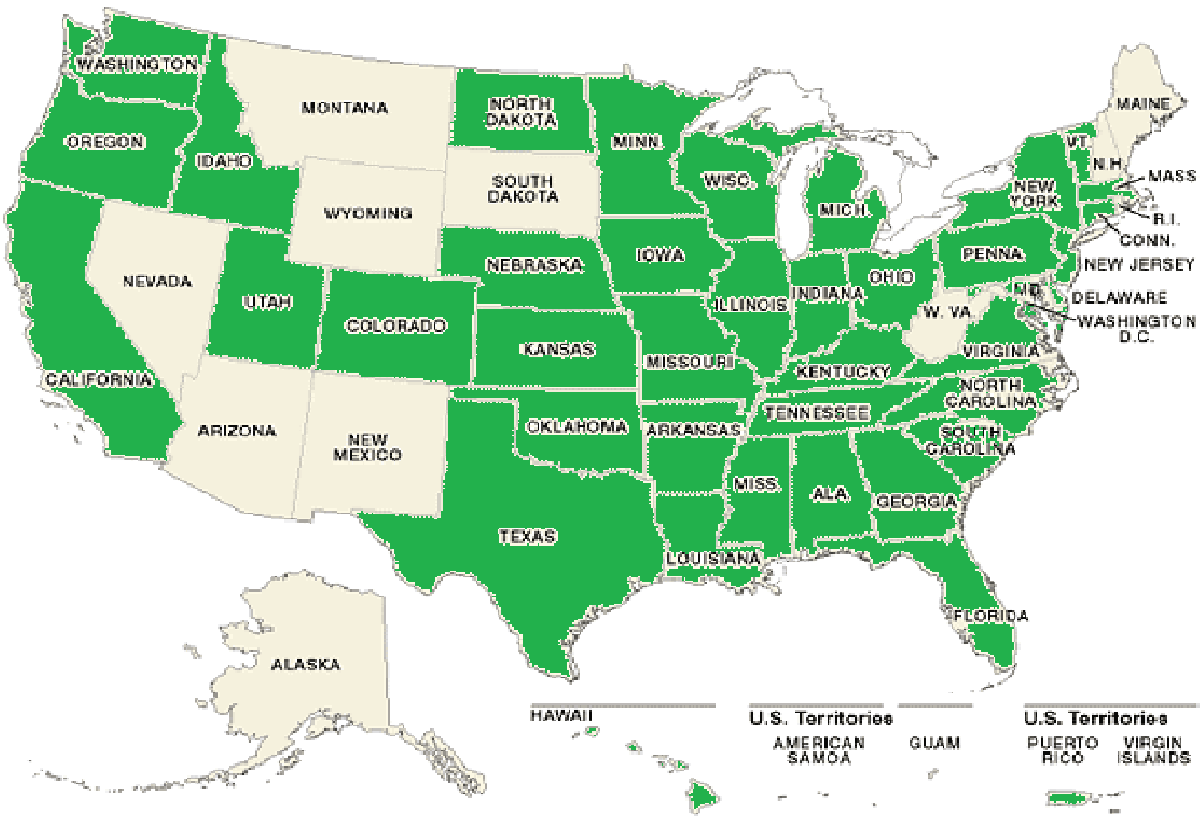
# AMERICAN AGRICULTURE FALLING BEHIND

Report by the Committee on Ways & Means and the Agriculture Committee, Republican Staff – May 10, 2010

## Delayed Implementation of the U.S.-Colombia Trade Promotion Agreement Harms the U.S. Agriculture Sector

Over the last five years, Colombia has been the largest market for U.S. agriculture exports in South America and the third largest market in the Western Hemisphere behind only Canada and Mexico, with U.S. exports totaling $4.3 billion.  In 2009, 41 different States (highlighted in green in the map below) exported agriculture products to Colombia.




Source: U.S. Department of Commerce.

Over the five-year period from 2004 to 2008, U.S. agriculture exports to Colombia grew at an average annual rate of 38%.  However, U.S. agriculture exports to Colombia declined by 48% in 2009.  While this decline took place in the context of a wider decline international trade because of the global recession, the failure of the United States to implement the U.S.-Colombia Trade Promotion Agreement (Agreement) and the subsequent implementation of the Colombia-MERCOSUR trade agreement were the primary causes of the sharp drop in U.S. agriculture exports to Colombia.

*"The U.S./Colombia FTA is crucial to the U.S. wheat industry's efforts to maintain sales and market share in an increasingly competitive trade environment.  A fully implemented FTA will remove tariffs on U.S. wheat imports upon ratification and level the playing field ensuring U.S. wheat can compete in the Colombian market."* Submission to USTR, National Association of Wheat Growers and U.S. Wheat Associates, USTR 2009-0021.

## U.S.-COLOMBIA TPA WOULD SIGNIFICANTLY INCREASE U.S. AGRICULTURE EXPORTS

On February 27, 2006, the United States and Colombia signed a free trade agreement. Following the signing of the initial text and after extensive bipartisan consultations with Members of Congress, the United States and Colombia agreed to the inclusion of additional provisions that provide new commitments with regard to labor rights, environment, and intellectual property protections agreed to as part of the bipartisan "May 10 deal." On October 30, 2007, the Colombian Legislature ratified the agreement, including the new labor, environment, and IPR protections.

When implemented, this agreement would significantly increase market access for U.S. agriculture exports to Colombia. All that remains for U.S. farmers and ranchers to realize these potential benefits is for the U.S. Congress to pass the implementing legislation thereby allowing the Administration to implement the Agreement.

Among the key benefits the Agreement provides for U.S. farmers and ranchers are:

- 78% of all of Colombia's agriculture tariff lines will immediately become duty-free. Currently, U.S. farmers and ranchers have no duty-free access. Within five years, nearly 90% of all of Colombia's agriculture tariff lines will be duty-free.
- Immediate elimination of Colombia's price-band system, which imposes a variable charge on top of the regular import duties on key agriculture exports such as poultry, pork, dairy, barley, wheat, sorghum, corn, sugar, and rice.

A wide variety of analyses shows that U.S. farmers and ranchers are expected to realize significant benefits from the new market access created by the Agreement.

- The American Farm Bureau Federation reports that full implementation of the Agreement could result in an increase in U.S. agriculture exports of nearly $700 million. The Farm Bureau estimates that corn, wheat, and soybeans would see some of the largest increases in exports.
- The U.S. Department of Agriculture estimates that every $1 billion in agriculture exports supports 12,000 American

**Key Developments**

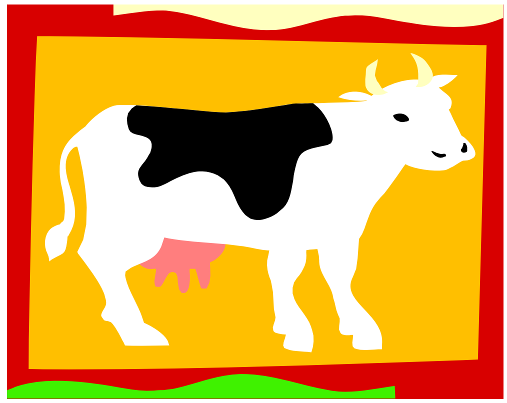
- Feb. 27, 2006: U.S. and Colombia sign Agreement.
- Oct. 10, 2006: Colombia and Chile launch FTA negotiations.
- Nov. 27, 2006: Colombia and Chile sign FTA.
- July 16, 2007: Canada and Colombia launch FTA negotiations.
- Sep. 17, 2007: Colombia and the EU launch FTA negotiations.
- Oct. 30, 2007: Colombian Legislature ratifies the U.S. Agreement, including additional labor, environmental, and IPR commitments.
- Nov. 21, 2008: Colombia and Canada sign FTA.
- Jan. 1, 2009: Agriculture provisions of Colombia-MERCOSUR FTA enter into force.
- May 8, 2009: Colombia-Chile FTA enters into force.
- Dec. 7, 2009: Colombia and South Korea launch FTA negotiations.
- March 1, 2010: Colombia and the EU complete FTA negotiations.
- March 15, 2010: Colombia and Panama launch FTA negotiations.
- 1,266 days and counting….

jobs. Based on the analysis by the American Farm Bureau, the new market access generated by the Agreement could support the creation of over 8 million jobs in the agriculture sector.

- The independent, nonpartisan U.S. International Trade Commission estimates increases in U.S. exports to Colombia in several agriculture sectors, including:
    - Wheat: 11%
    - Other grains: 20%
    - Vegetables, fruits, and nuts: 32%
    - Beef: 46%
    - Dairy: 110%
    - Processed rice: 646%

The ITC estimates of the potential growth in exports are likely understated because they do not account for the removal of non-tariff barriers and the resolution of several sanitary and phystosanitary (SPS) issues. The Agreement includes several provisions to address SPS issues, including the removal of BSE related provisions that impact U.S. beef exports and the elimination of restrictions on U.S. poultry exports related to avian influenza. The Agreement also requires that Colombia recognize the U.S. meat and poultry inspection system as equivalent to its own, thereby facilitating U.S. exports.

*"Opening new markets and expanding market share around the world is extremely important to American cotton merchants and directly impacts their ability to enhance the economic viability of cotton growers. As the Republic of Colombia is one of the top ten U.S. cotton export markets, securing this Free Trade Agreement (FTA) is extremely important to our members."* Submission to USTR, Barbara Spangler, American Cotton Shippers Association Docket 2009-



*"The U.S. – Colombia Trade Promotion Agreement (CTPA) will provide an opportunity to expand U.S. dairy exports. Upon implementation of the FTA, the U.S. dairy industry will gain immediate open access for most whey and lactose products, as well as tariff-free access for sizable amounts of cheese and skim milk powder, among other important dairy products. Furthermore, U.S. exporters will achieve additional market access in Colombia as tariffs are ultimately phased out completely."* Submission to USTR, National Milk Producers Federation, USTR 2009-0021.

*"NCBA supports quick passage of the U.S.-Colombia Trade Promotion Agreement. Colombia is the United States' 10th largest trading partner worldwide in agriculture and livestock products. The CTPA not only provides an opportunity to level the playing field at long last, but it also provides a significant opportunity to expand U.S. beef and beef variety meat sales to the Colombian market."* Submission to USTR, National Cattlemen's Beef Association, USTR 2009-0021.

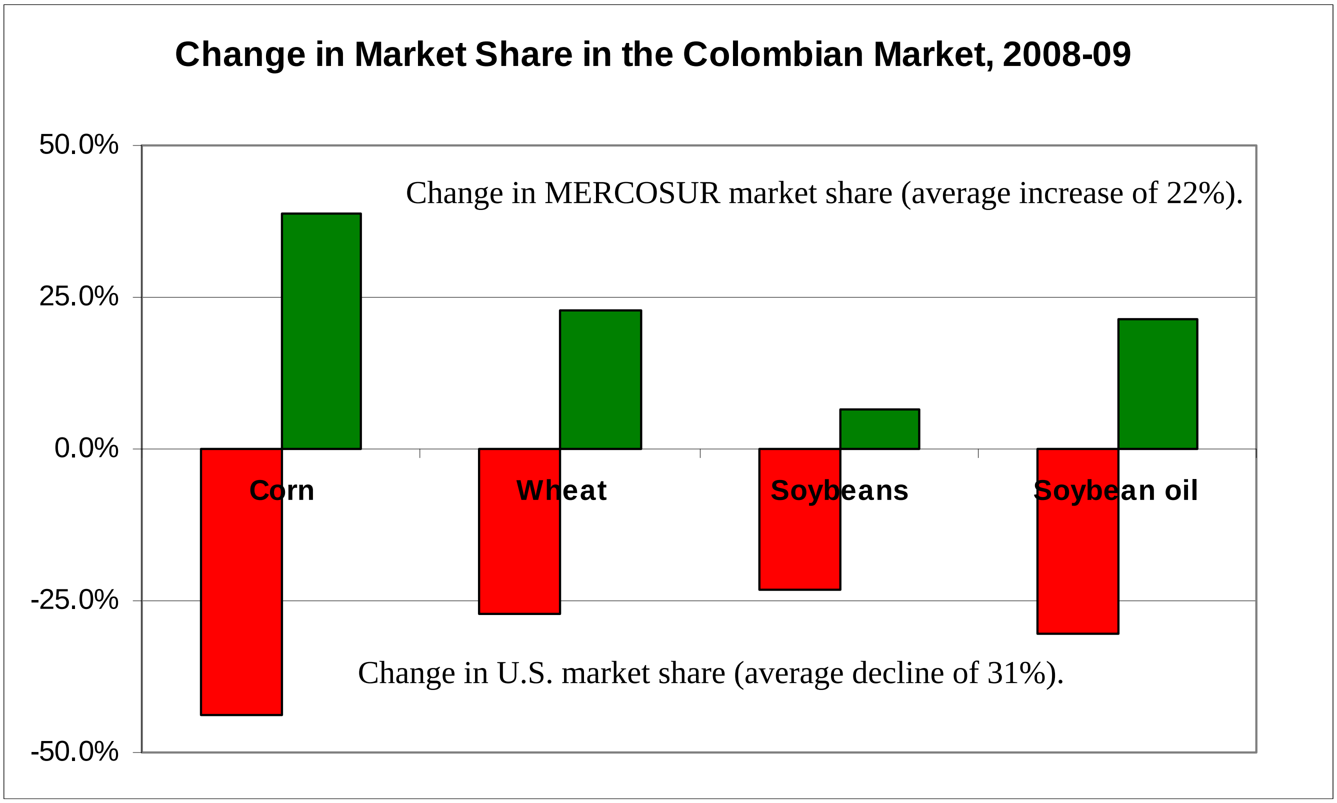
> *"Colombia has been an important market for U.S. soybean exports, as Canada and other countries negotiate similar agreements with Colombia this agreement will help the U.S. soybean industry maintain its competitive edge."* Submission to USTR, The American Soybean Association, USTR 2009-0021.

## CONGRESSIONAL DELAY ON THE AGREEMENT HURTS U.S. FARMERS AND RANCHERS AS OTHER COUNTRIES SEIZE MARKET SHARE

Unfortunately, the potential benefits of the Agreement are threatened by the failure of Congress to pass the implementing legislation. On April 10, 2008, 218 House Democrats voted to delay indefinitely Congressional consideration, denying America's farmers and ranchers the new market access and increased export opportunities the Agreement provides.

Over 1,200 days have passed since the United States and Colombia signed the Agreement. In that time, Colombia has launched and concluded trade agreement negotiations with Canada, Chile, and the European Union and completed the implementation of agreements the MERCOSUR Bloc of countries (Argentina, Brazil, Paraguay, and Uruguay). Each of these countries is a major competitor for American farmers and ranchers.

As a result of the delay in Congressional consideration of the Agreement, the MERCOSUR countries have obtained a competitive advantage over America's farmers and ranchers in the Colombian market. On January 1, 2009, over 1,000 days AFTER the United States and Colombia signed its Agreement, the agriculture market access provisions of the Colombia-MERCOSUR agreement were implemented. As a result, imports of agriculture products from Argentina and Brazil, two major competitors for America's farmers and ranchers, received duty-free access to the Colombian market and were no longer subject to price band charges. But U.S. exports still face those barriers. The commercial ramifications of the competitive advantage Argentina and Brazil have over U.S. agriculture exports as a result is significant. As the table below shows, American farmers lost significant market share to MERCOSUR countries in several key commodities in 2009.




Source: Official Import Statistics, Government of Colombia. These data are based on tonnage and therefore control for changes to commodity prices.

Additionally, in the case of soybean oil, U.S. market share plunged by over 1,000%. Based on official Colombian import statistics, U.S. farmers saw sales of corn, wheat, soybeans, and soybean oil plunge by $811 million, or by 62%, from 2008 to 2009. The declines in U.S. exports occurred even as Colombia's total imports remained steady:

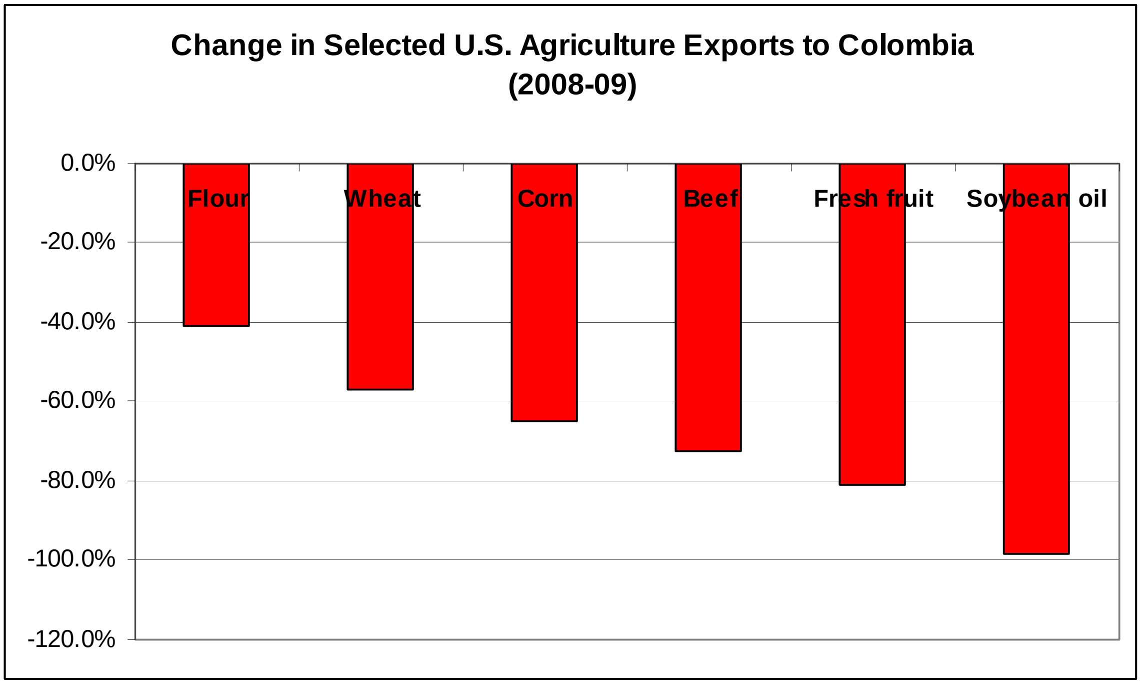
**Colombian Imports of Selected Agriculture Products**

(tons)

| | **2008** | **2009** |
|---|---|---|
| Corn | 3,324,208 | 3,245,040 |
| Wheat | 1,369,391 | 1,349,319 |
| Soybeans | 229,134 | 316,186 |

Source: Official Import Statistics, Government of Colombia.

Official U.S. export statistics corroborate these data. Between 2008 and 2009, total U.S. exports of agriculture products to Colombia dropped by 48%. That decline in U.S. exports is continuing in 2010 as U.S. exports of agriculture products have fallen by another 45% already this year.




Source: U.S. International Trade Commission.

The declines in U.S. exports for corn and wheat are particularly stark and disappointing in light of the analyses by the Farm Bureau and the U.S. ITC that showed how these commodities would see large increases in exports as a result of the Agreement. The table below compares the ITC's estimates of increases in exports if the Agreement were implemented to what has actually happened as other countries have moved ahead of the United States.

**Change in Selected U.S. Agriculture Exports to Colombia**

| Commodity | Expected from Implementation of the Agreement | Observed from Delay of Implementation |
|---|---|---|
| Corn | 20% | -35% |
| Wheat | 11% | -87% |
| Soybeans | 10% | -65% |
| Dairy | 110% | -59% |
| Beef | 46% | -73% |

The decline in competitiveness of American farmers and ranchers in the Colombian market has a direct impact on the livelihood of family farms and agriculture employment.

American farmers and ranchers are becoming increasingly less competitive in the Colombian market. Major competitors in Argentina and Brazil have already moved ahead of the United States to obtain better market access and take U.S. market share. Canada, Chile, and the

European Union are also poised to jump ahead of American farmers and ranchers. Working with staff at the ITC, Ways & Means Committee Republican staff developed estimates of the potential impact on American farmers and ranchers if Canada and the EU implement their trade agreements first. This analysis shows that America's farmers and ranchers would see significant declines in U.S. exports as a result of the competitive advantage their Canadian and European competitors would receive.

**Potential Impact on U.S. Exports to Colombia**

| Commodity | EU Agreement | Canadian Agreement |
|---|---|---|
| Wheat | - | -38% |
| Livestock | - | -27% |
| Meat Products | - | -10% |
| Dairy Products | -10% | - |
| Processed Rice | -7% | - |
| Wool | -50% | - |
| Beverages & Tobacco Products | -7% | - |

Source: Committee on Ways & Means, Republican Staff from technical assistance provided by the U.S. International Trade Commission.

In just these selected sectors, U.S. exports are estimated to decline by over $57 million. These losses would come on top of the declines in exports that are already occurring. Additionally, America's trading partners continue to move ahead of the United States, negotiating new market access for their farmers and ranchers. For example, Colombia recently began trade negotiations with South Korea and Panama. The longer the U.S.-Colombia Trade Promotion Agreement is delayed, the more significant the competitive disadvantage faced by America's farmers and ranchers.