to the United States. Restricting trade will only have negative repercussions on the U.S. beef industry because it will either lead to the imposition of restrictive tariffs or quotas on U.S. beef exports and it will encourage Canada and Mexico to trade with other countries who may have cheaper currencies than the United States.

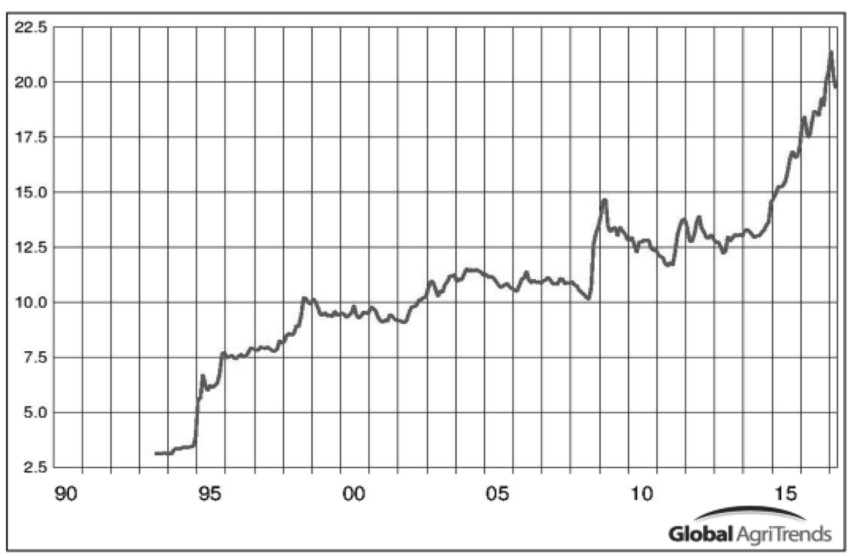
Perhaps we should pay closer attention to the investments that Canada and Mexico are making in their cattle feeding and packing sectors to become more competitive with the United States. In recent years there has been an increased effort in Mexico to transition packing facilities from municipally inspected facilities to federally inspected facilities. Beef that is produced in Mexico and is packaged in a federally inspected facility is eligible for export. The Mexican beef industry has invested heavily in building its packing sector and expanding feedyard operations in Northern Mexico. The goal is to transition from being a low-cost supplier of cattle to the United States and develop the feedyard and packing sectors to capitalize on higher valued beef exports to U.S. consumers. We cannot afford to have protectionist policies that encourage the market consolidation of the U.S. feedyard and packing sectors, or we very well may become the low-cost suppliers of cattle to Canada and Mexico.

U.S. Beef Trade: Mexico



Source: USDA–FAS.

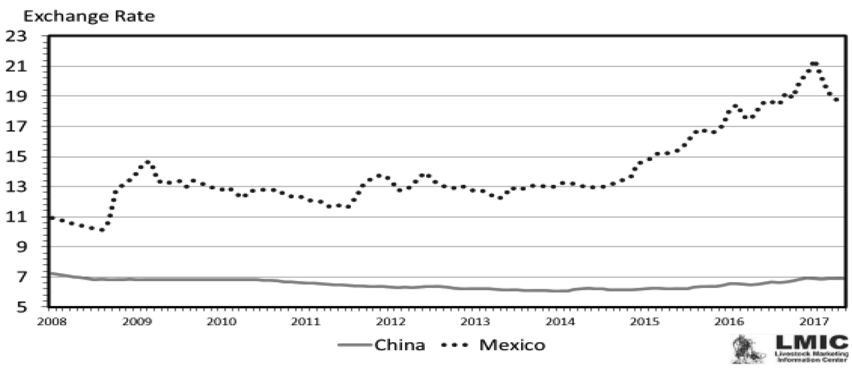
Monthly Average Exchange Rates: Mexican Pesos per U.S. Dollar



Source: Pacific Exchange Rate Services.

Exchange Rate

U.S. Dollar Base, Monthly

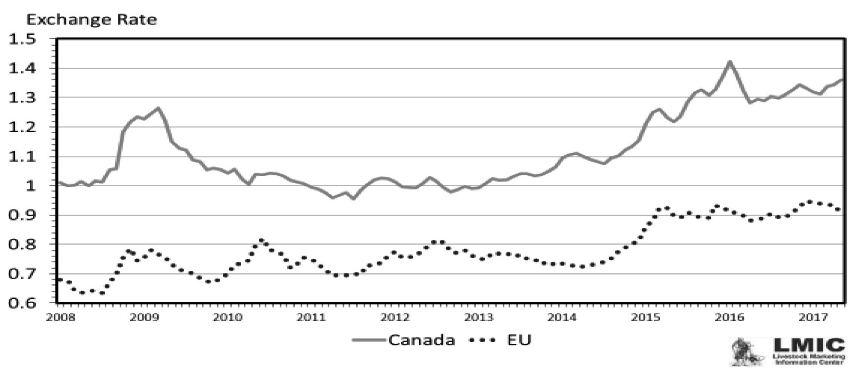


Data Source: Pacific Exchange Rate Service[s], Univ. of B.C., Compiled by LMIC; 06/02/17.

Livestock Marketing Information Center.

Exchange Rate

U.S. Dollar Base, Monthly



Data Source: Pacific Exchange Rate Service[s], Univ. of B.C., Compiled by LMIC; 06/02/17.

Livestock Marketing Information Center.

Summary of Cattle Trade with Canada and Mexico

The United States has been trading live cattle with Mexico and Canada for hundreds of years. In fact, most of our western traditions are deeply rooted in the traditions of the vaqueros coupled with English and American technology and innovation. According to USDA, in January 2017 the United States cattle herd totaled 93.5 million head while Mexico's cattle herd totaled 16.5 million head and Canada's herd totaled 12.1 million head. On average, we import about two million head of cattle from Mexico and Canada. This small number of cattle has been the source of contention within the U.S. beef industry for decades, but before we discuss that, we should consider why we import cattle into the United States.

Simply put, we import cattle from Mexico and Canada to supplement shortages in our herds and to help our feed yards and packing facilities run at optimal levels. We import these cattle, invest American resources in these cattle, and they are slaughtered as American cattle, returning value to the U.S. producers who invested in them. For example, in 2016 there were 943,043 head of cattle imported from Canada at a value of $1,033,960,257. During the same time there were 764,970 head of cattle imported from Mexico at a value of $584,858,261.

Top 5 Destinations for Canadian Cattle Imports

(1) Washington	$341 million
(2) Pennsylvania	$162 million
(3) Utah	$162 million
(4) Minnesota	$102 million
(5) Nebraska	$97 million

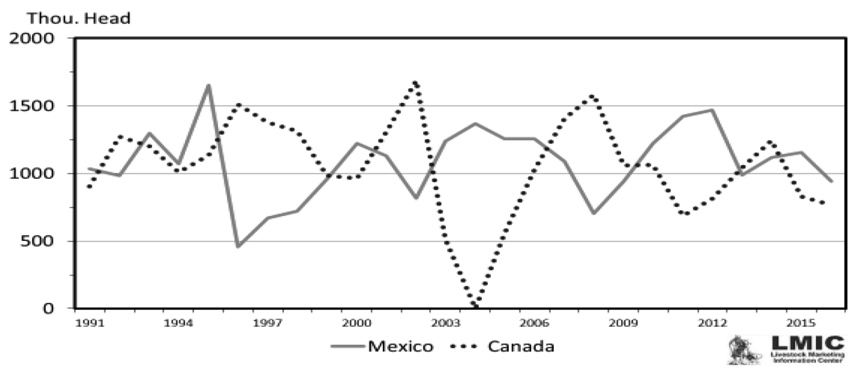
Top 5 Destinations for Mexican Cattle Imports

(1) Texas	$396 million
(2) Arizona	$138 million
(3) New Mexico	$35 million
(4) Nevada	$10 million
(5) California	$4.2 million

Some of the opponents of NAFTA claim that NAFTA created a massive deficit in North American Cattle trade, but if you look at the annual imports the total numbers have not changed much since before NAFTA was implemented.

Cattle Imports from Canada and Mexico

Annual



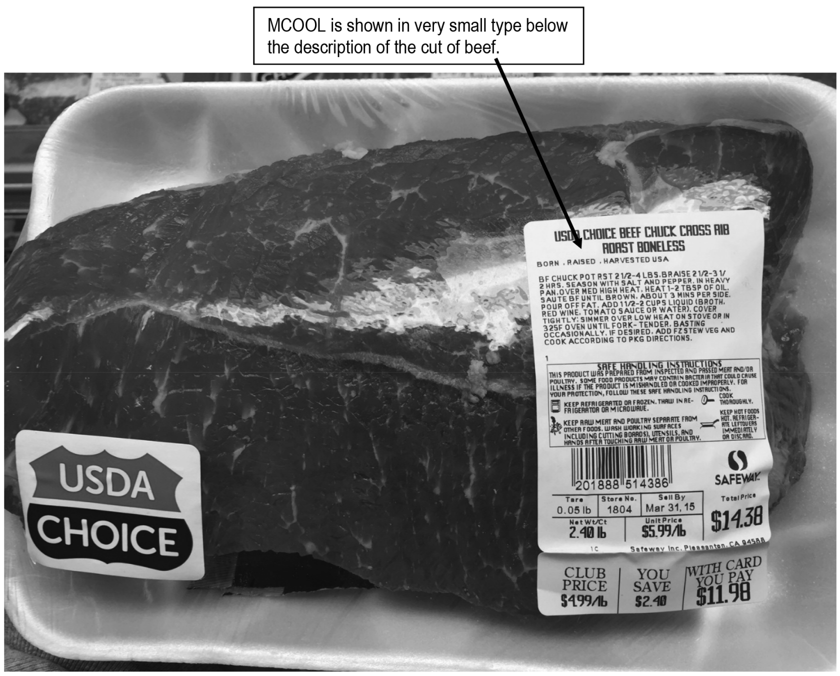
Data Source: USDA–ERS & USDA–FAS, Compiled by LMIC; I–N–13, 3/22/17.
Livestock Marketing Information Center.

One of the oldest internal battles within the U.S. beef industry is rooted in live cattle trade between the United States, Canada, and Mexico. For many years there have been small segments of the U.S. beef industry who have supported trade-restrictive policies on live cattle trade with the argument that restricting cattle imports would somehow yield higher prices for U.S. cattle. These protectionists claimed that cattle born in Canada or Mexico that enter the United States were flooding the market and driving down the cost of live cattle. It was there hope that putting in trade-restrictive policies such as MCOOL would result in the U.S. beef producer seeing greater prices in the long run. MCOOL was also a ruse that was sold to consumer groups as a food safety crisis to garner their support and deep pockets. These short-sighted efforts did not result in higher values for producers or a safer food supply, in some cases their efforts backfired by forcing feedyards and some packing facilities to close down permanently, leading to further consolidation in the U.S. beef industry and job loss in the beef industry. Feedyards and packing facilities are expensive ventures that cannot be easily restored once they have been moth-balled. When they close it means there are fewer people competing for our cattle and this consolidation makes it less competitive for the cow/calf and stocker sectors. Furthermore, feedyards and packing facilities are major employers in rural communities across America, and when they are forced to close some communities have a difficult time recovering from the negative economic impact.

Learning from Past Mistakes: NAFTA 2.0 Has No Place for MCOOL 2.0

The proponents of MCOOL see the renegotiation of NAFTA as another opportunity to restore a failed law and a failed government marketing program that was a waste of taxpayer dollars and a waste of valuable time of USTR and USDA staff. MCOOL was neither a measure of food safety nor a food safety nor a consumer information program, but rather a failed government marketing program that failed to encourage the purchase of U.S. beef. The United States has a robust food safety system in place to ensure that all beef sold in America, regardless of where the animal originated, is safe. Here are a few reminders why MCOOL has no place in NAFTA.

MCOOL was a mandatory, government-run program which required all beef sold in grocery stores to be labeled to show where the animal (from which the roast below was cut) was born, raised, and slaughtered. Grocery stores had the option of using the word "harvested" *in lieu of* "slaughtered".



Proponents of MCOOL claimed that adding this label to cuts of beef would drive consumers to only buy beef from the United States and, in turn, provide a premium price for our product that would be passed back to the producer. After 6 years of implementation, that was not the case and Congress repealed MCOOL in December 2015. In hindsight, MCOOL was a failed government marketing program.

We believe in the power of the marketplace, therefore we remain opposed to mandatory, government-run MCOOL. In fact, the beef industry currently has many voluntary, consumer-driven and industry-led marketing programs. These programs focus on the fundamentals of marketing by creating the specifications for the type of beef they want to sell (breed-specific, natural, organic, guaranteed tender, born and raised in the USA, *etc.*). Then, they build a label specific to that program which "brands" the meat and provides an eye-catching symbol recognizable by the consumer, thus building loyalty and demand for that brand. Ultimately, the success of that brand results in financial premiums paid back to producers who supply the animals.

This is an example of a private industry, voluntary label.

The proponents of a mandatory, government-run MCOOL program claim that consumers want to know where their beef comes from. We don't dispute that. We agree that a random poll asking people if they want to know where their meat comes from would show that the majority of them would like to know. Polls, however, can show many things depending on how the question is asked. Therefore, you can't look at polls alone to falsely assume that all Americans want a mandatory, government-run MCOOL program. Kansas State University took the study of MCOOL beyond just a simple poll. They used several different approaches to determine what the consumer actually considers when they go to the grocery store to purchase meat. The results were clear, consumers placed quality, appearance, and value at greater priority than country-of-origin. And another unfortunate blow to the proponents of MCOOL, the Kansas State University study ultimately found that demand for meat products had not increased since the implementation of MCOOL, and typical Americans are unaware of MCOOL and don't look for meat origin information when they make their purchase.

Ultimately, this means that our industry has spent millions of dollars complying with a MCOOL law that, after 6 years, the consumer doesn't even look for. Cost without benefit is not a smart business plan, but it is exactly what you expect from a mandatory, government-run program.

The argument that consumers have a right to know where their food comes from is an argument that proponents of MCOOL are using to try to save MCOOL, but it is a red herring once you consider the exemptions to MCOOL. MCOOL only applies to beef sold in grocery stores. It does not apply to beef sold in food service, restaurants, or beef that has been processed. How can you say it is a consumer's right to know only in the grocery store and not when they go out to eat? That argument doesn't hold up. In fact, most of the beef imported into the U.S. is sold in food service and not in grocery stores. If consumers want to know more about their food we have private marketing labels that already address their concerns.

Finally, MCOOL violated international trade laws and led to a WTO dispute that nearly resulted in a trade war with Mexico and Canada. After implementation of MCOOL, both Canada and Mexico claimed MCOOL violated our trade agreements and filed a case against the United States with the World Trade Organization (WTO). The WTO found in favor of Canada and Mexico. The WTO found in their favor again after the United States appealed the first decision. Because of the ruling and appeal, the United States was instructed by the WTO to change MCOOL in order to come into compliance. The United States failed at multiple appeals efforts and ultimately Canada and Mexico were given the approval to assess $1 billion in retaliatory tariffs against the United States if Congress did not repeal the MCOOL law. The risk of starting a trade war with Canada and Mexico compelled Congress to finally repeal MCOOL and allowed us to narrowly avoid retaliation. Canada and Mexico still have the authority to retaliate against the United States if MCOOL is brought back into effect.

Conclusion

Opponents of NAFTA try to paint a very dark picture of disproportionate beef trade as the cause of many wrongdoings faced by U.S. beef producers over the past 25 years. Unfortunately many of these anti-trade advocates use the same misguided logic and over-simplified arguments to push these unsupported claims on an audience that is looking for simple answers to complex economic realities. They want you to think that we should export more cattle and more beef to Mexico and Canada year after year in order for NAFTA to be viewed as a success. But to view NAFTA as a zero-sum game does the U.S. beef and cattle industry a great disservice because it discounts all the vast benefits our producers receive from both exports and imports from Canada and Mexico and the role they play in helping us meet global beef demand.

The opponents of NAFTA fail to realize that walking away from or compromising the beef and cattle terms of NAFTA will place U.S. beef producers at significant disadvantage to competitors who are currently trying to take U.S. market share in the beef markets of Canada and Mexico. Canada and Mexico are negotiating trade agreements with our competitors in South America and Europe, not to mention the Australian and New Zealand producers who are trying to move multi-lateral trade agreements without the United States.

For these reasons, NCBA encourages the U.S. Government to keep the renegotiation of NAFTA to a narrow scope of issues that will not jeopardize the beneficial parts of NAFTA, especially the beef and cattle terms of trade.

Should you have any questions or desire any further information please contact Kent Bacus, NCBA's Director of International Trade and Market Access at (202) 347–0228.

Sincerely,

KENDAL FRAZIER,
Chief Executive Officer,
National Cattlemen's Beef Association,
Denver, Colorado.

The CHAIRMAN. Thank you, Mr. Frazier.

Mr. Brosch, did I mispronounce your name, or is that close?

Mr. BROSCH. That is just fine.

The CHAIRMAN. All right, 5 minutes.

STATEMENT OF KEVIN J. BROSCH, J.D., PRINCIPAL, BROSCHTRADE LLC, WOODVILLE, VA; ON BEHALF OF NATIONAL CHICKEN COUNCIL; NATIONAL TURKEY FEDERATION; USA POULTRY & EGG EXPORT COUNCIL

Mr. BROSCH. Thank you. Thank you, Mr. Chairman, and Members of the Committee. My name is Kevin Brosch. I am a lawyer here who has been practicing international trade law in Washington with a concentration in agricultural products for about 35 years. From 1989 to 1997, I was the Deputy Assistant General Counsel at the Department of Agriculture, and I served as USDA's legal advisor during the GATT Uruguay Round negotiations in the formation of the World Trade Organization. I also supervised the legal work and participated in the original NAFTA negotiations in the early 1990s. In 1997–1998, I served as special trade counsel for the Senate Agriculture Committee and its Chairman, Dick Lugar of Indiana. I am here today on behalf of the National Chicken Council, the National Turkey Federation, and USA Poultry and Egg Export Council. Between these three organizations, they represent more than 95 percent of all the poultry produced and exported from the United States.

I want to make the point initially that poultry is the most world competitive product that we have here in U.S. agriculture. We have no government programs. We have no government subsidies. We are number one in the world in the production of poultry. We have about 20 percent of the world's poultry production. We exceed China, which is number two. We are currently number one in exports of poultry. Last year, we pushed ahead of Brazil once again. We export to more than 100 countries. We have 300,000 jobs in agriculture, and there are 1.4 million related industry jobs that are tied to poultry production and poultry export. We also are one of the biggest exporters of soybeans and corn. Every time we export a 6 pound chicken, we are exporting 12 pounds of soybeans and corns with feathers on it. We are a great value-added export that assists not only the poultry producers and the poultry processors, but also, our grain and the soybean people.

NAFTA has been a godsend for U.S. poultry. We went from almost no exports to Mexico—that is hard to believe, but before NAFTA, we had almost no exports. We now have more than 1 million metric tons of exports, if you count all the poultry products, chicken, turkey, eggs, duck, together.

For broiler chicken exports, Mexico is our number one market, Canada is our number two market. For turkey, Mexico is our number one market, Canada is our number three market. Mexico now represents 24 percent of our exports of broiler chicken and related chicken products, Canada, 16 percent. We have had good cooperation and relationships with both the Canadian and Mexican industries, and with their governments. We have had ups and downs over the time, but we have managed to work through those and NAFTA has provided us with the mechanisms to do so.

Our message is the same as our colleagues from the beef industry. Please, do no harm. This is a critical industry for United States agriculture, not only for the poultry producers, but for our grain suppliers. We have lots of jobs in states that you are familiar with: Arkansas and Georgia, Mississippi, North Carolina, Iowa, Minnesota. I could go on and on. Those jobs depend upon the continued prosperity of these companies and their ability to export to markets, and Mexico and Canada are the most important ones.

Thank you.

[The prepared statement of Mr. Brosch follows:]

PREPARED STATEMENT OF KEVIN J. BROSCH, J.D., PRINCIPAL, BROSCHTRADE LLC, WOODVILLE, VA; ON BEHALF OF NATIONAL CHICKEN COUNCIL; NATIONAL TURKEY FEDERATION; USA POULTRY & EGG EXPORT COUNCIL

Mr. Chairman and Members of the Committee:

Thank you for your invitation to appear here today and provide testimony on behalf of USA Poultry & Egg Export Council (USAPEEC), the National Turkey Federation (NTF), and National Chicken Council (NCC), in anticipation of the proposed renegotiations of the North American Free Trade Agreement (NAFTA). My name is

Kevin J. Brosch. I have been practicing international trade law, with almost exclusive emphasis on trade in agricultural products, for the past 35 years here in Washington. I have done so both in private practice and in government service. I began my practice in 1981 at the Washington, D.C. law firm of Steptoe & Johnson. From 1989 to 1997, I served as Deputy Assistant General Counsel for International Trade at the U.S. Department of Agriculture (USDA), and was USDA's legal advisor during the GATT Uruguay Round negotiations that concluded in the formation of the World Trade Organization. I also supervised USDA's legal work for, and participated in, the NAFTA negotiations in the early 1990's. In 1997–98, I served as special trade counsel to the Senate Committee on Agriculture, Nutrition and Forestry and its Chairman, Senator Dick Lugar of Indiana. For 12 years, I was a partner in DTB Associates, a specialty law and consulting firm concentrating on agricultural trade. I currently am the principal in my own law and consulting business, BroschTrade, LLC and advise a number of agricultural and horticultural clients on matters of international trade and agricultural law.

NCC is the national association based in Washington, D.C. that represents the broiler chicken production industry of the United States. NCC member companies include chicken producer/processors, poultry distributors, and allied industry firms that account for approximately 95 percent of the chickens produced in the United States.

NTF, also headquartered in Washington, D.C. represents nearly 100 percent of all turkey processors, growers, breeders, hatchery owners and allied companies. It is the only national trade association representing the turkey industry exclusively

USAPEEC is the national association based in Stone Mountain, Georgia that represents the export interests of the U.S. chicken, turkey, eggs and duck industries. USAPEEC has more than 200 members companies—poultry producers, processors, export trading companies, cold storage operators, freight forwarders and other associated businesses—who account for approximately 95% of our country's very significant poultry and egg export trade. The United States exports poultry products to more than 100 foreign countries.

When the term "poultry" is used in these comments, it refers to all of these products.

The U.S. poultry industry has perennially been among America's most important and successful production and export sectors. In 2015, the U.S. industry produced almost nine billion broiler chickens, weighing 53 billion pounds, live-weight; and more than 40 billion pounds of chicken product were marketed. In addition, U.S. poultry production includes nearly 5.76 billion pounds of turkey, approximately 100 billion eggs, and nearly 220 Million pounds of duck. *The poultry industry employs more than 300,000 U.S. workers directly, and more than 1.4 million jobs in the U.S. economy are related to poultry.*

Poultry is vital to our farm economy. Annually, U.S. poultry consumes more than 49 million MT of the U.S. corn crop, and more than 26 million MT of U.S. soybean production. In 2014, U.S. broiler chicken production, wholesale value, was an estimated $90 billion; table eggs, $10.4 billion; turkey $6.7 billion; and duck, $158 million. The United States has one of the most efficient poultry industries in the world. The U.S. is the largest producer of poultry meat with about 20% of the world's production (China is second with approximately 17%).

The United States is also one of the two leading poultry exporting nations. The United States and Brazil each account for about ⅓ of the world's broiler exports. Poultry exports are among the most important of all U.S. agricultural exports. In the most recent year for which full data is available, the U.S. exported approximately 3.7 million metric tons of chicken products, with a value of nearly $4.6 billion, to more than 100 counties; and exports of turkey valued at almost $500 million. While the situation in different markets varies from year to year, over the past decade two of our five most important poultry export markets have been Mexico and Canada.

In a recent letter to the current Administration, the North American Agriculture and Trade Coalition referred to the North American Free Trade Agreement ("NAFTA") as a "bonanza for American Agriculture." NCC, NTF and USAPEEC agree with that assessment. NAFTA has been particularly important for U.S. poultry exports. NAFTA, of course, began as an initiative during the Administration of President Ronald Reagan when talks with Canada were first launched in 1984. The U.S.-Canada Free Trade Agreement was signed at the end of President Reagan's second term in 1988. Talks with Mexico to expand that agreement to the entire North American continent began during the term of his successor, President George H.W. Bush, and were successfully concluded by the end of his term in 1992. The policy of pursuing free trade began under President Reagan has been continually pursued during the ensuing four Administrations.

Initially, we must emphasize that with respect to poultry trade, there is no trade deficit. The United States is the most efficient producer of poultry products in the world. Our comparative advantage in producing and marketing these products derives from both our access to America's abundant production of high quality feed grain and soybean products which are used to feed our chicken and turkey flocks; and from America's technological leadership in poultry genetics and breeding, feed compounding, and animal health practices. Because of our significant comparative advantage in this product, the United States exports poultry to more than 100 countries, and imports very little poultry products.

Second, free trade agreements have been the mechanisms that have helped to sustain U.S. world leadership in poultry exports. Of the 120 countries to which we export our products, 20 are nations who are free trade partners with the United States. Those 20 countries now represent more than ½ of all the sales value of U.S. exports of poultry products. As recently as 2007, we had export sales to these 20 countries of approximately $1 billion—about 28% of our total exports sales, which was then nearly $3.6 billion. By 2016, sales to the 20 free trade partner countries has increased to nearly $2 billion, even though our total exports sales had increased more modestly.

When NAFTA first came into force, the United States had only limited exports to Mexico despite that country's immediate proximity on our southern border. Although there were initial concerns on the part of the Mexican industry regarding free trade with the U.S., we were able to bridge that gap by beginning to open trade through an initial 78,000 MT tariff-rate quota for chicken products; and to gain duty-free access to the Mexican market for turkey. Exports to Mexico have grown ever since, and it is today by far our largest market for U.S. poultry products. [*See Figures 1* and *2.*] For the most recent year for which data is available, U.S. chicken exports to Mexico were 637,888 MT at a value of $515 million; egg exports $27 million; and turkey exports were 152,404 MT at a value of $348 million. Also, Mexico is currently the largest export market for U.S. fowl meat, with exports in the most recent year of 50,101 MT at a value of $57 million.

So, as one can see, *Mexico is the U.S. poultry industry's most important market with an export value of approximately $1 billion annually.* Our success in the Mexican market is a key component of the profitability of our industry, and means many thousands of U.S. jobs. The majority of turkey exports go into Mexico for further processing, creating jobs on both sides of the border.

The United States has never obtained totally free access to the Canadian market for poultry. Initially when the United States and Canada negotiated the U.S. Canada-Free Trade Agreement in the mid-1980's, Canada reserved its rights, as it had under the General Agreement on Tariffs and Trade (GATT), to limit imports of certain types of poultry products, including chicken leg quarters, to protect its domestic supply control program for those products. When NAFTA came into force, the U.S. industry believed that those limits would eventually be eliminated, but discovered subsequently that Canada would continue to impose its supply-control limitations. The U.S. industry has been disappointed that, while virtually all other product sectors enjoy totally free trade under NAFTA, poultry remains the exception. Nonetheless, NAFTA has also been valuable for the U.S. industry and has helped to grow exports to Canada. While certain poultry product lines, including turkey, broilers, eggs and egg products are restricted to set import quotas (Canada currently limits certain tariff lines of our exports to 7.5% of their domestic market plus whatever can be done via their re-export program), other types of poultry products—*e.g.,* fowl meat and breeding stock—can access the Canadian market duty free. Canada is currently the U.S.'s second largest market for poultry exports. In the most recent year, U.S. chicken exports to Canada were 162,777 MT at a value of $436 million; egg exports were $46 million; and turkey exports were 5,439 MT at a value of $22 million. Canada is currently the second largest export market for U.S. fowl meat with exports in the most recent year of were 12,954 MT at a value of $42 million.

The benefits of NAFTA to the U.S. poultry industry stand in stark contrast to our experiences in other countries where comparable agreements were never achieved. U.S. exports to those other markets have often been much less successful in the longer run. For example, in the 1990's and early 2000's Russia was by far the U.S.'s largest export market for U.S. poultry. However, over the past decade, the Russian market has virtually disappeared. At the highest point in 2001, the U.S. exported 1,119,182 MT to Russia, which represented 36% of total exports. In recent years, however, the market has disappeared as the current Russian Administration began to subsidize its domestic industry, providing government money for a limited number of insiders who could profit, and by cutting off imports that might present any competition. By 2014, U.S. exports of chicken to Russia were about ⅒ of what they had been in 2001. Since 2015, U.S. exports have dropped to zero.

While our Russian export market was beginning to decline in the 2000's, our market in China was increasing. Our poultry exports to China had been just 2,575 MT in 1990; by 2008 we were shipping China 797,161 MT, at a value of $679 million. Then, in response to U.S. safeguard duties on certain tires made in China to afford protection for the U.S. tire industry, China imposed high antidumping duties on U.S. poultry exports, and the U.S. industry immediately lost its most important market, which at that time was approaching $700 million annually.

The U.S. has also been unsuccessful in gaining access to other large and potentially valuable markets where there are no free trade arrangements. For example, we have no real access to either the Indonesian or Indian markets. Indonesia currently has a population of 260 million, and has the world's fourth largest middle class with 17.3 million households as of 2014. Middle class purchasing power in Indonesia is rising strongly and is projected to reach U.S.$11,300 per household by the end of the decade, up from U.S.$6,300 per household in 2014. India currently has a population of 1.2 billion, and is on track to pass China and become the globe's most populous country. India currently has nearly 80 million middle class households and both middle class numbers and purchasing power are on the increase. These are markets with overwhelming potential for a quality, low-cost sources of protein like U.S. chicken, eggs and turkey. But there are no free trade agreements, and virtually no access.

The success of U.S. exports of poultry in the markets to which we have fair access has been based on the fundamental principle of comparative advantage. But it has become clear that U.S. poultry cannot succeed even with its significant comparative economic advantages in many markets because we do not have the free trade agreements. NAFTA has allowed us to be highly successful in Mexico; and has provided predictable, even if more limited, market access to the Canadian market. Free trade agreements, while not always perfect, are highly preferable because they result more often in cooperative and predictable trade relations

Modernization of the NAFTA

As mentioned above, after the United States and Canada entered the NAFTA partnership in 1994, it became apparent that one area of misunderstanding was the degree to which trade in dairy and poultry products would be liberalized. While the United States Government, and the U.S. dairy and poultry industries, believed that there would be free trade under NAFTA in virtually all products, Canada considered that NAFTA allowed Canada to restrict imports in these products to accommodate its domestic supply control regimes. As a result, the U.S. poultry industry has enjoyed much more limited access to the Canadian market over the past 2 decades than most all other sectors. Nonetheless, also as outlined above, U.S. exports to Canada have been significant in some poultry products, and the U.S. poultry industry sees the NAFTA modernization effort as a potential avenue for further improvement.

In our view, the recent preliminary negotiations between the United States and Canada in the context of the proposed Trans-Pacific Partnership (TPP) agreement has provided indications where those improvements could occur. Despite the decision of the current Administration to withdraw from the TPP negotiations, the poultry industry considers the progress on poultry trade that had been envisioned in those preliminary TPP negotiations as potentially important components in modernizing the NAFTA in several ways.

First, Canada and the United States had reached preliminary agreement on increasing the quotas for U.S. chicken into Canada. This would represent modest improvements in trade liberalization, but would not represent threats to current domestic policies or create market disruptions. The U.S. poultry industry sees these increases as helpful and politically possible on both sides of the border. The U.S. industry also believes that there should be similar increases in the market access for U.S. turkey and turkey products. Access to the Canadian market for U.S. turkey products is currently very small and increased market liberalization is warranted.

Second, significant progress was made in the course of TPP negotiations to improve and update the Sanitary and Phytosanitary (SPS) rules applicable to free trade agreements. This important work should not be lost. The poultry industry joins its fellow agricultural industries in urging the United States, Canada and Mexico to consider adopting improved SPS provision as a replacement to the SPS chapter currently in the NAFTA text.

Respectfully submitted,

KEVIN J. BROSCH,

On behalf of USA Poultry & Egg Export Council, National Chicken Council, and National Turkey Federation.

Figure 1—U.S. Broiler Exports to Mexico

(In Million U.S. Dollars)

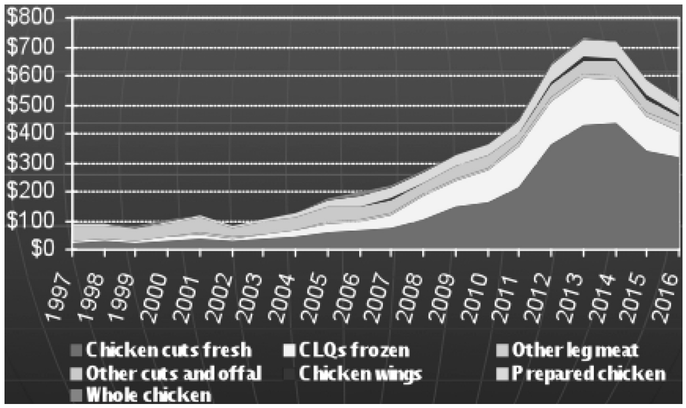
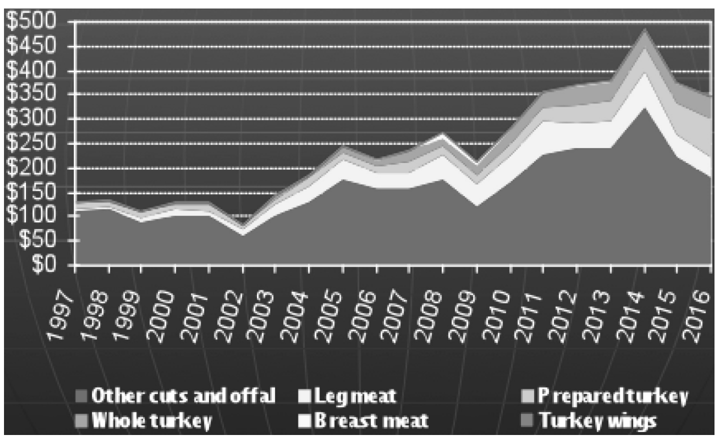


Figure 2—U.S. Turkey Exports to Mexico

(In Million U.S. Dollars)



The CHAIRMAN. The gentleman yields back.

Mr. Gaibler, 5 minutes.

STATEMENT OF FLOYD D. GAIBLER, DIRECTOR, TRADE POLICY AND BIOTECHNOLOGY, U.S. GRAINS COUNCIL, WASHINGTON, D.C.

Mr. GAIBLER. Good morning, Chairman Conaway, Ranking Minority Member Peterson, Committee Members. On behalf of the U.S. Grains Council, I appreciate the opportunity to appear before this panel to provide our perspectives on the economic impacts and importance of the modernization of NAFTA.

The U.S. grain sector has significantly benefitted from localized trade in the past 30 years, and the Council believes in expanding access to export markets will continue to drive growth in American agriculture for years to come. In no case has that been more apparent than in our trade relationship with Canada and Mexico.

NAFTA has provided a trade policy basis for the most efficient and effective interregional grain and livestock value chain in the world. Rising demand for feed and food has created new opportunities for grain exports in our hemisphere, which are tariff free, thanks to NAFTA. Due to the proximity and natural logistical advantages, Mexican feed millers and livestock producers have expanded and gained significant efficiencies by utilizing a just-in-time inventory management system based on our reliable supply of U.S. grain.

Because our economies have grown and become so intertwined, this trade agreement is in particular critical to our members' business and during the last several months, it has highlighted how important it is to maintain our relationships if we are going to continue to grow. Since March, our CEO and Chairman has traveled twice to Mexico to meet with their customer and government officials. We also invited those same customers to the U.S. in May to meet with U.S. industry and Members of U.S. Congress, including this Committee. And in fact, in June, our Board of Directors went to Mexico in June as well. I can tell you from firsthand knowledge, in those meetings both here and there, the concerns and resulting impacts are real and tangible. They are obviously extremely concerned about what is going on, and confirmed that they are looking for alternative sources of supply.

While we have worked to reassure and advocate for our customers, we have strong but unconfirmed evidence that Mexico is slated to purchase corn from South America beginning in August and September, and given the political uncertainty, our customers have told us that rather than continue taking future positions for grain purchases, they could resort to more volatile and risky spot markets. This may sound minor, but as a sea change for our industry happening now and that will change how the Mexican industry invests in infrastructure and impact our demand for years to come, as well as through our value chain. This angst is translated into actual impacts with U.S. corn exports down seven percent since the 1st of the year.

Keeping in mind the substantial gains we have experienced from NAFTA and the close relationships we have built with our customers, both Canada and Mexico, again, I will repeat it is imperative that all parties make every effort to do no harm to our existing markets as modernization talks begin. Given these overriding concerns, though, the Council did recently contract to conduct some economic analyses to measure the impacts of both improving NAFTA, and if negotiations fail.

In short, improvements that could help facilitate trade and remove non-trade barriers will indeed help yield increased U.S. corn production and exports. Conversely, though, we can see that if we resort to pre-NAFTA most favored nation tariffs, we could see impacts in terms of lower commodity prices, reduced profit margins, lower U.S. corn and grain production, higher farm program payments, and lower U.S. GDP.

In addition, we hope that whatever negotiations are conducted here that agriculture doesn't end up being caught up as a retaliation target. Moving forward, we believe NAFTA modernization should build on the provisions and objectives of the Trans-Pacific Partnership. TPP included several important provisions that would be well-suited for this agreement. Obviously, the industry has changed since the early 1990s, and we believe NAFTA can evolve with it, and so we support several of the provisions I have outlined in my testimony.

Finally, it is critical for this process, and again, the discussion around NAFTA has caused significant uncertainty in the market. We need to get that resolved.

In closing, I would emphasize that U.S. producers pride themselves on being the supplier of choice. To continue that over time, we must have strong policy across the globe, particularly with our closest neighbors and customers. Our relationships with Canada and Mexico are telling to the rest of the world. If we cannot satisfy our top markets, what does that say?

Thank you again for the opportunity, and I appreciate the opportunity to be here.

[The prepared statement of Mr. Gaibler follows:]

PREPARED STATEMENT OF FLOYD D. GAIBLER, DIRECTOR, TRADE POLICY AND BIOTECHNOLOGY, U.S. GRAINS COUNCIL, WASHINGTON, D.C.

Statement on the Economic Impacts Regarding the Modernization of the North American Free Trade Agreement with Canada and Mexico

Chairman Conaway, Ranking Minority Member Peterson, Members of the House Agriculture Committee, my name is Floyd Gaibler. I am the Director of Trade Policy & Biotechnology for the U.S. Grains Council. The Council is a private, nonprofit organization representing U.S. producers of corn, sorghum, barley and co-products such as ethanol, distiller's dried grains with solubles (DDGS), and corn gluten feed and meal, and as well as associated agribusinesses.

Founded in 1960, the Council now has ten international offices, representatives in an additional 15 locations and a network of consultants and partnerships that support programs in more than 50 countries. Our members, leadership and staff fundamentally believe exports are vital to global economic development and to U.S. agriculture's profitability.

On behalf of the Council, I appreciate the opportunity to appear before the Committee and provide our perspective on the economic implications with respect to the modernization of the North American Free Trade Agreement (NAFTA).

Importance of NAFTA to U.S. Grains and Ethanol Sectors

NAFTA has had a profound effect on many aspects of North American agriculture. **With a few exceptions, intraregional agricultural trade is now completely free of tariff and quota restrictions, and the agricultural sectors of NAFTA's member countries—Canada, Mexico and the United States—have become far more integrated, as is evidenced by rising trade in a wider range of agricultural products and substantial levels of cross-border investment.**

The U.S. feed grains industry has benefitted substantially from NAFTA. Rising demand for feed and food has created new opportunities for intraregional trade in grains and oilseeds. Poultry and hog producers in Mexico, for instance, rely heavily on imported feedstuffs to meet their country's growing demand for meat. Due to the proximity and natural logistics advantages, Mexican feed millers and livestock producers have expanded and gained significant efficiencies by utilizing a "just-in-time" inventory management system based on U.S. reliability of supply.

Mexico is the top market for U.S. corn while Canada ranks as the ninth largest customer. Mexico and Canada ranked as the top two markets for U.S. barley in marketing year 2015/2016. Mexico is the second largest market for U.S. sorghum. Mexico and Canada have become the second and seventh largest markets, respectively, for distiller's dried grains with solubles (DDGS). In the recent marketing year, Canada remained the top market for U.S. ethanol while Mexico was the eighth largest customer.

The United States exported more than 29.3 million metric tons of feed grains in all forms to Canada and Mexico in marketing year 2015/2016, valued at $9.9 billion. The feed grain in all forms variable accounts for feed grains exported by the United States in either unprocessed or value-added forms, which offers a holistic look at demand from global customers being met by U.S. farmers.

Preserve and Protect Market Access

In our communications with the Executive Branch, we exhorted that all efforts should be expended to maintaining all existing commitments in a "do no harm" manner and expanding upon current market access and other provisions that enhance U.S. market share in both the Canadian and Mexican markets, and that promote economic integration and support farm incomes. **In addition, it is imperative that other negotiating objectives or independent trade policy actions that could result in retaliation should be avoided at all costs.** Agriculture has traditionally been the first target in response to disruptions in trading relationships. The 2009 trucking dispute with Mexico and the threat of retaliatory duties on U.S. agricultural products as a result of U.S. Country-of-Origin Labeling provisions are prime examples of our vulnerability.

Moreover, the recent furor of the proposed Executive Order to withdraw from NAFTA has prompted the Mexican Government to look to Brazil and Argentina for alternatives sources of corn and other grain products. We have strong but unconfirmed evidence that Mexico is slated to purchase between seven and eight cargoes of corn from South America beginning in August and September. Given the political uncertainty, our customers have told us that rather than continue to future positions for grain purchase, a strategy key to mitigating price risk to purchase corn and co-products, they will resort to the more volatile and risky spot market. ***Those decisions have resulted in a 4% decline in corn exports (seven percent in terms of value) since the beginning of the year when compared to 2016. We expect further erosion if the shipments from South America materialize as we anticipate.***

Since March, our President and CEO Tom Sleight and Chairman Chip Councell have traveled twice to Mexico to meet with our customers and government officials. The Council also invited our top feed and livestock customers to the United States in May to meet with U.S. industry as well as Members of the U.S. Congress and the U.S. Department of Agriculture. In addition, our board of directors traveled to Mexico in June to meet with our customers and government officials. We can tell you from firsthand knowledge in participating in the meetings both in Mexico and here at home, that the concerns and resultant impacts are real and tangible.

Economic Implications of NAFTA Negotiations

To more concretely understand both the risks of ending NAFTA, and the potential improvements from a successful modernization of NAFTA, the Council, along with the U.S. Soybean Export Council and U.S. Wheat Associates commissioned an econometric analysis led by World Perspectives, Inc. and the assistance of Perdue University.

With zero tariffs for U.S. feed grains and co-products under the current NAFTA agreement increased market access depends on facilitating trade and the reduction of non-tariff barriers. There is no good quantitative measure of the levels of non-tariff protections or trade costs that can be reduced via negotiating structures, but it is feasible to examine the impact of expanded market access at the margin. For example, it is possible to experiment with the impact of increasing intra-NAFTA market access by a 1% *ad valorem* tariff equivalent. In other words, take the negative economic impact of Canada and Mexico both imposing a 1% tariff on imports of U.S. feed grains and then assume the positive equivalent of that economic impact from improving the technical terms of trade (rules of origin, customs clearance, SPS, *etc.*).

The results demonstrate that the U.S. feed grain industry has the potential to realize gains from improved terms in a modernization of NAFTA, with Mexico a more significant contributor to those benefits than Canada. U.S. corn production increases in value by $80 million, but less than ¼ of that goes into direct export to Mexico and Canada. The majority of the increase in U.S. corn exports to Canada and Mexico is in the form of value-added products from livestock and other foods. So the increase in U.S. feed grain production it utilized under an improved NAFTA demonstrated there is the potential for gains from further reduced barriers to trade, and particularly for expanding U.S. feed grain and grain derived product exports to Mexico.

Conversely, if the negotiations fail and we quit NAFTA, it is unclear what specific future polices would be chosen. But one assumption is that all three North American countries would end all North American preferences. This potentially means that each country reverts to applying their respective most favored nation (MFN) duties. The MFN rates are the maximum tariffs that can be imposed based on World Trade Organization (WTO) obligations and they vary from country to country. Mexico's MFN duty rates range from 20–40%; *versus* 1–10% for the U.S. and Canada.

The results of the analysis finds that the negative price impact on U.S. corn (−$0.02/bushel) is relatively small since exports to Mexico are a very small share (0.0012% of total world utilization. U.S. corn production falls by an average of 150 million bushels annually, which equates to around $800 million in value or about $6/acre. Total U.S. grain production falls by $1.2 billion.

While the changes in U.S. per profit margins appear modest, (2–3 percent), this is because the model assumes a partial offset from the shock in the near term by an annual average of $1.2 billion in farm program payments. More pronounced is the large macroeconomic impact with U.S. GDP falling by $13 billion.

Obviously, commodities are fungible and markets adjust over time. In addition, impacts extend to other farm product with interlocking relationships, such as livestock products. A drop in overall farm income can have spillover effects that could lead to changes in farm structure, the idling of land or its conversion to alternative uses—further lowering corn profitability.

Negotiation Objectives and Priorities

In our formal comments to the Administration, we advocated that this negotiation should build on and strengthen the objectives under the **Trans Pacific Partnership (TPP)** that was developed to represent a 21st century high level agreement that serves as a template for all future trade negotiating architectures. At the same time, there were positive elements under the **Trans-Atlantic Trade and Investment Partnership (T–TIP) as well as recent U.S. free trade agreements (*e.g.*, Korea-U.S. FTA)** that should be considered when developing U.S. negotiating objectives. The Council is a member of the U.S. Food and Ag Dialogue for Trade and our supportive of their views with respect to negotiating objectives.

National Treatment and Market Access for Goods

The Council urged the Administration for the **continued elimination of all tariff preferences and/or quotas for corn, corn-co-products (corn gluten feed, corn gluten meal, grain sorghum, barley and malt; ethanol and dried distiller grains).**

TPP also provided important provisions that addressed major policy issues and merit inclusion in a modernized NAFTA agreement including: **Export Subsidies; Export Guarantees or Insurance Programs; Agricultural Export State Trading Enterprises; Export Restrictions—Food Security; and Agricultural Safeguards.**

Sanitary and Phytosanitary (SPS) Measures

The NAFTA agreement included provisions to establish a framework of rules and disciplines to guide the development, adoption and enforcement of sanitary and phytosanitary measures. While perhaps suitable at that time, subsequent free trade agreements have made significant improvements over the foundational SPS language of NAFTA.

Protectionist sanitary and phytosanitary measures that lack a scientific basis and are not based on a risk assessment continue to unjustifiably restrict access for U.S. food and agricultural exports in numerous foreign markets. While the WTO Sanitary and Phytosanitary Agreement established important science-based principles to challenge such restrictions, enhanced provisions are needed to ensure that SPS issues are resolved in a timely manner and do not result in significant unnecessary delays to our sector's perishable exports.

TPP provided a strong **Sanitary and PhytoSanitary (SPS) Chapter** that builds on the WTO's 1994 SPS agreement rather than simply reaffirming commitments to the WTO SPS agreement. We would support improving these provisions, in particular the following areas: Equivalence; Science and Risk Analysis; Import Checks; Transparency: Cooperative Technical Consultations; and when the CTC mechanism does not resolve a matter, parties may use provision's dispute settlement mechanism to enforce most of the SPS commitments. In particular the creation of a rapid response mechanism, including tighter standards and deadlines for adverse import checks will be critical in addressing future SPS issues.

Biotechnology

While products derived from agricultural biotechnology are grown in 28 countries and are traded widely, there remains a lack of synchronicity between countries, particularly countries that approve these products and countries who import them. This unpredictable regulatory and trade environment has resulted in trade disruptions that have caused economic impacts and delayed opportunities for farmers to have access to new technologies.

The North American Free Trade Agreement (NAFTA) came into force 2 years prior to the commercialization of the first biotech crops in 1996. Since that time, biotech acreage across multiple crops has grown rapidly because of the increased productivity and, environmental benefits associated with this technology.

Since the NAFTA entered into force, the global regulatory framework for biotech crops has expanded, sometimes resulting in redundant measures, leading to an unpredictable, and time-consuming global regulatory environment, which in turn has imposed high barriers to efficient trade. Corn and soybean products often are evaluated for their safety by 20 or more governments, all generally following the same standards for assessment and evaluating the same data. The timing of approval of these products affects the entire crop value chain. If a product is commercialized in one plant crop in the absence of globally synchronized regulatory approvals, trade disruption may occur in multiple crops and processed products used for food, feed and further processing, even though the product has completed a risk assessment and been approved in one or more countries. Similarly, asynchronous approvals have contributed to the delayed introduction of new technologies for use by agricultural producers, resulting in lost opportunities for farmers and product developers, as well as other participants in the value-chain, to capitalize on the introduction of new biotech traits.

Under a modernized NAFTA, the Council advocated efforts that the U.S. Government: **(1) enter a mutual recognition agreement with Canada and Mexico on the safety determination of biotech crops intended for food, feed and for further processing, and (2) 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 a third country (ies) but not yet approved by a NAFTA member.** The Council is also a member of the U.S. Biotech Crops Alliance and supports their position on this issue.

Coherent National Renewable Fuel Standards

Since NAFTA went into effect in 1994, the U.S. ethanol industry has grown dramatically, expanding production more than eleven-fold from a modest 1.2 billion gallons in 1994. Today, the U.S. is now the most reliable and affordable source for clean-burning, high-octane ethanol in the world. Our industry supports more than 340,000 jobs and promotes the growth of rural America and the farm economy through the use of more than 5 billion bushels of U.S. corn to make ethanol and associated coproducts. In 2016, our industry produced more than 15 billion gallons of ethanol and 47 million metric tons of distiller's grains, contributing more than $30 billion to our nation's economy. In addition, we exported over 1.2 billion gallons of ethanol at a value of more than $2 billion and 11.3 million metric tons of DDGS.

Today, Canada and Mexico are two of the U.S. ethanol industry's strongest trading partners, with Canada emerging as the destination for more than 25 percent of all U.S. ethanol exports, and Mexico recently emerging as the top destination for U.S. DDGS exports. Our industry's successful entry and trade into the Canadian and Mexican markets are a direct result of NAFTA's elimination of tariffs on goods such as ethanol and distillers grains.

NAFTA modernization provides an excellent opportunity to **recognize and support modernized energy policy,** we recommended to the Administration that they **maintain the current policy of zero tariffs** on ethanol amongst the three countries. We would also encouraged them to work to **prevent the introduction of any potential technical barriers to trade.** Currently, while the transportation fuel markets and ethanol blend dynamics differ in Canada, Mexico, and even within the U.S., there appear to be few, if any, true barriers to trade. We would not want any such barriers to be introduced in the future, as we would like to keep these fuel markets as open and as workable as possible for our U.S. producers.

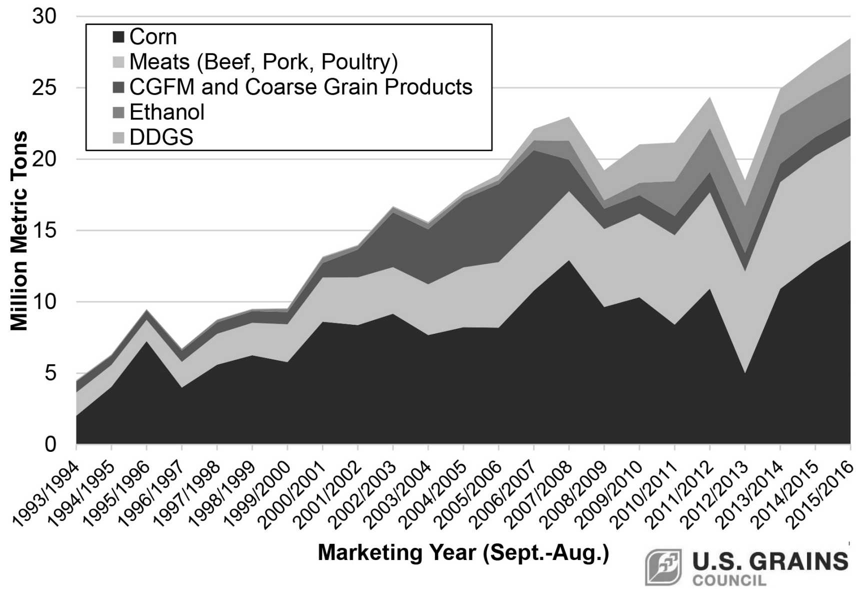
Conclusion

In conclusion, the U.S. grains sector has significantly benefited from more liberalized trade in the past 30 years, and the Council believes expanding access to export markets will continue to drive the success of American agriculture for years to come.

In no case has this been more apparent than in our trade relationship with Canada and Mexico. **NAFTA has provided the trade underpinnings that has resulted in the most efficient and effective interregional grain and livestock value chain in the world.**

But to take advantage of this and other emerging export opportunities—and to maintain our competitiveness in the global marketplace—trade liberalization must continue at all levels, bilateral, regional and multilateral. **Trade agreements hold the key to opening markets and resolving tariff and non-tariff barriers to allow the movement of coarse grains, co-products in all forms and other agricultural exports to where they are demanded. With effective policies in place and followed, trade works—and the world wins.**

U.S. Exports of Corn In All Forms to Mexico and Canada



Source: USDA FAS GATS/USGC.

The CHAIRMAN. Thank you, sir.

Mr. Hammer, 5 minutes.

STATEMENT OF THOMAS A. HAMMER, PRESIDENT, NATIONAL OILSEED PROCESSORS ASSOCIATION, WASHINGTON, D.C.

Mr. HAMMER. All right. 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, and the opportunities to achieve the best deal possible for American agriculture.

My name is Tom Hammer. I am President of the National Oilseed Processors Association. NOPA is a national trade association representing 13 members engaged in the production of food, feed, and renewable fuels from oilseeds. It is noteworthy that our members process over 95 percent of the U.S. soybean crush annually.

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

Agriculture today represents NAFTA's biggest success story. We stand ready, however, to work with the Members of Congress and the Administration in identifying ways to renegotiate NAFTA to create new opportunities for agriculture.

NAFTA benefits the U.S. soy sector in two ways. First, by increased exports of soybeans, soy meal, and soy oil, but as said earlier, also increased exports of meat and poultry products that use soy meal as a primary feed ingredient. NAFTA has created significant market opportunities for U.S. exports of soybeans and soy products. Mexico is our number one export market for soy meal, our number one market for soy oil. It is our number two market for soybeans, behind China. Canada ranks as our number three market for U.S. exports of soy meal, and our number nine or ten market for soybean oil.

However, unlike the tremendous success stories for U.S. soy, we are aware that there are some major unresolved market access issues for exports of dairy, poultry, and eggs to Canada, and I would like to comment on several of the key negotiating objectives that are important to NOPA.

We are still in our initial review process and may have more to say on some of the negotiating objectives later, such as the retention of investor state dispute settlement and dispute settlement chapters. Any renegotiating of the NAFTA must preserve current market access levels for U.S. agriculture commodities and products, including all tariff and duty preferences, and in simple terms, as you have heard already, do no harm to our current excellent export positions in Mexico and Canada. Resolving the longstanding Canadian policies designed to negatively impact exports of U.S. dairy, poultry, and eggs would be another top objective for NOPA.

Also, implementing an expanded sanitary phytosanitary SPS plus and rapid response mechanism consistent with and improving on the TPP text to ensure that science-based SPS measures are developed and implemented in a transparent, predictable, and non-discriminatory manner is another objective for NOPA.

Moreover, adding a new NAFTA chapter on biotechnology, which again, was included in the final TPP text, is a major objective for my organization. Under a modernized NAFTA, NOPA requests that the U.S. Government enter into a mutual recognition agreement with Canada and Mexico on the safety determination of biotech crops intended for food, feed, and further processing, and also to develop a consistent approach to managing low level presence of products that have undergone a complete safety assessment and are approved for use in other countries, but not necessarily in all NAFTA member countries.

In summary, NOPA welcomes this opportunity to provide the Committee with testimony to identify ways to renegotiate the NAFTA while preserving the core benefits of this important agreement. NAFTA has led to tremendous expansion of the U.S. oilseed processing sector 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. As I said, do no harm must be the guiding overarching objective of this renegotiation. Moreover, a renegotiation of NAFTA should first and foremost preserve the current market access, including the tariff and duty preferences, but additionally, we ask our negotiators to fiercely protect the gains achieved in NAFTA to date to ensure that these gains are not eroded and tradeoffs for gains to be achieved in other non-agricultural sectors of the American economy.

Thank you again for this opportunity to testify, and NOPA, as I said, 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. Thank you.

[The prepared statement of Mr. Hammer follows:]

PREPARED STATEMENT OF THOMAS A. HAMMER, PRESIDENT, NATIONAL OILSEED PROCESSORS ASSOCIATION, WASHINGTON, D.C.

Good morning, Chairman Conaway, Ranking Member Peterson, and Members of the Committee. Thank you for calling this important hearing today to discuss re-negotiating 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*

Products	Mexico		Canada	
	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*

Products	Mexico		Canada	
	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 Billion 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*

Products	Mexico		Canada	
	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*

Products	Mexico		Canada	
	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 Billion 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 2+ 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.

The CHAIRMAN. Thank you, sir.

Mr. Brown, 5 minutes.

STATEMENT OF REGINALD L. BROWN, EXECUTIVE VICE PRESIDENT, FLORIDA TOMATO EXCHANGE, MAITLAND, FL; ON BEHALF OF FLORIDA FRUIT AND VEGETABLE ASSOCIATION

Mr. BROWN. Thank you, sir, and I appreciate the opportunity to testify before the Committee this morning. I am Reggie Brown. I work for the Florida tomato industry, and I am here also on behalf of the Florida Fruit and Vegetable Association, producers of fruits and vegetables in Florida.

Florida and the U.S. specialty crops producers are high-quality, competitive producers, and we can, in fact, compete on a free and fair trade enterprise. We are not opposed to fair trade. But we are having a problem in the specialty crop industry in this country, and that problem is not limited to Florida. It is happening in states like Georgia, with crops like blueberries and broccoli. It is happening in Texas with crops like watermelons. It is happening in California with the desert grape industry. It is happening to the asparagus industry in California. All the specialty crop producers in this country are having a problem with the current NAFTA trade relationship.

As you have heard this morning, there have been a number of folks testify about the positive side of NAFTA. We have a $5.3 billion trade deficit with NAFTA. That $5.3 billion is specialty crops, fruits and vegetables, coming into this country. While our friends in the grain and the meat industry have fared well with NAFTA, the fresh fruit and vegetable industry has been taking it on the cuff from the standpoint of unfair competition coming into the country.

For instance, when we started down the path of NAFTA, the tomato industry in the United States produced two out of every three tomatoes in this country. We now produce approximately one of every three tomatoes in this country. The tomato industry has shrunk by some 40 percent in volume. This is nationally, not just Florida's problem. And we have had 25 percent reduction in the acreage of the tomato industry in this country, fresh tomatoes. We are the canary in the coal mine. We are an example of what is going to happen to many of the specialty crops that compete with Mexico, and part of that problem is being driven by the fact that the Mexican Government has been subsidizing and providing incentives for expansion of that industry in Mexico. They also have been trading in product prices into this country that would constitute dumping in competition with producers in the United States. And they also have a tremendous advantage in wage rate. The wage rate in Mexico is approximately 1⁄10 what the American producer is paying for wages in this country.

The NAFTA renegotiation objectives of the Administration's that were shared back on the 17th of this month on improving the trade balance and reducing trade deficit within the NAFTA countries is a very positive one for us. We are very concerned about the provisions for a perishable and seasonable application of dumping and countervailing duty cases that would allow some of these commodities that are being targeted to be competed against, to defend themselves against unfair trade practices. We would like to see the trade laws in the United States, as does the Administration, for anti-dumping and countervailing duty and safeguards being strongly enforced, because we are basically an industry under assault. We do appreciate the support of the Members of this Committee, as well as the Florida delegation in their support letters to Secretary Ross concerning these issues, but the reality is the expansion of the specialty crop industry in Mexico, for instance, in just the last 16 years, strawberry production has gone from 16 million pounds to 260 million pounds of strawberries. The bell pepper industry, when NAFTA was signed, two out of every three bell peppers was produced in the United States. Today, one to one, and it is progressively getting worse. We have family farmers being forced out of business by unfair trade practices coming from our competitors to the south with a $5.3 billion deficit in trade of agricultural products with this country, and those individuals, once they are gone, they will never come back. We are basically witnessing the disassembling of the fruit and vegetable industry that competes in the environment of the season that Mexico produces product from this country. And when those family farms are sold and when those businesses are broken up, there will be no capacity to grow those fruits and vegetables within the borders of the United States of America.

I thank you for the opportunity to be here this morning.

[The prepared statement of Mr. Brown follows:]

PREPARED STATEMENT OF REGINALD L. BROWN, EXECUTIVE VICE PRESIDENT, FLORIDA TOMATO EXCHANGE, MAITLAND, FL; ON BEHALF OF FLORIDA FRUIT AND VEGETABLE ASSOCIATION

Thank you for the opportunity to testify before the House Committee on Agriculture concerning *Renegotiating NAFTA: Opportunities for Agriculture.* I am Reggie Brown, Executive Vice President of the Florida Tomato Exchange, representing tomato growers in Florida, one of the major fresh tomato producing regions in the United States, as well as other tomato-growing areas of the country. The Florida Fruit and Vegetable Association has also asked that I speak to the concerns of Florida's other fruit and vegetable sectors, which are encountering issues similar to those confronting Florida's tomato sector. As a member of the U.S. Government's Agricultural Technical Advisory Committee for Fruits and Vegetables, I have been conveying many of these concerns to the U.S. Government since the North American Free Trade Agreement (NAFTA) first took effect.

Mr. Chairman, while a number of our nation's farmers and ranchers have benefitted from NAFTA, the same has not been true for Florida's fruit and vegetable sector. U.S. Secretary of Agriculture Sonny Perdue summed it up well in stating to this Committee in May that—

> *"Certainly I think our vegetables and our produce sectors of agriculture have maybe been the ones that have not benefited as much under NAFTA. Regarding NAFTA negotiations, it is my hope . . . [that] one area we can improve our position vis à vis* Mexico is in regards to vegetables." [1]

Florida and U.S. specialty crop producers grow the highest quality agricultural commodities in the world, and can successfully compete in a fair market environment. We are not opposed to free trade—however it must be fair trade. Unfortunately, the current trade environment under NAFTA has not fared as well for many U.S. fruit and vegetable producers, as we have heard concerns from many regions around the country including growers of Georgia blueberries and broccoli, Texas watermelon, California grapes and asparagus and other specialty crop producers impacted under NAFTA throughout the nation.

Even before NAFTA entered into force, the original negotiators forecasted that NAFTA could negatively affect Florida and other specialty crop regions. Florida and Mexico produce a number of the same specialty crops and share a similar growing season. Mexico's known unfair advantages made NAFTA a concern. True to forecast, most of the growth in Mexico's agricultural shipments to the United States since the turn of the millennium has been in the fresh fruit and vegetable sector. Mexico's growth in these sectors has resulted in a loss of agricultural cash receipts of between $1–$3 billion a year to Florida alone.

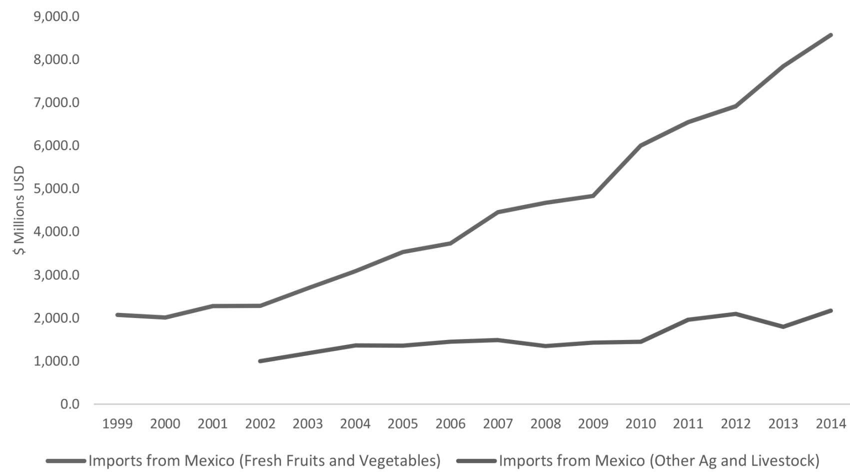
Tomatoes are a vivid example of Mexico's explosive growth in specialty crops. U.S. imports of tomatoes from Mexico increased from 1.2 billion pounds in 2000 to 3.2 billion pounds in 2016, a 166% increase. By comparison, U.S. tomato production shrank from 27 billion pounds in 2000 to 1.7 billion pounds in 2016, a nearly 40% decrease.[2] Despite U.S. trade remedy measures and a long-standing Suspension Agreement, Mexican tomatoes continue to surge into the U.S. market at unfairly low prices.

Other Florida specialty crops have encountered similar adverse trends under NAFTA. Since 2000, for example, U.S. imports of Mexican strawberries have almost tripled. Imports of Mexican bell peppers have grown by 163%.

Although the United States is one of the world's major agricultural producers, Mexico's extraordinary expansion in fruit and vegetable shipments to the United States is creating a growing trade deficit in U.S.-Mexico agricultural trade. As of 2016, that deficit exceeded $5.3 billion.

[1] May 17, 2017, testimony before the House Committee on Agriculture.
[2] Data from Florida Department of Agriculture and Consumer Services.

Agricultural Imports from Mexico—Fresh Fruits and Vegetables Growing Faster than other Agriculture and Livestock Products



With Florida's fruit and vegetable industry a growing casualty to this rising deficit, our industry is in dire need of government help. Florida's specialty crop sectors were therefore encouraged by the Administration's July 17, 2017, *Summary of Objectives for the NAFTA Renegotiation,* which expressed the Administration's intention to[:]

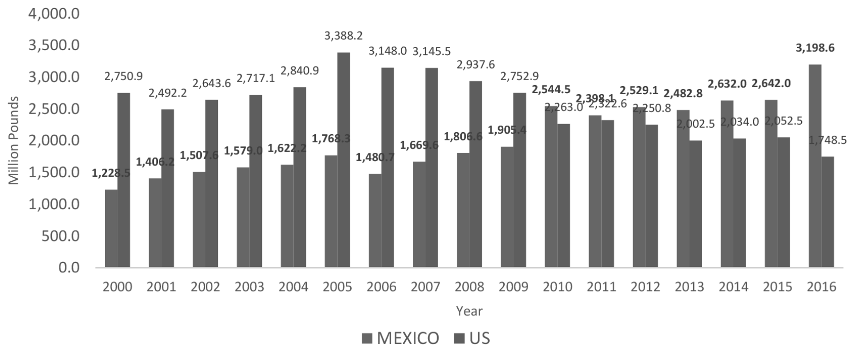
- *"improve the U.S. trade balance and reduce the trade deficit with the NAFTA countries;"*
- *"seek a separate domestic industry provision for perishable and seasonal products in AD/CVD proceedings;"*
- *"preserve the ability of the United States to enforce vigorously its trade laws, including the antidumping, countervailing duty, and safeguard laws;" and*
- *"require NAFTA countries to have laws governing acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health."*

Our industry is also grateful to the Florida Members of this Committee who joined with numerous other Colleagues in calling on the Secretary of Commerce to address Mexico's unfair trading practices, which are displacing Florida's production. Their letter to Commerce stated that[:]

> *"Florida produces the highest-quality agricultural commodities in the world and can successfully compete in a global market, if it's operating on a level playing field, [but] the current trade environment created under NAFTA is anything but fair, particularly when it comes to policies impacting Florida's specialty crop growers and producers." (*Letter attached for Record*).*

As the many Members signing that letter correctly stated, Mexico's specialty crops have only been able to achieve their extraordinary U.S. growth with the help of sales prices significantly below costs of production, unfair subsidies, and dramatically lower labor costs. The U.S. tomato sector again drives home the point. Despite years and years of U.S. trade remedy proceedings and a long-standing Suspension Agreement, tomato imports from Mexico are still bypassing the Suspension Agreement at unreasonably low prices and at volume levels that are stronger than ever.

Tomatoes—Domestic Production and Imports from Mexico (USDA)



Source: Florida Department of Agriculture and Consumer Service.

As Mexican volumes have soared, and prices fallen, U.S. fresh tomato growers have been unable to keep up with rising farm costs. Florida farmers have been forced to leave tomato fields unharvested. Numerous producers, especially smaller farms, have filed for bankruptcy. As confirmed by USDA figures, U.S. fresh tomato production is in serious decline, having lost almost 25% of total acreage since the inception of NAFTA.[3]

Compounding Mexico's unfair pricing practices is a web of unfair Mexican subsidy schemes for specialty crops. Those subsidies are aimed at increasing yields for "protected" specialty crops (greenhouses, shade-houses, and on tunnel farms), not only during the winter months (November–March), but throughout the year. In 2009 and 2010, Mexico spent $189.2 million on 2,500 ha of protected agriculture: 65% for greenhouses, 25% for shade-houses, 7% for macro-tunnels, and 3% for micro-tunnels. Those Mexican Gove[r]nment programs supported 859 ha of tomatoes (41%), 428 ha of cucumbers (20%), 347 ha of bell peppers (16%), 274 ha of berries (13%), and additional plantings of zucchini, grapes, brussels sprouts, habañero and green peppers, and ornamental plants, among other specialty products. Not surprisingly, Mexico's productivity improved markedly during this period, even as overall planted areas decreased.[4]

For FY 2017, Mexico has established at least nine programs and 43 "components" to support agriculture.[5] Its regulations specifically authorize greenhouse "incentives" of up to $48,000 per hectare.[6] Other reports have found that subsidies for new greenhouse installations are as high as $162,000 per agricultural project.[7] Those greenhouse funds can be used in Mexico for the purchase of materials, equipment, and infrastructure, and for the management, conservation, and processing of greenhouse products.[8] They can cover up to 50% of the cost of investments.[9] As noted, these benefits, which are aimed at promoting year-round production for Mexican fresh fruits and vegetables, have already put Florida producers at serious risk and in time will compromise all U.S. fruit and vegetable production if corrections are not made.

The Mexican industry's considerable labor wage disparities only add to its unfair advantages. The estimated annual Mexican wage advantage in the agricultural sec-

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[3] *See* USDA National Statistics Service, Annual Survey Data, available at *https://quickstats.nass.usda.gov/*.

[4] *See* Wageningen University and Research, "Mexican Protected Horticulture: Production and Market of Mexican Protected Horticulture Described and Analyzed," (Report GTB–1126, 2011); USDA Foreign Agricultural Service, 2012 Tomato Annual, GAIN Report No. MX2036 (June 4, 2012), at 6.

[5] Government of Mexico website, "SAGARPA has the Support You Need," January 14, 2016.

[6] Official Diary of the Government of Mexico, "Rules of Operation for the Program for the Promotion of Agriculture of the Secretariat of Agriculture, Livestock Rural Development, Fisheries and Food for the 2017 Fiscal Year," December 31, 2016, Article 12.

[7] *Id.*

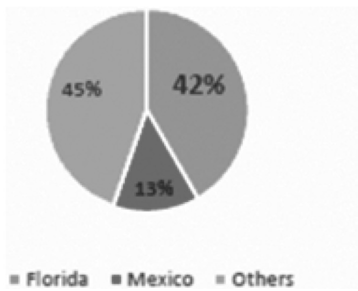
[8] *Id.*

[9] *Id.,* at Article 10.

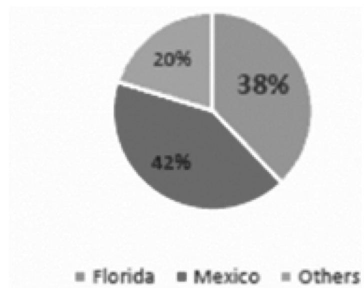
tor is $1 billion.[10] Mexico's farm laborers are paid about 10% of what U.S. farm laborers are paid for similar work.[11]

In line with the staggering losses faced by Florida tomato growers under these unfair Mexican practices, numerous other Florida specialty crops are sustaining growing losses as well. U.S. imports of strawberries from Mexico have risen from 76.1 million pounds in 2000 to 216 million pounds in 2016 (a 184% increase).[12] That expansion has compromised absolute growth and market share for domestic producers.

Strawberry Market Share—Volume November 2000–February 2001



Strawberry Market Share—Volume November 2016–February 2017

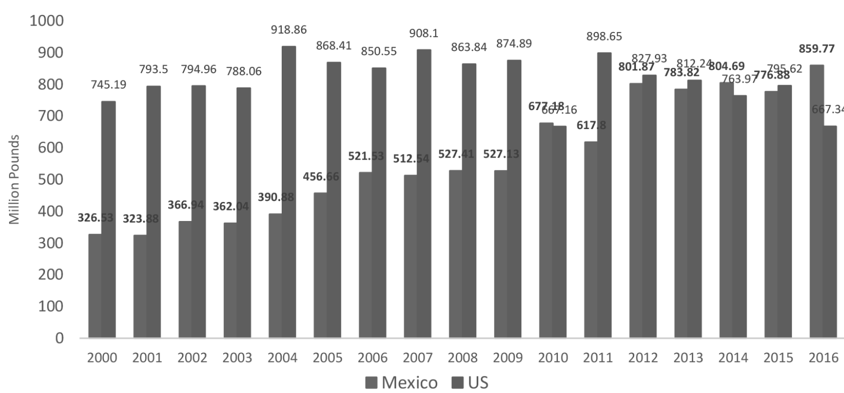


Source: Florida Department of Agriculture and Consumer Services.

Note: "Others" (gray) is primarily California production that appears to be shifting to Mexico.

Imports of bell peppers from Mexico have grown from 326.53 million pounds in 2000 to 859.77 million pounds in 2016, a 163% increase.

Bell Peppers—Domestic Production and Imports from Mexico (USDA)



Source: Florida Department of Agriculture and Consumer Services.

As the Committee knows, the Trade Priorities and Accountability Act of 2015 (TPAA) took careful note of the market pressures being faced by Florida's fruit and vegetable sectors and established several FTA objectives specific to specialty crops, the primary ones being the following:

[10] Florida Department of Agriculture and Consumer Services, "An Examination of International Competitive Impacts on Florida Agriculture" (March 2017), at 11.

[11] Farmworkers in Mexico typically earn approximately the equivalent of $8 per day, while U.S. farmworkers earn approximately $10–$12 per hour. Thus, assuming an 8 hour day, a farmworker in the United States would earn at a minimum $80, while a Mexican farmworker would earn $8, *i.e.,* 10%.

[12] Data from Florida Department of Agriculture and Consumer Services.

(J) eliminating practices that adversely affect trade in perishable or cyclical products, while improving import relief mechanisms to recognize the unique characteristics of perishable and cyclical agriculture;

(K) ensuring that import relief mechanisms for perishable and cyclical agriculture are as accessible and timely to growers in the United States as those mechanisms that are used by other countries; . . . [and]

(R) seeking to develop an international consensus on the treatment of seasonal or perishable agricultural products in investigations relating to dumping and safeguards and in any other relevant area.[13]

The Florida industry hopes these TPAA objectives, together with the objectives in the Administration's *Summary of Objectives for the NAFTA Renegotiation* referenced above, will help deliver a substantially revised NAFTA that finally enables Florida's fruit and vegetable sectors to endure and thrive. We will coordinate closely with the Committee, Congress, and the Administration to help achieve that result.

In the meantime, given the extraordinary market pressures Mexican suppliers are now creating for our specialty corps, the Florida fruit and vegetable industry is also asking the Administration to pursue various other near-term remedial and political steps to help reverse Mexico's unfair practices as quickly as possible. As these near-term solutions take shape, the Florida fruit and vegetable industry looks forward to working with this Committee, Congress, and the Administration on aligning its near-term solutions with longer-term NAFTA specialty crop and trade enforcement reforms. Our aim is to achieve all measures necessary—both near- and long-term—that can provide the Florida industry with the timely, effective protections it critically needs.

We greatly appreciate this Committee's continuing support for a strong Florida fruit and vegetable sector and stand ready to coordinate with the Committee on NAFTA and bilateral strategies to achieve that result.

ATTACHMENT [1]

May 9, 2017

via *regulations.gov*

Hon. WILBUR L. ROSS, JR.
Secretary of Commerce,
U.S. Department of Commerce,
Washington, D.C.

Hon. STEPHEN VAUGHN,
Acting U.S. Trade Representative,
Office of the U.S. Trade Representative,
Washington, D.C.

Re: *Docket No. DOC–2017–0003: Omnibus Report on Significant Trade Deficits,* ***Comments Regarding Causes of Significant Trade Deficits for 2016***
Country of Interests: ***Mexico***
Harmonized System (HS) Categories of Interest: ***0702—Tomatoes; fresh or chilled***

The Florida Tomato Exchange ("FTE") and the Florida Tomato Growers Exchange ("FTGE") appreciate this opportunity to submit comments to assist the Department of Commerce and the United States Trade Representative in preparing an Omnibus Report on Significant Trade Deficits for the President.[1] The FTE and FTGE represent tomato growers in Florida, one of the major tomato producing regions in the United States.

Florida tomato growers are particularly concerned with one area of trade that has contributed to the United States' trade deficit with Mexico: fresh tomatoes.[2] Florida tomato growers and other fresh tomato producers throughout the United States have been seriously challenged for decades with an ever-increasing trade deficit with Mexico. The Mexican Government provides significant financial support for the production of tomatoes with the foremost purpose of pushing them into the U.S.

[13] Bipartisan Congressional Trade Priorities and Accountability Act of 2015, Pub. L. No. 114–26, § 102(b)(3), 129 Stat. 320, 322–23 (2015) ("2015 TPAA").

[1] These comments are submitted in response to the request in 82 *Fed. Reg.* 18110–11 (April 17, 2017).

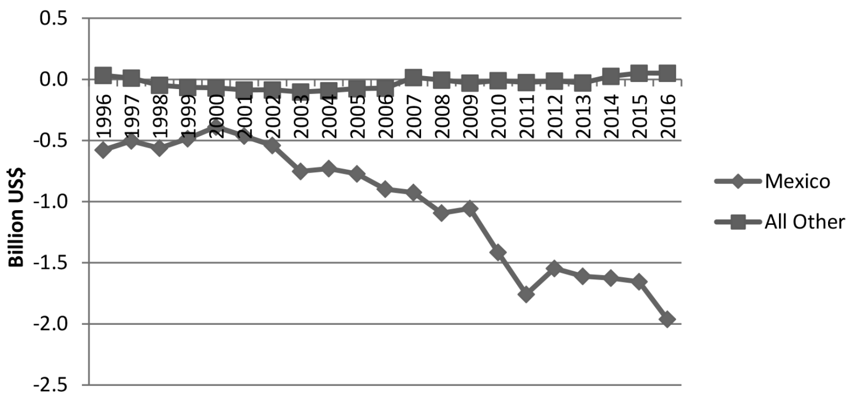
[2] If identifying a particular sector, commenters were requested to indicate the relevant HS category. 82 *Fed. Reg.* at 18111. Fresh tomatoes fall under category 0702, with various subcategories based on the season of importation and the growing environment and type of the tomato (greenhouse, cherry, roma, *etc.*).

market, to the detriment of the U.S. fresh tomato industry. U.S. tomato growers' struggle with unbalanced Mexican imports has been prolonged by weak enforcement of U.S. trade laws by prior Administrations; even though the Department of Commerce has previously determined that Mexican tomato exports to the United States are dumped at unfair prices.

The Trade Deficit with Mexico in Fresh Tomatoes

The United States runs a large and growing trade deficit with Mexico on this major crop. As shown in the trade statistics in *Attachment 1* to these comments, in 2016 the deficit on fresh tomatoes with Mexico surpassed $1.9 billion. This is virtually all one-way trade: with Mexican tomato production mainly focused on exporting to the United States while U.S. exports of tomatoes to Mexico have remained comparatively non-existent. Further, as shown in the graph below, apart from the substantial and growing deficit with Mexico, other trade in fresh tomatoes is relatively balanced.

U.S. Trade Balance—Fresh [Tomatoes]



Sources: trade data from the U.S. International Trade Commission.

The Mexican Government's Support of Production for Export in Mexico

In Mexico, fresh tomato growers benefit from numerous support programs made available by the Mexican Government. Many of these programs are aimed at increasing the productivity of Mexican production, particularly through the establishment of protected agriculture (greenhouses and shade-houses), which dramatically increase per-acre production of tomatoes. A 2012 U.S. Department of Agriculture ("USDA") report stated that Mexican Government support programs available to Mexican producers can provide as much as 45 to 60 percent of the cost of improvements.[3]

The push for tomato production in Mexico is aimed at exporting the product to the United States. The 2012 USDA report explains that in Mexico, "domestic consumption is a residual after exporting."[4] Mexican growers do not grow tomatoes for Mexican consumers; they grow them to send to the U.S. market. The Mexican Government's support programs have the same goal. The USDA report states the "increase {in protected-agriculture production capacity} is largely attributable to recent success in exporting to the United States."[5]

The Mexican Government's programs have distorted trade. The government' push for increased production and capacity has led to a glut of capacity in Mexico, with many green- and shade-houses sitting empty in some areas. One report found that 30 percent of greenhouses in major producing areas in Mexico "were not operating."[6] With significant overcapacity and an industry aimed at exporting to a single foreign market, the increasing flood of Mexican tomatoes in the U.S. market is unsurprising.

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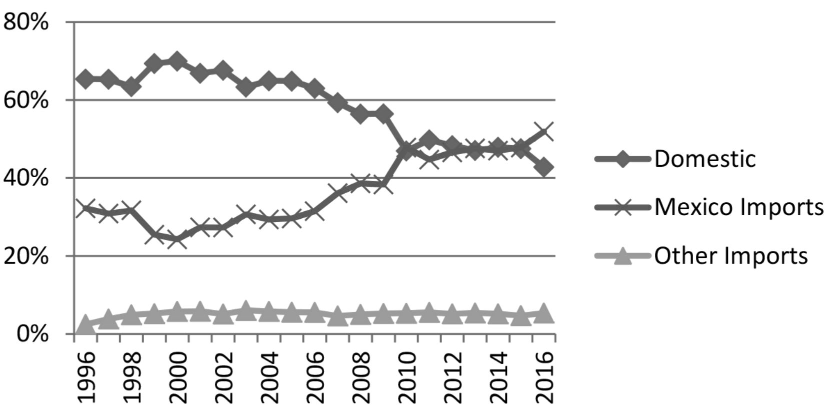
[3] *See* USDA Foreign Agricultural Service, *2012 Tomato Annual,* GAIN Report No. MX2036 (June 4, 2012) at 6, included in *Attachment 4.*
[4] *Id.*
[5] *Id.*
[6] *Id.* at 4.

From a broader perspective, the devaluation of the Peso since the signing of the NAFTA agreement from 3.1 Pesos to the dollar to currently 18.5 to 22 has also significantly disadvantaged U.S. growers. In real terms (adjusted for inflation), the Peso has lost nearly ⅓ of its value in that time.[7] This is a particular advantage to an export-oriented industry such as the Mexican tomato growers, who are able to receive dollars for their goods but in turn pay Peso-denominated costs. U.S. growers are competitive, but this absolute advantage by currency devaluation strongly advantages the Mexican industry in their effort to dominate the market.

The Impact of the Deficit on the U.S. Fresh Tomato Industry

Tomato growers in Florida are particularly impacted by Mexican tomato exports because the Florida and Mexico growing seasons align: perishable tomatoes from both regions enter the market at the same times of the year and compete directly. As shown in *Attachment 2,* since 1996 the volume of Mexican fresh tomato imports has more than doubled. Over this period, the U.S. fresh tomato industry has continually lost market share to Mexican product. As shown in the chart below, based on USDA production data, Mexican imports have overtaken U.S. production in recent years, and in 2016 accounted for over ½ of U.S. consumption. As shown in the second chart, for the January–April period, the months when Florida and Mexican tomatoes are both most heavily competing in the market, the impact of imports has been even more pronounced.

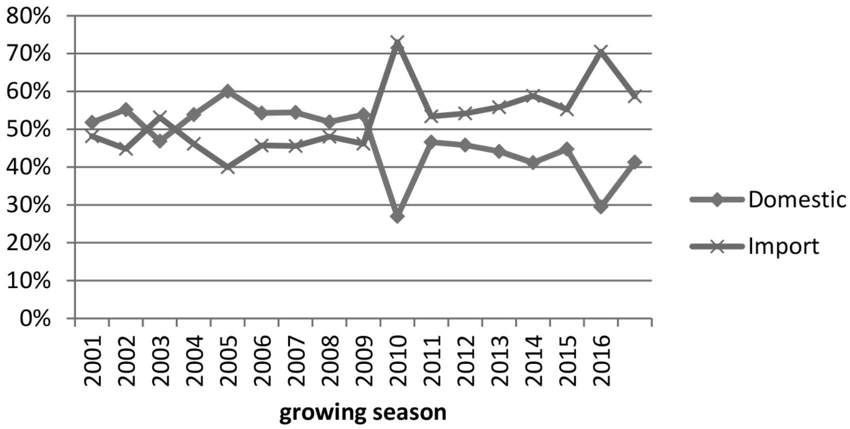
U.S. Market Share



Source: USDA Economic Research Service, ***Vegetables and Pulses Yearbook Data 2017,*** *excerpt included in* ***Attachment 3.***

[7] Based on Real Effective Exchange Rate data from the IMF, *http://data.imf.org*.

U.S. Market Share: Jan.–April period

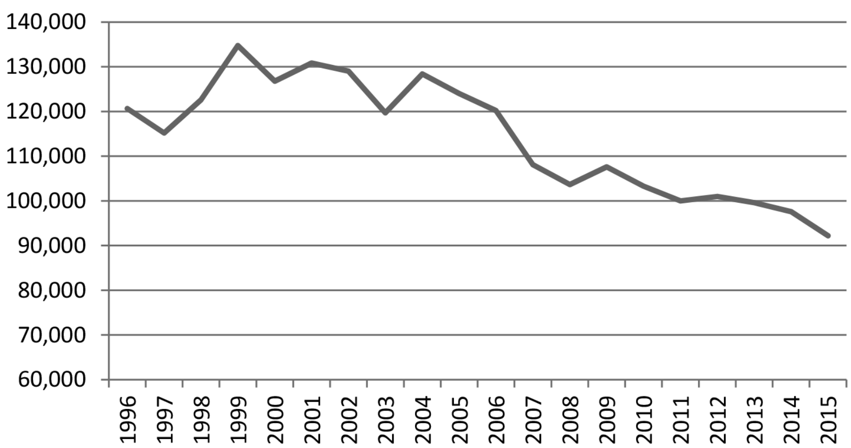


*Source: USDA Agricultural Marketing Service, **Market News** Report Data (Movement Report), **https://www.marketnews.usda.gov/mnp/fv-home**.*

The ever-increasing wave of tomatoes crossing the border has devastated the U.S. industry. U.S. fresh tomatoes growers have struggled as prices, depressed by escalating import competition, have failed to keep up with raising farming costs. In the bad years, many fields planted in tomatoes have been left unharvested, as market prices were too low to sustain even that final step. Many producers, especially smaller and family farms, have been forced into bankruptcy.

Figures reported by the USDA show that U.S. production, shown in the number of acres in fresh tomatoes that are harvested, remains in serious decline, having lost almost a quarter of the total acreage since 1996.

U.S. Fresh Tomatoes—Acres Harvested



*Source: USDA National Statistics Service, Annual Survey Data (data available at **https://quickstats.nass.usda.gov/**).*

The United States' 20 Year Failure to Respond to Dumped Mexican Tomatoes

Following the surge of low-priced Mexican tomatoes and the disastrous effect on U.S. producers in the years following the signature of NAFTA, FTE and FTGE were among the domestic parties that sought relief from the Department of Commerce and the International Trade Commission ("ITC") by submitting an antidumping petition on fresh tomatoes from Mexico in 1996. The ITC preliminary found that there was a reasonable indication that Mexican tomatoes were a material cause of injury to the U.S. industry.[8] The Department's investigation confirmed that Mexican exporters were dumping their product on the U.S. market at unfair prices. The Department preliminarily found dumping margins ranging from 4.16 to 188.45 percent.[9]

However, rather than continuing the investigation and ordering final duties on Mexican tomatoes, the Department entered into a suspension agreement with Mexican tomato growers (concurrently with its preliminary determination).[10] Suspension agreements are allowed under U.S. trade law [11] but only if foreign exporters agree to terms that will prevent injury to the U.S. industry and if most of the unfair dumping is eliminated. The type of suspension agreement the Department used in this case required that Mexican tomatoes could not be sold to the U.S. market at less than an established reference price.[12]

While the statute permits suspension agreements, Congress made clear that it was highly distrustful of such agreements, which it saw could be used for political purposes to the detriment of the U.S. industry the trade law was intended to protect from unfair trade. The statute therefore only allows these agreements in "extraordinary circumstances", where the Department of Commerce can determine that both all injury caused by the imports along and all underselling or price suppression in the U.S. market will be eliminated. Additionally, in the type of agreement here, 85 percent of the dumping found in the investigation must be eliminated for every entry of the product. The continued ability of every suspension agreement to meet these stringent requirements was intended to be reviewed by the Department at least every 5 years in a sunset review.

In 1996, domestic growers did not oppose the suspension. The Department set the 1996 reference price based on market prices from earlier years where Mexican tomatoes were not having a detrimental effect on the market. The Department did not address how the reference price eliminated 85 percent of the dumping, however. But when the time came for the sunset review however, the Department did not complete its review of whether the agreement continued to meet statutory requirements. Instead, in order to avoid these questions, the Mexican growers withdrew from the 1996 agreement, terminating it. Those growers and the Department then entered into a substantially identical "new" 2002 agreement. To accommodate this, the Department resumed the investigation temporarily, terminated the sunset review, and then resumed suspension upon concluding the new agreement.[13] The same process occurred again when the next sunset review was due, resulting in a 2008 agreement.[14]

In 2012, following a disastrous season in which a flood of Mexican tomatoes forced many U.S. producers, including the largest U.S. greenhouse producer, into bankruptcy, domestic producers sought to end this cycle.[15] The domestic petitioners filed notice with the Department that they were withdrawing their petition, seeking to terminate the investigation and hence the suspension of the investigation. However, the Department declined to recognize the withdrawal and instead initiated a "changed circumstances" review to consider the termination of the suspended investigation.[16] The Department can terminate an investigation or antidumping duty order through a changed circumstances review if substantially all of the domestic

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[8] *See Fresh Tomatoes from Mexico,* Inv. No. 731–TA–747, USITC Pub. 2967 (May 1996) (making a positive preliminary injury determination).

[9] *Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Fresh Tomatoes From Mexico,* 61 FED. REG. 56608, 56615 (Dep't Commerce Nov. 1, 1996).

[10] *Suspension of Antidumping Investigation: Fresh Tomatoes From Mexico,* 61 FED. REG. 56618 (Dep't Commerce Nov. 1, 1996).

[11] 19 U.S.C. § 1673c.

[12] In the 1996 agreement, only on reference price was established. In later agreements, the different reference prices were set for the winter and summer seasons and then for tomatoes grown in different production environments.

[13] *See Suspension of Antidumping Investigation: Fresh Tomatoes From Mexico,* 67 FED. REG. 77044 (Dep't Commerce Dec. 16, 2002).

[14] *See Suspension of Antidumping Investigation: Fresh Tomatoes From Mexico,* 73 FED. REG. 4831 (Dep't Commerce Jan. 28, 2008).

[15] Between the 1996 and 2008 suspension agreements, the reference prices had increased less than five percent. This failed to keep any kind of pace with raising costs of production, and allowed prices to fall to the unsustainable levels for the U.S. industry.

[16] *See Fresh Tomatoes From Mexico: Notice of Initiation of Changed Circumstances Review and Consideration of Termination of Suspended Investigation,* 77 FED. REG. 50553 (Dep't Commerce Aug. 21, 2012).

industry (defined as those producers accounting for over 85 percent of domestic production) declare they have no interests in its continuation.

In the changed circumstances review, U.S. growers who accounted for over 90 percent of U.S. fresh tomato production submitted letters to the Department seeking to have the investigation terminated.[17] Domestic producers also submitted information, including cost studies from the Mexican Government, that showed costs to produce in Mexico had risen significantly from 1996 and were well above the suspension agreement reference prices, so that the suspension agreement would allow significant dumping by Mexican exporters even at those reference prices. During this period, the Department also initiated a sunset review of the 2008 agreement.

But once again, the Department allowed the foreign exporters to determine how they would be treated under U.S. antidumping law. The Mexican producers again withdrew from the suspension agreement, terminating that sunset review.[18] At the Mexican producers' request, in February of 2013, the Department entered into yet another suspension agreement with the Mexican growers.[19] The Department never completed the changed circumstance review or honored the domestic industry's repeated request to end the repetitive suspension. Also, despite 2 decades having passed since it collected dumping data in its preliminary investigation, the Department again did not collect any updated information that would allow it to determine what the fair market value of Mexican tomatoes would be in 2013, including even basic Mexican growing costs. Instead, the Department argued that the Mexican exporters would self-monitor their level of dumping. The Department then set the new reference prices at the price levels that were on the market in the 2012 winter season, a period where the price levels devastated to the U.S. industry and lead directly to the U.S. producers' attempts to have the suspended investigation terminated.

Because the Department made no effort with the 2013 agreement to determine if the reference prices would in fact eliminate dumping and set those prices at levels that would not prevent injury to the U.S. industry, FTE has appealed the suspension to the Court of International Trade ("CIT").[20] Four years later, there has still been no final court decision on FTE's claims. The CIT remanded the issue to the Department in 2015,[21] but the Department maintained the suspension agreement with no changes and returned the agreement to the CIT. Following an additional hearing before the CIT in February of 2017, the domestic growers await the Court's further decision.[22]

Conclusion

The U.S. fresh tomato industry has repeatedly sought the protections intended for U.S. industries under U.S. trade laws against dumped products such as Mexican tomatoes. Due to a continued lack of strong enforcement of those laws and the Mexican growers' repeated gaming of the system to avoid a review of the suspension agreements that they have found favorable, nothing has stemmed the mounting flow of under-priced tomatoes coming from Mexico.

The Mexican Government has continued to encourage over-production of fresh tomatoes through subsidization of Mexican growers and simply pushed the resulting over-production north to land on the U.S. market. The result has been a ballooning deficit in trade between the U.S. and Mexico and the continuing evaporation of the U.S. industry. On behalf of the U.S. tomato growers who have been forced to carry the costs of the Mexico's production choices, FTE and FTGE urge the Department

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[17] *See Fresh Tomatoes From Mexico: Notice of Preliminary Results of Changed Circumstances Review and Intent To Terminate the Suspended Antidumping Investigation,* 77 FED. REG. 60103, 60104 (Dep't Commerce Oct. 2, 2012).

[18] *See Fresh Tomatoes From Mexico: Intent To Terminate Suspension Agreement and Resume Antidumping Investigation and Intent To Terminate Sunset Review,* 78 FED. REG. 9366 (Dep't Commerce Feb. 8, 2013).

[19] *See Fresh Tomatoes From Mexico: Suspension of Antidumping Investigation,* 78 FED. REG. 14967–79 (Dep't Commerce March 8, 2013).

[20] CIT Case. No. 13–00148, *FTE* v. *United States.*

[21] The CIT remanded to the Department of Commerce because Commerce had failed to disclose certain information regarding its views of the suspension agreement to domestic producers before it entered the agreement, as required by law. The Court remanded with instructions for the Department to properly allow domestic producers to comment on the late-disclosed information, but did not address FTE's substantive challenges to the agreement at that time. Because the Department made no changes to the agreement during the remand, FTE maintained those substantive challenges.

[22] Additionally, despite continued efforts by the Department of Commerce to enforce those reference prices it did put in place in 2013, Florida tomato growers remain concerned that importers and sellers of Mexican tomatoes have implemented various schemes to circumvent even the limited terms of that agreement.

and the USTR to strongly enforce the U.S. trade laws that were intended to prevent exactly this outcome.

Sincerely,

REGGIE BROWN,
Executive Vice President for the Florida Tomato Exchange and the Florida Tomato Growers Exchange.

ATTACHMENT 1

U.S. Balance of Trade in Tomatoes (HS 0702)

Total Exports FAS—General Imports Customs Value 1996–February 2017

Country	1996	1997	1998	1999	2000	2001	2002
	Value (U.S.$)						
Mexico	**−578,161,189**	**−503,349,419**	**−563,174,937**	**−484,786,940**	**−388,672,545**	**−463,492,186**	**−540,157,872**
Dominican Rep.	−28,395	−48,000	−10,690	−2,265	−8,100	0	49,032
Guatemala	0	5,078	0	0	0	26,842	99,082
Netherlands	−42,646,325	−51,345,257	−63,684,041	−56,007,713	−45,867,130	−51,054,513	−44,265,398
New Zealand	−21,660	−5,743	8,800	−10,039	0	2,560	0
Spain	−3,835,513	−7,698,056	−10,714,837	−10,531,358	−10,418,268	−9,655,822	−13,735,286
Canada	83,097,358	74,304,047	32,547,532	723,205	−20,607,971	−27,861,326	−27,045,957
All Other	−3,788,700	−4,534,148	−6,132,364	657,809	7,724,336	1,949,885	−779,045
Total	**−545,384,424**	**−492,671,498**	**−611,160,537**	**−549,957,301**	**−457,849,678**	**−550,084,560**	**−625,835,444**

Country	2003	2004	2005	2006	2007	2008	2009
	Value (U.S.$)						
Mexico	**−752,246,578**	**−729,707,733**	**−773,028,530**	**−897,698,105**	**−925,321,200**	**−1,093,463,636**	**−1,056,665,676**
Dominican Rep.	−10,025	−530,640	−1,216,238	−3,273,789	−3,122,752	−2,886,542	−2,867,832
Guatemala	34,189	0	0	−4,570	−283,020	−1,502,360	−3,981,051
Netherlands	−29,692,792	−25,089,736	−15,524,085	−17,792,192	−15,025,096	−10,987,861	−12,499,872
New Zealand	3,365	−13,474	0	0	−31,844	−26,220	−92,688
Spain	−7,011,515	−6,023,194	−819,927	−4,809,619	−1,474,126	−2,423,385	−195,536
Canada	−58,812,731	−58,458,685	−63,285,795	−51,379,448	30,597,018	9,788,702	−12,247,916
All Other	−7,263,934	−2,180,122	5,160,951	5,066,339	5,230,597	2,853,962	1,710,503
Total	**−855,000,021**	**−822,003,584**	**−848,713,624**	**−969,891,384**	**−909,430,423**	**−1,098,647,340**	**−1,086,840,068**

Country	2010	2011	2012	2013	2014	2015	2016
	Value (U.S.$)						
Mexico	**−1,415,272,353**	**−1,758,712,475**	**−1,546,445,911**	**−1,610,479,030**	**−1,625,325,452**	**−1,655,362,740**	**−1,962,094,088**
Dominican Rep.	−2,936,463	−5,490,474	−4,493,983	−3,470,008	−5,122,876	−5,250,938	−10,670,845
Guatemala	−6,929,854	−21,962,207	−12,135,404	−15,832,207	−14,221,450	−9,144,492	−8,609,038
Netherlands	−3,399,560	−2,044,236	−2,232,569	−2,412,992	−1,755,136	−1,514,062	−1,479,547
New Zealand	−317,069	−256,955	−307,375	−261,021	−98,030	−245,321	−207,843
Spain	0	0	408,629	0	−21,390	3,514	−97,243
Canada	**−891,991**	**−918,645**	**−5,814,019**	**−20,532,883**	**35,423,559**	**56,713,827**	**62,543,340**
All Other	4,655,366	4,801,896	11,701,449	13,466,623	11,184,528	10,524,758	9,282,429
Total	**−1,425,091,924**	**−1,784,583,096**	**−1,559,319,183**	**−1,639,521,518**	**−1,599,936,247**	**−1,604,275,454**	**−1,911,332,835**

Country	2016 YTD	2017 YTD	Percent Change 2012–2016	Percent Change 2008–2016	Percent Change 2002–2016	Percent Change 1996–2016
	Value (U.S.$)					
Mexico	**−541,427,735**	**−354,942,157**	**26.88%**	**79.44%**	**263.24%**	**239.37%**
Dominican Rep.	−2,988,118	−2,609,263	137.45%	269.68%	−21,863.02%	37,480.01%
Guatemala	−2,237,165	−2,453,333	−29.06%	473.03%	−8,788.80%	
Netherlands	−373,376	0	−33.73%	−86.53%	−96.66%	−96.53%
New Zealand	−150,829	−135,717	−32.38%	692.69%		859.57%
Spain	−73,040	−65,736	−123.80%	−95.99%	−99.29%	−97.46%
Canada	**97,295,135**	**66,363,572**	**−1,175.73%**	**538.93%**	**−331.25%**	**−24.73%**
All Other	**1,613,264**	**744,532**	**−20.67%**	**225.25%**	**−1,291.51%**	**−345.00%**
Total	**−448,341,864**	**−293,098,102**	**22.57%**	**73.97%**	**205.41%**	**250.46%**

ATTACHMENT 2

U.S. Imports of Fresh Tomatoes (HS 0702), 1996–YTD 2017

Tomatoes: for *All* Countries

U.S. Imports for Consumption

(HTS Number 0702: Tomatoes, Fresh or Chilled)

Country	1996	1997	1998	1999	2000	2001
	In Actual Dollars					

U.S. Imports of Fresh Tomatoes (HS 0702), 1996–YTD 2017—Continued
Tomatoes: for *All* Countries
U.S. Imports for Consumption

(HTS Number 0702: Tomatoes, Fresh or Chilled)

Mexico	**580,348,521**	**517,048,769**	**567,442,691**	**489,587,610**	**411,795,805**	**484,922,820**
Canada	**37,408,123**	**58,965,727**	**100,507,593**	**119,690,432**	**160,939,005**	**166,836,053**
Dominican Rep.	48,395	48,000	35,490	2,265	8,100	0
Guatemala	0	0	0	0	0	0
Netherlands	42,646,325	52,908,527	64,487,481	57,170,545	46,364,566	51,054,513
New Zealand	21,660	5,743	0	10,039	0	0
Spain	3,879,073	7,828,736	10,893,917	10,686,008	10,723,548	9,684,622
Colombia	0	3,875	5,893	0	13,200	5,007
Ecuador	0	0	8,908	7,799	0	10,210
Italy	0	22,800	3,143	0	0	9,011
France	0	0	160,498	230,732	0	0
Gaza Strip	124,740	5,376	20,010	52,970	0	0
Germany	0	17,625	0	0	0	0
Honduras	0	0	0	0	0	0
Israel	3,804,252	6,683,585	8,604,560	8,071,429	7,811,594	7,715,814
All Other	4,187,325	5,128,954	5,725,270	3,811,711	2,624,738	1,377,505
Total	**672,468,414**	**648,667,717**	**757,895,454**	**689,321,540**	**640,280,556**	**721,615,555**

Country	2002	2003	2004	2005	2006	2007
	In Actual Dollars					
Mexico	**552,241,241**	**760,756,391**	**749,963,474**	**781,234,276**	**918,754,938**	**960,046,726**
Canada	**172,587,391**	**231,350,010**	**257,191,469**	**271,976,608**	**284,206,268**	**238,147,767**
Dominican Rep.	2,028	10,025	534,990	1,216,238	3,283,785	3,216,947
Guatemala	0	4,260	0	0	4,570	283,020
Netherlands	45,619,918	33,837,082	27,638,236	16,228,725	17,795,731	15,027,895
New Zealand	0	0	13,474	0	0	35,572
Spain	13,735,286	7,011,515	6,023,194	819,927	4,809,619	1,474,126
Colombia	0	0	0	0	0	18,995
Ecuador	0	0	0	0	0	0
Italy	12,655	0	0	3,830	171,586	0
France	0	0	0	0	0	0
Gaza Strip	0	0	0	0	0	0
Germany	0	0	0	0	0	0
Honduras	0	0	0	0	0	0
Israel	9,236,599	12,212,406	7,915,670	1,251,249	1,652,699	872,755
All Other	1,807,131	2,179,440	4,306,459	2,387,962	2,729,214	1,374,007
Total	**795,242,249**	**1,047,361,129**	**1,053,586,966**	**1,075,118,815**	**1,233,408,410**	**1,220,497,810**

Country	2008	2009	2010	2011	2012	2013
	In Actual Dollars					
Mexico	**1,142,867,790**	**1,125,527,212**	**1,487,411,425**	**1,807,703,157**	**1,578,590,513**	**1,637,534,863**
Canada	**269,235,986**	**255,521,195**	**293,775,123**	**299,935,801**	**268,633,873**	**320,075,231**
Dominican Rep.	2,941,707	2,879,170	2,942,296	5,549,565	4,597,125	3,518,491
Guatemala	1,502,360	3,981,051	7,384,702	21,962,207	12,135,404	15,839,690
Netherlands	10,991,229	12,499,872	3,399,560	2,044,236	2,336,249	2,415,792
New Zealand	26,220	92,688	317,069	256,955	418,723	261,021
Spain	2,423,385	195,536	0	0	0	0
Colombia	22,253	7,906	0	22,136	26,732	31,331
Ecuador	0	0	0	0	0	0
Italy	0	0	0	3,580	0	0
France	0	0	2,645	0	0	0
Gaza Strip	0	0	0	0	0	0
Germany	0	0	0	0	0	0
Honduras	0	0	0	0	0	13,770
Israel	836,234	569,947	956,724	275,438	775,678	0
All Other	742,320	2,308,132	2,048,560	116,816	90,316	79,418
Total	**1,431,589,484**	**1,403,582,709**	**1,798,238,104**	**2,137,869,891**	**1,867,604,613**	**1,979,769,607**

Country	2014	2015	2016	2016 YTD	2017 YTD
	In Actual Dollars				
Mexico	**1,660,270,425**	**1,675,107,907**	**1,964,305,605**	**541,599,025**	**355,990,720**
Canada	**283,079,581**	**247,682,869**	**277,930,732**	**3,432,904**	**4,016,876**
Dominican Rep.	5,146,069	5,317,858	10,675,438	2,988,118	2,621,177
Guatemala	14,221,450	9,144,492	8,612,145	2,237,165	2,453,333
Netherlands	1,762,230	1,516,662	1,490,009	383,838	0
New Zealand	98,030	245,321	207,843	150,829	135,717
Spain	21,390	26,520	102,256	73,040	65,736
Colombia	46,571	3,089	12,142	0	0
Ecuador	43,925	15,000	11,385	0	7,771
Italy	7,653	4,207	10,261	0	0
France	0	0	0	0	0
Gaza Strip	0	0	0	0	0
Germany	0	2,205	0	0	0
Honduras	6,615	28,755	0	0	0
Israel	148,351	0	0	0	0
All Other	0	0	0	0	0
Total	**1,964,852,290**	**1,939,094,885**	**2,263,357,816**	**550,864,919**	**365,291,330**

Country	Percent Change 1996–2016	Percent Change 2008–2016	Percent Change 2008–2016
Mexico	**238.47%**	**71.88%**	**24.43%**
Canada	**642.97%**	**3.23%**	**3.46%**
Dominican Rep.	21,958.97%	262.90%	132.22%
Guatemala	N/A	473.24%	−29.03%
Netherlands	−96.51%	−86.44%	−36.22%

U.S. Imports of Fresh Tomatoes (HS 0702), 1996–YTD 2017—Continued
Tomatoes: for *All* Countries
U.S. Imports for Consumption
(HTS Number 0702: Tomatoes, Fresh or Chilled)

New Zealand	859.57%	692.69%	−50.36%
Spain	−97.36%	−95.78%	N/A
Colombia	N/A	−45.44%	−54.58%
Ecuador	N/A	N/A	N/A
Italy	N/A	N/A	N/A
France	N/A	N/A	N/A
Gaza Strip	−100.00%	N/A	N/A
Germany	N/A	N/A	N/A
Honduras	N/A	N/A	N/A
Israel	−100.00%	−100.00%	−100.00%
All Other	−100.00%	−100.00%	−100.00%
Total	**236.57%**	**58.10%**	**21.19%**

ATTACHMENT 3

Excerpt

USDA Economic Research Service, Vegetables and Pulses Yearbook Data (April 6, 2017)

Table 42—U.S. fresh tomatoes: Supply, utilization, & price, farm weight, 1970–2016

Year	Supply			Utilization			Season-average price	
	Production[1]	Imports[2]	Total	Exports[2]	Domestic[3]	Per capita use	Current dollars[1]	Constant 2009 dollars[4]
	Million pounds					Pounds	$/cwt	
1970	1,933.4	646.7	2,580.1	89.2	2,490.9	12.1	11.20	49.11
1971	1,887.7	575.4	2,463.1	107.6	2,355.5	11.3	13.90	58.00
1972	2,088.5	586.8	2,675.3	136.8	2,538.5	12.1	14.80	59.19
1973	2,043.1	753.1	2,796.2	150.7	2,645.5	12.5	16.00	60.68
1974	2,098.1	595.8	2,693.9	161.2	2,532.7	11.8	17.30	60.21
1975	2,226.4	567.1	2,793.5	202.6	2,590.9	12.0	18.70	59.56
1976	2,296.7	653.3	2,950.0	212.4	2,737.6	12.6	19.10	57.67
1977	2,098.7	791.9	2,890.6	169.1	2,721.5	12.4	20.60	58.57
1978	2,302.3	817.8	3,120.1	215.6	2,904.5	12.9	19.70	52.33
1979	2,361.2	713.3	3,074.5	248.6	2,825.9	12.4	22.50	55.21
1980	2,556.7	651.7	3,208.4	275.3	2,933.1	12.8	20.70	46.60
1981	2,607.0	525.9	3,132.9	269.5	2,863.4	12.3	21.40	44.06
1982	2,676.9	592.6	3,269.5	249.7	3,019.8	12.9	22.50	43.62
1983	2,726.2	738.2	3,464.4	286.0	3,178.4	13.5	24.20	45.13
1984	2,816.3	824.3	3,640.6	263.2	3,377.4	14.2	25.60	46.11
1985	2,974.0	851.0	3,825.0	271.5	3,553.5	14.9	24.20	42.23
1986	3,136.1	981.1	4,117.2	288.1	3,829.1	15.8	25.10	42.94
1987	3,241.4	919.5	4,160.9	284.9	3,876.0	15.8	25.90	43.20
1988	3,588.9	816.8	4,405.7	254.2	4,151.5	16.8	27.10	43.68
1989	3,596.2	867.9	4,464.1	298.0	4,166.1	16.8	33.20	51.50
1990	3,380.0	795.9	4,175.9	293.1	3,882.8	15.5	27.40	40.99
1991	3,398.8	795.5	4,194.3	300.3	3,894.0	15.4	31.70	45.90
1992	3,903.3	432.2	4,335.5	367.5	3,968.0	15.4	35.80	50.68
1993	3,666.3	922.4	4,588.7	345.8	4,242.9	16.3	31.70	43.83
1994	3,738.7	873.0	4,611.7	340.7	4,270.9	16.2	27.40	37.09
1995	3,409.8	1,368.9	4,778.7	289.2	4,489.5	16.8	25.50	33.82
1996	3,363.4	1,625.1	4,988.5	295.4	4,693.1	17.4	28.10	36.60
1997	3,424.8	1,636.8	5,061.7	341.7	4,720.0	17.3	31.70	40.59
1998	3,525.6	1,868.0	5,393.6	286.3	5,107.3	18.5	35.20	44.59
1999	4,026.9	1,633.1	5,660.0	334.3	5,325.6	19.1	25.80	32.22
2000	4,162.0	1,609.4	5,771.4	410.4	5,361.0	19.0	30.70	37.49
2001	4,061.1	1,815.6	5,876.7	397.9	5,478.8	19.2	30.00	35.81
2002	4,289.3	1,894.9	6,184.2	332.3	5,851.8	20.3	31.60	37.15
2003	3,888.4	2,071.1	5,959.5	314.2	5,645.3	19.4	37.50	43.23
2004	4,169.6	2,054.2	6,223.8	369.3	5,854.5	19.9	37.40	41.96
2005	4,196.9	2,098.1	6,295.0	326.5	5,968.5	20.2	41.60	45.22
2006	4,041.1	2,187.9	6,229.0	317.7	5,911.2	19.8	43.70	46.09
2007	3,795.6	2,361.1	6,156.7	355.7	5,801.0	19.2	34.80	35.75
2008	3,554.6	2,460.6	6,015.2	372.3	5,642.9	18.5	45.30	45.65
2009	3,775.5	2,622.6	6,398.1	375.6	6,022.5	19.6	40.40	40.40
2010	3,253.8	3,378.6	6,632.4	266.2	6,366.1	20.6	48.20	47.62
2011	3,508.1	3,287.1	6,795.3	252.6	6,542.7	21.0	36.10	34.98
2012	3,412.8	3,377.8	6,790.7	258.7	6,532.0	20.8	30.50	29.00
2013	3,253.8	3,389.5	6,643.4	241.3	6,402.0	20.2	44.60	41.71
2014	3,386.4	3,418.2	6,804.6	248.7	6,555.8	20.5	41.50	38.18
2015	3,342.6	3,457.0	6,799.7	214.3	6,585.3	20.5	46.30	42.18
2016p	**3,129.4**	**3,938.5**	**7,067.8**	**186.9**	**6,880.9**	**21.3**	**40.70**	**36.52**

— = Not available. p = preliminary.

[1] Source: USDA, National Agricultural Statistics Service. Production was adjusted by ERS for 1970–81 to account for states not included in NASS estimates. Includes ERS estimates of domestically-grown hothouse tomatoes after 1996.

[2] Source: U.S. Department of Commerce, U.S. Census Bureau. From 1978–89, U.S. exports were adjusted using Canadian import data. Imports include hothouse tomatoes.

[3] ***Editor's note:*** the submitted table did not include information for table note 3.

[4] Deflated by the GDP implicit price deflator, 2009=100.

Cwt = hundredweight.

Source: USDA Economic Research Service.

ATTACHMENT 4

GAIN Report Number MX 2036, Mexico Tomato Annual

USDA Foreign Agricultural Service

This report contains assessments of commodity and trade issues made by USDA staff and not necessarily statements of official U.S. Government policy.

Required Report—public distribution.

Date: 6/14/2012
GAIN Report Number: MX 2036
Mexico
Tomato Annual
Early 2012 Supply Spike Leads to Low Prices, Exports Expected Higher in MY 2012/13

Approved By: Erik Hansen
Prepared By: Dulce Flores

Report Highlights: Tomato production for Marketing Year (MY) 2012/13 is forecast at 2.1 million metric tons (MMT). Production for MY 2011/12 is estimated at an unusually high 2.3 MMT. Tomato exports for MY 2011/12 are expected to reach 1.5 MMT, lower than expected as international prices were very low. Exports for MY 2012/13 will depend on weather conditions and international prices but are expected to be higher than the year before. Production under protected agriculture technology is expanding throughout the country for several horticultural products, particularly tomatoes.

Commodities: Tomato Paste, 28–30% TSS, Basis Fresh Tomatoes.

Production

The tomato production forecast for the MY 2012/13 (Oct/Sept) is 2.1 MMT assuming favorable weather conditions and attractive international prices. Although there is no official Government of Mexico (GOM) forecast for overall tomato production for MY2012/13, Post estimates that tomato production will be lower than the previous marketing year as producers from the state of Sinaloa seem discouraged by MY 2011/12 production and marketing results. The overall tomato production estimate for MY 2011/12 is high at about 2.3 MMT as weather was favorable and more acreage under protected agriculture entered production. However, according to producers, not all tomatoes reached the market, as lower international prices resulting from higher supplies caused Sinaloa producers to bring tomatoes back from the border for resorting, discarding the ones that did not meet supreme quality. The spring tomato crop from Baja California and other states is expected to be normal. The overall tomato production estimate for MY 2010/11 was expected to be around 2.0 MMT but, due to weather problems and a freeze in Sinaloa that caused a loss of about 30 percent, total production was lowered to 1.6 MMT based on official information.

Total planted area for tomatoes has been declining but yields have been increasing due to the establishment of protected agriculture (greenhouse, shade-house, tunnel) areas. In 1990, planted area devoted to tomatoes was about 85,500 hectares (ha). In 2000, tomato planted area was roughly 75,800 ha. In 2011, tomato planted area is expected at approximately 57,000 ha. Tomato-producing states like Sinaloa and Baja California switched more area from open field production to greenhouse production and used less area while increasing yields. Other states began to build greenhouse/shade-house infrastructure to grow tomatoes, cucumbers, bell peppers, zucchini, strawberries, and flowers (See policy section).

Tomato planted area for fresh consumption for MY 2012/13 is forecast to be lower than MY 2011/12 area, at 52,000 ha, due to a general tendency to decrease open field tomato plantings in favor of using different types of protected agriculture. Also, area planted could be affected depending on water availability. The drought that Mexico has suffered over the last 2 years has exhausted local dams, mainly in the northern states. Private sources indicate that dams are currently (May 2012) closed in Sinaloa for agricultural production with resources dedicated to human consumption only. Also, overproduction and the resulting low market prices (domestic and international) in MY 2011/12 could encourage some producers to switch to other products (peppers, cucumbers) or reduce area planted for MY 2012/13.

The planting area estimate for fresh consumption for MY 2011/12 is 54,000 ha and harvested area is 48,900 ha. Low temperatures slowed fruit ripening in Sinaloa and Nayarit during December 2011. By January 2012, the harvest volume spiked creating a large supply overhang. Low prices even forced producers to stop sending product to the domestic market in late February. Oversupply also lowered the international market price, a situation that forced Sinaloa to recall product from the border for resorting and reselection with only the supreme quality exported to the U.S. market. Tomatoes that did not make grade were discarded. Based on official data, the MY 2010/11 planting area estimate for fresh consumption is 53,025 ha. However, harvested area was lower than expected at 38,003 ha due to bad weather and a freeze in Sinaloa where about 13,457 ha were damaged. The Roma variety now represents more than 58 percent of total Mexican tomato production as demand for this type of tomato has surpassed the round tomato.

Yields vary depending on production conditions and inputs. Average yields have grown from 23 MT/ha in 1990 to 28 MT/ha in 2000 and are expected to reach 43 MT/ha or more in 2011. Baja California and Sinaloa growers generally achieve the highest fresh tomato yields, 45 MT/ha or more, due in part to their pest and disease control programs. In other areas of Mexico, growers have significantly lower yields averaging from 20 to 30 MT/ha. This is primarily attributable to less intensive use of inputs. Greenhouse/shade-house yields tend to vary significantly among producers, variety, and state. These yields generally range from 150 MT/ha to 200 MT/ha depending on the technology used.

Table 1. Mexico: Tomato Production, Area (ha) and Volume (MT)

	Estimate MY 2010/11	Estimate MY 2011/12	Forecast MY 2012/13
Total Planted Area (ha)	**56,025**	**57,000**	**55,000**
• For fresh consumption	53,025	54,000	52,000
• For processing	3,000	3,000	3,000
Total Harvested Area (ha)	**40,003**	**49,000**	**48,000**
• For fresh consumption	38,003	46,000	45,000
• For processing	2,000	3,000	3,000
Total production (MT)	**1,670,454**	**2,300,000**	**2,100,000**
• For fresh market	1,630,454	2,210,000	2,010,000
• For processing	40,000	90,000	90,000

Open-field tomato production area has shown a tendency to decrease due to pest problems, high costs of production, swings in both international prices and exchange rates, and limited water availability. The decrease in open field area is more evident in states like Sinaloa, Baja California, and Jalisco. In addition, small open field producers are switching to other products like corn and beans in search of better financial returns. There has also been a gradual switch from open field tomato production to protected production. Greenhouse/shade-house operations are concentrated in the states of Sinaloa, Baja California and Jalisco, but there are also greenhouse operations in the states of Colima, Mexico, Hidalgo, Michoacán, Querétaro, San Luis Potosí, Sonora, and Zacatecas. According to industry sources, there are currently more than 13,000 ha of protected agriculture throughout Mexico devoted to tomato production.

According to sources, protected agriculture is growing in Mexico at about 13 percent a year as producers increasingly become aware of the benefits in production, quality, pest control, and reduced risk exposure to climate change. Moreover, there is growth in protected agriculture as the GOM, at various levels, sees the benefits of introducing this production method to rural and poorer areas as a form of social development. According to the Secretariat of Agriculture (SAGARPA) there are about 20,000 hectares under protected agriculture, with 12,000 ha of greenhouse type and 8,000 ha of shade-house and macro-tunnel type. The state of Sinaloa accounts for 22%, Baja California 14%, Baja California Sur 12%, and Jalisco 10% of protected agriculture. The main horticultural products produced under this technology are tomato (70%), bell pepper (16%), cucumber (10%), and the rest are products like flowers, chili peppers, strawberries and papaya.

In Sinaloa (a winter-cycle tomato producing state) there are about 15,000 ha devoted to tomatoes of which approximately 2,000 ha are under protected production. About 80% of these hectares are under shade-house operations as the climate is generally too hot for greenhouse technology. Due to strong returns, production has trended towards increased use of shade-houses, mainly for products destined for the export market. Growers, however, indicate that combining open field and shade-house production has been useful for marketing their product. Sources point out that less than ideal levels of agricultural sophistication (*i.e.,* lack of established marketing channels, insufficient capital, and ability to manage weather events), means that sometimes growers abandon protected facilities. Through a recent study in 2010/11, the Mexican Association of Protected Horticulture (AMHPAC) found that of the approximately 9,000 ha of greenhouses existing in the northern states of Sinaloa, Sonora, Baja California Norte, and Baja California Sur, 30 percent were not operating.

During the October to May winter season, Sinaloa growers are the main producers and exporters of fresh tomatoes. Other significant producers include Michoacán, Jalisco, and Baja California Sur. Growers in Sinaloa are anticipating that the use of improved and extended shelf varieties, drip irrigation, and plastic mulch will help maintain their high yield levels. During the summer season (May to October), Baja California growers are the main producers and exporters of fresh tomatoes. The states of Michoacán, Jalisco, and Morelos follow Baja California's production. Producers in Sinaloa and Baja California are widely considered more technologically advanced than other producing states. As a result, U.S. California tomatoes face direct competition from Baja California tomatoes. Tomato growers in Jalisco bridge the summer-winter cycle and usually export in October, November, and December after Baja California. The states of Jalisco and Querétaro have been increasing shade-house planted area. This increase is largely attributable to recent success in exporting to the United States.

Planting and harvesting of tomatoes for processing is largely a function of fresh domestic market prices and international tomato paste prices. Areas that were previously devoted to planting tomatoes for the processing industry have shifted to fresh market, as demand for processing tomatoes has declined in the face of high international fresh market prices. Area planted in both MY 2011/12 and MY 2012/13 to processed tomatoes is estimated at 3,000 ha. Yields for this type of tomato range from 30 MT/ha to 40 MT/ha given normal weather conditions. If the industry needs to process additional tomatoes, it purchases supplies from the open market. Due to the February 2011 freeze in Sinaloa, a large portion of the area devoted to industrial tomato use was damaged.

Tomato production costs remain high across the country. Credit availability remains a constraining factor for growers since Mexican banks do not provide loans for tomato production. In a few instances, producers with export contracts can receive some operating capital from contracting companies in the United States. According to growers, imported agrochemicals, seeds, and fertilizers are the most costly inputs. Current depreciation of the Mexican peso *vs.* the U.S. dollar will increase costs of production as the exchange rate reached 13.75 pesos per U.S. $1.00 in December 2011 but has fallen to 14.20 pesos per U.S. $1.00 in June 2012.

Consumption

The MY 2012/13 final consumption figure will depend on tomato exports to the United States, as domestic consumption is a residual after exporting. Consumption for MY 2011/12 is estimated to be higher compared to the previous marketing year as prices were low due to large supplies. Consumption for MY 2010/11 was lower than expected due to lower supplies during the winter season, high export volumes, and high domestic prices.

Tomato consumption is price sensitive in Mexico. Thus, marginal changes in prices tend to lead to significant changes in demand. Although protected production is still limited and tends to be higher priced, the market now has the option of meeting more of the domestic demand with greenhouse/shade-house tomatoes.

Local tomato prices tend to rise from March to May because of increased exports from the state of Sinaloa, which in turn reduces supply in the domestic market. However, during the supply spike of the winter season of 2011/12, prices were down more than 50 percent compared to 2010/11. Tomato exports also tend to increase from June to August, as this is the international market window for tomatoes from Baja California. By the end of November and December, tomato prices usually rise again, due to the increased export volume from the states of Jalisco and Sinaloa.

The tomato paste industry always buys tomatoes from the fresh market in addition to buying contracted tomatoes for processing. However, price competition in the fresh market has become a problem for the processing industry. Over the past several years, relatively high fresh tomato prices have diverted product away from the processing market. Thus, there has been very little industry demand for tomatoes destined to paste production as it is economically more feasible to import tomato paste rather than produce it domestically.

Trade

Exports for MY 2012/13 are expected to rebound from MY 2011/12 levels if weather conditions are good and international prices increase from last year's levels. Tomato exports for MY 2011/12 are estimated at to reach 1.5 MMT. According to industry sources, tomato exports during the 2011/12 winter season were lower from Sinaloa as higher supplies resulted in very low prices for the international market.

In fact, according to traders, prices in January 2012 were selling almost at the lowest price allowed under the suspension agreement—about U.S.$0.21/lb. To prevent prices from declining further and to stabilize the market, producers in Sinaloa agreed to be more selective in the tomato quality for export resulting in a large quantity of tomatoes being kept off the market and discarded. However, it is important to note that other states like Jalisco, Querétaro, and San Luis Potosi are increasing export volumes during this window, crossing the border through Texas. Tomato exports for MY 2010/11were lower compared to MY 2009/10 exports or 1.43 MMT, as Sinaloa reduced exports by roughly 30 percent due to the freeze. According to the U.S. Census Bureau, 40 percent of all tomatoes imported into the United States from Mexico during MY 2010/11 were shade/greenhouse tomatoes.

Fresh tomato imports from the United States represent a small portion of Mexico's fresh consumption and fluctuate depending on international prices and domestic availability. Due to weather problems in Mexico, there was an opportunity for higher imports for MY 2010/11, where an estimated of 31,058 MT of tomatoes were imported into Mexico from the United States. Import estimates for MY 2011/12 are expected to be lower as domestic supplies are higher and prices are lower. Most imported tomatoes are sold in the northern states of Nuevo León, Sonora, Baja California, and Chihuahua.

Policy

Since 2009, the GOM has operated strategic projects for protected agriculture where the Federal and state governments participate with funds through FIRCO, a Mexican trust fund for shared risk (*www.firco.gob.mx/*). According to SAGARPA, more than $92.7 million USD were designated to promote protected agriculture through a Program of Investment Support for Infrastructure, which encourages production improvements and climate change mitigation. In 2009 and 2010, $189.2 million USD were destined for the establishment of 2,500 ha of protected agriculture—65% for greenhouses, 25% shade-houses, 7% macro-tunnel, 3% micro-tunnel and three Regional Training Centers (production, post-production, and marketing). Supported production includes 859 ha of tomatoes (41%), 428 ha of cucumbers (20%), 347 ha of bell peppers (16%), 274 ha of berries (13%), and the rest are planted with zucchini, grapes, brussels sprouts, habañero and green peppers, and ornamental plants. These types of projects have helped to consolidate development areas for small producers in the states of Oaxaca, Nuevo León, Morelos and Puebla. Some of the projects in marginal areas are geared first for self consumption within the communities. Read more about this program at: *http://www.sagarpa.gob.mx/agricultura/Paginas/Agricultura-Protegida2012.aspx*.

According to SAGARPA, the program for protected agriculture in 2012 will be very similar, in general, to the 2011 program: support funds are $18,018 USD/ha for macro-tunnel, $36,036 USD/ha for shade-house and $108,108 USD/ha for greenhouse technology. Only investments for new infrastructure and new equipment are supported and funds cannot be used to buy land or housing. Support could reach up to 60 percent for highly marginalized areas and up to 45 percent for other producers. For additional information see the following page: *http://www.sagarpa.gob.mx/agricultura/Documents/Agricultura%20Protegida%202012/TRIPTICO%202012%20agricultura%20protegida.pdf*.

Both producers and SAGARPA officials are extremely cognizant of the importance of meeting quality standards for fruits and vegetables and have implemented programs to comply with U.S. food safety requirements.

The Tomato Suspension Agreement between Mexico and the United States, signed on December 4, 2002, binds participants in the agreement to an agreed upon reference price. The reference price for exporting fresh tomatoes for the summer season (July 1 to October 22) is 17.2¢ per pound and the reference price for the winter season (October 23 to June 30) is 21.69¢ per pound. According to growers, tomato prices for MY 2011/12 have been close to the reference price. The U.S. Department of Commerce will soon begin the third sunset review of the agreement (ending January 2013) to evaluate how well it worked. Low prices over the last 6 months have lead to complaints by both Mexican and U.S. growers about the functioning of the agreement, with sellers and brokers accused of under-cutting the agreement floor price. Producer associations have exerted considerable effort combating these bad actors.

Tariffs

Mexico, in general, does not import tomatoes from countries other than the United States. Mexico's most favored nation (MFN) applied tariff rate for tomato (HTS 0702) imports is ten percent. Countries with tariff-free access to Mexico include: the United States, Canada, Chile, Costa Rica, Nicaragua, Uruguay, Bolivia, the European Union, and Japan. There is an applied tariff rate of 28% for tomatoes from

Colombia. Fresh tomato exports to the United States as well as imports have zero duty under NAFTA. The tomato tariff classification numbers are 0702.0001 and 0702.0099. Mexico does notassess an export tariff.

Marketing

Fresh tomatoes destined for domestic consumption, including imported tomatoes, pass through wholesale markets and proceed to large supermarkets and retail stores. A few stores import directly without going through wholesale marketing channels. This remains somewhat rare, however, since most retail operations do not have expertise importing or the labor resources to repack tomatoes based on maturity, size, *etc.* before products are showcased to consumers. In the past, promotional campaigns for U.S. tomatoes focused on proper tomato handling techniques, point of sale materials, and in-store promotions. Most of the imported product is destined to border cities and states. Tomatoes for the export market are shipped directly from the producing area to the United States border.

Prices and Trade

Table 2. Mexico: Wholesale Round Tomato Prices

Mexico City—Pesos/Kg

Month	2010	2011	2012	% Change 2012/ 2011
January	11.05	8.60	8.85	0.11
February	12.29	15.73	5.12	(67.45)
March	26.03	24.53	9.88	(59.72)
April	17.40	30.63	7.76	(74.66)
May	11.96	14.99	9.64	(35.69)
June	6.09	13.25	N/A	N/A
July	7.88	11.80	N/A	N/A
August	12.00	12.35	N/A	N/A
September	12.69	11.32	N/A	N/A
October	14.44	10.92	N/A	N/A
November	11.84	10.87	N/A	N/A
December	11.59	11.22	N/A	N/A

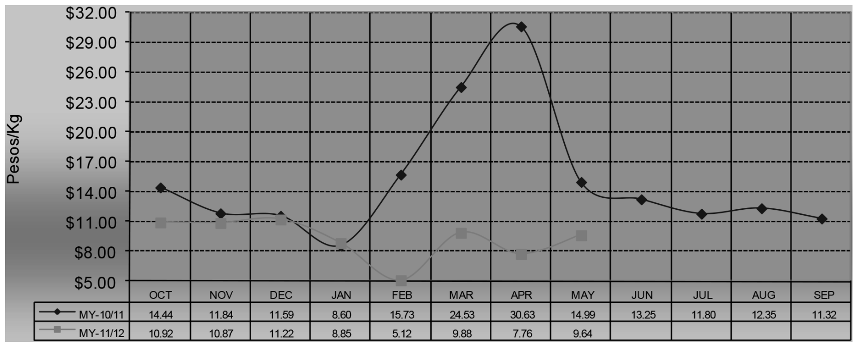
Table 3. Mexico: Wholesale Roma Tomato Prices

Mexico City—Pesos/Kg

Month	2010	2011	2012	% Change 2012/ 2011
January	5.72	8.20	7.26	(11.46)
February	6.60	9.83	4.96	(49.54)
March	9.42	10.42	6.38	(38.77)
April	5.54	16.06	5.63	(64.94)
May	4.95	7.09	7.72	8.88
June	4.15	5.51	N/A	N/A
July	5.76	6.12	N/A	N/A
August	6.44	5.39	N/A	N/A
September	8.45	6.23	N/A	N/A
October	12.19	5.68	N/A	N/A
November	11.78	5.12	N/A	N/A
December	10.66	8.15	N/A	N/A

Source: Servicio Nacional de Información de Mercados.
Note: 2011 Exchange Rate Avg.: U.S. $1.00 = 12.42 pesos.
June 1, 2012 Exchange Rate: U.S. $1.00 = 14.30 pesos

Round Tomato Prices Mexico City Wholesale



Round & Roma Tomato Prices Mexico City Wholesale *

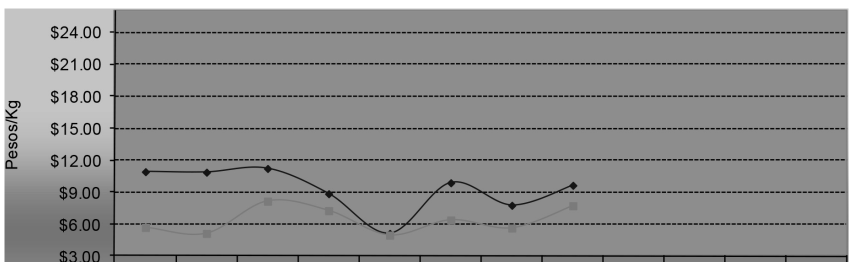


Table 4. Mexico: MY2010/11 Tomato Exports and Imports by Volume (MT) and Value ($)

Exports for MY 2010/11 (Oct.–Sept.):			Imports for MY 2010/11 (Oct.–Sept.):		
Destination	Volume	Value 000	Origin	Volume	Value 000
U.S.	1,302,668	$1,732,831.7	U.S.	31,058	$58,714.0
Canada	127,669	179,154.2			
Others not listed	3,621	4,922.9	Others not listed	0	
Grand Total	**1,433,958**	**$1,916,908.8**	**Grand Total**	**31,058**	**$58,714.0**

Source: Global Trade Information Services, Inc. Global Trade Atlas, Mexico Edition, March 2012.

Table 5 Mexico: MY2011/12 * Tomato Exports and Imports by Volume (MT) and Value ($)

Exports for MY 2011/12 * (Oct.–Sept.):			Imports for MY 2011/12 * (Oct.–Sept.):		
Destination	Volume	Value 000	Origin	Volume	Value 000
U.S.	794,827	$1,059,067.8	U.S.	9,166	$13,470.0
Canada	31,710	40,583.6	Chile	0	
Others not listed	2,685	3,426.7	Others not listed	0	
Grand Total	**829,222**	**$1,059,068,**	**Grand Total**	**9,166**	**$13,470.0**

* Through March 2012.
Source: Global Trade Information Services, Inc. Global Trade Atlas, Mexico Edition, March 2012

* **Editor's note:** the graphic entitled, *Round & Roma Tomato Prices Mexico City Wholesale,* was cutoff in the submitted document. It has been reproduced herein as is.

Table 6. Mexico: Monthly Exchange Rate Averages 2008–2012
MX Pesos per U.S. $1.00

	2008	2009	2010	2011	2012
January	10.91	13.15	12.80	12.13	13.46
February	10.77	14.55	12.95	12.06	12.79
March	10.74	14.71	12.59	12.00	12.75
April	10.52	13.41	12.23	11.73	13.05
May	10.44	13.19	12.71	11.64	13.60
June	10.33	13.47	12.72	11.80	†14.30
July	10.24	13.36	12.82	11.67	
August	10.10	13.00	12.74	12.22	
September	10.61	13.41	12.82	12.97	
October	12.56	13.24	12.44	13.46	
November	12.31	13.12	12.33	13.67	
December	13.40	12.85	12.39	13.75	
Annual Avg.	**11.14**	**12.33**	**12.62**	**12.42**	

† As of 1er week of June 2012
Source: Mexican *Federal Register*.
Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.

FAS/Mexico Web Site: We are available at *www.mexico-usda.com* or visit the FAS headquarters' home page at *www.fas.usda.gov* for a complete selection of FAS worldwide agricultural reporting.

FAS/Mexico YouTube Channel: Catch the latest videos of FAS Mexico at work *http://www.youtube.com/user/ATOMexicoCity*.

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX1012	*Hard Freeze Damages Sinaloa Corn and Produce*	2/14/2011

Useful Mexican Web Sites: Mexico's equivalent of the U.S. Department of Agriculture (SAGARPA) can be found at *www.sagarpa.gob.mx*, the equivalent of the U.S. Department of Commerce (SE) can be found at *www.economia.gob.mx*, and the equivalent of the U.S. Food and Drug Administration (SALUD) can be found at *www.salud.gob.mx*. These web sites are mentioned for the reader's convenience but USDA does **not** in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.

ATTACHMENT [2]

May 4, 2017

Hon. WILBUR L. ROSS JR.,
Secretary,
Department of Commerce,
Washington, D.C.

Dear Secretary Ross,

We are writing today to raise concerns regarding unfair trade practices with respect to Mexico's exports of produce to the United States, which are undercutting Florida's specialty crop industry. Mexican growers in particular have a long history of flooding the U.S. market with tomatoes at below-market prices, a practice referred to as dumping. However, it is no longer just tomatoes that are being dumped into U.S. markets, Mexico's exports of bell peppers, strawberries and watermelon have soared over the past couple of years—which is disproportionately impacting the economic vitality of Florida's unique agriculture industry.

Florida's farmers and ranchers provide an economic impact of over $120 billion and serve as the foundation for over 2 million jobs. Furthermore, Florida is the second largest producer of specialty crops in the United States. Our state's special climate and fertile growing regions mean Florida is the sole U.S. producer of many fruits and vegetables during the winter months before most domestic producers begin their harvests.

Unfortunately, after the implementation of the North American Free Trade Agreement (NAFTA) in 1994, imports of many agricultural products from Mexico increased substantially and Mexico began dumping tomatoes and other specialty crops into the U.S. at below-market prices. Coupled with Mexico's inexpensive labor force, its favorable growing conditions and expanding greenhouse production systems, the resulting impact has been a Mexican growing season that directly competes with Florida's specialty crop industry.

In 1996, Florida growers filed a complaint with the International Trade Commission charging that the lower tariff on Mexican tomatoes—a result of NAFTA—had caused significant harm to domestic producers. In October of 1996, the Department of Commerce reached an agreement with Mexican producers and exporters of tomatoes under which Mexican tomato growers agreed to revise their prices and set a minimum reference price in order to eliminate the injurious effects of fresh tomato exports to the U.S. The so-called "suspension agreement" remained in place for years and was renewed in 2002 and 2008. Another agreement established in 2013 raised the reference prices at which tomatoes can be sold in the U.S. to better reflect the changes in the marketplace and to account for winter and summer growing seasons. However, the lack of enforcement of these agreements has intensified conditions allowing Mexican produce to once again flood the U.S. market.

Tomatoes are just one example of how high volumes of these commodities are pouring into the U.S. market at prices significantly below the cost of production. When the trade framework allows unfairly subsidized commodities to be dumped into U.S. markets, it results in negative repercussions on U.S. producers and causes disproportionate economic injury to Florida's specialty crop industry.

As Members of Congress representing Florida, we know how instrumental trade is to Florida's economy. Our state exports over $4 billion worth of products to over 170 countries and territories around the world each year. Florida is uniquely and strategically located in the Western Hemisphere, boasting state-of-the-art economic infrastructure, a multilingual workforce and a concentration of corporate and financial resources. Specifically, Florida has 15 seaports, with Miami recognized as the "trade and logistics hub of the Americas." Florida produces the highest-quality agricultural commodities in the world and can successfully compete in a global market, if it's operating on a level playing field. Unfortunately, the current trade environment created under NAFTA is anything but fair, particularly when it comes to policies impacting Florida's specialty crop growers and producers.

Our country's trade laws provide a variety of avenues to address unfair and injurious trade practices resulting from foreign government subsidies, dumping, and surging imports. We need to implement a trade agenda that will strictly enforce U.S. trade laws and to ensure that a fair and level playing field exists for America's farmers, ranchers, and businesses.

We respectfully request that you initiate an investigation into Mexico's unfair trade practices and its dumping of specialty crops into U.S. markets. Furthermore, as the U.S.-Mexico trade relationship is reexamined, we urge the U.S. Commerce Department, the U.S. Trade Representative, and the U.S. International Trade Commission to develop a new agreement that will protect Florida's domestic agriculture industry, a critical pillar of our state's economy, and compel our Mexican counterparts to compete on a level playing field.

Sincerely,

Hon. THOMAS J. ROONEY,
Member of Congress;

Hon. TED S. YOHO,
Member of Congress;

Hon. MARIO DIAZ-BALART,
Member of Congress;

Hon. JOHN H. RUTHERFORD,
Member of Congress;

Hon. BRIAN J. MAST,
Member of Congress;

Hon. DENNIS A. ROSS,
Member of Congress;

Hon. DARREN SOTO,
Member of Congress;

Hon. ALCEE L. HASTINGS,
Member of Congress;

Hon. KATHY CASTOR,
Member of Congress;

Hon. NEAL P. DUNN,
Member of Congress;

Hon. ILEANA ROS-LEHTINEN,
Member of Congress;

Hon. DANIEL WEBSTER
Member of Congress;

Hon. GUS M. BILIRAKIS,
Member of Congress;

Hon. AL LAWSON, JR.,
Member of Congress;

Hon. CHARLIE CRIST,
Member of Congress;

Hon. STEPHANIE N. MURPHY,
Member of Congress;

Hon. LOIS FRANKEL,
Member of Congress;

The CHAIRMAN. Well thank you, gentlemen.

The chair would remind Members they will be recognized for questioning in the order of seniority of Members who were here at the start of the hearing. After that, Members will be recognized in order of arrival. I appreciate Members' understanding.

I recognize myself for 5 minutes.

Mr. Frazier, NAFTA has appeared to have created a supply chain between north to south that allows the movement of cattle across both borders. There is a chart in your testimony that is U.S. beef trade with Mexico, and it basically shows almost a break even. Imports and exports to and from Mexico have reached a common level. Can you walk us through how that has happened and what did NAFTA do to facilitate that?

Mr. FRAZIER. Well, first of all, we have a lot of feeder cattle that come from Mexico that are fed in feedlots in the United States and then processed in our packing plants. And yes, that is kind of an equilibrium, but we need to remember that a lot of that beef that is produced from those Mexican cattle gets exported around the world and goes into the Asian markets and all over the world. And it is part of the $6 billion export market that we have around the world, Mr. Chairman.

The CHAIRMAN. Is that balance of trade between the two a sharp increase in imports from Mexico during the last 5 or 6 years, is that part of the drought that we had?

Mr. FRAZIER. It is.

The CHAIRMAN. But is that necessarily a bad thing?

Mr. FRAZIER. Well it is, and what they are doing is they are building infrastructure in northern parts of Mexico. In parts of Mexico, there are feedlots that are being built in Mexico, and some packing infrastructure that is going into Mexico, and that is resolving, and some of that beef coming into the United States. But we still import a significant amount of feeder cattle into the United States that are fattened and then processed and exported around the world.

The CHAIRMAN. Secretary Vilsack, geographical indicators continue to haunt us. Obviously, with the bilateral agreements where countries decide that they will recognize each other's geographical indicators, when they try to do a deal with somebody else it has an impact. Parmesan cheese is a big issue with dairy. Can you talk to us about the impact that bilateral deals with other countries may have on NAFTA's negotiations on GIs?

Mr. VILSACK. Mr. Chairman, the Canadians have entered into an agreement with the European Union, which essentially grandfathers in existing utilization of common names for existing facilities, but prohibits and prevents future facilities from being able to use certain cheese names.

This obviously is of deep concern to our cheese industry. If we are going to increase exports and our goal is to try to get from 15 percent of our volume to 20 percent of our volume, cheese is going to be incredibly important. If we simply allow the Europeans to monopolize certain terms of cheeses, that will create no market competition. That will make it difficult for us to market much of what we can produce in this country.

Mexico right now is negotiating with the EU for a free trade agreement, and what we are concerned about is which negotiation gets completed first, the modernization of NAFTA that could potentially reinsert the GI protections that were in the TPP agreement, or will Europe do what they recently did with Japan, enter into a free trade agreement that basically restricts Mexican use of GIs? It is a very critically important issue, and one that prompts us to encourage bilateral discussions and the modernization discussions to proceed expeditiously without delay. We can't afford to lose this race with the EU.

The CHAIRMAN. Thank you.

Mr. Brown, on your issue, I am aware that there are certain U.S. growers who have built facilities in Mexico and that they are importing those products. Can you get any sense as to what distortions are actually caused by U.S. producers choosing to grow in Mexico and bringing those products into the U.S. *versus* folks who don't have that kind of opportunity to compete? Can you break that market down for us?

Mr. BROWN. I can't give you absolutely specific details, but it will actually vary with the particular commodity. In the case of the tomato industry, there are some U.S. producers that are participating in production enterprises in Mexico, but to a large part, the tomato industry in Mexico is driven by Mexican interest. In the case of strawberries and blueberries and some of the fruit crops that are exploding in Mexico as we speak, there is a lot of American interest, relocating from California into Mexico, in that process. It will vary depending on the commodity.

The CHAIRMAN. Thank you. I yield back.

Mr. Peterson for 5 minutes.

Mr. PETERSON. Thank you, Mr. Chairman.

Secretary Vilsack, welcome back to the Committee. It is good to see you here again.

As I understand, you went down to Mexico and met with some of the folks down there and I guess you had a good result from that.

Mr. VILSACK. We went down and Jim Mulhern from National Milk, Michael Dykes from the IDFA, and I went down to Mexico, primarily to reinforce the belief that our relationship with Mexico is not a transactional buy/sell relationship in dairy. It is a much more of a partnership. We are trying to grow consumption of dairy products generally in Mexico, which will create opportunities for Mexican producers but also create opportunities for us on the export side.

Following our visit, we saw increased sales. Last month we were at or near record in terms of our exports to Mexico.

Mr. PETERSON. Thank you, and my question is have you done a similar trip to Canada, or do you intend to go up and talk to those folks?

Mr. VILSACK. We have conversed with Canadian officials. I haven't gone up to Canada. We have been very clear about our concerns about Class VI and Class VII, the impact that it is having, not just on our ability to export into Canada, but also the impact it is having on powder prices generally. That is why ten of the leading trade organizations in the dairy industry globally have expressed deep concern about the Canadian process.

Our goal here is to make sure that our Administration and the Canadian Administration understand how serious this problem is.

Mr. PETERSON. As I said in my opening statement, the Canadians' interest up there continue to buy up our processing, which I don't know if it is good or bad, but it does seem curious what happened with this situation with Grassland where Agropur was involved in buying the surplus milk and as I understand it, they paid $7 per hundredweight less than the pool price. Just so you know, this whole situation that is going on, I told the Canadian Ag Committee, they want to know if there is anything they can do for me. I said yes. I said get me a quota to milk 100 cows in Canada, because that is one of the most profitable things you could ever do, if you could ever get that quota.

I don't know how we resolve this. They are going to defend this no matter what, and they make so much money up there, they can't invest it in their own industry. They are coming down and buying us up. It can't be good. I don't know what you guys think about it.

Mr. VILSACK. Well it is not good, and it certainly is detrimental not only to American producers, but also Canadian consumers who end up paying a significant amount more for their dairy products than they would otherwise have to pay if there was a freer flow of product across the border.

Congressman, I don't know that we have all the answers, but I would suggest to you that this renegotiation needs to focus on significant tariff reduction. It needs to focus on greater transparency in the process. The Canadian Government clearly manipulates through policy and regulation this market. Whenever we make an in-road, then the rules change. You can't ask American companies to invest hundreds of millions of dollars in a processing facility if there is no expectation that the market that they are counting on for the payment of that expansion is going to be present 6 months from now because the Canadian Government changes the rules. It is clear that this process has to be more transparent and more predictable.

Mr. PETERSON. Thank you.

Mr. Brosch, I was reading your testimony that in spite of the fact that they have this export supply management and poultry, and the fact that you are somewhat limited in what you can export, I guess, but it says in here that Canada is the number two export market for the United States.

Mr. BROSCH. That is correct.

Mr. PETERSON. How can that be?

Mr. BROSCH. We have a limited quota for certain products, and we have no quota for other products that the poultry industry produces. For example, fowl meat, we have a lot of spent hens in the United States. Canada is a deficit producer for their own market of poultry, and so certain products they are going to need no matter what, and those products make it into Canada; and turkey, we export turkey to Canada. But they are about 16 percent of our exports right now total, if you look at all products.

I understand the Secretary's concern. We have those concerns and have had those concerns for years. We would like more access to the market. We were hopeful that the Administration would pursue the TPP because we thought we had some gains locked up in the TPP in Canada. Of course, TPP also offered us what we really wanted, which was access to lots of other markets. Canada is not going to solve the problems of the U.S. poultry industry, frankly. We need all the markets around the world to have access, all markets. We would like improvements in Canada, but the truth is, right now Canada is our number two market.

Mr. PETERSON. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

Mr. Lucas, 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman.

Mr. Frazier, I think we would all agree that whatever is done on NAFTA will likely set the tone for future trade deals, particularly as it affects agriculture. Could you expand for a moment in this renegotiation process of what would be important to the beef industry and other sectors that could happen in the future, say, as it might then apply to other countries, Japan or China, for instance, as trade deals come together?

Mr. FRAZIER. Well, first would be that we have no duties on products going into those countries, no tariffs, no duties. That would be first. We feel that NAFTA is working for our industry. It is providing a lot of value-added products that we are able to sell around the world. It utilizes a lot of grain products, and we would like to see more of the focus now on bilateral negotiations with Japan in the absence of TPP, and bilateral negotiations with other countries around the world, and replicate some of the things that we think are beneficial in NAFTA.

Mr. LUCAS. Is there anything that potentially would come up in such renegotiation that you think could be damaging or harmful to future trade deals, things we should be concerned about?

Mr. FRAZIER. I mentioned one, Country-of-Origin Labeling, if that gets back on the table. We don't need that back on the table again. I guess that would be our biggest concern, and anything that would have to do with tradeoffs around duties or tariffs put on American beef going into Canada and Mexico.

Mr. LUCAS. Mr. Gaibler, it is my understanding and it has been reflected in comments here that as we approach potential NAFTA renegotiations, Mexican buyers are shifting to short-term contracts and looking at sources perhaps for grain outside of North America. That is the way I will word that. And this is just based on the potential for change in NAFTA. Could you discuss for a moment what the impact would be if this renegotiation turns out to be an extended process, what the effect could be on your folks, and for that matter, agriculture in general? I am looking for justification to move quickly, whatever we do.

Mr. GAIBLER. Thank you, Congressman Lucas.

Well as I said and as is written in my testimony, we haven't even gotten to the negotiation, and we have a seven percent decline in our sales since the beginning of the year. And we did try and come up with some analyses to try and measure the potential impacts. I didn't cite them in my oral testimony; but, we are talking about some real numbers here. Our total grain production could fall by 1.2 billion. We would have a loss of about $6 per acre. There would also be increased costs because the model imputed that there were probably $1.2 billion in farm program payments. So that is just a shot or a guesstimate of what the potential impacts could be. And if we are not getting this negotiation done by the end of the year, we anticipate that this erosion will continue and all of us who are in the international export business know that once you lose market share, even with your best customers, it is very difficult to recover it.

Mr. LUCAS. Secretary Vilsack, the last time we went through the farm bill process, you sat in a different role and you were responsible for the entirety of agriculture. I know you have concerns for the entirety, as always. Is it fair to say that as we approach 2018 and the next farm bill process, that perhaps just as important as comprehensive farm bill policy is, as what happens on NAFTA and these trade agreements will make or break us as an industry? Your observations?

Mr. VILSACK. Well Congressman, Canada and Mexico, Mexico is our number one market, Canada is our number two market for dairy products, so clearly what happens here will make a difference to the nearly 42,000 operations that are producing product.

Look: We have to fix what is broken in Canada. This is a market that is far too closed. It is not transparent. The rules are constantly changing, and there are some serious issues that have to be dealt with in these negotiations. And to your point, they need to be dealt with immediately. This is not a situation where we can have an extended conversation about changes, because we are facing competition with the EU and their efforts to get free trade agreements with Mexico, and the one that was recently done with Japan. It is incredibly important that we get this done quickly and we get it done right. And to get it done right, we have to preserve what is working. We have to strengthen what can be strengthened, and we have to fix what is broken.

Mr. LUCAS. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

Mr. Scott, 5 minutes.

Mr. DAVID SCOTT of Georgia. Thank you, Mr. Chairman.

This is a big issue. It is very important to my State of Georgia. Under NAFTA, Georgia has a lot to lose if these export markets shrink due to uncertainty, and that is the big word here. This uncertainty that is floating. And as we are considering this issue, I put myself in Mexico and Canada's shoes, and I ask myself what I would do if my largest trading partners were thinking of backing out of a deal? I would start looking at other countries to trade with in case our deal is broken. And this is why I wasn't surprised, panel, when Mexico bought five times more corn from Brazil than it imported from Brazil last year. And in your testimony, Mr. Gaibler, you showed that it may very well be even worse than I had thought. And when I hear the Administration saying that they will follow a first do no harm strategy, I really can't help but wonder if we have already began to see some harm on America's agriculture industry? And I also worry about repeating battles.

And especially, Mr. Frazier, last week the Office of the U.S. Trade Representative announced in its negotiating objectives in updating and strengthening the rules of origin. Now we all have fought this fight over and over again, and can tell great stories on it. To repeat this mandatory Country-of-Origin Labeling on U.S. beef products as we are all aware of, Mr. Frazier, can you comment and tell me if you have any concerns about this objective that U.S.

Trade Representative is offering? Are we in any way having to fight this COOL label all over again?

Mr. FRAZIER. Well I hope not. I am not going to speak for the U.S. Trade Representative, but we feel strongly that Country-of-Origin Labeling did not work. WTO ruled in favor of Canada and Mexico, and our conversations with them, it is very clear that if that is brought back on the table, they will put in retaliatory tariffs on U.S. beef going into Mexico and Canada.

Mr. DAVID SCOTT of Georgia. So your answer to that is that you are somewhat worried, but you feel we won't have to repeat it. Is that right?

Mr. FRAZIER. Yes, we would be concerned if there is any discussion about it coming back on the table.

Mr. DAVID SCOTT of Georgia. Okay.

Mr. FRAZIER. We are against that.

Mr. DAVID SCOTT of Georgia. All right. Let me go to Mr. Brosch for a second.

One place where I see a possibility of hope is increasing the quota access in poultry to Canada. The poultry industry has a very similar supply management situation in Canada as the dairy industry does. If a U.S. company decides it wants to do business in Canada, they first have to build a facility. They have to build growing barns. They have to get office space, packing, shipping, and processing. And then they have to have a purchase quota; however, after all that, they can only purchase 250 kilos or 550 pounds of import quota. This small amount of production assures that no competition can come into Canada.

Mr. Brosch, can you tell us how was this allowed when NAFTA was first negotiated?

Mr. BROSCH. Well NAFTA was first negotiated as the U.S.-Canada Free Trade under President Reagan in 1984, and I was, frankly, a lot younger man than I am today. It actually is before my time, but the Canadians essentially retained their reservation under the WTO, which they have had for many, many years for supply management. And the WTO rules allowed that at the time.

We thought when NAFTA was negotiated that they couldn't maintain that, and there was actually a challenge case brought by the USTR on behalf of the U.S. dairy industry, and we lost that case. As a legal matter, and frankly, I never quite understood how we lost that case, but as a legal matter, the Canadians were upheld in that dispute settlement case.

It all goes back to that original negotiation where they essentially claimed the right to reservation.

Mr. DAVID SCOTT of Georgia. Thank you.

The CHAIRMAN. The gentleman's time has expired.

Mr. Gibbs, 5 minutes.

Mr. GIBBS. Thank you, Mr. Chairman. Thanks to the panel for being here.

Secretary Vilsack, you mentioned about the dairy supply management in Canada, and some of their policies. Ranking Member Peterson talked about the quota is quite profitable in the dairy industry up there on your quota, and they are using a lot of those profits to buy processing here in the United States. I'm not that familiar with how their quota system works up there, supply management system works, but is it possible for dairy producers in Canada to exceed their quota and then move that milk to the United States to the processing plants that they own in the United States?

Mr. VILSACK. Let me give you an example of the Canadian system so that you have a better understanding.

This Class VII, which we have raised concerns about, essentially what they have done is they have essentially allowed processors to pay about 15 percent less than what they would normally pay for a U.S. product to go into their processing, and that has created, as a result of a significant increase in butter consumption, has created a lot of powder. They put the powder basically on the world market at a below world market price, which drives the price down for everyone. That also would impact Canadian farmers, but they have allowed for adjustments on the other classifications of milk products and dairy products, so Canadian farmers basically break even in this system. Processors benefit from cheaper supply, and powder is dumped on the market. And essentially what that has done is it has created havoc for our producers, and for that matter, for producers in New Zealand and in the EU.

It is the ability of the Canadian Government to essentially manipulate the system whenever there appears to be the need or the U.S. is making in-roads, they manipulate the system, and that is the problem. And it guarantees a price for Canadian producers that is significantly greater than what they would get in a market and the consumers end up paying for it in Canada.

Mr. GIBBS. They just created a whole new class, this Class VII, that wasn't part of the agreement?

Mr. VILSACK. Exactly. We were having ultra-filtered milk going into the Canadian market, creating the opportunity for processors to use our ultra-filtered milk. When we began to gain market share, they created a Class VII, allowed the processors to basically purchase Canadian product for 15 percent less than what they would pay for U.S. product. That ended the import opportunity for us, the export opportunity for us. It created opportunities for processors to profit in Canada, and it didn't hurt the Canadian producers because they increased in the other classifications so that they could make up the difference in other classifications. And the losers are U.S. producers and Canadian consumers.

Mr. GIBBS. Back to the Ranking Member's comments about the co-ops that producers in Canada are buying the processing here in the United States. Is that happening and where do you see it is happening, what is the phenomenon there?

Mr. VILSACK. Well it is happening, and of course, it happens in a number of other industries. But the bottom line here is what we really need, and the conversation needs to focus on creating a system where the Canadian Government can't manipulate the system to impact and affect. We need predictability. We need transparency. As I said earlier, you can't expect American processing facilities to be expanded or built if they are counting on a Canadian market to change every 2 or 3 months. And this is not the first circumstance. Class VII or Class VI are not the first circumstance of changes. They change product standards. They change the way in which they calculate whether quotas are being met. It makes it incredibly difficult and unpredictable for our industry, and so our hope is that this modernization conversation allows us to fix these problems, because they have been serious——

Mr. GIBBS. Maybe Mr. Brosch might want to comment. I know it is experience mostly about NAFTA, but with TPP gone, bilateral agreements that the Administration talks about, it seemed to me that the two countries that we ought to be having serious discussions with would be Japan and Great Britain. Am I correct in that?

Mr. BROSCH. For us, Japan was the big win in TPP. The problem, of course, as you realize, Congressman, I did trade negotiations for a number of years, is that it is never a one-way street.

Mr. GIBBS. Yes.

Mr. BROSCH. And the problem was in the TPP, which is a plurallateral agreement, Japan was getting benefits from open markets in other countries, and so there was a tradeoff for them. Whether or not Japan is willing to give us access without those tradeoffs is going to be the big challenge. And in my discussions, I think that is going to be a huge challenge. The Japanese Government is going to have a difficult time having a benefit in a bilateral agreement.

Mr. GIBBS. Even though that the United States is by far the largest economy in the world, there are benefits in non-ag that they would benefit?

Mr. BROSCH. You are asking for my speculation. I think that is going to be a difficult sell.

Mr. GIBBS. Yes, go ahead.

Mr. GAIBLER. Well, I have actually had some discussions with Ministry of Agriculture, Forestry and Fisheries in Japan. They, clearly, want to keep the TPP alive. They are managing the TPP 11 process. They would like to actually leave an opening for the U.S. to come in at some later point, but the message that we are going to hear from them is that they do not feel like they can get into a bilateral negotiation, and particularly from their agricultural standpoint, if they have to come in and make more severe concessions than they did under TPP, they would view that as a net loss and politically would not be able to support that sort of process.

Mr. BROSCH. I just would add this, Congressman. I did the bilateral negotiations with Japan during the Uruguay Round for 4 years, and I can tell you, this is not easy. Their agricultural sector is pretty sacrosanct. They import about 55 percent of their food needs in Japan, or at least they were at the time. This is a real critical matter of food security, so unless there is some big benefit for them, it is a very hard push to open agricultural markets.

Mr. GIBBS. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman. I welcome this discussion, and I think that the last comments that were made about trade being a two-way street where you have to have win/wins is right on point.

NAFTA, I hope, will be modernized and renegotiated, but I was very frustrated to see the narrative change over the last 18 months or so during the campaign year, because it didn't accurately reflect the successes of NAFTA, notwithstanding the fact that we need to modernize it. California leads the country in agricultural revenue, and our producers are twice as reliant on foreign trade as the rest of the United States.

Let me give you some numbers. Our NAFTA partners Mexico and Canada account for 22 percent, 22 percent of California's agricultural export. In 2015, for that year, Mexico accounted for $3½ billion in agricultural trade, Canada, $1.1 billion. And I just think it is inaccurate to say that when you look over the last 20 years and any objective criteria that you measure it by, that it has been a disaster. It hasn't. Or the single worst trade deal that has ever been negotiated. It hasn't. Yes, it needs to be upgraded and modernized, but we did that in TPP as was pointed out, and it was a mistake to walk away from it on the first day without having read it or examined for what is primarily political purposes.

Notwithstanding the rhetoric, I think that any objective analysis shows that when you look at job loss—and I am very sensitive to the job losses and to the situation with our friends in organized labor on manufacturing. When you contrast it to where we are in terms of the totality and where we want to go, the fact is, is that we need to renegotiate this successfully. I have serious concerns, as do you, whether or not we can do this in the light of a bilateral.

Let me ask the panel members, is there any chance that a renegotiated agreement could lead to improved conditions for migrant agricultural workers, which we have in short supply in the United States, or is it more likely that the labor force will relocate in Mexico if the agreement boosts economic productivity there? Who wants to take a whack at that?

Mr. VILSACK. Congressman, I will just simply say in the dairy industry, there is a level of concern and anxiety based on the failure for us to actually solve our immigration issue in the U.S. We have a broken system, and it is impacting and affecting dairy production.

Mr. COSTA. It is affecting all of agriculture.

Mr. VILSACK. Well, I cannot speak for all agriculture today, but I can with confidence——

Mr. COSTA. I understand that.

Let me go beyond. I mean, we remember clearly in 2010 with the Mexican truck driver issue, and then last year with the Country-of-Origin Labeling. Each side has leverage. I remember it very clearly when tariffs went on table grapes in 2010 and cheese production in Mexico, and it took us 18 months to get those tariffs removed. And last year, both Canada and Mexico were putting the lists together on retaliatory activity if, in fact, we didn't take action on the Country-of-Origin Labeling.

Is it not true that there is leverage on both sides? I see head-nodding. Yes?

Mr. BROSCH. I will tell you one of our concerns in the poultry industry.

A number of years ago, one of the companies in Mexico brought a dumping case in Mexico against our industry. I actually had gone down and testified in that proceeding. We were able, through the cooperation of the larger Mexican poultry industry and the Mexican Government to get that duty suspended. Essentially, they never applied it, but it is sitting there. It is sitting there on the books in Mexico, and it could be applied at any time. And our concern is that something is going to happen in these negotiations in another sector——

Mr. COSTA. Well, it has to be a win/win. I mean, if it is we win and you lose no company is going to agree to that.

Mr. BROSCH. Right. And we have had experience, Congressman——

Mr. COSTA. I mean, that makes good politics, but that doesn't make a trade deal, maybe.

Mr. BROSCH. Well, I am just telling you our concern right now is that——

Mr. COSTA. I share your concern.

Let me just quickly go because my time is running out.

Who was the big winner, in your opinion, when we walked away from TPP, and these countries are still trying to go ahead?

Mr. FRAZIER. China.

Mr. COSTA. China? Do you agree? China? Yes. I think there is a consensus there. China was the big winner on this.

Mr. VILSACK. The EU also won in the dairy, because they just recently negotiated an agreement with Japan which gives them more market access and some protection in terms of GIs.

Mr. COSTA. Well my time has expired. Thank you, Mr. Chairman. Hopefully we will figure out a consistent agricultural trade policy in the near future.

The CHAIRMAN. The gentleman's time has expired.

Mr. Scott?

Mr. AUSTIN SCOTT of Georgia. Thank you, Mr. Chairman.

Mr. Brown, as you were talking about Florida tomatoes, I couldn't help but remember some of my Georgia tomato growers back in 2008 when they had warehouses full of a crop that had just been picked, and they couldn't sell them because of a *Salmonella* outbreak that ended up being Mexican peppers. There is no telling how many millions upon millions of dollars farmers lost through my area before I was in Congress, but I remember quite well some of the long-term families that had been extremely good farmers and——

Mr. BROWN. We estimated $100 million was lost at that point and there has been no way to recover that in several court cases where the industry has tried to retrieve that money, but we failed.

Mr. AUSTIN SCOTT of Georgia. It probably killed some people just from the stress, and through no fault of their own, no fault of their own. People lost, in some cases, things that it took generations to build, because it was literally just harvested.

As we talk about renegotiations of NAFTA, it would be more adjustments to an existing framework, but from the standpoint of the fruit and vegetable growers, what do the renegotiations need to contain to address your concerns on trade?

Mr. BROWN. One of the big concerns that we have, the U.S. tomato industries had a dumping case in place for 20 years. Many of these other commodities, especially where there is seasonal and perishable producers, are producing, for instance, our Florida strawberry industry produces about 15 percent of the fresh strawberries in the country, but they produce them from the period of December until about the 1st of March. They cannot avail themselves of U.S. trade law to defend themselves against the unfair trade practices such as dumping or countervailing duty subsidization on the Mexican side of the border. And Mexico has pumped tens of millions of dollars into protected culture agriculture, which is exploding the productivity of the Mexican specialty crop industry, and it is coming back into the U.S. We need to have some way of allowing those industries to use the tools to defend themselves and create some kind of a carve-out onto the trade law and onto the treaty for perishable and seasonable producers to be able to join together to defend themselves.

Mr. AUSTIN SCOTT of Georgia. Thank you for that, and as we go forward, I know we are not here to talk about the farm bill, but I know specialty crops is going back to that 2008 scenario where the government made a decision that hurt those people, basically bankrupted them, and I hope we take a serious look at what we can for specialty crops that they participate in.

There has been a lot of discussion on the chicken issues already with regard to Canada, but just one more time. How do we achieve greater access into Canada while making sure that we don't disrupt the market access that we currently have in Mexico, Mr. Brosch?

Mr. BROSCH. That is a good question, Congressman. We thought that the key to this was essentially a plural-lateral agreement under TPP. We thought that this was our best chance to make progress in Canada, because Canada wasn't interested in TPP initially until it saw all the countries that were in there, and then they realized they had to be at the table or they were going to be left out. And this really put the pressure on Canada to do something about poultry access, and it is unfortunate that we are not in there. We are having a hard time seeing exactly what the leverage is at the current time, and as I said, we do have a fairly significant market in Canada, even though we would like to do better.

Mr. AUSTIN SCOTT of Georgia. Gentlemen, thank you for your time. Mr. Chairman, I am going to yield the remainder of my time.

The CHAIRMAN. The gentleman yields back.

Ms. Fudge, 5 minutes.

Ms. FUDGE. Thank you very much, Mr. Chairman, and thank you all for being here today.

We all know that there is no perfect piece of legislation, so we know that everything should be reviewed. It is time that we start to talk about reviewing NAFTA. Although, Mr. Chairman, I am somewhat dismayed that there is no one representing labor at this table, and I would just say that for the record.

The Administration has decided that it would like to come to some closure on a new NAFTA agreement by sometime in the beginning of next year. Now, I mean, that might be good for a rose garden photo-op, but it is a much more complicated issue than just a few months, as is healthcare, by the way. Complicated. It is important that we make sure that the interests of U.S. producers are protected in whatever agreement we come up with, and so I am hopeful that you are taking some time to educate the White House on what you believe should happen with a new NAFTA.

I think that when we sit and talk about trade, we have to be sure once again that we protect American interests and not other country's interests. We could, indeed, come up with a new plan and have serious damage to U.S. producers. I think all of you are saying that, and I certainly want to ask you now, what, if anything, are you prepared to do to make sure that this deal that your position is heard? Mr. Brown?

Mr. BROWN. We are doing everything we can to communicate throughout the Administration the concerns of the specialty crop industries out of Florida and other parts of the country. We have talked with the U.S. Trade Representative's office. We have talked with the White House. We have worked with our delegation here from Florida, and we have had the opportunity to certainly make people aware that all is not well when there is a $5.3 billion deficit, and it is on the backs of the specialty crop fruit and vegetable industry in this country. And it is American farms and American communities that are going to be destroyed if we don't take steps to ensure that we have a free and fair trade environment where those enterprises can continue to feed America here with American products.

Ms. FUDGE. Thank you. We are just going to go down the line.

Mr. HAMMER. Thank you. We have been trying to carry the message to the new Administration from my member companies through our association and through combined efforts of many coalitions that we work with.

A message that you heard throughout here today is while there is opportunity for improvements, the message of do no harm has been said loudly and clearly from American agriculture that is benefitting. My industry, the soy processing industry, our increase in value since the beginning of the NAFTA to Canada and Mexico, has been over $2 billion in trade this year *versus* trade in 1993. Because of free trade agreements that we have in the Caribbean and Canada and Mexico, we own those markets. We have them 100 percent of the year. We often are in a cyclical market share situation in other markets where South America produces at different times than we do, but by serving their markets year-round, we are able to keep our processing plants open year-round. If we were to lose those markets, we would be closing U.S. processing plants. We already know our members have gone down there and there is great angst, and we have seen our sales of soybean meal in the first 6 months of this year in value drop 21 percent from the same period a year ago, and in volume drop 13 percent from this period to last year. They are making adjustments now. They are telling our member companies that they want their contracts to be on much shorter contract terms. That is not a good sign for our business. We need to send this signal to them that we want to continue this supply chain relationship that we have with both Canada and Mexico.

Ms. FUDGE. Thank you.

Mr. GAIBLER. Well the U.S. Grains Council that participates in this U.S. food and ag trade dialogue, they provided extensive comments to USTR. We provided our own extensive comments. As I mentioned in my testimony, we have engaged our customers, particularly the Mexican livestock and feed industry. We have gone down there numerous times. Per their concerns, we thought it made sense to have people in Congress and the U.S. Department of Agriculture hear those concerns, so we brought them up to do that. In addition, we continue to have ongoing dialogue with the Administration.

The CHAIRMAN. The gentlelady's time has expired. I will ask the other three witnesses to submit their answers for the record.

Ms. FUDGE. Which is fine, Mr. Chairman, but everybody else went over a whole minute, but I thank you very much. I appreciate it.

The CHAIRMAN. Mr. Crawford for 5 minutes.

Mr. CRAWFORD. Thank you, Mr. Chairman. I will try to make up for some of that and just focus on one question.

Mr. Gaibler, prior to NAFTA, Mexico was a minor importer of U.S. rice, typically sourced from Asia. Since the implementation of NAFTA, they have become the largest market for U.S. rice, particularly important to the mid-South region medium and long grain production.

In the last few years, there has been a little bit of a threat that they might revert back to Asian sourcing, and one of the deals, for example, is a side deal related to TPP where Vietnam could access the Mexican market duty free.

I guess my question is does the NAFTA renegotiation process create any problems for that competitive edge that we have in Mexico with regard to rice that might accelerate their decision to now start to source from Asia?

Mr. GAIBLER. Well I guess my response would be is that we have seen the growth of the Mexican livestock industry and we have seen their ability to gain efficiencies, economies, the size, and scale. A lot of it has to do because of our arrangement with us by giving them reliable supplies. And part of what you saw, in the TPP negotiations, was is that Mexico, like every other country, is looking to be a net exporter of products, including agricultural products, and they view the opportunity that they are efficient enough to compete and actually export some of those products, the value-added products, outside of their markets, and part of it was that some of the concessions they gained as part of TPP. But it is all under-driven and enlightened by the fact that our system with no tariffs and the ability to create the efficiencies have made that possible. And I would remind you that Mexico already is very aggressive. They have 46 FTAs already, so they know how to negotiate trade agreements and get access.

Mr. CRAWFORD. Thank you. Mr. Chairman, I will yield my time.

The CHAIRMAN. The gentleman yields back.

Mr. Tom O'Halleran, 5 minutes.

Mr. O'HALLERAN. Thank you, Mr. Chairman.

The CHAIRMAN. Is that getting close, Tom?

Mr. O'HALLERAN. You got it.

Anyway, back in the Depression, my grandmother and grandfather lost their farm, and it is probably still in existence, but times have changed. And Mr. Brown, you had mentioned about the loss of family farms, and that concerns me a lot. But what concerns me also is the entire process that we are going through right now. One of you mentioned that you hope that we have this done by the end of the year. Well as you know, the timeline for this from the Administration goes way into next year, and that is without the complexities that have been mentioned today and the other ones for other industries. That concerns me probably as much as the loss of family farms, because it is an ongoing process, and it is going to hurt agriculture in America.

But I guess what I would like to know from Secretary Vilsack is you have been down to Mexico, so the political environment, I would like to hear a little bit about that, and your ideas about the bilateral needing to be done in a timely fashion, and if you feel that is going to be accomplished to make sure agriculture in America stays competitive. And then if you have time, some discussion on what you have identified clearly as the EU problem.

Mr. VILSACK. Where there is an election in Mexico next year, which is prompting the Mexicans to want to conclude discussions as quickly as possible, but it is correct to say that this is a very complex set of negotiations. And the Mexicans are skilled at this, and they understand that they are on dual tracks. On the one hand, they are negotiating with us on renegotiation of NAFTA. On the other hand, they are negotiating with the EU on a free trade agreement, and they are essentially, in my view, sort of working off each other. In other words, they are suggesting to us well maybe the EU will have a better deal for us. Maybe we need to conclude those negotiations before we conclude NAFTA. They are probably telling the Europeans the opposite. And they are looking for the best deal for Mexico.

So it is important and relevant for us to be able to conclude this agreement, particularly as it relates to things like the GIs, the geographic indications, that we talked about earlier. We don't want to give the EU yet another notch, if you will, in that effort to try to preserve and protect common names and create a due process system.

We face some serious competition in the dairy industry, and we also face an incredibly productive industry. We anticipate and expect by the year 2022 that we will have 14 million more pounds of dairy product that will need to be exported, or we will need to find a market above and beyond what we have that will increase domestic consumption. These export markets, these trade agreements are incredibly important in order for us to sustain the family farming operations that are represented in the dairy industry.

One of the benefits of dairy is that we still have very small operations, and we have very large operations, and they are mutually coexisting, if you will, because of exports and because of increased domestic consumption.

Mr. O'HALLERAN. I take it the need for expedited activity on the bilaterals is an important part?

Mr. VILSACK. It absolutely is. I mean, when we took ourselves out of TPP, it essentially created an urgency in beginning and concluding bilateral discussions, not just in the context of NAFTA, but also in the context of some of our Asian partners.

Mr. O'HALLERAN. Mr. Chairman, I will yield back.

The CHAIRMAN. The gentleman yields back.

Mr. Davis for 5 minutes.

Mr. DAVIS. Thank you, Mr. Chairman.

Question first, Mr. Gaibler. As in your testimony, you mentioned the commercialization of biotechnology that occurred after the U.S. ratified NAFTA. And as the Chairman of the Subcommittee that has jurisdiction over biotechnology issues, I am really interested in hearing your opinion on what can be biotechnology's future role in a possible renegotiation? If you could expand upon your comments.

Mr. GAIBLER. Well yes, as Tom had noted in his testimony, TPP provided some foundational language on biotechnology, which was really kind of the first time that I am aware of that biotechnology was even addressed in any trade agreement, bilateral or otherwise. And it put——

Mr. DAVIS. Do you think that is a necessity in future trade agreements?

Mr. GAIBLER. Sure.

Mr. DAVIS. Lay it out?

Mr. GAIBLER. Absolutely, because the markets, particularly China and the European Union, continue to have asynchronous biotechnology policies. The other part of what we have proposed is that we have tried to explain that there have been over 660 products assessed over that 20 years. Each government uses fairly similar risk assessment processes to do that, and there has been an effort to try and come up with ways to share that information in a way that, if a country has already adopted the proposal and the other country looking to approve it could say, "Yes, we will review that documentation. If it meets our scientific rigor, we will do that rather than repeating the whole process." We are trying to get that kind of foundational language as well into this North American Free Trade Agreement, because, in my view, this will probably be our foundational document moving forward on other FTAs, and so we want to build on that, what we achieved in TPP.

Mr. DAVIS. Mr. Hammer, did you have any comments you would like to make?

Mr. HAMMER. As we are both in agreement, NOPA works through a coalition called the U.S. Biotech Crops Alliance, which represents from the tech company all the way through to the exporter, the greens and oilseeds. And we are very, very unified on this point that we need to put biotech agreements in our trade agreements. This is an excellent example, we wouldn't have even contemplated this in 1993, of one of the areas where modernization is so necessary, and it does have so much to do with the marketability and fungibility of our grain trade globally. This is high priority for NOPA, and virtually everyone in our value chain.

Mr. DAVIS. Well thank you very much for your comments. I agree, and I hope that we open up more opportunities for biotechnology and its growth as we move forward and have to continue to grow more food on less land with a very much growing population.

Mr. Secretary, welcome back. I am glad to see you here. I am used to you not being surrounded by anybody and in the middle of the table. I just wanted to say welcome back. It was great to work with you, a pleasure to work with you over the last few years when we sat in different places in this room, and I look forward to working with you in your new capacity.

Mr. VILSACK. Thank you. It is good to be back.

Mr. DAVIS. So with that, thank you. I yield back, Mr. Chairman.

The CHAIRMAN. The gentleman yields back.

Mr. Panetta, 5 minutes.

Mr. PANETTA. Thank you, Mr. Chairman, and thanks to all of the witnesses for being here. I thank you for your preparation, thank you for your testimony.

I represent the central coast of California, 20th Congressional District. As Mr. Davis knows well, it is called the salad bowl of the world, based on its number of specialty crops. I can tell you, when you are driving through Salinas from pretty much April to October, you want to avoid it because there is so much production, there is so much traffic going on there. However, in the other 5 months, it slows down a little bit and there is not that much production during the winter months, at least there in Salinas. But let me tell you, there are family farms that continue to produce and continue to be successful during those winter months. That is because they have farms in Mexico, a number of farms in Mexico. And what it turns out to be is sort of a complimentary relationship, their farms here and then the other winter months they are able to produce in Mexico, and so it allows them to continue to be successful, continue to make money which they can then invest in their farms here in the United States. In fact, especially there in the Salinas Valley, which is close to Silicon Valley, allows them to invest in mechanization, obviously, to deal with the labor issue or lack of labor issue that we are all facing here in the United States.

Most of you except one person said that renegotiating NAFTA, you don't want to do harm. You don't want to do any harm to the production. And Mr. Brown, you are the only one I didn't hear say that, and instead, Mr. Brown, I heard you say specialty crops are an industry under assault. And I can tell you that in the Salinas Valley, in the salad bowl, they are not under assault. They are actually taking advantage and benefitting from farm production in Mexico.

And so I guess my first question to you, Mr. Brown, would be have you been to the central coast?

Mr. BROWN. Yes, sir.

Mr. PANETTA. Okay. Have you spoke with family farmers such as Bruce Taylor?

Mr. BROWN. I am fully aware of the expansion that is taking place, and those expansions, Mr. Panetta, are basically managed ventures and investment opportunities in Mexico. What we are concerned about is the wholesale subsidization of Mexican expansion into other specialty crops that are basically creating excess capacity that is being basically grown for the U.S. market, pushed into the U.S. market, and it is price depressing. Your farmers are managing their supply and making their enterprises work as good businesses should, but when you release the capacity that is being built in Mexico in the last decade and dump it into the U.S. market at whatever price, as you well know, produce is sold on whatever the price is today is the price, because we can't store it, and if we all operate under the premise you either sell it or you smell it, and it basically depresses prices for many of these other commodities, but it is a different kind of business than you are referring to out of the Central Valley.

Mr. PANETTA. That is right. And so once again, have you spoken with the specialty crop farmers there on the central coast?

Mr. BROWN. I have not personally had that conversation with central coast farmers.

Mr. PANETTA. Okay. All right, because they will tell you. I spoke with Kevin Murphy of Driscoll's Farm, Bruce Taylor at Taylor Farms, Rick Antle, T&A Farms, Dicky Peixoto, Lakeside Organics. They will tell you that their production in Mexico is benefitting them and benefitting your family and my family by allowing us to eat fresh fruits and vegetables year round.

The question was asked by Mr. Costa, the Mexican production that is U.S. owned in Mexico, are you familiar with that percentage?

Mr. BROWN. I don't have a percentage and I don't know there is a percentage anywhere in existence that I have ever been aware of.

Mr. PANETTA. Okay. Does Florida have farmers that have farms in Mexico as well?

Mr. BROWN. Generally speaking, no. We have a very limited number of farmers that have some tomato operations in Mexico, but they are basically Florida-based operations.

Mr. PANETTA. Understood, understood. Thank you. Thank you, gentlemen. I yield back.

The CHAIRMAN. The gentleman yields back. Mr. Allen, 5 minutes.

Mr. ALLEN. Thank you, Mr. Chairman, and again, I want to thank everyone for being here and talking about the importance of trade, particularly as it relates to agriculture and obviously, agriculture is the largest industry in my State of Georgia, and the largest industry in my district. Of course, we grow a variety of things in my district, the famous Vidalia onions, and some, obviously, fruits and vegetables, blueberries and of course cotton, peanuts, and Georgia is the top exporter of peanuts and poultry, and it is the top five exporter of cotton, pecans, vegetables, and melons. And according to the U.S. Census Bureau, since 2004, Georgia's agriculture exports to Canada and Mexico have more than doubled from just less than 300 million to almost 720 million in 2016.

One of the things that I hear from my constituents, and one objective that I am happy to see in this package is the elimination of Chapter 19. While we continue the process of renegotiating and modernizing the NAFTA, it is essential that we highlight the benefits to the agriculture sector. We need to look at the areas which some of our commodities have faced challenges.

Mr. Brown, you have talked about the dumping issue, and of course, I was interested in the conversation that we had there as far as what California is doing *versus* say, Georgia, we are becoming a big blueberry grower. And what is your suggestion on how, as far as if we are talking about NAFTA and we are talking about how do we fix this issue where we don't affect, say, California, but obviously, it is good for Georgia and Florida. Do you have a solution?

Mr. BROWN. Right now in the U.S. trade law, in order for a dumping case to be filed, to have standing, you must have 51 percent of all like product in the country as a petitioner in that process. This basically handicaps any regional, seasonal, perishable producing entity. For instance, as an example, Florida's strawberry industry, which is 15 percent of the domestic supply. Most of the rest of the domestic supply comes from California, but in the period of the winter months from December to March when California is a minor producer, if a producer at all, to any great extent, we are competing with Mexican product coming into the country at very low prices, and it basically is depressing the domestic strawberry market during that period of time. A redefinition or a modification that would allow for these very specific seasonal, perishable products, things that can't be stored, they are going to have to be sold in a marketplace and compete in a given time period in that marketplace, for those industries to have what every other industry in this country has the privilege of having, which is the right to defend themselves from unfair trade practices. And we are not saying close the border, we are just saying if you are dumping stuff in this market at less than your cost of growing it, that is an unfair trade practice.

Mr. ALLEN. Right.

Mr. BROWN. And without that modification, those pieces of American agriculture are going to be ground up.

Mr. ALLEN. Yes, okay. Good.

As far as Mr. Brosch, you mentioned the U.S. poultry industry has been among America's most important and successful production and export sectors. Of course, in Georgia we are top exporter of poultry out of the port of Savannah.

You mentioned in your testimony the past decade two of our five most important poultry export markets have been Mexico and Canada; however, Canada has a supply management for poultry. Can you give us more of an explanation of that, and how to fix U.S. exports for poultry?

Mr. BROSCH. Canada manages the border through limited quotas. We don't have tariff-free trade into Canada like we do on all other products, except dairy and poultry. They have been exempted under their WTO reservation and they have been able to maintain that, so we only get a small quota. Our quota is something in the order of 7,000 or 10,000 tons into Canada, very small. However, we do sell other products into Canada. We have managed to sell products that aren't limited by that quota. The big one I was talking about, to give you an example, is fowl, spent fowl, which goes in the processed product category into Canada.

Despite that limitation, we still have Canada as our number two market. It is surprising to most people, but that is the way it is. We would like more access into Canada. We certainly would like that, and we thought that we were on that track in TPP, but unfortunately, we are not there anymore.

Mr. ALLEN. Okay. Thank you.

The CHAIRMAN. The gentleman's time has expired.

Mr. Lawson, 5 minutes.

Mr. LAWSON. Thank you very much, Mr. Chairman. Welcome to the Committee.

Gentlemen, and especially Mr. Brown, I reside in north Florida, same as Congressman Dunn, and it gets cold up in north Florida, unlike when we talk about some areas in south Florida where Mr. Yoho is, central Florida. But we are still able to get out about two crops a year, our tomato growers. And when I talk to the tomato growers up there, they are really concerned about the NAFTA agreement. And so like when Mr. Allen talked about in Georgia, we are right there on the border. I have some tomato growers who are growing tomatoes in Florida, and then they are also growing them on the other side of the line in Georgia. How would this NAFTA negotiation help or hurt those tomato growers that we have in north Florida?

Mr. BROWN. If we have the ability to improve the capacity to enforce trade law aggressively in that treaty renegotiating process, there is a dumping case that has been in place for 20 years for the U.S. tomato industry that was filed a couple of years after NAFTA was enacted. If that suspension agreement, which is currently in a suspension agreement from that dumping case, if there was aggressive enforcement to where we didn't have a lot of circumvention and price suppression due to that circumvention, it would improve the well-being of those tomato growers, and Mr. Williams would enjoy a better marketplace in his operation there in Quincy.

Mr. LAWSON. Okay. You know who I am talking about.

The other thing asked a great deal about is how the immigration issue is going to affect them, because they won't be able to get the tomatoes out of the field because we can't get a lot of the people there to want to go and get these crops out of the field, and it directly affects them. Immigration: I know the President talks about it a great deal, but it is very critical up there in Gadsden County.

Mr. BROWN. It is extremely important that we resolve our issue of an agricultural workforce in this country, because most all of the fruits and vegetables in this country are hand-harvested. And without that workforce, which basically puts food on the table for America, we are going to have problems, going forward, with those agricultural entities surviving.

Mr. LAWSON. Okay, and one other question to the panel, and I support the NAFTA, but I am concerned about the focus on education and how education with our 1890 institutions can be utilized in research to help us attract more individuals into the agriculture industry, and what kind of research that can be provided to promote the industry where some of the other people don't want to go into it, but we need the research in order to maybe help these institutions attract more people to it. Can anyone elaborate on that with the time that I have left?

Mr. BROSCH. I can tell you one thing that we have done in the poultry industry, Congressman.

We recently renegotiated our access to South Africa under the African Growth Opportunity Act. We had trouble getting into South Africa, and we recently renegotiated. And part of that renegotiation, we agreed to support students from South Africa who, especially the historically disadvantaged students in South Africa, and we are bringing some of them to agriculture colleges in the United States to train. I think that is a good model. We could use that model in the future in our NAFTA negotiations to look for opportunities that are similar.

Mr. LAWSON. Okay, thank you very much. One thing I am going to say, when you are talking about Mr. Williams in Gadsden County, he told me this a couple weeks ago that we can't do anything with the dumping that is coming in from Mexico. We don't have the authority to do anything. I am just going to cut to Mr. Brown where you can just say something one more time.

Mr. BROWN. We have had a dumping case in place for 20 years and I will give credit to the Mexican Government and the Mexican industry. They are a fierce, aggressive negotiators and competitors, and we continue to try to ensure that the domestic tomato industry survives going into the future.

Mr. LAWSON. Okay. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman's time has expired.

Mr. Faso, 5 minutes.

Mr. FASO. Mr. Chairman, thank you, and I appreciate the panel being here. It really has been a very timely and instructive set of presentations, and I appreciate that.

Governor Vilsack, I wanted to ask you about a topic that you and I also appreciate having an Albany Law graduate here as well. There are a lot of people in my marketplace that are Albany Law folks.

Your testimony, you go into great detail about the Canadian trade practice on ultra-filtered milk and the barriers, Canadians don't call them that, but the barriers, in essence, that the Canadians are putting to the import of ultra-filtered product from the United States and its impact now on the export market to countries that we would typically be exporting to as well. What is incomprehensible to me is how Canada can, with a straight face, get away with this, and how this doesn't run afoul of existing trade agreements that they have adopted. Could you expound on this a bit and give us some advice as to what you think the Committee should do and what the U.S. Trade Representative should do about this topic? And I have 3 minutes and 36 seconds left, and if you could give us that answer in that time, I would appreciate it.

Mr. VILSACK. Congressman, I would start by saying that if the Canadians were here, they would say "Well gee, what is the problem here? Exports from the U.S. have gone up." It is a little bit misleading for them to use that talking point, because in essence, what happens is product is exported into Canada and then re-exported outside of Canada back into the United States in a value-added proposition. It is not what we traditionally think of exports where you export a product and it is consumed in the product that you are exporting to.

This is an issue where the Canadians have essentially evaluated their market and when they see the U.S. making in-roads, the rules change. They create a new class, they change a product specification, they redefine a product so that it will now qualify for tariffs as opposed to being duty free. It is a constant battle that we have been engaged in, in trying to open this market up, and trying to educate the Canadian consumer that they are really paying a lot more for their products than they would have to if there was a freer trade arrangement.

It also has an impact because of the incredible increase in butter consumption, this has created a glut of powder, milk powder, and normally that milk powder in Canada would have been fed to livestock, but there is so much of it that what they should be doing, obviously, is providing an opportunity for the U.S. to export into their country, import into their country. Instead, what they have done is they have basically put it on the open market at a price lower than the world market, which is depressing overall powder. And that is why the ten leading dairy global associations have come out and said look, this is a problem in New Zealand, it is a problem in the EU, it is a problem in the United States because it is depressing unfairly the market.

There can be a lot of conversation about the letter of the law, but clearly the spirit of a number of agreements that Canada has entered into we think are severely tested by this approach, agreements that they have made in the past. And that is why this renegotiation is so critically important. Let us get a much more predictable, transparent process. Let us get more stability in the process, and let's open up the markets. Let's take a look at ridiculous tariffs that are currently in place in Canada. The over quota tariff for food and milk is 241 percent. For butter, it is 298 percent. For cheese, it is 245 percent. I mean, there are multiple opportunities here for us to have a much better relationship with Canada as it relates to dairy. And if we had that, then there would be greater predictability, there would be greater stability for our producers, and consumers in Canada would benefit.

Mr. FASO. And what are consumers in Canada paying for fluid milk as compared to the U.S.?

Mr. VILSACK. Well it is significantly higher, and that is why you will see in border communities people traveling across the border to essentially purchase in the U.S. Now what is interesting about this is there is a quota system, and the Canadians are basically saying for fluid milk look, our consumers are coming across the border and purchasing milk in the U.S., and that satisfies our quota. Well wait. They are not even tracking that. They are not even keeping track of that, so how can they say it satisfies the quota?

Mr. FASO. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman's time has expired.

Mr. Soto, 5 minutes.

Mr. SOTO. Thank you, Mr. Chairman.

We all know the history of NAFTA, filed and passed by a Republican Congress, signed by a Democratic President in 1991, and setting aside the manufacturing decline that happened, agriculture has really been kind of a mixed bag. We have seen the big guys get bigger, the small guys get smaller, even go out of business, and a lot of that has to do with the scale they are operating on or the ability to really withstand unfair trade practices that have occurred over the years through some other members of the coalition.

I want to start out with you, Mr. Brown. First of all, welcome. I am no stranger to Maitland. It is just a few miles north of our district, and part of that wonderful place we call central Florida. I want to go through some specifics based upon your report about things that you think there is already existing language in NAFTA you could work with, or things that need to be changed in your mind.

First, with regard to subsidies and incentives provided by the Mexican Government to their producers, are there sufficient provisions in NAFTA, or do we need to look at changing areas with regard to helping out our growers in Florida?

Mr. BROWN. One of the important things that needs to be addressed, as we talked about earlier, is this seasonable perishable issue to where the Florida industry could defend itself against those unfair trade subsidies with the countervailing duty case. If you had to go to a national countervailing duty case, not only do you have to round up all the producers, or 51 percent of all the producers of the product that is defending itself, but you also have to prove injury to that entire body of producers. And many of these problems are very specific to time periods of market dumping or market subsidization of product going into a specific market. So that would be a major adjustment in that process would be having the ability to do that, to use those tools that most everybody else is entitled to in the country.

Mr. SOTO. Regional standing, especially with the fact that we have that window in wintertime that a lot of our fruits and vegetables really try to hit that mark. What about with labor costs being at ten percent of what we are paying here in the United States down in Mexico, and in addition to whether that is going to be helpful, do we have to make a change, or are there sufficient laws in the books for NAFTA already?

Mr. BROWN. The labor standards that are currently in place don't really address the real labor issue for fair working conditions and standards of living and this sort of stuff, and minimum wages in Mexico like we have here in the U.S., and they would make some significant adjustment to that. And in addition, there is also the issue of the evaluation of the peso over the course of the 20 years to where there is a very strong pull of product coming into the U.S. simply because it is trading in dollars and working that workforce for pesos and buying materials and inputs would devaluate pesos, which is a very significant advantage as well.

Mr. SOTO. We are talking about dumping, labor costs, currency manipulation, subsidies, these are sort of the nuts and bolts of what we are facing right now?

Mr. BROWN. It makes our business a very challenging business in Florida.

Mr. SOTO. Absolutely.

Secretary Vilsack, I know you have a real global perspective on all this. Is there a balance we can strike with a lot of folks who are succeeding under NAFTA and those who are facing some obstacles?

Mr. VILSACK. There is an instructive example for dairy at least in Mexico where we see this as a partnership. The Mexican producers have, at times, felt threatened by the U.S., and oftentimes there is this belief that somehow U.S. agriculture is going to come in and essentially overwhelm the domestic agriculture.

What we have done in dairy is we have said look, we are here to try to build demand for product in Mexico, which we know will help your producers, but will also create an export market for us. And that is precisely what has happened. Production in the last decade in Mexico has increased by 58 percent in dairy, their own producers, but that has been more than enough overcome by increases in consumption.

There is a way in which we can continue to find ways to mutually benefit from trade. It has to be a two-way street; otherwise, at the end of the day, it is not going to be particularly effective.

Mr. SOTO. Thank you, and just finishing up, Mr. Frazier, do you think we could strike a balance with cattle as well and other big product from our district?

Mr. FRAZIER. Excuse me, someone was whispering. Can you repeat what you asked?

Mr. SOTO. Well, I guess my time has expired, but thank you though.

Mr. THOMPSON [presiding.] The gentleman's time has expired, but I certainly encourage you to maybe submit that for the record so that you would be able to get a response in writing.

I will take the liberty of my 5 minutes here. Every pun intended, I am going to continue to milk the dairy issue with you, Mr. Secretary.

There has been some heated rhetoric on all sides of the trade debate in the last few years, and it is important for our trade-dependent sectors of the economy to communicate the benefits that we have from trade. How do you see the importance of trade for the next 10 years for the dairy industry, and what do we need to do as a country to help you achieve your goal?

Mr. VILSACK. In the dairy industry, the U.S. dairy industry, the image of the industry around the world historically has been one that has been an industry focused primarily on the domestic market. Over the last decade or so that has begun to change, and in many markets, there is now a recognition that U.S. dairy is in the export game to stay. We have to continue to increase our presence, both physical presence, more people, more capacity in some of these export market opportunities, to send the message that we want to compete effectively with New Zealand, effectively with the EU.

It is important and necessary that we obviously have trade agreements that are fair, that are transparent. There is a classic example here with what is happening in Mexico where we see nearly a nine to ten times increase in export opportunities for dairy in Mexico *versus* what is happening in Canada where the rules consistently change. If we could get the same kind of opportunity in Canada that we have in Mexico, obviously that would be beneficial.

Here is the issue, Congressman, and you know this better than anybody because of who you represent in central Pennsylvania. Great dairy producers. They are going to continue to produce more milk, somewhere between a percent to a percent and a half more each year. Domestic consumption can increase, but we want the opportunity also to stabilize markets through exports. And so if we can increase presence, increase capacity, and change the image of American dairy globally and get fair trade agreements, we will do very, very well in the next 10 years.

Mr. THOMPSON. Keeping with that theme, and you had mentioned about Mexico, Canada, in terms of the whole, you have articulated clearly the importance of NAFTA modernization. We had that conversation when you first came in. Quite frankly, most of my staff were not alive when NAFTA was negotiated, so having something that has an element of staying current and modernization is important, no matter what the trade agreement is, because the world is changing around us. Certainly the industry of agriculture changes around us. And you have talked about the importance of NAFTA modernization for the dairy industry, as well as the value of seizing the moment, negotiating additional trade agreements with our potential partners around the world.

I think the two go hand in hand. Would you agree that NAFTA modernization process will directly impact our ability to make good progress in equally critical areas of the world, such as with Japan, Vietnam, and others?

Mr. VILSACK. Well the hope would be that we would contain in NAFTA renegotiation and modernization specific provisions relating to SPS, sanitary and phytosanitary rulemaking, the ability of making sure that we protect the use of common names for cheeses, for example. All of that can have an impact on future bilateral discussions. The more market access we get, the better off we are to make that case in other, more closed market opportunities.

Clearly, there is a benefit here, and that is why it is incredibly important, especially in the absence of the Trans-Pacific Partnership Agreement. It is incredibly important now that we engage very aggressively in bilateral discussions and get this renegotiation completed, because our competitors are not waiting around for us to act. They are moving forward very aggressively.

Mr. THOMPSON. Thank you, Mr. Secretary.

Mr. Hammer, you stated that U.S. soybean exports have grown significantly over the past 23 years. Where do you see opportunities for growth and trade with Mexico and/or Canada?

Mr. HAMMER. It will be primarily a demand growth, a population growth. It is basically unfettered now. In Canada we have indicated some opportunity for some poultry, egg, turkey, dairy growth. We are growing in the United States' consumption, and it will continue to grow. For example, as incomes rise in Mexico, you will see them go from maybe an egg diet to a poultry diet or on up the line, and you will continue to see these opportunities grow with the growth and as the economy grows and as the opportunities for the individuals within our three countries grow.

Mr. THOMPSON. Thank you very much. My time has expired.

I am pleased to recognize the gentlelady from North Carolina for 5 minutes.

Ms. ADAMS. Thank you, Mr. Chairman, and thank you, Ranking Member Peterson, for hosting this hearing and thank you all, gentlemen, for your testimony.

First of all, free trade agreements inevitably create winners and losers in our economy. Some industries like agriculture, for example, are able to reap the benefits of trade through access to new markets and lower prices, and other sectors, like the textile industry in North Carolina comes to mind, trade leads to displaced jobs for increased competition and offshoring. And North Carolina's textile industry lost 82 percent of its workforce since the mid-1980s. In Charlotte alone, 34,200 jobs were lost in the textile industry since NAFTA, and NAFTA had a massive negative repercussion on my state's economy. According to the Economic Policy Institute, North Carolina was one of the hardest hit states in our country, sustaining some of the biggest net job losses.

Secretary Vilsack, how can we balance these competing needs to maximize the benefits for our agriculture sector while minimizing harm to manufacturers, to small businesses, and to middle class Americans?

Mr. VILSACK. Well, Congresswoman, one of the hallmarks, at least from the dairy perspective, and why we have been able to be competitive and maintain a favorable balance is because of innovation, the ability of our industry to adapt to the needs and specifications of customers around the world. Ninety-five percent of the world's consumers are outside the U.S. There will be growing populations and growing middle class in many parts of the world where it plays to the strength of American agriculture. I would say one strategy for dealing with trade generally is to make sure that America remains a place of great innovation, and certainly in agriculture, that has been true.

Ms. ADAMS. Thank you. I know that agriculture is one of the few economic bright spots in implementing NAFTA, but I really cannot ignore the devastating impact that it has had on my state and my state's middle class.

Of course, this question is to anybody who wants to answer it, how you think that Congress can ensure that a renegotiation of NAFTA benefits the majority of middle class Americans? Anyone can answer this, or all of you.

Mr. GAIBLER. Well, we have already identified some areas where we don't want to do any harm, but where modernization and improvements are possible. I also think that one of the important aspects of the NAFTA will be that we develop very transparent dispute settlement mechanisms. In our part of agriculture, we worry that Article 19 may be removed because it is an insurance policy that we don't have to have unfair anti-dumping or countervailing duty trade cases brought against us, but we have also heard some areas from testimony today where our partners on the other side of the border may be using unfair trade practices.

A really robust dispute settlement mechanism to make sure that fair competition is taking place is a part of this agreement, and to that end, we would certainly not want to see Chapter 11 or Chapter 19 removed. Thank you.

Ms. ADAMS. Anybody else like to comment?

Okay. Let me ask then, Mr. Brosch, according to the *Wall Street Journal,* friction between the U.S. and Mexico over trade is starting to cut into the sales for U.S. farmers and agricultural companies. In the past 4 months, Mexican imports, chicken, meat, fell 11 percent, the biggest decline for the period since 2003. Do you have faith that the Trump Administration will be able to renegotiate NAFTA without causing irreparable harm to our agriculture trading relationships?

Mr. BROSCH. Congresswoman, we had somewhat the same experience that these gentlemen have talked about when the President announced he wanted to renegotiate NAFTA. We suddenly had a number of buyers who were looking to differentiate their supply. Traditionally, I have been told by the folks I have dealt with in Mexico that they sort of looked at us as their big brother. Their sort of pushy big brother, but their big brother, and I have also been told that since that announcement, they are not going to look at us the same way ever again. But they are looking at Brazil. They are looking at other sources of supply, and unless we move quickly, as Secretary Vilsack suggested, to get this negotiation closed and get this improved and get it back on the books, we are going to have uncertainty in Mexico and we are going to have people looking at other possible suppliers, even for the things we are most competitive for.

Ms. ADAMS. Thank you, sir. I am out of time. I yield back, Mr. Chairman.

The CHAIRMAN [presiding.] The gentlelady's time has expired.

Mr. Marshall, 5 minutes.

Mr. MARSHALL. Thank you, Chairman.

My first question is for Mr. Frazier. Mr. Frazier, I have done about 40 town halls, 20 round tables, been to 30 or 40 ag-centric operations. And when I went back, I was expecting to talk about a farm bill. I think we are going to try to get that sometime this year. But the number one issue has been trade. Trade, trade, and trade. Nothing more important to my district than NAFTA. It is our number one revenue generator in an economy that is 60 percent agriculture-related. What is the number one concern for the beef industry?

Mr. FRAZIER. It would be do no harm in these negotiations. Don't do anything that would disrupt, from our perspective, trading in beef with Mexico and Canada. Both those markets are worth $2 billion a year to our U.S. industry, so that would be my number one concern with NAFTA is do no harm.

Mr. MARSHALL. But trade in perspective to farm bill—2 years ago, all the farmers and the ag producers talked about was overregulation. Do you get a feeling that maybe that NAFTA is a bigger concern now than even over regulations, your industry?

Mr. FRAZIER. I would say there is both, concern about both of those. Things like WOTUS, some of those types of issues, there is a lot of concern about land owners, and obviously, our industry owns a lot of land. But trade is also a big issue, so I am not going to pick one of those and say one is more important than the other. They are both important.

Mr. MARSHALL. Mr. Gaibler testified, I believe, earlier about that we are actually seeing decreased corn sales already because of some of the just concern that our markets were dependent on. Are we seeing any of that yet in the beef industry with Mexico and Canada?

Mr. FRAZIER. Not yet, although in conversations with Canadians and Mexicans, they are concerned about some of the rhetoric that they hear in the United States about NAFTA.

Mr. MARSHALL. Okay. My last question, we have had the pleasure to sit down with three different groups from Mexico, grain purchasers, meat purchasers. Describe to me again a little bit the type of cuts of beef that we are sending their way and coming back and forth.

Mr. FRAZIER. To Mexico we send a lot of products like rounds, skirts, tongues, intestines, products that we traditionally have not consumed a lot in the U.S. To Canada, we send more of a high quality, ribs, loins, into the Canadian market.

Mr. MARSHALL. Okay. Mr. Gaibler, you, at least I saw in some of your testimony, you talked about the value of the peso *versus* the dollar. Was that your testimony, or was in one of your drafts?

Mr. GAIBLER. No, I didn't reference that, though obviously, it is an important issue. The fact is, it is part of the reason why it is feasible, or at least potentially feasible for Brazil to actually potentially export into the Mexican market, because they don't have duty free access. Their transportation costs are higher. In fact, they have some internal programs that subsidize the movement of corn, so I didn't mention it, but it is clearly an issue for every one of our industries represented here.

Mr. MARSHALL. Does anybody want to expand on that a little bit?

Mr. BROSCH. Well after the Administration announced that there was going to be a renegotiation of NAFTA, the Mexican peso fell against the dollar about 25 percent, and that had nothing to do with currency manipulation. That had to do with the perception of the markets and of what the effect on the economy is going to be. Well that makes it much more difficult for Mexicans to buy American chicken or American beef when their currency falls against the dollar. So yes, that has had a big impact.

Mr. MARSHALL. Mr. Gaibler, I will follow up with you. I am sure you are looking in the future further than I can look into it. You have experienced a six or eight percent drop in corn sales, you mentioned. Secretary Purdue has been a proponent, a strong advocate for trade. Looking into the future, do you feel like we are stabilizing that situation or does there continue to be a drop in the future with Mexico and corn purchasing?

Mr. GAIBLER. Well, we have done some long-term economic forecasting with our economists, and looking 10 years down the road, and Mexico shows up as the one or two, depending on which assumptions you use of the market, long-term. And so if you look at the other countries that show up, some of them we have free trade agreements with, but some of them we don't. In either instance, for us, our ability to tap into those markets, whether we have FTAs or we don't, that is going to be the lynchpin here of our success in continued exports of corn but also the value-added to products that come from that. Frankly, Japan, the EU, and others are going to look at these negotiations very closely and make a determination based on whether they are successful, or if they go off the rails.

Mr. MARSHALL. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

Mr. Dunn, 5 minutes.

Mr. DUNN. Thank you very much, Mr. Chairman.

Mr. Brown, I frequently hear from stakeholders around the country about the high stakes of losing ground, losing what we have gained in NAFTA in the course of a renegotiation. I understand their point; however, the fruit, vegetable and sugar sectors, sectors that compete directly with Mexico and affect us in Florida, have competed on an unlevel playing field for a number of years. And as a matter of fact, some of these are sort of under an all out assault from Mexico. We share the same latitude with Mexico, so Florida is at greater risk with seasonal variation than other states in other parts of the country would be. Would you share with us some of the special vulnerabilities that Florida has and how you see that affecting us?

Mr. BROWN. Well that seasonal overlap, Mr. Dunn, is very, very critical to the fact that Florida was identified 24, 25 years ago when the treaty was originally negotiated as the state that was going to lose the most in the fruit and vegetable industry, and I can attest to you that we have.

But the reality is with the investment that has been driven by the Mexican Government in the last 10 years in protected culture, greenhouses, tunnels, various kinds of saran shades, they have simply expanded their season on both edges to where historically we competed with them from December to March. Now the competition from Mexican tomatoes, in particular, which I am very familiar with, is now a year-round competition with all the tomato producers in the United States. And that is why the domestic industry has lost 40 percent of its volume that it had in production when NAFTA was signed, and why we have lost 25 percent of the acreage of fresh tomato production in this country to that competition. It has basically been supported, and it is fundamentally targeting the U.S. market with that product, trying to build up that rural economy in Mexico, and we are suffering from it.

Mr. DUNN. Thank you very much.

I understand there are portions, and I want all of you to be thinking about this, portions of the TPP may be a template for the NAFTA renegotiations, so I want to know in your various sectors; and we will start with you, Mr. Brown, that what language in the TPP that might guide the Administration as they work to address the concerns of first fruits and vegetables and cattlemen and poultry and whatnot. So take it away, 2½ minutes.

Mr. BROWN. Well basically the directive was basically in the Trade Parties Accountability Act of 2015 or addressing the issues and eliminating practices that adversely affected trade in perishable and cyclical products while improving import relief mechanisms to recognize the unique characteristics of perishable and cyclical agriculture. Ensuring that the import relief mechanisms for perishable and cyclical agriculture are as accessible and timely to growers in the U.S. as those mechanisms that are used by other countries, and seeking to develop an international consensus of the treatment of seasonal or perishable agricultural products in investigations relating to dumping and safeguards——

Mr. DUNN. He was prepared for that question, wasn't he? Let's ask the cattlemen if they have some specific wording in the TPP over the renegotiation of NAFTA.

Mr. FRAZIER. From our perspective, TPP, the greatest benefit to the beef industry in the United States was taking down tariffs in Japan and letting us be more competitive with the Australians and New Zealand. We already have zero duties and tariffs on products going into Mexico and Canada, so I really can't think of anything.

Mr. DUNN. Very good. Mr. Brosch?

Mr. BROSCH. Well, like the beef industry, we were interested in Japan. Japan was the big win for us. We were also interested in improvements of the SPS text. We don't think that the TPP SPS text is perfect. There are a couple of things that we don't like about it, but overall, we think it has some real promise for improvements in the NAFTA, and then we thought that we would have some additional access into Canada as well as a result of that negotiation, as I have mentioned before, but that seems to not be an opportunity anymore.

Mr. DUNN. Anybody have, yes, Mr. Secretary?

Mr. VILSACK. Yes, geographic indications was basically dealt with in the TPP agreement that provided a due process and a protection for common names. That would be something that we would like to see placed in this modernized NAFTA agreement.

Mr. DUNN. Thank you very much. Mr. Chairman, I yield back.

The CHAIRMAN. The gentleman's time has expired.

Mr. LaMalfa.

Mr. LAMALFA. Well thank you, Mr. Chairman. Thank you, panelists, for being here today. I wanted to come from another hearing, as is fairly typical.

So modernizing NAFTA would be very helpful. The ag economy has prospered pretty well under it, so I hope we can be optimistic about the discussions underway. So let me go to Mr. Frazier.

In terms of the benefits, what gains in NAFTA negotiations would you be looking for, notably important for beef specifically, that may come from future deals, future negotiations for open access?

Mr. FRAZIER. Well as I said in my testimony, Congressman, I really think that we are in a good place in the beef industry and NAFTA right now, because we don't have tariffs on products going into Mexico and Canada. They are two of our top five markets for beef in the world. We have good relations with both those countries. We have good relations with importers in those countries, so in any renegotiation, I just think we are in a really good place right now.

Mr. LAMALFA. Do you think anything in future negotiations could be harmful? Do you see much threat of that?

Mr. FRAZIER. I mentioned one, if there was an effort to bring Country-of-Origin Labeling back on the table that could be, because that would result in the Canadians and Mexicans putting tariffs on our products.

Mr. LAMALFA. Yes, believe me, we have heard all about that. That was a difficult deal.

Well, I think that pretty much does it. The magnitude of additional trade and export for the industry, it seems as if it is just taking off more and more on international trade. Can you touch on that just a little bit?

Mr. FRAZIER. Sure. We feel really good about it. Right now, we are exporting about 13 percent of our production overseas.

Mr. LAMALFA. Fourteen?

Mr. FRAZIER. Thirteen to fourteen percent. It varies month to month. We think over the next 5 to 10 years we could move that over 20 percent, maybe even to 25 percent. China just opened to U.S. beef. Now there are some restrictions on the kind of product that we can send to China, which limits some of that, but we think long-term that is a great market. It has a lot of potential for us.

Mr. LAMALFA. They have opened up to rice too, so I am seeing this as a pretty good partnership. We can move those potato guys aside a little bit.

Mr. FRAZIER. We just think that there is a growing middle class around the world that desires U.S. beef. We have a unique product. It, as we all know, it tastes great. Consumers around the world, when they get to experience it, they love it. We just think it is a great opportunity for U.S. cattlemen in the future.

Mr. LAMALFA. Okay, thank you. Well I hear a lot of talk about stakeholders, but you are the kinds that I like, so thank you very much.

I am going to yield back, Mr. Chairman.

Mr. FRAZIER. Okay, thank you.

The CHAIRMAN. The gentleman yields back.

Mr. Yoho, 5 minutes.

Mr. YOHO. Thank you, Mr. Chairman. I appreciate the panel being here, and your endurance of being able to stay this long.

NAFTA: there have been some wins with that and there have been some losses with that. And I come from Florida, and we went down to Homestead, Florida, and we visited the tomato region. And we used to get two to three crops. We produced about 60 percent of the tomatoes in the nation, and NAFTA really hurt the specialty crops. Florida is a specialty crop state with over 300 different specialty crops. And as we negotiate NAFTA, and Mr. Brosch, it sounds like you have done a lot of the negotiations.

I had the opportunity to go down to Mexico and we met with the finance minister currently that had negotiated NAFTA, and we were talking about some of the wins and some of the losses. And what we saw were the losses in the tomato industry where the farmer's grandson up in America wanted to take over the business, but there wasn't a business to take over. And we got in a little bit of a heated debate down there. And the other thing was the sugar policies where Mexico dumped sugar on it, and the minister admitted that they did dump and he apologized for it.

As we go forward and as you negotiate, and Mr. Hammer, you brought up to have robust reforms in there so that we can negotiate and settle these disputes, these trade inefficiencies better. What is your recommendation to put into the new NAFTA to where we can call people out when we know they are cheating or doing unfair practices? What would you recommend that we put in there to make it a lot more efficient so it doesn't drag on for years?

Mr. HAMMER. Well I just think that has to be a focus, because I think that is going to be the hallmark. I know at one time there was a group of us that had lunch on a monthly basis, and we were commodities that had all faced what we thought was frivolous antidumping or countervailing duty cases from Mexico. They were unsubstantiated, but they were brought basically because they were trying, it was apples. It was corn——

Mr. YOHO. Corn syrup.

Mr. HAMMER. Corn syrup, right. It was meat. We were being looked at as soybean meal. And we were kind of a group that commiserated with one another. We met for lunch monthly and said what are you doing to stop this? We can look at some of the history of that and learn from that.

Mr. YOHO. Well, and I have heard over and over again that Mexico is very astute and very sharp at trade. I hope that we have those things in place.

I want to go to you, Mr. Brown. We have talked extensively on the tomato issue. What does it cost you to produce a box of tomatoes here domestically?

Mr. BROWN. Domestically in the Florida production cycle, we are looking at a cost of about $10 for a 25 pound box.

Mr. YOHO. That is the cost of the box, the labor, the tomato itself?

Mr. BROWN. That is put the box on the back of the truck.

Mr. YOHO. What is Mexico selling a box of tomatoes here for?

Mr. BROWN. Right now under the suspension agreement, they are not supposed to be selling a 25 pound box for less than $8.30 at the border.

Mr. YOHO. What are they selling it for?

Mr. BROWN. The problem we have is because of circumvention and erosion of the enforcement process, you will see Mexican tomatoes in our terminal markets for $5 or $6 at various periods of times a year.

Mr. YOHO. That is almost under the cost of production, isn't it?

Mr. BROWN. It is significantly less than the cost of production; however, in addressing the issue of enforcement and how dumping agreements work, the Commerce Department in the 20 years of the case have never actually collected the cost of production from the Mexican industry, and the industry has refused to provide it to the Commerce Department.

Mr. YOHO. And that is a safeguard that needs to be in the next NAFTA negotiation.

Mr. Brosch, I want to come back to you because as labor, yes, go ahead.

Mr. BROSCH. What he is talking about isn't changes to NAFTA. He is talking about changes to domestic law. We don't have a dumping mechanism in NAFTA. What we have is we have a recognition of the ability of countries to use their domestic law. What Mr. Brown is really talking about is changing the domestic dumping law and dumping procedures, not about——

Mr. YOHO. Here domestically?

Mr. BROSCH. Yes, I mean, that is the only way you can do it.

Mr. YOHO. Okay.

Mr. BROSCH. I mean, legally that is the only way you can do it.

Mr. YOHO. And then when we negotiate these, they are supposed to have fair labor practices and the *L.A. Times* did a great exposé in 2015 about the slave labor in Mexico, and we know that is going on. And if we are buying from them and it is negotiated in NAFTA they are not supposed to use child labor. Under the age of 14, there are roughly 100,000 in the field documented. How do we get out of those kind of trade deals?

Mr. BROSCH. Well, no one wants to see anything like that Congressman.

Mr. YOHO. I know.

Mr. BROSCH. I agree with you, and I am going to confess right here, I am no expert in the labor area at all.

Mr. YOHO. Okay. I appreciate your time. I yield back.

The CHAIRMAN. The gentleman's time has expired.

Mr. Arrington, 5 minutes.

Mr. ARRINGTON. Thank you, Mr. Chairman. The Chairman tells me he saves the best for last, and I am going to take him at his word.

This is a big deal to ag producers all over the country. It is especially a big deal in terms of our trade partners with Mexico if you are from Texas. By the way, thank you all for coming, and Mr. Secretary, thank you for your service to our country. Also on a side note, Mr. Secretary, thank you for your support for cotton with the ginning assistance in 2015. We needed it, and we desperately need more of it to bridge us to the farm bill and get cotton back in as a title I commodity. But anyway, I really appreciate that. And any help you can give us with the current Secretary in this Administration for ginning assistance to follow, we would appreciate it.

Do you all agree that we can improve on NAFTA, understanding that the sort of do no harm principle applies from the outset? But do you agree that for your industry, your sector of the industry that we could improve on NAFTA, we could enhance it in some way, some form or fashion? Yes, sir.

Mr. HAMMER. Well, as I said earlier, for soybeans, soy meal, and soy oil, we face no duties or no tariffs of any kind. It is seamless. But there are always possibilities for technical barriers to trade, things that can come up, it can be paperwork, red tape, e-commerce and things like that we weren't contemplating 23 years ago, and there are definitely areas where trade is taking place in different ways and different terms than it did 23 years ago, as it will 10 or 20 years from now. Yes.

Mr. ARRINGTON. Sure, and Mr. Frazier, the opening the China market to U.S. beef, that is a big deal, right?

Mr. FRAZIER. Oh, yes.

Mr. ARRINGTON. I mean——

Mr. FRAZIER. We have been locked out of the China market since 2003 when we had our first case in BSE. We believe long-term that it offers a great opportunity for American cattlemen.

Mr. ARRINGTON. It is a big win for this Administration and for our negotiator in chief to do that. Fourteen years not being able to enter that market, the largest market in the world. I don't know. I mean, I get it. We have to be real sensitive to how we posture and this President needs to be sensitive about that, but I have tremendous confidence in our Administration and in our negotiator in chief to get a better deal for American producers and manufacturers. I think that is his heart. I think that is his intent.

Like you said, Mr. Brown, about Mexico. I think you said it. They are fiercely competitive, and they are fierce at the negotiating table. I want American negotiators to come and negotiate from strength. I am very sympathetic to your industry and the story you have told. I mean, cotton, that resonates with me because some of the similar dynamics with cotton and China. I am for all American producers having an even playing field to compete, because I believe we will win.

I have a few points on where reforms could apply and enhance the NAFTA deal. One is reducing redundant regulations. Could you highlight one redundant regulation that would make the biggest impact on this deal and the positive for your industry? Anyone? No.

Okay. I will have to take that up with the Farm Bureau then. That is one of theirs that they listed.

What about expediting transit across border? Is that an area that we could improve on? Anybody want to talk about that?

Mr. HAMMER. We did poll our members and ask that question, and we haven't come up with anything, but we are early in this stage and we are going to continue to try to drill down and see if we can find areas where trade could be more seamless. But as of today, I wasn't able to bring you any examples, Congressman.

Mr. ARRINGTON. Okay. Well, we have to get it right, but this is a great opportunity. I am very optimistic about it, but we need to hustle and we need to get it done, and all the things you all brought up, I really appreciate it. I listened. I have learned, and I appreciate your time very much.

Mr. Chairman, I yield back.

The CHAIRMAN. The gentleman yields back.

Gentlemen, thank you very much for being here this morning. We appreciate the perspectives you have brought for each of your organizations and more importantly, the producers and growers and men and women behind those association titles that you bring to us are real people, and they are really impacted.

I had a conversation with Secretary Ross before Ambassador Lighthizer came in. I asked him point blank if the deals that were negotiated on TPP with respect to those countries, if we could consider that the floor of any bilateral deals that we do with each of those countries, from ag's perspective. He said, "Yes, it would be the floor, and that negotiations from there would be better than that." I know our production agriculture folks are excited.

We have talked mostly this morning about NAFTA, but the Administration needs to be going after not only the NAFTA renegotiations, but also all of those other bilateral deals that created an opportunity for when the Administration walked away from TPP. As Mr. Brosch mentioned, bilateral deals are hard because you don't have trades you can make with other folks to get a better deal, but we are looking forward to getting them done.

Time is of the essence. You have heard the comments over and over about the impact that the anxiety over this deal being renegotiated, which is an appropriate thing to do, how that anxiety is affecting our trading partners and potential trading partners. I encourage the Administration to push forward, not only on NAFTA, on an expedited timeframe, but as well these bilateral deals because China is benefitting, the UK is benefitting, the EU is benefitting from our lack of being in the markets fulsomely.

With that, I appreciate each of you being here. Under the Rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplemental written responses from the witnesses to any question posed by a Member.

This hearing of the Committee on Agriculture is adjourned. Thank you.

[Whereupon, at 12:28 p.m., the Committee was adjourned.]

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