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S. Hrg. 103–465

HOW NAFTA WILL AFFECT U.S. AGRICULTURE

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

THE EFFECT OF THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA) ON U.S. AGRICULTURE

SEPTEMBER 21, 1993

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

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THE NORTH AMERICAN FREE TRADE AGREEMENT

TUESDAY, SEPTEMBER 21, 1993

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 2:36 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Patrick J. Leahy, chairman of the committee, presiding.

Present or submitting a statement: Senators Leahy, Pryor, Boren, Harkin, Conrad, Daschle, Baucus, Kerrey, Feingold, Lugar, Cochran, Craig, and Grassley.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Good afternoon. The committee will come to order.

Mr. Secretary, it is good to have you here.

I am delighted to have the Secretary of Agriculture, a good friend, here. I am told the Trade Representative is tied up in a meeting.

We are here today to debate the North American Free Trade Agreement (NAFTA), an issue that is going to affect each and every American. There are those who would have us believe that the economy of the United States will spiral down into Mexico if we pass this agreement and that we would wipe out the U.S. manufacturing sector, destroy the family farm, and undermine all our public health and environmental standards. And there are those that would have us believe that the United States will spiral into economic obscurity if we don't pass this agreement.

We have heard all the sensationalism. We have heard reports of doom versus boom. Today we are here to carry the debate one step further.

Now, there are responsible voices on both sides of the debate, but I am not going to take kindly to those who try to make their case by exaggerating either the risks or benefits of NAFTA. NAFTA is not the worst thing that is ever going to happen to the United States. NAFTA is also not the best thing that is going to happen to the United States. It is not as good as its strongest proponents say it is, and it is certainly not as bad as its strongest opponents say it is. And I think that we are not going to have a debate that is going to engage the American people until both proponents and opponents of NAFTA lower the rhetoric and stick a lot closer to demonstrable facts.

My concerns are not how this agreement is going to affect corporate America and agribusiness giants. They are going to take care of themselves, and, in fact, some of our agribusiness giants have become, in effect, taxpayer welfare cases when we underwrite so much of their sales abroad to the extent that even this year alone the American taxpayers are spending $1.9 billion in foreign aid to Saddam Hussein. Why, you might ask? Because some of the corporate giants in this country got us to co-sign notes for exports to Saddam Hussein. He, not feeling too kindly to the United States at the moment, decided not to pay the notes, and, of course, the American taxpayers are.

My concern, though, is how this agreement is going to affect real Americans trying to deal with very real, day-to-day problems—unemployment, low wages, health care, education costs, and the environment. These are very legitimate concerns that jeopardize their future and the future of their children.

We want to make sure we are not going to compromise the safety and integrity of our food supply simply to champion free trade.

Last, but certainly not least, we need assurances that NAFTA will promote not just free trade, but fair trade as well. Sometimes free trade is not necessarily fair trade. We want both. And with the end of the Cold War and the start of peace in the Middle East, we enter a new venue of competition—one of economics.

So these are unsettled questions. We want to know what it would do. It is clear there is a lot to be said for a North American free trade area. Such a market would be the largest in the world. It could power the economy of the 21st century. And NAFTA does promise this, and perhaps it can deliver. But we have to be sure. There are unsettled questions, and we need straight answers before we decide on the fate of NAFTA.

Exports have been a key factor in the strength of our economy. Today we want to learn if NAFTA is the best agreement to build on that strength. It seems to me the greatest fear is that American jobs will be lost, drawn to the lower wages of Mexico.

Proponents say there is nothing to fear. There may be some dislocation, but the projected millions of dollars from new exports would translate into many new jobs in the United States. Opponents argue that the new jobs are a fairy tale. The only exports they see are American factories relocating in Mexico.

Some say that if the border to Mexico is open to trade, it will encourage illegal immigration and make it easier for drugs to be smuggled into the country. Others argue that NAFTA will promote cooperation between the United States and Mexico and create opportunities for workers in Mexico, making the border even more secure.

At present, we know the Mexican tariffs on American goods are more than double American tariffs on Mexican goods, and Mexico imposes trade barriers against many American products. Under NAFTA, of course, these barriers and tariffs will be phased out entirely.

America has successfully maintained free trade with Canada since 1989. But even with a country whose standard of living is so close to our own, there have been problems, one in particular with subsidized wheat. If free trade with Canada has resulted in difficulties, we have to look long and hard at Mexico for similar problems, as well as new ones.

There is more at issue than economics. Even though Mexico has environmental laws comparable to ours, their lax enforcement of those laws has created many environmental disaster areas. It does not do any good to say that their laws are the same if they are not being enforced. And Mexico has been cited in the past by the United Nations and others as a flagrant abuser of human rights and labor rights. We must ask if we are condoning this behavior with NAFTA or do we see NAFTA as a way of bringing freedom and hope into Mexico.

Each side has cited many facts and figures to support its arguments. The bottom line has to be what is best for the United States and all U.S. citizens. It is our responsibility to sort through these figures, and see if NAFTA is what America needs.

Again, let me say that before this is voted on in the Senate, I would hope that the debate would start by stating relevant facts and making claims that can be supported. Some of the proponents and some of the opponents have done precisely that. But when I think of some of the mail and some of the calls I get in my office, with some of the wildest claims for it and some of the wildest claims against it, it is no wonder the American people are confused. And certainly those of us who are going to have to vote on it are going to be confused.

We are going to hear from other Senators, but I should note, though, that I do not include the Secretary of Agriculture in those making the wild claims. He and I have had many discussions of this, and he has been very careful and has stuck to things that can be supported.

Senator Lugar.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Well, thank you very much, Mr. Chairman. I join you in greeting the distinguished Secretary of Agriculture, and we look forward to hearing from his associates and the Trade Representative and other distinguished Americans.

I agree with you completely that it is time to demystify the subject, to push emotion aside, and get to the facts. And as each one of us has been doing in our particular States, I have taken a strong look at steel, at automobiles, and at agriculture. These are the three basic industries for Indiana, a very diverse State. I am happy to report, Mr. Chairman, that if NAFTA passes, steel exports from Indiana will increase substantially; so will auto parts and auto assemblies, and so will corn. And all three are important to me, and they mean more jobs for Indiana.

Now, this may come as a startling conclusion to some of my constituents as well as to other Americans. Let me just say that I have analyzed carefully plants in Indiana that have operations in Mexico and Canada, or plants in Indiana that went to Mexico and that came back.

The reason people are going to Mexico and coming back is that the manufacturing costs are less in Indiana than they are in Mexico because, even given a large wage differential, the productivity of Indiana workers is five to six times that of Mexican workers. And the communications ease, the transportation ease, even the local governmental services are very positive factors for manufacturing in Indiana, even if the wage rate is $2 in Mexico and $16 in Indiana.

I think that is an important point that has to be made. These are facts, not emotion. The emotion is to suggest a $2 wage rate necessarily means with a great swoosh everybody goes to Mexico. Some manufacturers have succumbed to that temptation, and as the Wall Street Journal front-page story last week on manufacturing in Connecticut pointed out, they have come back, because they have found that manufacturing costs total, across the board, all of it, are frequently less in Indiana, Connecticut, and in other States of our Union.

Now, with regard to agriculture, we face, in my judgment, Mr. Chairman, the toughest 90 days that we are likely to have in this century. NAFTA and GATT are both critical for the future of American agriculture, and I would just say to anyone who is interested in agriculture—and I certainly am—if we do not have a robust export program, we are dead in the water. We will have corn and beans up to our necks.

Out in Indiana, Iowa, and in most other States, in many years we have to move from a fourth to a third of all we produce now in corn and beans. We have to knock down the Mexican barriers to our exports, and that is what NAFTA does. We have to have access to the European market, and that is what GATT does.

If we fail on both of these, there is no recovery, in my judgment, for American agriculture. There is simply an end to the prospects of the exports to which we have become accustomed and which we must have for upside potential. Though we will not be emotional about it, we will just be poor. We will go downhill in the process, and rapidly. That is why even though I am confident regarding my steel and auto workers that we are going to gain jobs, with regard to agriculture this is a desperate search for the end zone. And we have to succeed.

Let me just say finally that, indeed, exports are important for other reasons, among them, of course, the overall growth of our economy. We have had very tough debates in the Congress this year on the budget and on the tax bill. There are differing views as to whether deficit reduction will occur. But most economists believe that the tax bill that we have passed will have at least temporarily a depressing effect upon growth of jobs and growth in our economy. To sustain a double loss by losing NAFTA in the same year would really be fatal to growth and to jobs. We cannot sustain that in this economy and expect to see 2- or 3-percent real growth in this year or any time soon.

And with regard to one further consideration, we have a foreign policy opportunity with Mexico that is heaven sent. We have sat around in the Senate debating our relationship with Mexico for many years. We have never had such an opportunity to rejoice in a progressive administration friendly to our country, eager to do business, to liberalize its economy. Mexicans have extended their hands in this respect for cooperation, and it would be an unparalleled setback for that relationship if at this moment we were to spurn that opportunity.

I do not predict, as the chairman has suggested, all sorts of cataclysmic results. I simply say that when an opportunity of this sort presents itself in the life of foreign policy, you seize it, because it means not only forging a tie with Mexico but clearly an opportunity to work with the Central American democracies and the free trade agreement they are fashioning, with the Merkersur Group in the southern cone of South America, with Chile or Argentina or various other countries, either in a bilateral fashion or perhaps hopefully in a pan-American free trade zone during this century, and perhaps maybe during the next few years. These are all extremely important developments.

If we have a setback with Mexico, we are unlikely to see those developments very rapidly, if at all. And we will have dealt ourselves a fatal blow in terms of our export potential by consigning the great solidarity we could have in this hemisphere as we face challenges in Asia and in Europe and worlds to come that are more difficult to fathom.

So this is an important hearing, Mr. Chairman. I congratulate you on getting the Secretary and Trade Representative right off the bat so that we have an opportunity to hear them, to question them, and likewise for the service you provide for the American people.

Thank you.

The CHAIRMAN. Thank you very much, Senator Lugar.

Senator Baucus? First, I should note it is to our advantage on this committee to have Senator Baucus as a member because he is probably the key member on the Senate Finance Committee on this issue. It is very helpful having him here, just as it is having a senior member of the Foreign Relations Committee, Senator Lugar. We try to bring many disciplines into play in this committee.

Senator Baucus.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you very much, Mr. Chairman. I very much appreciate your holding a hearing on the agricultural aspects of NAFTA. Many are concerned with other aspects of NAFTA and not enough attention has been focused on agriculture, and I very much appreciate this hearing.

Mr. Chairman, as I assess the provisions of NAFTA, it seems to me that American agriculture stands to benefit from the passage of NAFTA. Increased market access, decreased tariffs, and increased employment are but a few of the benefits that I think America's farmers stand to gain.

However, I think it is important that this committee focus on some critical unresolved issues with respect to agriculture that are not specifically contained in the agreement. These are issues of concern to many in this Nation's agriculture industry, and, further, these issues are of importance to myself and to other Senators in determining a final position that they will take whether or not to support this agreement.

In fact, my own informal survey conducted by myself and my staff indicates that as many as 15 Senators have indicated that certain agricultural issues will have a critical impact upon their vote on NAFTA. The agriculture problem most frequently cited that I hear in my survey involves wheat. There are others. It is edible dry beans, it is sugar. There are a good number of others, but the one I hear most frequently, Mr. Chairman and Ambassador Kantor and Secretary Espy, is wheat.

Canadian transportation or crow's-nest subsidies have become a very serious problem for our people, particularly in the High Plains States but for other wheat-producing States as well. They amount to the Canadian Government paying the cost of shipping Canadian farmers' crops from field to market, sometimes resulting in a $20-per-ton subsidy on wheat.

Under the Canadian Free Trade Agreement, our trade negotiators inexplicably agreed to a scheme which banned using crow's-nest subsidies on shipments into Western States, but allowed them on shipments to Eastern States. And not surprisingly, Canadian shipments of wheat have tripled from 23 million bushels to 75 million bushels in the last 5 years, with almost all the shipments coming into—you guessed it—Eastern States.

To the great credit of the President and to you, Secretary Espy, and Ambassador Kantor, a working group has been appointed to deal with this problem of Canadian wheat-trading practices. It is my understanding that the as yet unreleased report of this working group concludes that these subsidized Canadian shipments of wheat are distorting the United States wheat market and costing the Government some $600 million over 4 years in additional farm program costs. There is also a concern that some of this Canadian wheat is finding its way into U.S. farm export programs and is being re-exported at taxpayer expense.

The damage doesn't end there. The Canadian Government has also used these transportation subsidies in the last 3 years to increase their share of the Mexican market from a 0-percent share to over 50 percent, a market in which the United States has obvious geographic advantages over Canada.

In addition to transportation subsidies, Canadian wheat exports are also subsidized through a Government monopoly known as the Canadian Wheat Board. All sales prices are carefully guarded secrets by the Wheat Board. But those familiar with wheat markets, including USDA experts, believe that Canada consistently undercuts market prices to undersell the United States. And, further, American wheat remains blocked out of the Canadian marketplace by a system of restricted import licenses and export certificates.

Mistakes made in negotiating the Canadian Free Trade Agreement with regard to wheat were not corrected in the NAFTA. Now we have a unique opportunity to remedy the inequities that burden American farmers in the context of NAFTA. The administration has within its grasp the opportunity to solve this problem and to facilitate the passage of NAFTA. We can be certain that if we miss this opportunity now, it will not return.

The administration should work quickly to limit Canadian wheat imports under Section 22. These sanctions are warranted and necessary, and I urge their immediate adoption. A second necessary action is the adoption of end-use certificates for use on imported grain. This action would guarantee the integrity of U.S. export programs, an action expected of us by the American public.

Finally, the time has come to negotiate an end to unfair trading practices and the use of export subsidies on commodities sold on the North American continent. We must bring the Canadians to the table, and we must remain there until this problem is resolved once and for all.

Again, we are on the verge of voting on this momentous agreement. In the days before the vote, we have the unique opportunity—in my opinion, absolutely unique—to improve agricultural trade with Canada and Mexico, to eliminate the problems which previous negotiators have not addressed. We can fire the final shot in the Canadian wheat war, or we can retreat. In the best traditions of American history, I urge the administration to fire that final shot. Let's put an end to this finally so we can pass NAFTA and also get some more sanity in the market and end the unfair Canadian subsidies.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I don't want to cut anybody off, but I would urge members to keep opening statements brief. We are at some point going to be finishing up the HUD bill. We are trying to do this hearing and finish by 4:30. But I don't want to cut off any questions, especially of the two key witnesses, Secretary Espy or Ambassador Kantor, this afternoon. We will ask questions as long as there are members who wish to ask questions of those two members before we go to the other panels.

Senator Conrad.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman. Let me just say that this is a critical issue for the people that I represent. As I said in the Finance Committee the other day, I am not certain this agreement is good for our country.

I am certain that as it stands it is not good for my State.

I say that because North Dakota is on the front lines, along with Montana, in terms of what we have faced with the so-called Canadian Free Trade Agreement. We have faced an unfettered flood of Canadian grain into my State, Durum and Spring wheat. Imports of both have grown dramatically as a result of the defects of that agreement. Failure to act now will do irreparable damage to the U.S. wheat market and our wheat producers. We simply must seize this opportunity to act.

As I look at this agreement, the concerns that I have that are directly affected by the agreement are wheat and barley coming in from Canada. As I have indicated, we have seen the shortcomings of the Canadian Free Trade Agreement lead to truck after truck after truck of Canadian grain coming into our State, not because they are more competitive, not because they are more efficient, but because of loopholes in that agreement. It is time to address them.

I have called for a Section 22 action against Canada. There is no question in my mind that they are dumping at below their cost into our market. No question in my mind. They have gone from 0 percent of the U.S. Durum market in 1986 to over 20 percent today. They have had a five-fold increase in the Spring wheat market. And those trends are continuing.

I have also called for end-use certificate legislation, legislation that I have introduced previously, legislation that has twice passed the United States Senate, legislation which the conference committee on reconciliation accepted until the Byrd rule was used to knock it out.

And my concerns don't go just to wheat and barley, although those are critical ones. In addition, we have problems with the NAFTA agreement on sugar to provide unlimited access to the U.S. sugar market for Mexico in year seven even though Mexico is an importer of sugar.

We have problems on dry edible beans: It will cut our shipments of dry edible beans to Mexico in half because of an inadequate record base that was used in negotiating the agreement.

And potatoes: Potatoes exports to Mexico, which have been growing by 100 percent a year—that growth will be cut off by this agreement.

Mr. Chairman, members of the committee, my message today is very simple: Fix it or forget it. Fix it or forget it. And I hope that message is received and responded to.

I thank the Chair.

The CHAIRMAN. Thank you very much, Senator Conrad.

The order I have as members have come in, next is Senator Feingold, then Senator Grassley, Senator Craig, Senator Pryor, Senator Cochran, and Senator Daschle.

Senator Feingold.

STATEMENT OF HON. RUSSELL D. FEINGOLD, A U.S. SENATOR FROM WISCONSIN

Senator FEINGOLD. Thank you, Mr. Chairman. I will try to be brief.

One of the most significant concessions the United States would make under NAFTA is the immediate elimination of our Section 22 import quotas with Mexico.

Section 22 has been central in our efforts to stabilize domestic prices and supplies for commodities such as dairy, cotton, sugar, and peanuts. The magnitude of this concession cannot be ignored. This concession also has strong implications for any future agricultural agreement that might be achieved with regard to the GATT talks.

Any adverse impacts resulting from the elimination of Section 22 are supposed to be prevented by this side agreement on import surges. I have concerns about the adequacy of that agreement to prevent import surges and the ability of the working group on emergency action to prevent that flood of imports.

I have been told by many farmers in Wisconsin that the key to a successful NAFTA or GATT agreement is market access. In NAFTA, Canada has been excluded from the agreement on dairy. Clearly, U.S. producers have not gained access to that lucrative market.

The question, then, for dairy is: What level of market access do we achieve under this agreement with Mexico? The answer to that question isn't clear. The disparate tariff rates for Mexican versus American imports of powdered milk beyond the duty-free levels and the varying tariff phaseout periods make any potential gain for the dairy industry questionable. NAFTA also maintains for many years high tariffs for U.S. exports of some cheeses to Mexico that are currently subject to import licensing, reducing the competitiveness of our exports.

It appears that the U.S. dairy industry, therefore, has given up a great deal for limited market gain. This agreement at best appears to provide little benefit to agricultural producers in this country, and at worst will cost farmers their markets, incomes, and potentially their livelihoods.

While there are many NAFTA supporters in agriculture, there are also a number of agricultural producer groups which are not supporting the agreement and believe NAFTA will be devastating to their industries.

After looking at those reports, I had to ask myself if perhaps the potential modest gains to agriculture have been overestimated and the substantial risks underestimated. Assumptions, for example, have been made, Mr. Chairman, that the dairy industry in Mexico cannot be competitive with U.S. industry, and the assumption is based on Mexico's reliance on small and efficient dual-purpose dairies, but it ignores the growth of large, high-tech dairies in the northern states of Mexico and their ability to further expand with access to greater inputs.

The other questionable assumption is that increased demand for dairy products fueled by higher Mexican incomes generated by NAFTA will actually be filled by U.S. products rather than the low-cost products of the European Community, Canada, and New Zealand. Obviously, one of the assumptions of greatest concern to those of us involved with the dairy industry is whether the rules-of-origin provision will be adequately enforced. There are strong market incentives for processors and European exporters to circumvent the rules-of-origin provisions for dairy products.

We are concerned that the EC will find the back door to our dairy markets wide open if the rules of origin are not as strict in practice as they are on paper. Perhaps above all else, Mr. Chairman, I am concerned that NAFTA will prevent the dairy industry from ever effecting any change in the current price support program. Clearly, NAFTA could negate any advantages provided by a supply management program promoted by many dairy farmers. I believe that even the market-oriented self-help plan promoted by dairy cooperatives could be rendered ineffective due to the export subsidies provision in NAFTA. It seems clear to me that we would do little to provide greater dairy producer support once this agreement is in place.

So I have many other concerns, but I wanted to at least lay out a few that are of particular concern to dairy. I will wait for the question period to discuss these issues further.

The CHAIRMAN. Thank you very much.

Senator Grassley, also a member of the Finance Committee.

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Thank you.

NAFTA is very good for agriculture in Iowa. I may have some misgivings about a narrow section of NAFTA here or there, but as a whole for agriculture, it is very, very good.

Iowa's secretary of agriculture, Dale Cochran, informed me today that he and 40 other State secretaries of agriculture or commissioners of agriculture are signing a letter in support of NAFTA. It seems to me that when you look at the large number of secretaries of agriculture who are supportive of NAFTA, they speak as well of the importance of this agreement to agriculture as anybody in the United States. They have surely got to know as much as we United States Senators do about agriculture in their respective States. Probably a larger share of those are Democrats than are Republicans, would be my guess. I don't know for sure.

Senator Lugar said that we have either got to export or we are going to be up to our necks in corn and other commodities. That is very true. In my State, 38 percent of our corn and 41 percent of our beans are exported. If we don't export, we might as well just shut down 40 percent of American agriculture. And you shut down 40 percent of American agriculture, and for every farmer that is out of business because of that, you are going to lose six or seven people beyond the farm that are connected. Their business or occupations are connected to agriculture.

When you look at it from the other end, if we export $1 billion worth of products, we are going to create 20,000 jobs. And those 20,000 jobs pay on an average 13 percent above the national average.

Every one of us has specific problems that need to be dealt with, and I hope they can be dealt with. But on the whole, there isn't any segment of the economy that benefits more from NAFTA than agriculture, particularly agriculture in the Upper Midwest and Ohio Valley.

I support NAFTA. I thank the chairman for holding the hearings, and I will put my statement in the record. I yield the floor.

The CHAIRMAN. Thank you.

Ambassador Kantor and Secretary Espy are trying to figure out what the trend is in this committee. If you do, you be sure and let me know.

Ambassador KANTOR. We are always optimists, Mr. Chairman.

The CHAIRMAN. It escapes me so far. Senator Craig.

STATEMENT OF HON. LARRY E. CRAIG, A U.S. SENATOR FROM IDAHO

Senator CRAIG. Mr. Chairman, I will skew the trend.

Mr. Secretary, Mr. Ambassador, thank you both for being with us today to discuss this issue and respond to questions. If we pegged this moment in time, we know that agriculture is successful in this country because it is trading today. It will trade no less tomorrow with or without NAFTA.

The $7 billion surplus with Mexico today is without NAFTA. It is because the Mexicans have dropped a substantial number of their restrictions and will continue to do so to see their own economy improve.

In the long term, yes, I agree that NAFTA, properly administered, can produce results. But in the short term, farmers damaged are farmers lost. The tragedy of the Canadian Free Trade Agreement, as my colleagues from Montana and North Dakota have expressed so clearly, is that you have to show damage. In the business of agriculture, that means going out of business before you can appeal to the Government in a way that will get a response.

Barley is pouring into the State of Idaho right now at a time when grain markets are moving up because of the Midwestern problems. It is pouring in because of the Canadian Free Trade Agreement and our Government being less than responsive. And the story goes on and on.

Now, I can't afford to lose a farmer, and you, Mr. Secretary, but more importantly you, Mr. Ambassador, know I have appealed to you and to the Mexican Government to establish proof positive, if at all possible, that any sugar agreement is one that our domestic producers can live with. You knock the sugar beet industry out of my State, and you badly damage the agriculture economy of my State. I have yet to be convinced that this is an effort worth supporting in lieu of the damage that can result.

I have also taken the time to read in detail and to try to gain a broader explanation and understanding of the environmental side agreement; what it will mean and how it will be enforced, who the enforcers will be, what kind of power they will have. It concerns me that while this Nation leads the world with environmental policy and environmental concern, we might choose someone else to be our environmental enforcer. That is a legitimate concern, and my constituents, once they have read the fine print, are beginning to ask questions. The answers are not yet forthcoming. It will be in those issues that your ability to respond and your ability to clarify and to get the devil out of the detail will go a long way toward convincing me that I ought to support, on behalf of Idahoans and Idaho agriculture, this particular trade agreement.

I did not support the Canadian Free Trade Agreement because I tried to cajole my own administration into cleaning up the details. They didn't clean up the details. You now hear testimony from the Senator from North Dakota and the Senator from Montana and you are hearing it from me: domestic farmers are hurting when they shouldn't be. That shouldn't happen with NAFTA, but it probably will unless the details are clarified, put in writing, and made enforceable. Once that happens, there must be the will to enforce it. So I am anxious to hear your testimony.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Senator Pryor of Arkansas.

STATEMENT OF HON. DAVID PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Mr. Chairman, you were so persuasive a moment ago when you talked about limiting our statements and letting our witnesses go forward. I am putting my statement in the record, and I thank you, sir.

The CHAIRMAN. Senator Pryor is trying to set an example because he knows he is next in line to take my seat here. [Laughter.]

He doesn't want to have to put up with long opening statements if he comes in.

Senator PRYOR. I want you to know, I prayed for your reelection last fall. [Laughter.]

The CHAIRMAN. More than some in Vermont did.

Senator Cochran.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. Mr. Chairman, I am going to put my statement in the record, too. I join you in welcoming Secretary Espy, Ambassador Kantor, and the other witnesses who will testify at this hearing on NAFTA. I am convinced that it is going to create more jobs in the United States and it is going to break down trade barriers and improve living conditions in Mexico, Canada, and the United States. And I look forward to hearing the details and some of the facts that will help convince me that I am right.

The CHAIRMAN. Thank you.

Senator Daschle.

STATEMENT OF HON. THOMAS A. DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Mr. Chairman, I too would like to welcome our guests, and I will be very brief.

I think it is clear from the opening remarks that our differences are not political or philosophical. You have got conservatives and liberals, you have got Democrats and Republicans, on both sides of this issue.

I do think, however, that there are winners and losers under the current situation, and that is my concern as well. Senator Conrad said it very well: Fix it or forget it. And I think for those in the northern-tier States, we have got to find a way to fix it. Northern-tier States, especially with wheat and in some cases with sugar and other grains, are very concerned about the implications of this agreement as it now stands. And I have three concerns:

The first is that the concerns expressed this afternoon will not be fully considered and weighed and carefully addressed in ways that we can either do unilaterally or at least with Mexico in the coming weeks and months, that they will be buried with the concerns expressed already on many other issues relating to the agreement.

Secondly, that the exaggerated claims on both sides will so obfuscate the debate that we really aren't going to clearly understand the implications. I worry about that with each one of these hearings and with all of the rhetoric I hear on the floor. They cannot be believed, and we have got to be very careful about what it is we say about the effect of this agreement.

Then, finally, I think we have to look at NAFTA as to how it fits in with our longer term strategy in agricultural policy. In particular, as chairman of the Inspection Subcommittee with Senator Craig, I am very concerned about the inspection implications that we have got to address here. We had to deal with that in the Canadian situation, and we will certainly have to deal with it in Mexico. The Acreage Reduction Program, the Export Enhancement Program, and a whole range of other tools that we use have to be clearly understood as to their implications in future farm policy debates.

So I think those three concerns, Mr. Chairman, have to be addressed, and I hope this hearing this afternoon will lend a better understanding in those areas as well. I thank you.

The CHAIRMAN. Thank you very much. I should note that seven of our members also serve on the Finance Committee, so while these opening statements may have seemed somewhat long, I hope this gives you somewhat of an idea where we stand.

Secretary Espy, please go ahead, sir, and then Ambassador Kantor.

STATEMENT OF HON. MIKE ESPY, SECRETARY, UNITED STATES DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY JOSEPH O'MARA, SPECIAL TRADE NEGOTIATOR, USDA, AND EUGENE MOOS, UNDERSECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, USDA

Secretary ESPY. To Mr. Chairman, to Senator Lugar, and to the other members of this committee, I am delighted to be here, delighted to be with you and joined by Ambassador Mickey Kantor to discuss NAFTA and its impact on agriculture.

Mr. Chairman, I do have a rather lengthy statement which I don't choose to read, so if I could have your consent to have it entered as a part of the record, I would appreciate it.

The CHAIRMAN. Of course.

Secretary ESPY. Mr. Chairman, much has been said about NAFTA. Many of the arguments we have heard—not today—have been surrounded by hyperbole, immersed in rhetoric, and depending on where you stand or sit, passage of this agreement either heralds the Second Coming or evidences the mark of the Devil himself.

So, today, I would like to in my own way present the facts as I see them and try to set the record straight on why we in this administration and in this USDA believe that NAFTA is a good deal for U.S. agriculture, a good deal for all of our farmers and all of our ranchers.

It has been said here already, Mr. Chairman, in the opening comments. It is a win-win situation for agriculture if you look at it from a macro point of view, simply because, as Senator Lugar said, a third or fully up to 40 percent of the crops grown in America are really grown and targeted toward the export market. And if we don't aggressively pursue markets and increasing market share, I fear the consequences for our supply management system. There will be deleterious impacts on food prices and certainly problems with the farm program budget.

If we don't pursue an aggressive trade strategy and specifically if we don't pursue it within our hemisphere, our competitors certainly will. The European Community and Japanese will swoop in and absorb these markets and the market share. If we don't pass the NAFTA, then we will see, in my opinion, the Government of Mexico begin to ratchet up their tariffs and their nontariff barriers and their levies. Lastly, if we don't do it, Mr. Chairman, I fear that we will have, again, negative consequences at the GATT where we have to show our leadership in this particular area.

So I do think that the United States needs the NAFTA, and I have seen it work. I was in Mexico 2 weeks ago. I had the opportunity to travel there to cut the ribbon on the largest trade show that the United States and the USDA has ever held in any country since we have been doing these shows. The show was organized by FAS, the Foreign Agricultural Service, and it was managed by the USDA. I was there 2 days, Mr. Chairman, and I was amazed by the presentations and exhibits of more than 200 U.S. exhibitors. Almost every State in our country took part, all there with expectations of high sales.

And so this sucking sound we hear? I heard a sound as well. I heard a sound of a stampede of Mexican agents and purchasing negotiators; all were there to review evidence of U.S. agriculture, particularly value-added agriculture.

Then I had a chance to walk through certain grocery stores in Mexico, and I saw shelves lined with American food products. And so I can certainly tell you in no uncertain terms, without equivocation, that it is a good deal for us, it is a good deal for U.S. agriculture, and Mexico is no doubt a major market for U.S. agricultural products.

In fact, Mr. Chairman, Mexico is already the third largest foreign market for U.S. agriculture products and the second largest market for U.S.-manufactured products. U.S. agriculture exports to Mexico will reach, we believe, about $4 billion this year, more than double the 1988 level. Why? Because President Salinas has already partially opened the Mexican market, and we have seen incredible advances.

Since 1986, when he came in, we had export sales there of about $1 billion. And just by his unilateral actions, we have seen almost a quadrupling in the U.S. presence in their agricultural market. So, simply, we want to lock in these trade gains.

These exports to Mexico already support an estimated 700,000 U.S. jobs in agriculture, manufacturing, transportation services and other industries. Four hundred thousand of those jobs were created just since 1986, as I said, since Mexico began opening up its economy. So the potential as a market for U.S. goods is even greater. Mexico has about 90 million people. We prefer to consider them as 90 million consumers, including Mexico's large and growing middle class. And even though Mexico's tariffs have dropped significantly over the past few years, their tariffs are still 2.5 times higher than ours.

The average U.S. tariff on goods from Mexico is only 4 percent, while the average tariff on goods from the United States to Mexico is 10 percent. So under NAFTA, Mexico must eliminate these high tariffs completely.

For the first time, our trading relationship will develop in a controlled way, not by accident, and for the first time, we will be building on a level and on a fair playing field.

There is lots of talk here about losers and winners under the NAFTA. If you consider the doctrine of comparative advantage, I believe there are some clear winners for agriculture under the

NAFTA. There are some marginal winners, and there are very few U.S. agriculture commodities that will lose under this deal.

If NAFTA is defeated, there will be winners as well, but the winners will be the European Community, the countries of the Pacific Rim who recognized years ago the advantages of having and the necessity to have a special trading relationship with those countries nearest to their borders. They are aggressively creating new preferential markets for their goods while we choose to rely upon old markets for ours.

Those who oppose the Uruguay Round will consider themselves winners as well if NAFTA is defeated. Let me assure you, our GATT negotiating position will be strengthened by the implementation of NAFTA.

So, again, we believe that American farmers and ranchers have much to gain from NAFTA. It will create new long-term growth opportunities for agriculture within our own hemisphere. In fact, we believe that U.S. agricultural exports will be between $2 billion to $2.5 billion higher annually when NAFTA is fully implemented than without the NAFTA. U.S. grains and meats would account for more than half of the expanded trade value, although many U.S. products would benefit. We also see new opportunities in the area of biotechnology trade, agricultural investment, and the transportation of farm and food products.

The increased import demand from Mexico will have a positive impact on U.S. prices and cash receipts, boosting U.S. farm cash receipts up a projected 2 to 3 percent. And this means a lot to the American farmer. It means farm income, and increased farm income means jobs and more job security and increased investment in the rural economy. We believe 56,000 additional jobs on the farm and in the food industries will be created because of the NAFTA. And so these are gains, we think, that are not to be diminished and will certainly benefit all of rural America.

We expect many of our exports to Mexico to increase immediately, but even more gains will be realized over time as the Mexican standard of living grows and as the Mexican market grows even further. Without the NAFTA, we do not expect our exports to Mexico to grow nearly as much, although I believe they would grow. Those 56,000 agricultural jobs will never have the chance to be created, but what is perhaps more important, without the NAFTA there is nothing to prevent Mexico from once again closing its borders by erecting new and onerous barriers to imports. And this could easily result in the loss of a major market for American goods, and this would put in jeopardy those 700,000 U.S. jobs that now exist because of our exports to Mexico.

Mr. Chairman, we have Ambassador Mickey Kantor here, and he will talk more about other provisions, including agriculture, but just let me mention a few things that NAFTA doesn't do, if you will, and then let me spend the concluding moments here discussing a couple of questions that you generously asked of me before I arrived here.

NAFTA does not do these things: NAFTA does not affect U.S. quotas imposed under Section 22 of the Agricultural Adjustment Act of 1933 for any country except Mexico, nor does it affect U.S. tariffs or other import protections for non-NAFTA countries.

NAFTA does not require any changes in stringent U.S. standards for food safety, animal or plant health, or environmental protection. Nor does it prevent the adoption, maintenance, or enforcement of even tougher scientifically based standards, including those more stringent than international standards, including some adopted by your States. NAFTA does not exempt our NAFTA partners from meeting U.S. quality and grade standards for fruits, vegetables, and other products. And lastly, the NAFTA does not prevent us from using the Market Promotion Program, nor does it stop us from using the Export Enhancement Program, as well as other measures to counter the unfair trading practices of our competitors.

Mr. Chairman, you had earlier forwarded specific questions to me, some of which I have answered and I am sure we will answer in Q and A. But you asked about the impact on U.S. farm income, the operation of U.S. farm programs, and the U.S.–Mexican agricultural balance of trade.

Very quickly, USDA projections show that the increased import demand from Mexico resulting from NAFTA will boost U.S. farm cash receipts a projected 2 to 3 percent. Increased U.S. exports to Mexico will generate more than 50,000 new jobs on the farm and in the food industries because of NAFTA, and no changes in our domestic farm programs will be required.

On the question of safety of imports of agricultural products, NAFTA specifically recognizes the right of each country to establish its own levels for protection of human, animal, and plant health, and the obligations of each country to use science-based standards. NAFTA also allows State and local governments to enact their own tough standards without restriction, so long as the methods used to determine if imports meet those standards are scientifically defensible.

Imports that do not meet U.S. health and safety standards will not be permitted within the United States. USDA and the Food and Drug Administration will continue to enforce legal limits on pesticide residues and refuse entry to any products that do not meet these limits. So the bottom line is, Mr. Chairman, the United States will maintain its high standards for public health and food safety, and there will be no compromise in these areas.

You also asked about rules of origin under the NAFTA. NAFTA includes strong country-of-origin rules so that the incentives for trade within North American do not open the flood gates to free access for the products of countries outside this continent. Commodities from non-NAFTA countries must be transformed or processed significantly before they can receive NAFTA preferential treatment. NAFTA gives U.S. Customs auditors the ability to visit business facilities in Canada and Mexico to ensure that tariff preferences go only to qualifying goods.

I should point out that, in general, NAFTA's rules of origin for the U.S.-Mexico agreement are stronger than those in the U.S.-Canadian Free Trade Agreement. This administration will take whatever steps are necessary to ensure that U.S. workers are not injured because of illegal activity by those who would try to import non-NAFTA goods to the United States, passing them off as a product of a NAFTA country.

So, in conclusion, Mr. Chairman, I am obligated to take a macro view of this agreement. In my considered opinion, this is a win-win for U.S. agriculture. If we don't pass it, as has been said before, we will have trouble with our reserves, we will have trouble with our supply management system, we will have trouble, in my opinion, with the resulting increased food prices with regard to that. We will have trouble if we don't pass this by Mexico perhaps in a counteractive way reestablishing increasing barriers and nontariff barriers. We will have trouble with our competitors from the Pacific Rim and the EC swooping in to take advantage of markets which I believe are rightfully ours.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Secretary.

Ambassador Kantor, I know that nobody has worked harder than you have on this subject, not only going around this country but around the world. I hope your back is healed. You gave a number of your friends, myself included, a great deal of concern when you had that fall. I am sure from your mind it was bad enough, but it could have been, as you know, a lot worse.

Ambassador KANTOR. It could have been. I could have had another hearing before the Senator Finance Committee. [Laughter.]

The CHAIRMAN. Knowing the number of Finance Committee members that are around here, you probably think you are, anyway.

Ambassador KANTOR. I am sure they are tired of seeing my face, Mr. Chairman.

The CHAIRMAN. We took a poll, and it was unanimous. They wanted you back to hit you from a different angle, I guess. But I am glad you are okay because I did worry about you.

Ambassador KANTOR. Thank you. That is very nice.

The CHAIRMAN. I had called your office during that time, and they assured me you were coming along well, and I am glad to see you looking so well.

Ambassador KANTOR. Thank you very much. I appreciate that. I understand the vote on my getting well among the Finance Committee members on your committee was 4 to 3. I am happy to win that one. [Laughter.]

STATEMENT OF HON. MICHAEL KANTOR, UNITED STATES TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador KANTOR. Mr. Chairman, I appreciate the opportunity to be here. First, let me follow the example of my colleague, Secretary Espy, and the example of my adopted Senator, Senator Pryor. I lived on Beechwood Drive in Little Rock for a number of interesting months in 1992, and so——

Senator PRYOR. Did you register to vote there? [Laughter.]

The CHAIRMAN. Before you answer——

Ambassador KANTOR. Senator, I tried and I tried, and they wouldn't let me do that.

The CHAIRMAN [continuing]. Before you answer that, I remember while campaigning in Vermont running into you at the Rutland County Fair, and I was ready to register you there, too. So if you registered in more than one place, please don't say anything about it.

That is a joke, for anybody——[Laughter.]

Everybody takes everything so seriously around Washington—except NAFTA. Go ahead, please.

Ambassador KANTOR. And maybe we ought to be a little more balanced, as Senator Daschle suggested, about NAFTA as well as we go through our advocacy for it. And others will take other positions in both parties, and as you correctly point out, it is interesting who is on both sides. I am not sure I have ever in my lifetime seen such an arrangement of political ideologies or lack thereof for and against a treaty.

Let me apologize. I did pick up my daughter at school, but I will stay here as long as the Chair wishes. We do have someone at home with her right now.

I would like to start by saying the North American Free Trade Agreement with the side agreements will not solve every economic problem this country has. It will not. But it is a vital part of an overall approach of this administration to create jobs, to open markets, and to increase the wealth of this country.

Number two, it will not solve every problem we have with Mexico. There are some people who want it to. There are those on this side of the table who tried hard to solve a lot of problems. But let me say it will not solve every problem we have. But it makes the situation with Mexico and in North America substantially and significantly better than it has been before.

Let me submit my statement for the record and just make a few comments, and Secretary Espy certainly has brilliantly covered much of the agricultural sector. First let me say that the best argument we can make for NAFTA and I think the most compelling argument is: We have a free trade agreement today with Mexico. The problem is it only goes one way. It is free trade for the Mexican Government and Mexican businesses and Mexican workers, those workers in Mexico and those businesses who have moved there. And it is not free trade for our companies and our workers.

Let me explain that. Mexico at one point had 100-percent tariffs, and then they were bound at GATT at 50, and now they average 10 percent, 16 percent in agriculture. Our tariffs have always been low, especially since the Second World War. They are now at 4 percent. Mexican tariffs are about 2.5 times larger than our tariffs.

Let me say, number one, that causes a problem for U.S. workers and U.S. businesses as you try to export into Mexico.

Number two, import licensing requirements in agriculture is a pernicious system we'll get rid of on day one that NAFTA goes into effect.

Number three, other unfair rules that affect goods and services are production requirements and performance requirements. They make it impossible for some industries, difficult for others, to export into Mexico.

Number four, the maquiladora program, begun in 1965 with the cooperation of both governments, says if you want to establish a business in northern Mexico, come on in. You can take every component part you import from the United States tariff-free, make it into a value-added product; but you can't sell it in Mexico, you have to export it back to the United States.

Now, what did the United States do? We then said we won't charge tariffs on the whole product, just on the value-added portion.

Now, if there is any prescription to draw jobs down to Mexico and U.S. businesses, that was it. And there are about 1,000 of them there right now that employ about 250,000 people, another 1,000 owned by other either Mexican nationals or by nationals of other countries—2,000 businesses.

So let's take what we have. We had high tariff barriers. We had unfair rules, import licensing requirements, the maquiladora program, and then to add insult to injury, no enforcement of environmental or labor standards. So if you are a business person and you have the flexibility to move, especially if you are big—medium-sized and small businesses don't have that flexibility—you went down to Mexico. At least 1,000 of them did and took 250,000 jobs.

The NAFTA changes that. It makes the rules fair. That is point one.

Point two, Mr. Chairman and Senator Lugar, which I think is a critical point, we have evidence that lowering those tariffs and getting rid of some of those unfair rules works. Now, what is our evidence?

In 1987, President Salinas began a program to lower to some degree those tariffs and to lower to some degree or to get rid of to some degree those rules. What happened? Our exports to Mexico went from $12 billion to $40.6 billion, a 3½-fold increase. We had a $5.7 billion deficit in 1987. Now we have a $5.4 billion surplus. We had 275,000 jobs in 1987 related to exports to Mexico. Today it is 717,000 on its way to nearly 1 million if we can get the NAFTA adopted and ratified by this Congress.

And so we have evidence that when you get rid of the unfairness, even a little bit—and I know some of you have heard this, and I apologize to the Finance Committee members—you begin to make progress. You create jobs. We become wealthier. We export more goods.

Now, number three—and Secretary Espy referred to this, and quite eloquently—we are building the largest free trade zone in the world with NAFTA, 370 million people, $6.5 trillion in gross product. Frankly, it is also the largest trade preference zone in the world. And what does it do? It makes us more competitive with the Japanese and with our European counterparts. Does that help us? Yes, it does. Does it make our businesses stronger? Does it create more jobs here? Yes, it does. And there are 400 million people living south of the border in the second fastest growing region in the world, from Mexico to Argentina. And let me say today, as I said the other day, if we don't take advantage of those markets, somebody else will. And it doesn't take a leap of imagination to conjure up who that is going to be.

Shame on us if we miss this opportunity with the NAFTA. Again, it is not perfect. I don't claim it to be; Secretary Espy won't claim it to be. But it is so much better than what we have today, which is getting rid of these unfair rules and growing this large market and growing jobs in the country.

I won't go through the pages I had on agriculture, although I think they are critical, absolutely critical. Mexico is our third largest importer of agricultural goods today, $3.8 billion. It will grow in 15 years to over $10 billion. We will have 100,000 more jobs, including 56,000 more directly related to NAFTA in agriculture because of this growth in exports to Mexico.

Let's not miss this opportunity, and one more thing. I think it is interesting if you look at population growth, which I know this committee looks at because it makes so much difference in agriculture, in percent of population in 25 years, Mexico is growing three times faster than the United States. Mexico will have 107 million people by the year 2007 on their way to the middle of the next century of 150 million people. Sixty percent of the population of Mexico is under 25 years old, and they consume twice as much cereal per capita as U.S. citizens.

This is an opportunity of this country in goods, in services—which they open up for the first time, by the way—and for agriculture. It should not be missed.

I look forward to answering questions from you, Mr. Chairman, and thank you for your kind remarks, and from you, Senator Lugar, and other members of the committee.

Thank you.

The CHAIRMAN. Thank you, Mr. Ambassador.

Let me ask you, if you look at rural areas, an area most of us on this committee are concerned with, you find a preponderance of the jobs are in manufacturing industries, and many of them rely on lower skilled labor. A lot of them are jobs that are susceptible, very susceptible, to competition with Mexican labor.

Do you think that NAFTA would have a negative effect on jobs in rural America? What is your estimate of its effect on rural America?

Ambassador KANTOR. No, I don't, Mr. Chairman. Again, the past is prologue. The last 5 years, as these rules have become more fair and we have lowered tariff barriers, 48 of the 50 States have increased their exports to Mexico, not only agricultural but goods and manufactured goods as well. We have created a substantial number of jobs.

There is no evidence that, in fact, whether it is in so-called low-skill or low-wage jobs or in high-skill, high-wage jobs we can't compete. Frankly, we have increased our exports to Mexico in almost every category you can imagine over the last 5 years.

Interestingly, the average Mexican consumer buys about $450 a year in U.S. goods, more than the average Japanese consumer or the average consumer in the European Community, although obviously their wages are less per capita or their income is less per capita. We don't see that happening, and in fact, for small and medium-sized businesses, many of those in rural areas, as you know better than I, this is a real winner.

Small and medium-sized businesses work on, by their very nature, small margins. If you have tariff barriers and nontariff barriers, they can't compete. Larger businesses can absorb that unfairness or that inequity. Larger businesses also can open up in Mexico where small and medium-sized business by its very definition can't.

When we open up under NAFTA and lower those barriers, we will be exporting products, not jobs, and a lot from small and medium-sized businesses. And I don't want to go too long, but I have been to the Atlanta Saw Company, and we have talked to the owner of Quaker Fabrics, in Fall River, Massachusetts, and we have talked to Springs Industry in South Carolina, Keva Plastics in Phoenix, Arizona. And they all come up with the same story. Many of these are smaller businesses. They are going to do great under NAFTA, and they are looking forward to it.

Secretary ESPY. Mr. Chairman, if I could just add a word?

The CHAIRMAN. Yes, certainly.

Secretary ESPY. You know how concerned I am about jobs in rural America and increasing the supply of jobs, and you also know my background. I am from rural Mississippi, the Mississippi Delta, an area that many would consider to be a prime target for the export of jobs from that region into Mexico.

In addition to what the Ambassador has said, with the obvious benefits of a prime market to supply for agricultural products which will increase jobs in rural America, just let me say, Mr. Chairman, that there are many other reasons why a small firm would choose not to relocate from a rural area into Mexico that go beyond the productivity and the wage issues. You have to look at rural America and rural Mexico and consider that we have huge advantages in transportation, huge advantages in infrastructure development. As much as we lament it, it is to be said to our credit that we are a lot better than some areas down there. We have huge advantages when it comes to research and being close to research-oriented universities and 1890 colleges; huge advantages in interest rates and what it costs to set up a firm down there; and certainly, as has been said before, huge advantages in productivity of workers.

So I just don't see this immediate rush, even from areas such as mine, down into Mexico.

The CHAIRMAN. Thank you. I also know that we have to wonder about some of the lost revenues. I realize Mexico has higher tariffs on balance than we have on theirs, but when Secretary Bentsen testified—I believe at the same time you were there—he told the Finance Committee that we would lose about $2.5 billion in tariffs.

What is our intention? I am thinking of the budget package we just passed. How do we make up that $2.5 billion? I guess that is $2.5 billion every single year.

Ambassador KANTOR. No, it is not. It is $2.5 billion over 5 years, Mr. Chairman.

The CHAIRMAN. Okay. How do we make it up?

Ambassador KANTOR. We are working on that right now with both the Senate Finance Committee and the House Ways and Means Committee. Obviously it is the largest cost of the NAFTA given the pay-go system. We can, of course, take into account the fact that we will create about $6 billion a year in Government revenues from the increased exports and imports that result in increased business and agricultural activity.

However, we believe that there is—through certain savings in certain programs and other ways, we will be able to make up about $500 million. It is less in the first year, as you might imagine. It slowly will kick in, and then by year 5 it would have averaged $500 million for 5 years. But we would like to work with not only those committees, but your committee as well, in finding appropriate sources.

The CHAIRMAN. I am undecided on NAFTA, which is one of the reasons for this hearing. I mention that because nobody in the administration has asked me if I have a position one way or the other, so I will pass it on back that I don't. I want to know if there are any extra costs in here that we are not aware of. So I would be interested, when you reach your final conclusion, how you are going to do it. Let us know.

Is there anything in NAFTA that would allow Federal preemption, not just the NAFTA preemption, but allow the Federal Government to preempt food safety laws in individual States?

Ambassador KANTOR. No, sir.

The CHAIRMAN. Now, if I read the paper, I understand—and we have heard some mention of it here today—that the sugar industry is concerned about NAFTA, that it may have a flood of imports of sugar from Mexico. You have also said you are not going to open NAFTA to amendment.

How do you take care of the problems of the sugar industry without changing the underlying agreement?

Ambassador KANTOR. We believe there are a number of creative approaches we might take. As late as Friday, we were in discussions with the Mexican Government regarding this problem. It is not one that is either new to this witness or new to the witness on my left.

As you know, in the first 6 years, Mexico could not exceed 25,000 tons exporting to the United States even if they become a net producer. They are not a net producer today. They are not expected to be for a while.

After 6 years, of course, if they become a net producer, that rises. The fact is the concern over the substitution of high fructose corn syrup in soft drinks, the potential of that, and that then relieving Mexico of the need to use that sugar in the production of soft drinks, therefore becoming a net producer as a result of substitution. In the formula that was negotiated by the prior administration, high fructose corn syrup (HFCS) was left out.

We believe because both countries—it is in the NAFTA; I will not quote it directly—have a right to determine what is a net producer and when it occurs that we will be able to work with not only this committee but the others, as well as the Mexican Government, in order to address that problem.

It is a problem that should be addressed. The Mexican Government has indicated that they don't intend nor do they foresee at any time that they would substitute HFCS because of pricing differentials for sugar. But if that is the case, I gently said to them that I thought we might be able to take care of this problem if it is not something they intended to do.

Secretary ESPY. Mr. Chairman, could I just jump in on this one?

The CHAIRMAN. Yes, Secretary Espy. I was going to ask you the same question, so please feel free to comment.

Secretary ESPY. The Ambassador knows that I am concerned about this as well, and I agree with him that we are going to work together to lessen this as a negative concern relating to the agreement. But when I went down there to Mexico 2 weeks ago, I raised this question of whether or not there is any reason for us to believe that they would start using high fructose corn syrup in their beverage industry.

As I sit here, I don't believe that that is really going to happen, for two reasons: one, because of, in my words, the sorry state of affairs in their beverage industry right now. There are a few companies that have gone bankrupt recently. It is really hard to believe we are going to see a quick capitalization of their beverage industry. Then, secondly, as most consumers know, because of the taste differences between what beverages taste like with high fructose corn syrup than they taste like now with the current ingredients. I think that we know that there is a taste difference. I think we saw that in the old argument over the Classic Coke. And I just don't think that conversion to the use of high fructose corn syrup is going to happen.

So insofar as their becoming a net surplus producer and our having to fear that they will export that raw sugar into our markets, I just don't believe that there is a probability of that, even after year seven.

The CHAIRMAN. We are talking about things that might be imported. You said earlier in your testimony that you thought that NAFTA would prevent Canada or any other country from circumventing the U.S. Section 22 import quotas by shipping dairy products through Mexico. In my understanding of a reading of it, it does prevent that but only if we enforce it.

How do you enforce those rules? Would it be the administration's intent to make sure the rules really are enforced?

As you know and I know, we have some rules on imports and exports that we on occasion turn a blind eye to, for whatever reasons, ranging from national security to economic realities. But this is one that resonates a bit back home, so please tell me it is going to be enforced.

Secretary ESPY. Well, I am sitting at the table with the author of the three side agreements: on labor, on environment, and on import surges.

Mr. Chairman, there are some things that we should take on faith, and we know how difficult this agreement is to pass, and we are not going to let the critics have a field day by knowing that we did not enforce that particular requirement.

The CHAIRMAN. What are the prospects for imports of dairy products from Mexico? You said there are now about $160 million a year in exports of dairy products to Mexico. To put it in perspective, that is about half, I think, of the production in my own State a year. What are the prospects of imports?

Secretary ESPY. Let me turn to Joe O'Mara on that one.

The CHAIRMAN. Mr. O'Mara.

Mr. O'MARA. Thank you, Mr. Chairman. Thank you, Mr. Secretary. I am looking it up right now.

I don't think, while I am looking this up for the specific number, that we would anticipate much imports from Mexico.

The CHAIRMAN. Well, why don't we do this? Why don't you submit the anwer for the record. I realize that is a fairly technical one.

Mr. O'MARA. I would be happy to do that.

The CHAIRMAN. I would like to have one you can be very secure with.

[Mr. O'Mara submitted the following material for the record:]

Given its higher prices and uncompetitive dairy sector, Mexico is unlikely to become a major exporter of dairy products to the United States. There may be a niche market for certain Mexican products, such as cajeta, a sweetened goat's milk product, in regional markets in the United States. In general, we will remain a large and growing net exporter of dairy products to Mexico.

The CHAIRMAN. Let me ask you this: If we filled our milk powder quota in Mexico—let's assume Mexico needed further milk powder. They are now spending, as near as I figure it, about $1.70 per capita per year on U.S. dairy products in Mexico. Will we be treated the same as European and New Zealand dairy exporters in making further sales to Mexico?

Mr. O'MARA. Well, of course, as you are well aware, Mr. Chairman, that market is the biggest in the world for milk powder, and you know how important it is to us to supply that market.

The CHAIRMAN. That is why I thought I would ask.

Mr. O'MARA. I think that we will be very competitive for the over-quota amount of milk powder. As you also are aware, the Canadians, because of their position in the dairy product sector, have essentially eliminated themselves from a preferential arrangement in that market. I think we will do very well within the quota, and we will do very well outside the quota.

The CHAIRMAN. Outside the quota, can we go on an equal MFN basis?

Mr. O'MARA. Yes.

The CHAIRMAN. If they did need additional imports, we would have to pay a higher NAFTA tariff?

Mr. O'MARA. It is hard to explain precisely what will happen over the quota situation—at this stage at least—because I am not quite aware how the Mexican Government will handle the dairy sectcr, dairy import sector. It is likely that they still will retain government control over imports in a rather significant way because of the very sensitive nature of this product in that market and because it is a critical part of their food supply.

I think, though, that we can generalize at this stage and expect to see the United States to do very well in that market, and I think we will be very competitive in the over-the-quota market as well.

Ambassador KANTOR. The quotas in the first year are 40,000 tons for the United States and 433 tons from Mexico coming into this country. We believe two things: First of all, import licensing requirements, which don't apply to us, will apply to any other non-NAFTA country; but, number two, they could waive the over-the-quota tariff or tariff rate quota rate in order to import more of the product, more of the powdered milk.

So I think this is one in which we have not only a large advantage but one in which our supply is in great need in Mexico, and I agree with Mr. O'Mara.

The CHAIRMAN. Thank you. I will put in the record the letter from Luis Tellez K, the Under Secretary for Planning, that was sent to Mr. O'Mara in this regard.[1]

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[1] See letter on page 151.

Senator LUGAR. Ambassador Kantor, pardon me just a moment. Mr. Chairman, I would like unanimous consent to submit a statement of Senator Dole for the record.

The CHAIRMAN. Without objection.

Senator LUGAR. Ambassador Kantor, revisiting just for a moment the question of high fructose syrup and sugar, I appreciate the answers you and Secretary Espy have given about the unlikelihood of the Mexican soft drink industry converting to high fructose in the short run. But let me just say generally that those of us who are interested in corn farmers have a different perspective on the situation. In other words, we would like for Mexicans in due course to consider high fructose syrup because our corn farmers produce, obviously, corn that is used by the soft drink industry in this country for just that purpose.

Therefore, even though you may be under pressure from the sugar people to try to contain high fructose usage and thus disadvantage corn farmers, I would gently push back from the corn farmer side and indicate we are equally interested in keeping that choice open to Mexican manufacturers.

I would hope you would remain silent, neutral, in essence let free trade work, and not only with regard to Mexico but with regard to the competition that goes on from time to time, as you have noticed, between corn farmers and sugar farmers in this country.

I just make that point. You may already have come to that conclusion that you will remain neutral and silent, and I am hopeful that will be the case.

Let me ask this, however, with regard to another consideration. We have had at least suggestions today that Section 22 might be applied to Canadian wheat. Now, I just want to think through for a moment the analysis of the Canadian wheat situation in view of the fact that our Export Enhancement Program would appear to keep U.S. domestic wheat prices $30 to $40 a ton higher than world prices. And, in fact, Mr. Secretary, you paid, according to my records, a bonus of over $57 a ton for a sale to Morocco under the Export Enhancement Program just last week.

In effect, wheat is being priced as a feed grain and is selling at a substantial discount to corn, which has not received EEP subsidies. So my question is: Have wheat imports from Canada risen because of the existing free trade agreement with Canada or because we deliberately—that is, the United States Government policy keeps domestic wheat prices more than $1 above the price the Canadians can get almost any other place in the world?

I think this is an important question. As we are berating the free trade agreement with Canada, if by our own policies we inflate wheat prices in this country to an extraordinarily attractive area, it seems to me, dubious whether in the negotiations on the NAFTA treaty we try to penalize the Canadians, having provided a situation that would make that flow a perfectly natural consequence.

I would like a comment from either of you as to this situation because clearly it is a big one. A suggestion has been made today that Senators from wheat-producing States are very concerned about this and putting some pressure on you to do something about it. I just want the basis of your economic analysis on what you might be prepared to do.

Mr. MOOS. Senator Lugar, what you say is the case, to some extent. In defense of our export policy, though, I must say that we have been very aggressive because we felt we needed to be, given the diminished demand that we are facing overseas. And it has been a very competitive market overseas. We have indicated that we are happy to try to maintain reasonable world wheat prices, but if we are going to have to meet the competition, we will meet it.

The unfortunate side effect of that is to sometimes strengthen prices here in the United States. But I must say that there are other factors which encourage the movement of Canadian wheat into this country, not only because of the effect of the EEP program. We feel that the Canadians unfairly took advantage of the Canadian Free Trade Agreement to ship good quality wheat into this country under a feed wheat label last year. And so we want to try to make for a level playing field here.

Secretary ESPY. Also, let me add, Senator, that their pricing policies are not at all transparent, and, in addition to that, their rail subsidies have an impact on their marketing of wheat. And so we are conscious of all these things. We have not yet made a decision on this Section 22 matter, but it is being thoroughly discussed.

Ambassador KANTOR. If I might just add one thing to that, I have been through this to some degree. I am not an expert like the three gentlemen to my left, but I certainly can look at numbers. If you look at the Durum wheat imports into this country from Canada, starting in 1986–87 where there was zero before that, it went from 59,000 to 508,000 expected in 1992–93. Total wheat, in the same time period, increased from 322,000 to 1,566,000.

I think that it is clear that the sort of crow's-nest subsidy, the Canadian Wheat Board's lack of transparency, we don't know how much they are subsidizing in wheat, frankly. We have no earthly idea. All I would say is the proof of the pudding is in the eating, and if you look at the Mexican market, they had 0 percent just 3 years ago. Then it went to 14 percent, and then 70 percent last year.

It is a major problem. I think what Secretary Espy has done with the EEP program is commendable. I think it needed to be done, both to Mexico and China. And we hope that it will work. We believe that it will. These folks are experts. I am not. But as the Trade Ambassador, let me just say that I think it is critical that we deal with this problem, we deal with it quickly, because I believe the Canadians have taken unfair advantage of the free trade agreement, both in their exports into this country and into Mexico.

Senator LUGAR. I appreciate your answers. Obviously it is a complex problem. We have debated here the virtues of export enhancement as a basic concept. By and large, almost all of us have come out in favor of certain expenditures, which add to the deficit. They are a part of our national budget. Consumers in America need to know that to some extent we are inflating the cost of food as we try to throw shots across the bow particularly of the European Community.

But some of the side effects I think are present in our own markets, and I trust that as you analyze what you do here, you will try to separate those. The credibility of our programs falters if somehow someone writes a story that the Federal Government is deliberately raising domestic prices and then suddenly accusing the Canadians of bad faith. Both may be true, but the mix of the situation is very important to analyze and make explicit, I believe.

Secretary ESPY. I think the answer to all of this ultimately is to be found in the GATT agreement.

Senator LUGAR. That would be obviously very helpful.

Secretary ESPY. Yes.

Senator LUGAR. Let me ask you, Secretary Espy. Some constituents have written to me about statements of Mr. William J. Lehman, a USDA meat inspector in Montana, who testified before a House panel in February alleging that U.S. meat inspection procedures on Canadian beef are inadequate and that Australian beef was being transshipped in the United States through Canada in circumvention of the voluntary restraint agreement, and that by implication the situation would only get worse under NAFTA. I think it is important there be an official response to that allegation by Mr. Lehman.

Secretary ESPY. Senator, I was briefed on that specific allegation this afternoon, and some would even allege that Mr. Lehman suffered some negative employment consequences because of these allegations. That is certainly not true. The gentleman was moved at his request. But with regard to his allegation, that is certainly untrue. Just completely untrue.

Senator LUGAR. Well, can you testify what type of inspection procedures would occur under NAFTA so that what Mr. Lehman has charged with regard to the past would not be true in the future?

Secretary ESPY. We will not reduce or dilute or suffer any diminishment in our enforcement standards at present, Senator. The Customs officials, in addition to the FSIS officials, will make sure that we don't import any meat products or poultry into this country that are adulterated or suffer any damage at all. And under the NAFTA, that would not be reduced at all.

Senator LUGAR. Ambassador Kantor, my final question is a more macroeconomic question. Two parts: To what extent does the success of this hearing/ratification process we are now engaged in on NAFTA increase our bargaining power with European countries or Asian countries, both with regard to GATT or with regard to other agreements we may need to enter into? And, likewise, the other side of that coin, what would be the effect of failure of passage of NAFTA on any potential success of the GATT negotiations that are currently coming to a conclusion?

Ambassador KANTOR. There is no doubt in the President's mind or in mine or anyone in this administration that the success of NAFTA before this Congress would be tremendously helpful to our position in getting a successful conclusion to the Uruguay Round, the GATT round. We grow a bigger market. It is much more attractive. It is a trade preference zone. There is no way to say it any more clearly than that. It is in our interest to do so, and we would gain confidence in terms of the whole world that the United States was not only opening its market but was cooperating with other countries to open their markets and enter into successful trade agreements, agreements that were good for all sides—as Secretary Espy said, a win-win situation.

If we fail, I fear we would hurt the round terribly. I think it would be viewed as this administration, for whatever reason—although we are doing everything in our power to get this passed—that we weren't as committed to free and open trade as some would want us to be, that we weren't leading global growth. I think that others then would begin to advocate that they wanted more out of the Uruguay Round than might be acceptable to us. And lastly, frankly, it would have an incredibly negative effect in Central and South America. Those growing market economies and democracies are looking to this agreement as a commitment by the United States to join with them in the future to grow the most successful and largest economic market in the world. I think we would have a very negative effect on that movement.

Secretary ESPY. I agree with the Ambassador. I think it would have really negative consequences for the GATT because, after all, what we are trying to do is to embrace a philosophy of reduced tariffs and nontariff barriers to open markets and to have appreciable increases in market access. And if we don't do it, it would give rise to the actions that some of our friends, including the French, are trying to do right now with regard to the GATT, and it is a continuum of a philosophy that we need to evidence here.

Senator LUGAR. Let me just say I appreciate the leadership Ambassador Kantor and Secretary Espy have given, likewise very strong statements by the President of the United States and the great leadership he is giving on this issue. As you know, on our side of the aisle we have signed a letter—I am among the signatories—in which 34 Republicans have pledged to support the President. And we are hopeful that we will have a very strong bipartisan support as we approach the final vote. We thank you for coming today.

Secretary ESPY. Thank you.

Ambassador KANTOR. Thank you, Senator.

Senator LUGAR. I yield to my colleague.

Senator CONRAD [presiding]. Thank you, Senator Lugar.

First I want to thank Secretary Espy and Ambassador Kantor for the attitude that they have brought to the problems that we faced with Canada. I think you give a very good description of some of the problems that we confront. We very much appreciate the responsiveness that you have shown.

Let me just try to sum up for my colleague from Indiana what we face, because the fact is there are real problems with the Canadian Free Trade Agreement, the rail subsidy that does not count under the terms of the agreement, the lack of price transparency by the Canadian Wheat Board when you can discover on any hour of any day what our prices are on the Chicago markets, and finally, the very direct problem we have with the question of what constitutes dumping into the U.S. market.

The plain language of the Canadian Free Trade Agreement says we will look to their full acquisition price. Only that is not what happens. That is not what happens because of a side agreement that was made that was not revealed to Congress by former Trade Representative Clayton Yeutter. Trade Representative Yeutter made an agreement that said, well, the agreement doesn't really mean what it says there. We are not talking about the full acquisition price for determining whether they are dumping below cost.

The result has been Canada has gone from 0 Durum wheat bushels coming into this market to over 14 million today. They have gone from 0 percent of this market to over 20 percent of this market. On Spring wheat they have gone from averaging 7 million bushels a year for the 5 years previous to the Canadian Free Trade Agreement to 35 million bushels today, a five-fold increase. And that has nothing to do with inefficiency. It has nothing to do with being more competitive. It has everything to do with the defects of that agreement.

Let me just say that Section 22 requires the Secretary of Agriculture to advise the President whenever he has reason to believe that any article is being imported into the United States under such conditions and in such quantities as to render ineffective or materially interfere with any program or operation of the Department. That is what the law requires. We believe, many of us believe, that those conditions have clearly been met.

I was very encouraged at a Finance Committee hearing last week to hear Ambassador Kantor say, number one, that this administration is closely considering moving towards a recommendation on Section 22 with respect to Canada; number two, that the administration supports my end-use certificate legislation that has passed the Senate twice before.

I would like to turn my questioning to the Secretary and just say: Are you ready to follow the outstanding leadership of the Trade Representative? [Laughter.]

Secretary ESPY. I have a memo on my desk from Undersecretary Moos' office outlining in great detail an answer to the question of whether or not these Canadian practices that you have mentioned have materially interfered with our wheat program. I will be making a decision shortly as to whether or not to endorse this idea and move it to the next stage.

Senator CONRAD. Can you give us some idea of what your time frame is?

Secretary ESPY. Well, the longer I sit here, the less time I can read. [Laughter.]

It is a memo of great importance to me.

Senator CONRAD. Well, let's assume that you get out of here today. I think that is a safe assumption. Have you some sense of when you might come to a conclusion?

Secretary ESPY. I have some sense that we do have a problem. The Canadian Durum imports, as you said and as we all acknowledge, are a huge problem for us. I have been to Canada. I have met with Mr. Mayer on the question, and we have met them in traditional markets—with the EEP on wheat, the 32 million metric ton EEP, the largest we have ever had in the USDA.

Senator CONRAD. Which we appreciated very much, by the way.

Secretary ESPY. Thank you, sir. Clearly that was an indication that we want to meet our competitors toe to toe, but still there are problems. The lack of transparency with the Canadian Wheat Board, the rail subsidies, and many other things that we have not yet mentioned suggest to us that we should go a step further. But I can't announce it today; neither can I really say when I am going to do it, Senator, except to say to you that it is very important. It is there on my desk, and at least at this moment it is going to fall primarily on my shoulders as to whether we do or don't.

Senator CONRAD. May I ask Mr. Moos what the memo says, what your recommendation is?

Mr. MOOS. The recommendation as forwarded on to the Secretary would recommend that the President consider an emergency proclamation establishing quotas on the import of Canadian wheat, and, of course, that the ITC then conduct an investigation.

Senator CONRAD. And did you conclude that there is material interference in the functioning of the agriculture program as a result of Canadian action?

Mr. MOOS. Yes. Being concerned about the growing level of imports coming into the United States, we set up a task force this summer to review the issue. After many weeks of consideration, they came forth with a judgment that the imports were materially interfering with our income price support program by raising the cost of the deficiency payment program, adding some $600 million additional outlays to the operation of our deficiency payment program.

Senator CONRAD. I appreciate that very much. Secretary Espy?

Secretary ESPY. This is as good a time for me to exit, I believe. I had already notified the chairman that I had a speech obligation at 4:30, and I am just about going to make it if I leave now. But based on that question, it is a good time for me to go, and then I can get back to my office and read these memos that I mentioned.

Thank you.

Senator CONRAD. Thank you very much, Mr. Secretary. We appreciate your testimony.

The chairman is absent. Senator Feingold is next.

Senator FEINGOLD. I do not know whether the folks up here will be able to answer or want to answer some of these questions with the Secretary gone, but we will try. If that doesn't work, I will submit them in writing.

My question relates to the Export Enhancement Program and what impact the agreement might have on these types of programs, and in particular with respect to the Dairy Export Incentive Program. Will the United States be able to continue using the DEIP for exports of cheese for nonfat dry milk to Mexico?

Mr. O'MARA. Yes, sir.

Senator FEINGOLD. What about in the case with regard to nonsubsidized, low-cost imports from New Zealand, for example?

Mr. O'MARA. We will have a preference in that market, Senator.

Senator FEINGOLD. Sorry?

Mr. O'MARA. We will have a preference in Mexico that will considerably improve our relative competitive position compared with all other suppliers.

Senator FEINGOLD. Do you need to draw any distinction between the EC countries versus New Zealand in this regard?

Mr. O'MARA. We will have a better position relative to all other suppliers, whether they are subsidizers, such as the EC, or New Zealand.

Senator FEINGOLD. But it won't make any difference? Wouldn't it be a different situation since the EC would subsidize exports of dairy products?

Mr. O'MARA. Well, we have not given up the opportunity to use the Dairy Export Incentive Program to meet that competition, so I don't think it will make any difference.

Senator FEINGOLD. Thank you.

With regard to the Federal milk marketing orders, I am wondering if there is any impact of this agreement on that program. Has the Department made a determination on the pricing and pooling of milk sold either as raw or packaged products in Mexico under the Federal order system under NAFTA? Does that have any impact?

Mr. O'MARA. As far as I know, Senator, there is no effect.

Senator FEINGOLD. So there couldn't be any determination under NAFTA that we might have a violation of the agreement through our marketing order system?

Mr. O'MARA. There is no effect, Senator.

Senator FEINGOLD. Okay. With regard to the rules of origin, the Secretary of Agriculture suggested that we ought to go on faith with regard to our ability to enforce those provisions. But after hearing the stories from North Dakota with regard to another product and with regard to the Canadian-U.S. Free Trade Agreement, I am wondering just what assurances you can give us about our ability to enforce the agreement and avoid the dumping of third-party product through Mexico into this country. Does the Customs Service have the resources to effectively enforce these rules?

Mr. MOOS. In that regard, Senator, the NAFTA rules of origin for U.S.-Mexico trade are much stronger than those in the U.S.-Canadian Free Trade Agreement. Additionally, we will take whatever steps are necessary to assure that U.S. workers are not injured.

Senator FEINGOLD. But does the Customs Department have the resources to do that? I don't question your intent, but do we have the resources out there to enforce this provision?

Mr. MOOS. Let's hope so. That is our job.

Ambassador KANTOR. Let me add one thing, if I might. I am sorry, Mr. Moos. One of the interesting things is the Customs Service allows a U.S. company to challenge the origin of a particular product in this discussion. As we have found under the private Attorney General right in other areas, this probably will be quite effective, and the denial of a Customs Service visit to investigate and so on may result in a Canadian or a Mexican company, depending on the company, losing NAFTA tariff preferences on the goods they ship.

So I think that it is quite strong, and I believe that the Department and the Customs Service have the tools to make it work and make it work well.

Mr. O'MARA. In fact, there is a provision in the NAFTA that would provide for the opportunity for Customs inspectors to go to the books and check them directly, which is an additional safeguard that does not exist now.

Senator FEINGOLD. Do you have any background material prepared on how this process will work?

Mr. O'MARA. We can certainly submit it.

Senator FEINGOLD. I would appreciate receiving just a little more detail. I appreciate the answers.[2]

Senator FEINGOLD. Thank you, Mr. Chairman.

Senator DASCHLE [presiding]. The chairman has yet to arrive. As I understand the order, I am next and then Senator Kerrey, Senator Harkin, and Senator Boren.

Senator Conrad asked some very good questions along the lines of those I was going to ask, but there is another related question that I would like the Ambassador to answer for us, if he could. The trilateral portion of the ag title, chapter 7, has a paragraph that I think is very important, but somewhat unclear. The quote is: "It is inappropriate for a party to provide export subsidies for an agricultural good exported to the territory of another party where there are no other subsidized imports of that good into the territory of the other party."

I am wondering what effect that has. Basically, if this were law, if this were practiced by all three countries, we wouldn't have a problem. And yet we are spending a lot of time talking about the very fact that we anticipate serious problems. The Secretary talked about it; Mr. Moos has just talked about the ongoing problem we have with Canada.

What does that paragraph mean?

Ambassador KANTOR. Well, the paragraph is fairly clear, I think, on its face that if a country subsidizes in a particular product and ships it into—let's say we subsidize and we ship into Mexico, but Canada, or a third party, does not subsidize the same product, then that would be a violation of the agreement. Therefore, it would be subject to dispute resolution.

Mr. O'MARA. If I could, Ambassador, the main reason that that language reads as it does, in addition to what the Ambassador is saying, is that because of this Canadian problem, this provision of the agreement, and because that Canadian problem hasn't been resolved, this agreement permits us to use EEP for wheat in the Mexican market.

Senator DASCHLE. It is clear on the face of it, if the face of it is what we all intend to adhere to. But clearly Canada is going to be using a transportation subsidy, which in my view would be in direct violation of the intent of this paragraph were they to continue this practice after the NAFTA is consummated. But yet we are—I am struggling here for a definition or some understanding as to how Canada can continue to conduct themselves in that fashion using subsidies to the degree we know they will, given language in the trilateral portion of the ag title which states that it is illegal.

Mr. O'MARA. It does not prohibit the use of export subsidies.

Senator DASCHLE. Well, it says that it is inappropriate. What does inappropriate mean?

Mr. O'MARA. Not a good idea. [Laughter.]

Senator DASCHLE. Is that the best we can do, to say that it is not a good idea?

Mr. O'MARA. Well, the language reads as it does, frankly, as a defensive mechanism because we had not yet been able to accom-

[2] The information is retained in the committee file.

modate the concerns raised here today with respect to Canadian subsidization. Now, when the time comes that we do that, which I hope is soon, then it is a different situation. But in the absence of having resolved that problem, Senator, we did not want to leave U.S. producers in the situation where we could not use EEP to ship wheat to Mexico.

Senator DASCHLE. Well, I understand——

Ambassador KANTOR. May I say it one more time?

Senator DASCHLE. Yes.

Ambassador KANTOR. I am going to be as clear as I can be. We could take it to dispute resolution and try to enforce our rights under that provision. "Inappropriate" is not as strong a word as I would have liked to have negotiated. So that is not there at the time. But the fact is we could take it to dispute resolution. That is the best I can do, and let me not mislead you or any other member of this committee. That is the best we could do under these circumstances.

Senator DASCHLE. I agree with you, Mr. Ambassador, that we could take it there. But I must tell you, I think any board looking at this language would say, look, it says it is inappropriate, which means, as Mr. O'Mara has interpreted it, it is not a good idea, but it is not illegal, it is not strictly prohibited.

It leads me to my next point, which is, if that is the case—and I think Mr. O'Mara just laid it out as well as he can. If it is not a good idea but not expressly prohibited, our only option is to take unilateral actions, the likes of which Senator Conrad has been talking about and what I hope will be done in the very near future. We have to have some clear understanding as to what actions we can take short of taking the dispute for some kind of international reconciliation. That isn't going to happen given the language we have.

The second question I have is how we define export subsidies and what effect that would have on other tools we use besides EEP. Not only export subsidies, but what would it do, for example, to the Acreage Reduction Program? Could that in any way be interpreted as something that the United States could not continue to do?

Mr. O'MARA. No, sir.

Senator DASCHLE. So there is no dispute about that?

Mr. O'MARA. No.

Senator DASCHLE. Okay. The problem also is addressed with regard to inspections. As some of you know, we have had problems in the bilateral negotiations with Canada on the appropriateness of reinspecting Canadian meat. Is there any misunderstanding in your view with regard to the right of this country to continue to use all of its means for inspection of meat imported from Mexico under this agreement?

Mr. O'MARA. Not to my knowledge, sir, no. There would be no reason why we couldn't do that. As far as I know, no. But I would have to check to be absolutely sure. But to my knowledge, there is nothing in this agreement that would prohibit us from doing that. The FSIS will continue to operate as it now does, in terms of meat inspection in Mexico and in Canada, and the NAFTA would not abrogate that or reduce the effectiveness or in any way change what FSIS does.

Senator DASCHLE. Well, I hope you will clarify that, Mr. O'Mara, because as you know, we had similar assurances before we agreed to the Canadian Free Agreement, and we have spent an inordinate amount of time trying to clarify just what that assurance meant after the agreement was signed. And so I would hope we don't. I hope we have learned from the lessons that we had with the Canadians with regard to inspection, and assurances in and of themselves are no longer enough. We are going to have to see some kind of an interpretive ruling, and anything in writing that you can share with us and for the record would be very helpful.

[Mr. O'Mara submitted the following material for the record:]

There is nothing in the NAFTA that prohibits us from maintaining the current or higher standards on domestic and imported meat. The FSIS will continue to inspect meat and poultry as required by our laws, and the NAFTA will in no way affect that.

Senator DASCHLE. Thank you, and I thank you, Mr. Chairman. Senator Kerrey is next, Mr. Chairman.

The CHAIRMAN. I think that is wonderful. Senator Kerrey, go right ahead.

Senator KERREY. Secretary Moos, just to close out the possible Section 22 recommendation that you might be making against Canada, do you intend to include all small grains, specifically oats?

Mr. MOOS. No. This just refers to wheat.

Senator KERREY. Why?

Mr. MOOS. Because that was the focus of the task force study. We would have to treat other grains separately if we want to go forward and make a similar case for them.

Senator KERREY. Well, it seems to me that a case could be made for both of them if you are going to make a case for one. We have a large amount of subsidized oats coming into the United States as well as subsidized wheat. It is essentially the same thing.

Mr. MOOS. There has been a large amount of oats imported from Canada for years, but there hasn't been the kind of pressure or the charge that it was being done unfairly to promote or provoke a task force study in terms of whether a Section 22 action ought to be invoked.

Senator KERREY. We didn't holler loud enough?

Mr. MOOS. I wasn't, of course, part of the previous administration, but I at one time in my past did represent the American Oat Industry.

Senator KERREY. You didn't holler loud enough.

Mr. MOOS. I found out that there are a lot of users in the United States that welcomed the imported oats from Canada.

Senator KERREY. Yes, I am not surprised.

Ambassador Kantor, I have a series of questions for you, leading to a little bit of a discussion on the problem with sugar. I understand that while I was gone you made some references to it. I must say I really do appreciate your openness and willingness to meet with many individuals and organizations, specifically the dry edible bean producers that have raised some concerns.

It seems to me that if we have a future, as you alluded to, of bi- and trilateral treaties like this, then I say with all due respect for Carla Hills and President Bush that one of the lessons that I carry away from NAFTA is that if you close the process off, that consultation all by itself is insufficient. Consultation does not provide the level of confidence that people need that they have been given an opportunity to present their case. It just doesn't do it. It is my very strong feeling that part of the problem we are having right now is people just don't trust the agreement because it was not negotiated in an open manner.

Very closely related to that, it seems to me that if you and I are negotiating, you own a piece of property and I am trying to buy it, and I know that you are in a hurry to sell—let's say that it is September, and I know that you have got to close the deal by November, it seems to me that you are going to be in a position of weakness. I would just observe that that is also part of the reason that people don't trust that we got the best that we could have because they saw some time constraints on our part.

I just say that as my own observation, and it is apt to be that those sorts of artificial things are going to be there in the future. I think the more that we can avoid them, the better. I am not trying to take a shot at President Bush or Ambassador Hills, because I think they worked in good faith. But when the perception is that we were anxious to close the deal, it creates misgivings that aren't based on fact, but they are based upon common sense, and that causes, it seems to me, a lot of distrust.

As somebody who leans in support of NAFTA and concedes to you all the arguments that you made earlier on this treaty, I still continue to be frustrated trying to work out this one specific problem having to do with sugar insofar as it appears that there is an opportunity for substitution of high fructose corn sweeteners. I would ask you if it is an appropriate thing to do or a constructive thing to do, either one, to invite either Minister Serra and/or Minister Aspe to come to Washington, to come to the United States and visit with us, particularly those of us who have sugar growers in our area, that have concerns about the substitution question, have concerns about Mexico moving from importer to exporter status rather quickly.

My conversations with both of those individuals, I must say, allayed a great deal of the fears that I have. But, again, based on what I said earlier, what I have to do is turn around and represent to people whose lives, economic lives, depend on this issue, I have to represent to them that I think we have received pretty good assurances here. It would be an awful lot better, it seems to me, and more constructive—and I know some guys in the House are very concerned about this as well—to perhaps invite Minister Serra and Minister Aspe, either one of them or both, up here. I know you have had conversations with both of them. I am just inquiring whether or not you think it would be constructive for us to invite them to come up and meet with Members of Congress in an open fashion so that people whose economic livelihoods are at stake here could hear what resolution may occur.

Ambassador KANTOR. Let me suggest, hopefully delicately, that I would welcome any entreaties that might be made to my good friend, Minister Serra Puche, with regard to this issue. We have talked about it as late as Friday in person. It is an important issue, and we certainly understand that in the administration and appreciate your remarks.

Whether or not the most effective forum would be a public forum for that discussion is a matter of some conjecture, and I would be happy to sit down and talk to you or others about that.

Senator KERREY. Well, I would appreciate that. You are well known for your capacity to be delicate and ambassadorial and tactful. That isn't required with me in this particular case. What would be your conjecture as to the impact of a public meeting?

Ambassador KANTOR. I think that, with all due respect, a public meeting might harden the positions and might make it less likely that we accomplish what I think is generally conceded we should accomplish in this particular situation.

Senator KERREY. I am willing to listen to that as a possibility. Let me try to break the question down into two parts. You see it being possibly constructive to invite the Minister to come to the United States to discuss with Members of Congress who are concerned about this issue, discuss his own view of what is likely to happen and what assurances he might be prepared to give as well to allay some of the concerns?

Ambassador KANTOR. You mean in a private situation?

Senator KERREY. In either a private or public.

Ambassador KANTOR. Well, I would vote for A and not B.

Senator KERREY. Well, so you are saying that you think it would be constructive if it was private?

Ambassador KANTOR. I think it would be.

Senator KERREY. And you are not certain about—or you are certain?

Ambassador KANTOR. Oh, I am very certain. I was just trying to be delicate with my friend from Nebraska.

Senator KERREY. Pull the tooth. [Laughter.]

Ambassador KANTOR. I am not in the habit of being—we have known each other a long time. I think it would—if I were to go down to Mexico and had to appear in public and were in the same situation as my good friend, Secretary Serra Puche, who is a—I would find I would fight like a banyan and block myself into a position publicly that I might be more flexible in a private situation. And I am just trying to put myself in his position.

Senator KERREY. I am not talking about a public hearing where we would ask him to come and testify. I am just talking about a meeting with the opportunity to——

Ambassador KANTOR. I would be happy to work with you, and I think he would, too, in some session that would be helpful.

Senator KERREY. I find with both he and Minister Aspe that there is the capacity to articulate what they see as the risk, and they in my judgment are taking a considerable amount of risk. They see significant competitive advantages in the United States of America with a number of their industries at risk.

Ambassador KANTOR. Absolutely.

Senator KERREY. And though I am concerned about many of the details, as I have alluded to earlier, I must say I am enormously impressed with their political willingness to take risk with their economic reform as well as their political reform. When one hears them articulate what they are trying to do, when one hears them describe what it is that they are doing with their own policies, going from a 15-percent fiscal deficit to a surplus, taking their debt down to 20 percent, taking inflation down to single digits, talking about privatization, moving to the market to try and keep the action out in the private sector, one hears and sees a great deal of political risk that they are taking, and feels a considerable amount of excitement, in fact, in becoming a more complete partner with Mexico as they make this transition.

Very few of us in this Congress resist the notion that we ought to be a partner with Russia as they move from Communism to democracy and to free markets. We get excited about it. We are enthusiastic about it. There is very little protectionist impulse when it comes to trying to assist Russia in making their transformation. And it seems to me that we are talking about a similar kind of venture, and as I indicated, I think in particular those two ministers might be very helpful in presenting to the American people what it is that Mexico is trying to do, and specifically, perhaps, assisting us in working out a very, very thorny and to this point irresolvable issue. So I appreciate, Mr. Ambassador, your comment on that, and I look forward to talking with you about inviting them up here in a private setting and perhaps allowing me to make another appeal for why at least a part of the meeting should be in a public environment.

Thank you.

Senator CONRAD [presiding]. Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman.

Mr. Ambassador, I want to cover another aspect of this. I don't know if it was covered before I got here or not. A number of studies have predicted that we will have some increased agricultural exports to Mexico under NAFTA, although these increases are spread out over 10 to 15 years, so they are some time down the pike. I think in selling this NAFTA to many farmers, it has been held out that all of a sudden there is going to be a huge increase in exports to Mexico, but the studies show that it is going to be 10 years or more down the line when we get the big benefits. So it is quite a bit in the future.

In Iowa, the livestock industry is an important part of our economy, especially the pork industry. It literally has saved our State on more than one occasion. There are over 30,000 individual hog operations in the State of Iowa. I always like to brag that one out of every four pigs in America lives in Iowa, and that is about right. It is about 25 percent. And we are very proud of that industry. It is a big industry. I think it is something in the neighborhood of $6 billion a year to our State economy.

Now, again, it will be great if NAFTA enables us to ship more pork to Mexico. You know, if their wages go up and they are able to buy more meat and we can ship them more pork, that is great.

Is it possible that the agreement will tend to facilitate shifting livestock production and processing from the United States to Mexico? Or at least encourage Mexico to satisfy any increased demand that they might have for meat by producing it there rather than buying it from us?

Ambassador KANTOR. Well, I think anything is possible, but we have 5 years of evidence that goes in the opposite direction.

Senator HARKIN. Five years of what?

Ambassador KANTOR. Five years of evidence that goes in the opposite direction. As Mexico began to liberalize its trade, lower tariff barriers, change the rules, allow U.S. products in until—well, with beef, they raised the tariff in the last year, and beef exports went down precipitously. In fact, we have done very well in pork and beef and in almost every area of agriculture but wheat, which is fascinating, and I think that has more to do with the Canadian situation than it does any other situation, frankly, which we talked about earlier.

But we believe that tripling the exports from $3 to $10 billion in agriculture by the year 2007 is helpful. We see it creating about 108,000 jobs in agriculture, 56,000 strictly because of NAFTA. So we believe, in fact, that exports will continue and see the Mexican agricultural economy, which is so much smaller than ours, and their problem with water and their problem with other respects—and these gentlemen can answer better than I could—are much more difficult than others that, in fact, we will in some ways dominate their agricultural situation.

In fact, there was great worry on some person's part that we would be so dominant in so many areas of agriculture, of course, that many people would leave the farm. That is one reason this is spread over 15 years, in order not to have that effect. And so there is no doubt that we are a winner in the agricultural sector as we are in many other sectors with Mexico in this situation.

Senator HARKIN. Mr. Moos.

Mr. MOOS. I might also add, Senator Harkin, that we expect that corn will be one of the big winners under the NAFTA agreement.

Senator HARKIN. By the year 2007?

Mr. MOOS. And, of course, the reason for that is that we expect that as Mexico's economy strengthens, there will be more demand for meat products, particularly products like pork. We expect to benefit from that additional demand. Our only concern is whether it is practical to ship the corn down there to enlarge their animal industry.

From a practical standpoint, providing we can ship the corn down there, one wonders whether they can afford to import the corn to produce the hogs to sell back into the United States. We doubt whether that is going to be practical.

Senator HARKIN. Mr. Moos, I don't know. I think there are at least three factors that would encourage that: first of all, reduced barriers to capital investment; second, less enforcement of environmental requirements; and, third, lower wages in labor protections.

Let's take the second one, environmental standards. One of the biggest concerns now to a hog farmer in America is meeting environmental restrictions. Now, if I am a big hog producer—I don't mean a family farmer. I mean one of these big outfits, 10,000, 20,000 hogs, farrow to finish, you know who I am talking about.

Mr. MOOS. Right.

Senator HARKIN. And I am thinking about investing some place, building other hog operations. If there is a better investment climate in Mexico, if we have a trade agreement that breaks down all these barriers, if the Mexicans don't have to live up to strict environmental standards, why wouldn't I put the hog operation down there?

Now, you say we are going to sell more corn down there. Well, all right, we will sell more corn down there. They are going to buy more corn, although I question that. Maybe they will want to buy it from South America rather than from us. Why wouldn't they buy it from Argentina and places like that?

Mr. O'MARA. Preference.

Senator HARKIN. What?

Mr. O'MARA. Because there is a big preference.

Senator HARKIN. There is a what?

Mr. O'MARA. There is a big preference. There is no incentive to buy from Argentina. We have the preference in that market for corn.

Ambassador KANTOR. That is right.

Mr. O'MARA. They would have to pay more money for Argentine corn.

Ambassador KANTOR. Let me add two things to that, if I might, Senator, that I think are quite important, which I know you know. The fact is this agreement is in our favor, not theirs. The rules have been stacked against our farmers and against our manufacturers for years. We are changing those rules in our favor. The tariffs have been higher. They have had import licensing requirements, and we for the first time in the history of any trade agreement ever have a side agreement on enforcement of environmental laws which, in fact, has been endorsed by six of the largest environmental organizations in this country, which will force Mexico to enforce environmental standards or be subject to both fines and then later sanctions, trade sanctions. That has never happened before.

So I think it opts in the opposite direction. The situation now, now with unfair rules, would draw somebody to Mexico. The situation later will not. In fact, you can export products and not jobs later.

Senator HARKIN. Mr. Ambassador, isn't it true that the Canadians offered an environmental standard in the trade agreement early on that would have set certain international norms and Mexico didn't want it and we sided with them and we turned it down, and now we have a side agreement that really, in effect, has no teeth to it? There is no enforcement in the side agreements?

Ambassador KANTOR. Well, that is not true, number one.

Senator HARKIN. The Canadians did not offer an environmental——

Ambassador KANTOR. Well, no, no. I said it is not true we don't have teeth in the side agreements. The side agreements are the strongest side agreements on environment and labor in the history of trade agreements, and there is no one who has denied that, not even those who oppose the NAFTA. So that is number one.

Number two—I was trying to think of your first point. It is really interesting to hear the arguments against the NAFTA. The status quo is not in the best interest of American workers or American farmers or American business. It just is not. We have been having our clock cleaned because we have allowed that to happen—high tariffs, high tariff barriers like import licensing requirements, a maquiladora program that was—and I know that is not in agriculture, but it was a disaster—nonenforcement of environmental and labor standards. We are getting to those.

Now, is it perfect? Absolutely not. But will it make the situation substantially better and is it in the best interest of the American people and American workers? There is not a doubt in my mind that it is.

Senator HARKIN. Well, I am going to continue to look at those side agreements, and I welcome any information you can give me on exactly how they are going to be enforced and what the Mexicans actually have to live up to.

The environmentalists may have one thing that they look at. What I am looking at is the prospect of losing a livestock industry because of lower environmental standards and enforcement that they have and for the three reasons I just gave you, which could be devastating to this country. So I would like to see your side agreements and how they are really going to be enforced, and I don't think very much attention has been paid to the possibility that we could lose a lot of livestock production to Mexico. We have looked at the grains, but we haven't fully looked at the livestock aspect of it.

Ambassador KANTOR. Let me just say one more thing, Senator, with all due respect. Again, I want to make it clear. If you wanted to move your livestock operation, you are better off with the rules as they exist today, with them able to throw up barriers against U.S. livestock exports, than you will be under NAFTA.

Senator HARKIN. Well, I am not certain about that.

Now, you said there was a preference for U.S. corn?

Mr. O'MARA. Yes, sir.

Senator HARKIN. Could they extend that to other countries? There is no prohibition against them extending that to other countries?

Mr. O'MARA. No other party is a member of the NAFTA.

Senator HARKIN. But there is nothing that would prohibit Mexico from extending that kind of preference to any other country.

Mr. O'MARA. They would have to negotiate that.

Senator HARKIN. Of course they would, and they could.

Mr. O'MARA. Well, of course they could, but they would have to do it in concert with us as well, sir.

Senator HARKIN. They don't have to ask for our concurrence for them to have a preference to another country.

Mr. O'MARA. Well, they could certainly negotiate an agreement with Argentina that was——

Senator HARKIN. They don't have to get our okay for it.

Mr. O'MARA [continuing]. That would give Argentina preference in the Mexican market, that is true.

Senator HARKIN. Sure. And they don't have to ask for our leave to do that.

Mr. O'MARA. No, they do not. But in the absence of that happening, we have negotiated an agreement which gives us the preference.

Senator HARKIN. One last thing I wanted to bring up, and it is something I have written to you about, Mr. Ambassador, since March. It may not seem to be related to agriculture, but it is. A lot of our farm families now depend on off-farm jobs in a lot of our communities—small manufacturing, that type of industry. A major concern is the disparity in tariff treatment accorded to home appliances. You know what I am going to say.

We have three firms in Iowa: Maytag, Amana, and Frigidaire—about 8,000 jobs, good-paying jobs. These companies over the last several years or more have invested upwards of close to $1 billion in U.S. plant modification. They have increased their productivity with mechanization and state-of-the-art manufacturing.

But under this agreement, as soon as we agree to NAFTA, if it is agreed to, the tariffs on those major home appliances from Mexico coming into the United States is 0, but going the other way it stays at 20 percent and is phased out over 10 years.

Now, I know that there is a large firm that invested in Mexico. At least one, maybe two, invested in Mexico in making these home appliances.

So where is the fairness? Here are U.S. companies—Maytag, Amana, Frigidaire—invested in their workers, invested in productivity, invested in America to upgrade their plant and equipment to be more competitive. Two other companies go to Mexico; they get the benefit.

I don't understand how that is fair.

Ambassador KANTOR. Well, let me—I am not going to argue. Let me make two points. Number one, on today's facts, the 20 percent would stay and it is still 0. There are no tariffs on appliances, as you know so well, Senator, coming from Mexico into the United States. The NAFTA begins to change that.

Now, not fast enough. Not fast enough. And we want to reach agreement with the Mexican Government—and we have already discussed it with them—to use the acceleration clause on the first day this goes into effect and begin to negotiate a more rapid decrease of those tariffs in the appliance sector that you have cited. But, remember—and I know you are—I am just saying this for rhetorical purposes only, Senator. Without the NAFTA, it is 20 to nothing and it will never change. With the NAFTA, it changes every year for 10 years, and we get rid of it. But we have the opportunity, which we have done three times, by the way, under the Canadian Free Trade Agreement, to accelerate the lowering of tariffs. It is a good deal for us. It is a better deal than we have right now.

Senator HARKIN. Well, now, as a good lawyer, you left out one thing.

Ambassador KANTOR. I am sure I left out more than one.

Senator HARKIN. No. You left out one thing, and that is the authority we have now under GSP. We have the authority to impose tariffs if imports go above a certain level. And we have done that. We have a 4-percent tariff right now on stoves. NAFTA wipes that out.

So it is not 20 to nothing. It is 20 to nothing, but we can impose tariffs if imports impinge on our manufacturing in this country. And what happens is that this agreement prohibits us from doing that.

So you say it is 20 to nothing, but we have a little hammer over here. Under NAFTA it is 20 to nothing, and we don't have a hammer.

Ambassador KANTOR. The hammer can only be exercised upon certain things happening, as you know.

Senator HARKIN. And we have exercised it. There is a 4-percent tariff. The white goods industry is so competitive, 4 percent means a lot. It is not so much the 20 percent. Four percent could mean a lot.

You put that 20 to nothing without our ability to impose those GSP tariffs, and we give up the hammer that we hold. And they know because we have done it before. We put on a 4-percent tariff. They know if they sharply increase shipments, we will impose a GSP tariff on refrigerators or other appliances as we did on stoves.

If we don't have that tariff hammer—because it is such a competitive industry—3, 4, 5, years is a lot of lead time for Mexican production even though you may be starting to phase Mexican tariffs out. But if you don't have an acceleration, I can tell you Amana, Maytag, and Frigidaire are really going to be hurt. If I am not mistaken, the ITC predicts that we are going to reduce our employment in the home appliance sector, I think by upwards of 10–15 percent, just as it is now.

I say to you that in that smaller sector of the major appliances—stoves, refrigerators, things like that—it is going to be a very damaging blow unless we have Mexican tariff reductions accelerated or unless we keep that hammer that we have of putting that GSP tariff on if they exceed a certain amount of exports to the United States.

That is a big issue for us in Iowa. That is a lot of jobs. And they are important jobs, and I just don't think it is fair.

Ambassador KANTOR. Well, I am not going to be defensive at all. We have agreed to try to reach agreement with the Mexicans for a negotiation to decelerate those tariffs, and we will continue those discussions. We hope, before the Senator I am talking to has to vote, we accomplish that.

Senator HARKIN. Well, I still haven't decided how to vote on this agreement yet. I see good in it, and I see bad in it, and I just have to see how the scales tip.

Thank you.

The CHAIRMAN. Senator Boren.

Senator BOREN. Mr. Ambassador, first of all, I want to compliment you on the job that you have done, I think, to improve this agreement and to strengthen it since the time you took over these responsibilities and your colleagues working with you. I think you have made a very strong case that, on balance, the agreement is in our national interest. If we have a situation where the tariffs are 2½ times as high on our products coming into Mexico as our tariffs and duties are on theirs coming into this country, that clearly shows that, from a big-picture point of view, we are better off to get rid of those barriers.

I think that some of the scare tactics that have been used, as you have well pointed out, certainly overstate even the temporary losses to our country. The idea that an economy 4 percent the size of ours is somehow going to overwhelm us simply I think is not something that really bears close scrutiny when we think about it. And, of course, the long-term relationship between our two countries is so incredibly important to us—in fact, to all three countries.

The maintenance of the United States as part of the world's largest market unit is important to us in terms of our bargaining position on other economic issues with other nations in the world. So not only is it beneficial in terms of our relationship with our closest neighbors, it is beneficial to all three of us in terms of our ability to hold our own in terms of fairness with the rest of the world.

So I think overall you and others in the administration have made the case very well and very strongly and very persuasively.

As always, even though we may find a benefit to us in total from an agreement, there are always individual problem areas. I want to ask you just about a couple of them today that are of concern to me and of particular concern to my constituents.

The question of the freight subsidies, the Canadian freight subsidies, has already been raised by Senator Daschle, and that is something that concerns us. I know there is a great concern along the northern tier States, but there is a concern in our part of the world as well, because wheat exports to Mexico have been very significant. We know that under this agreement the duties on our wheat would be phased out during the period of 10 years, perhaps hopefully sooner but at least by then. And just as in the case with beef, I think these are areas where there is a great potential benefit to the United States with growing exports to Mexico.

But as I understand the current freight subsidy matter, since you can use the subsidy on shipments going west, it would be available to the Canadians to use this freight subsidy as a way of reducing the cost of the wheat which they ship and sell to Mexico, therefore depriving us of some of the benefit that will otherwise flow from this agreement.

Now, hearing the earlier conversation and noting that Senator Daschle talked about the use of the word "inappropriate" and our uncertainty as to whether or not we can have any enforcement mechanism, I wonder if the administration would still be committed as a persuasive matter with the Canadians to discourage them from using this inappropriate mechanism to make sure that we still—we have used EEP in the past, that we have a strong Export Enhancement Program that might potentially be used to stop—what is the term?—inappropriate behavior in the agreement.

Ambassador KANTOR. We have already begun EEP into Mexico—you can correct me if I am wrong—and into China, which is another big Canadian market. As you know, we have supported Senator Conrad's legislation on end-use certificates. Unfortunately, it was a victim of a Senate rule, and therefore was not part of reconciliation.

Secretary Espy made it quite clear he is considering at this time a Section 22 action and will make a decision on that.

Senator BOREN. Right.

Ambassador KANTOR. I believe we need to take strong action. It is up to the Secretary what he will recommend to the President. We have already talked privately about this. I believe the Canadians not only have used the Western Grain Transportation Act, they have also used the Canadian Wheat Board and other matters to subside their wheat. I think the facts speak for themselves, from 0 percent in the Mexican market to 14 percent to 70 percent in just 3 years. It is really stunning what has happened. And I guess you have to have some grudging admiration for their willingness to go after a market, but shame on us if we don't react and protect our interests, our farmers, our businesses here at home.

Senator BOREN. Well, I appreciate your answer, and I am reassured by it because I think that we just simply have to get their attention. We cannot allow this to go on. I asked for and received, several of us on this committee, a GAO study of the practice of the Canadian Wheat Board. I think that study speaks for itself. And to me it is absolutely essential, if we are not able to negotiate in stronger language a change in this agreement before we vote on it as it affects some of the practices now being carried out by the Canadians, that we be prepared to use every tool available to us as leverage to try to end this kind of behavior.

So I take your answer to mean that not only now are we considering these actions, but that we would continue to consider them in the future if these kinds of inappropriate actions continue.

Ambassador KANTOR. By the way, that soft language was negotiated, and the industry wanted it as well, because we were worried that we have the Uruguay Round going on and we had these talks going on. And as you negotiate, if we had locked ourselves in too strongly into a position, we could have been adversely affected by what happened in the Uruguay Round.

Senator BOREN. I understand.

Ambassador KANTOR. That was part of the reason for that.

Senator BOREN. Well, I would just urge you to continue to be willing to use the mechanisms that are available to us as leverage to try tc solve this problem as our relationship evolves.

One other specific question, and I will ask it very quickly; that is in the area of peanuts, which, of course, like cotton and others, are affected under the potential Section 22 phase-out and change in terms of our relationship with Mexico. Again, this is more of a Canadian problem so far than it has been a Mexican problem.

As I understand it, if peanuts are to be processed and shipped back into this country duty free, we must assure that they are Mexican-produced peanuts. In other words, if the Mexicans were to produce peanut butter and send it into the U.S. market, it would have to be peanuts grown in that country.

My understanding is that now there is a very serious problem with peanuts being imported into Canada that are not produced in Canada, now processed into peanut butter and other products in Canada, flooding into our market. Now, it seems to me, again, this violates the whole spirit of transshipment and the other kinds of basic principles that we have been operating on, and it is a very serious problem. And I might say as an added irritant to us, peanut producers are already going to lose partially the protection of the quota in terms of the agreement with Mexico. I know that there are offsetting tariff protections that can kick in if the former quota is exceeded.

But it does seem to me that it would help the situation greatly if we could find a way to at least shut off this huge loophole with the Canadians now to make sure that it doesn't carry over into other parts of the agreement. I understand it wouldn't apply in Mexico's case.

Ambassador KANTOR. It does not.

Senator BOREN. But it continues to apply—and this isn't a matter of a flaw in this current negotiating round but it is a flaw in past negotiations that gives us trouble and undermines our credibility with producers and processors as we go into this agreement.

Is there anything that we can do about the loophole that now exists in that area with the Canadians?

Ambassador KANTOR. Other than reopen negotiations on this particular product, no. That doesn't mean we can't. I would work with you on that. You are absolutely correct it has to be 100-percent home-grown Mexican peanuts in peanut butter from Mexico, but not Canada.

I can't explain why that was done, and I am not critical of it. I am sure there was a legitimate reason. The NAFTA in many ways is much stronger than the Canadian FTA.

Senator BOREN. Yes.

Ambassador KANTOR. And that is one of the reasons Canada did not want to join into the agricultural arrangements under the NAFTA as they had joined with us in the FTA. They had the FTA agreement, which is not as strong in many aspects.

Senator BOREN. Well, I was looking at the figures in terms of the tonnage going back and forth, both in terms of peanuts and cotton, which our quota impacted potentially. And, of course, we are strongly a net exporter in both areas to Mexico, Mexico being principally an importer. So I think that in terms of those two commodities there is a strong argument that can be made that NAFTA will be beneficial in the long term. But I would urge you to see if we can go back and look at some way of getting redress, because it is the cause of some of the opposition in the agricultural community. Some of my constituents have concerns, although I think by and large the majority of the agricultural community supports this agreement because they see many opportunities in it. But I think that the loopholes in the Canadian agreement, really more than anything else, the past insufficiencies are inflaming and causing some of the opposition on the question of this agreement, even though it is not responsible for the ongoing problems.

Ambassador KANTOR. Frankly, Senator, every time we don't enforce our trade laws in other areas, we hurt our credibility in the same way and the American people don't have as much confidence in us. That is why this administration has tried to enforce those laws in a fair but strong manner, in order to create confidence in the American people that they will believe the agreements we reach are in the best interests of our workers and our businesses.

Senator BOREN. Well, I commend you for that spirit, and I know that is a hard line to draw, at what point does toughness cross the line toward reigniting trade wars and protectionism. And let me say that I think from my observation of the way you and your colleagues have conducted yourselves since the beginning of the administration, I think there has been a vast improvement, and I think you have walked that line very, very well. And I think that you have increased the level of confidence that Congress has. That is one of the reasons why in the past there have been attempts to reduce the discretion the executive branch has in these areas.

I think that when we have an administration clearly committed to looking after our rights and enforcing those rights under existing agreements aggressively and fairly, as you have been doing, I think that that continues to increase the confidence here. And so I encourage you to continue. I think of myself as one that wants as much free and open trade as we can have, and I think that this is historic. I think it would be tragic if we were to see this agreement rejected, tragic in terms of all of the relationships here in the hemisphere, and, indeed, in terms of our position in the world economically.

Ambassador KANTOR. I agree. And, by the way, we did not give up our Section 22 rights to Canada with regard to peanuts or other products under the NAFTA.

Senator BOREN. I understand. Thank you.

Ambassador KANTOR. Thank you, Senator, very much.

The CHAIRMAN. We will stand in recess for 15 minutes while we go and vote. I know these witnesses have to leave. I must say that I appreciate very much, Mr. Ambassador, the amount of time you have spent here this afternoon. I know that you had to readjust your own personal schedule to do so. But I think with the combination of both the Finance Committee members and Agriculture Committee members, it was well worth doing.

Mr. Moos and Mr. O'Mara, and Secretary Espy, I say the same thing to you gentlemen. You have spent a great deal of time. I appreciate that, and the time that the Secretary spent with me privately before the hearing.

We will stand in recess for a few minutes.

[Recess.]

Senator CONRAD [presiding]. This hearing before the Senate Committee on Agriculture, Nutrition, and Forestry will come to order.

We first of all want to apologize to these panels. As you can see, the first panel went far beyond what was anticipated, and that was perhaps to be expected given the importance of this hearing and the witnesses who were appearing. But we have a great interest in what the members of these panels have to say as well.

Given the lateness of the hour, we will ask you to make your statements part of the record and to summarize your testimony.

The chairman is not going to be able to return. Because of events in Russia today, the chairman has to meet with the President very soon, and obviously that has also thrown an additional curve at us. But notwithstanding that, we will be very interested in the testimony of the members of this panel: Mr. Bob Foster, the vice chairman, Board of Directors of Agri-Mark; Mr. Lee Swenson, the president of the National Farmers Union; Mr. Mike Bauerle, immediate past chairman of the Nebraska Corn Development, Utilization, and Marketing Board; Mr. Dean Kleckner, president of the American Farm Bureau Federation; Dr. Martha Roberts, deputy commissioner for food safety of Florida Department of Agriculture; and Mr. Roger Stuber, president of the National Cattlemen's Association, who hails from a very important State—in fact, perhaps the most important State, the State of North Dakota.

Welcome to you all, and please proceed. We will begin in the order provided with Mr. Foster. Thank you for being here. The committee thanks you for your patience.

STATEMENT OF ROBERT L. FOSTER, VICE CHAIRMAN, BOARD OF DIRECTORS, AGRI-MARK, INC., MIDDLEBURY, VT

Mr. FOSTER. It is my pleasure to be here. Mr. Chairman, members of the Committee on Agriculture, Nutrition, and Forestry, I appreciate the opportunity to be here. I am Bob Foster, vice chairman of Agri-Mark, a value-added milk marketing cooperative. I live on a farm in Middlebury, Vermont, where I farm with my family.

My task today is to share with you my perspective on the North American Free Trade Agreement. I will be expressing the position of the Council for Northeast Farmer Cooperatives. CNFC represents 5,500 dairymen in 4 cooperatives: Agri-Mark, Eastern, St. Albans, and Upstate. These cooperatives service the Northeast fluid milk markets, package and market the full range of manufactured products, as well as provide ingredients to service the dairy industry. Products range from whole and skim milk powder to Cabot sharp cheddar cheese, from condensed milk to ice cream and yogurt mixes for Ben & Jerry's Ice Cream. Last year Agri-Mark exported product to six continents.

We live in a world of finite resources. One nation cannot isolate itself from the rest. Consider, if you would for a moment, if my State, Vermont—or it could be your State—decided to close its borders and produce only what we need for ourselves. Vermont's economy would literally dry up and wither away. With that in mind, what will NAFTA do?

NAFTA provides mechanisms for the elimination of tariffs imposed on a number of U.S. products. Some are immediate; others are phased out over as many as 15 years. Specifically, dairy prices are determined by national supply and demand mechanisms and markets.

In dairy, we face a double challenge. Tight prices have forced the accelerated adoption of current technology and management. Currently the national herd average for milk is 15,000 pounds per cow. Consequently, more than half are below the 15,000-pound level. With current technology, allowing for production of over 20,000 pounds, and with the adoption of this technology occurring currently at a very rapid rate, we could face as much as a 20-percent increase in production over the next several years.

Dairy must become, to use Senator Leahy's words, "a reliable and dependable exporter" of significant amounts of production, or our productive capacity must be downsized substantially. Without NAFTA and, thus, without expanded markets, we are headed for a wreck, resulting in a painful downsizing in the number of dairy producers.

Remember that a 1- or 2-percent increase or decrease in domestic supply causes dramatic increases in prices, as much as 20 to 40 percent. Increasing prices are quickly captured at the retail level. Conversely, decreasing prices collapse prices received by producers, while only inching down to consumers.

Unless product is moved out of the domestic market, prices to producers will have to be reduced dramatically. Without new and expanded markets for dairy, the U.S. and Vermont producers face a very tenuous future.

One of the major concerns of the dairy industry is the dumping of subsidized product in Mexico which then would flow freely into the United States. This concern has been addressed. Any product that does not meet the specific rules-of-origin provisions is excluded from the agreement.

In my opinion, dairy and beef will gain significantly under the provisions of NAFTA. With the cost of capital at more than 20 percent, lack of infrastructure, expensive inputs, there isn't much incentive for U.S. production to move south.

So what does this mean to Vermont and dairymen in general? Less pressure to downsize agriculture than there would be without NAFTA; more U.S. jobs; more income in Mexico to spend on U.S. value-added products. NAFTA allows for easier flow of value-added products into Mexico. One-quarter to one-third of the Mexicans have relatively high incomes, creating a market nearly the size of Canada's for U.S. goods. As we heard earlier, Mexicans already purchase more per capita from the United States than do the Japanese or Europeans.

Many U.S. products currently carry heavy tariffs. Even so, the United States has a trade surplus with Mexico of $5.4 billion in 1991, compared to a trade deficit of over $75 billion with Asia—so much for less jobs because of NAFTA.

NAFTA makes trade a two-way street. If we turn down NAFTA, we are relinquishing a $3.8 billion market. Vermont, like most other States, is an exporter of goods, products, and services. According to The Economist, July 3 business section, Vermont exports grew $1 billion in 1988 to over $4 billion this past year. That's one trend I don't want to change.

One final point: Agriculture has a multiplier effect of approximately 4.5 to 7 times. This is true in Vermont, and it is also true nationally. Most of the products bring dollars into a State, and then those producer's dollars are spent many times over in that State.

Value-added products will continue to be the success story in the future, I believe. U.S. grain will be converted in the United States to these products, creating jobs at home. According to several dairy economists, NAFTA could bring as much as $1 billion more in income to dairy farmers and generate as many as 10,000 new jobs throughout the dairy industry in this country.

I trust that you will base your decision on the facts and what is good for the long-term interests of this country. NAFTA means more U.S. jobs. NAFTA means a stronger American agriculture. NAFTA will help maintain and revitalize rural America.

NAFTA is a win-win situation for everyone—American, Canadian, or Mexican, whether they are a laborer, a farmer, a consumer, or an environmentalist.

Thank you.

Senator CONRAD. Thank you, Mr. Foster.

And now, Mr. Lee Swenson, head of the National Farmers Union. Welcome.

STATEMENT OF LELAND SWENSON, PRESIDENT, NATIONAL FARMERS UNION, DENVER, CO

Mr. SWENSON. Thank you, Mr. Chairman. I would enter for the record a copy of the testimony; in addition to that, provide an initial document that analyzes the impact of the Canadian Free Trade

Agreement and its implementation on American agriculture as part of our testimony, and just summarize it.

I want to thank you for the opportunity to present the position of the farm, ranch, and rural families of the National Farmers Union on the NAFTA agreement. Since becoming president of the National Farmers Union in 1988, I have tried to be a strong advocate of trade and support the establishment of international rules and regulations which enable the trading of commodities, goods and services in a manner which provides a fair return to producers and promotes environmentally sound production methods, and also provides assurances to consumers in regard to the quality and safety of the products that are traded.

We support trade which advances the social and economic structure of all people within the participating countries. And we have taken a look at the expansion that has occurred with Mexico over the last number of years, we know that those gains have been significantly linked with the possibilities of assisting those sales with credit provisions.

As we take a look at the NAFTA agreement and its side agreements, we feel that it comes up short of the overall objectives that we think need to be put in place for trade. It especially lacks a number of safeguards that we feel need to be put in place to make it a good trade agreement.

I am as concerned as the chairman expressed about the political rhetoric which exaggerates the concerns on both sides, but also that which exaggerates the unfounded negatives if the agreement as proposed is not accepted, because I take a look at the fact that we cannot accept status quo but that we have to make sure within a renegotiated NAFTA agreement that certain safeguards are put in place.

As we take a look at the proposed agreement and a number of the points which we feel need to be addressed and have been discussed in great detail today, I want to draw your attention to the Mexican tariff schedule. It points out that corn, barley, wheat, beans, milk, and cheese products have either less access or higher tariffs, or both, for the immediate future. Yet the proposed agreement allows Canada to maintain significant commodity protection and transportation assistance. And on wheat, Mexico has imposed a new 5-percent addition to the existing 10-percent tariff on Durum wheat and imposed a new 15-percent tariff on other wheat in exchange for free license.

Canada, meanwhile, as has been discussed here, will maintain its transportation assistance and pricing system in marketing its wheat to Mexico as well as into the United States.

And I would draw your attention to a chart which shows the increase in Durum wheat that has come into the United States under the Canadian Free Trade Agreement, an increase of Durum wheat of 130 percent since before the Free Trade Agreement.[3] If you look at all wheat, an increase of 76 percent; barley, up 213 percent.

Now, the Clinton administration has announced Mexico's eligibility as the Export Enhancement Program recipient for wheat to offset Canadian assistance, and support that as a means of com-

[3] See page 101.

petition. Yet because of the lack of end-use certificates, there is a chance that we may be exporting Canadian wheat within our Export Enhancement Program. I am not sure that that is the wisest use of our taxpayer dollars to benefit American wheat producers.

But in addition, in the Mexico-U.S. agreement, it removes one of the only tools of recourse if a trade abuse occurs, and that has been discussed as Section 22.

Let me just raise on particular point of concern. We have had the Canadian Free Trade Agreement in place since 1988. And the previous administration, even with political pressure, agricultural pressure, resisted the implementation of a Section 22 when we were seeing an economic impact on Durum wheat producers in this country. It wasn't until the Clinton administration, in responding to the political pressure and the agricultural pressure, enacted or is considering enacting Section 22. And I am concerned of adopting the NAFTA as proposed with no recourse. What happens if a new administration comes in? What assurance do we have that Mickey Kantor is going to stay in place for the next 50 to 60 years to make sure the program is implemented appropriately.

Transshipment of product and peanut butter and peanut paste has increased 567 percent. Sugar products into the United States increased 3,021 percent since the implementation of the Canadian Free Trade Agreement. It shows clearly that transshipment is occurring.

And I was interested in the response of Secretary Espy to the questions, but he did not clearly identify the mechanism we would use with Mexico if transshipment—or who would have to prove it. Because it is my understanding that it will be producers in regards to agricultural products that will have to prove if transshipment is a concern. We analyzed that within the U.S.-Canadian agreement and found out it cost anywhere between $250,000 and $500,000 to have a case follow all the way through.

Another very important safeguard that is missing is the border inspection. There is a lot of verbiage in the agreement, but we are concerned about enforcement, especially in regards to livestock as it moves across the border, the increase of feeder cattle, and the increase in TB that has already been documented. There is concern about a number of safeguards that we sense are lacking, and I look forward to addressing the questions you may have.

Thank you, Mr. Chairman.

Senator CONRAD. Thank you, Mr. Swenson.

Mr. Bauerle.

STATEMENT OF MIKE BAUERLE, IMMEDIATE PAST CHAIRMAN, NEBRASKA CORN DEVELOPMENT, UTILIZATION, AND MARKETING BOARD, CHAMPION, NE

Mr. BAUERLE. Thank you. Mr. Chairman, I will ask that my written testimony be placed in the record, and I will, in the interest of brevity, speak from some abbreviated notes, if that is okay.

Senator CONRAD. Let me just say that we will introduce everybody's statements into the record as if presented in full, and as you know, these statements are important to us because they provide a basis for future debate and discussion among colleagues here in the Senate.

Mr. BAUERLE. Okay. Thank you.

My name is Mike Bauerle. I am an agricultural producer. I live in western Nebraska and operate a farm on my own. For the last 5, going on 6 years, I have served on the Nebraska Corn Board, the corn check-off board, and that represents 32,000 corn producers in the State of Nebraska.

Many of these producers in the last 6 months to a year have expressed the same frustration as the chairman did in his opening remarks concerning the rhetoric, the extreme exaggerations on both sides of this issue.

The Nebraska Corn Board got caught up in it, also, and 6 months ago decided to take a unique approach to this. We commissioned the University of Nebraska Agricultural Econ. Department to take an analytical, well-disciplined approach and look at every study of NAFTA that is out there.

We released this study last week in Nebraska and yesterday in Washington, DC, and that will be part of the record.[4]

This is a two-part study. First, they started with 84 different articles, studies, completely—everything they could get their hands on concerning NAFTA. They weeded it down to 40, basically throwing out those that had no economic justification, no data. Of those 40, 10 economists then went to work using the same criteria to analyze those 40 as to their validity, if they used similar methods, and gave us a one- to two-page synthesis of each one of those reports. You will find that in the back half of the report that we have just issued.

To complete the second half—I might add, too, that the charge we gave to them was not to give us any predetermined results. We wanted to know for the best interests of those corn producers that we are representing what the best guess of the outcome of NAFTA would be. At that point, they went to work using a RUPRI model. RUPRI is a model for Rural Policy Research Institute, which is a multistate model that was set up between the States of Nebraska, Missouri, Arkansas, and Iowa to predict how public policy affects rural people. It also consists of an econometric model.

They took the synthesis of all those 40 results and placed it into that economic model, and I will give you a very brief synopsis of what we found when that model was completed.

For the United States, it shows a positive growth in GDP—small but positive, with ranges from 0.02 to 1.34 percent. It shows exports in agriculture increasing. It shows that the big winners in agriculture would be corn, as we have talked about, wheat, coarse grains, oilseeds, meat and livestock products.

Several of the studies indicated that grain and oilseed sectors would be the biggest beneficiaries under this NAFTA agreement.

It showed that U.S. corn exports to Mexico would increase in a range from 44 percent to 244 percent with the successful conclusion to the NAFTA agreement. This is at the end of the phase-in period.

For Nebraska, what it showed was a 5- to 9-cent increase in the price of corn. As a corn producer in Nebraska, if we can get a 5- to 9-percent increase in the price of corn, we are going to push for it.

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[4] The study is retained in the committee file.

Senator CONRAD. Percent or cent?

Mr. BAUERLE. I am sorry. Cent, 5 to 9 cents. And the range is based on the substitutability of yellow corn for food grade white and food grade yellow. If we can get a dime a bushel more for white corn, we will be glad to raise white corn. We have no problem switching.

On jobs—and this is probably the hottest contested issue as you listen to the TV and the radio. We have more calls from people wanting to know what is the truth on jobs, what are the actual facts. On jobs, it shows a slight increase in total U.S. jobs. Now, that is not saying that there won't be some jobs lost and some jobs created, but it shows anywhere from roughly a 35,000- to 150,000-job increase for the United States.

A big consideration, as the baseline for this econometric model was drawn, was what happens to environmental concerns if NAFTA is not passed. The environmental concerns in Mexico were not an issue in the United States until NAFTA. If NAFTA fails, there's a real fear that these environmental concerns could go by the wayside.

U.S. meat, cattle exports, pork exports, and even poultry would have sizable increases, large increases. Contrary to popular belief, after visiting with some people and looking at our Mexican Embassy, their number one requirement right now for corn is for industrial uses and for food. They are reluctant to feed $4.86 corn to pigs. So that fear was totally unfounded.

I might also add that I am a producer of dry beans, and I am tickled to death to hear all the attention to dry beans. I didn't know anybody in Washington knew what a dry edible bean was. But I have the same concerns as many other dry bean producers had, and that is with the quota. But I also have to say that in the last 10 years of raising dry beans, I have sold beans for 11 cents in years when Mexico wasn't buying beans and I have sold beans for 38 cents a pound when they were. So I will take the 50,000 tons and take it somewhere in between that.

Thank you.

Senator CONRAD. Thank you very much, Mr. Bauerle.

Now we will hear from Mr. Stuber from my home State. A special welcome to you, Roger.

STATEMENT OF ROGER STUBER, PRESIDENT, NATIONAL CATTLEMEN'S ASSOCIATION, BOWMAN, ND

Mr. STUBER. Thank you, Senator, and good afternoon. My name is Roger Stuber. I am from Bowman, North Dakota, and president of the National Cattlemen's Association representing 230,000 cattle producers nationwide.

Mr. Chairman, the National Cattlemen's Association strongly supports the North American Free Trade Agreement as a good business opportunity. During the last years or last decades, we have worked aggressively to develop, access, and expand foreign markets, and today we are exporting about 10 percent of our value.

As the U.S. population ages and our population slows, the continued growth of beef will depend on the new economies of the world. The dynamics of the Mexican market are exciting: 50 percent of the population below the age of 20, 80 percent below the age of 40.

Mexico is a growing economy with 90 million consumers who like to eat beef, and it is a natural market for the United States.

We export presently to Mexico about $260 million worth of beef and variety meats. Our economist predicts by the year 2000 that that could reach $1 billion, about what we presently export to Japan.

So the market is there. It is growing, but it is bumpy. The North American Free Trade Agreement is needed to smooth out that market. Last fall Mexico imposed tariffs on imports of live cattle and beef. Those tariffs have already slowed the growth of our market there. I have figures from the U.S. Meat Export Federation that say in the first 6 months of this year that both value and dollarwise and tonnage the market has dropped by 40 percent. And that is a significant figure.

It is unfortunate that the critics of the North American Free Trade Agreement have based their arguments on fear, fear that the United States will not be able to compete with Mexico. Mr. Chairman, the United States beef industry is not afraid to compete with any country in the world on a level playing field. We are the most efficient producer in the world of high-quality beef.

We have heard claims that NAFTA will shift the U.S. beef industry south of the border. This is just not going to happen. The real issue is productivity, and Mexico does not have the efficient production practices, the feed supplies, the infrastructure, or the capital to steal the United States beef industry.

They also say that NAFTA will increase imports to this country from Mexico, exports of Mexico feeder cattle to this country. That is a market-driven basis, and if we look at the figures for the last 2 years, it has actually dropped as the economy of Mexico improves.

Disease control was brought up, and it was answered very clearly today. They have got to meet the controls and the rules and regulations of this country to come in here.

Some critics of NAFTA have argued that countries desiring access to the United States market with their beef may use Mexico as a platform to enter the United States market. We believe the agreement answers these critics by including strong rules of origin. All fresh, chilled, and frozen beef is considered of one character regardless of the processed state.

We agree with President Clinton's strong statement at the White House the other day when he said, "Every single, solitary thing you hear people (critics) talk about, that they are worried about, can happen whether this trade agreement passes or not, and most will be worse if it fails."

Jobs have been an important part of the debates on NAFTA. We know that increased exports, particularly exports of high-value or value-added products, will create jobs to rural America. That was addressed earlier by both the Ambassador and the Secretary.

A good trade agreement is a win-win situation for all countries involved. We are excited about the opportunities presented by NAFTA. The NAFTA will improve the economies of all three countries.

We strongly urge the Congress of the United States to pass this trade agreement. If it fails, you are telling the American people that the U.S. Government does not care to create jobs, improve the economy, and regain our position in the world as a major player in world trade.

I thank you, Senator, Mr. Chairman, for the opportunity to testify.

Senator CONRAD. Thank you, Roger.

Dr. Roberts.

STATEMENT OF MARTHA R. ROBERTS, DEPUTY COMMISSIONER FOR FOOD SAFETY, FLORIDA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES, TALLAHASSEE, FL

Ms. ROBERTS. Thank you, Senator Conrad. I sit here before you today as the other segment that will be negatively impacted, in addition to the Northern States and what they have found with wheat. I sit here today representing Commissioner Bob Crawford and the entire Florida agriculture industry of winter fruits and vegetables, citrus, sugar, our Farm Bureau, our cattlemen, and our dairymen. We have unified our position the last 2½ years. We have asked for some very basic considerations to be included within this agreement.

We find, regrettably, that we are in a position in which the International Trade Commission, the Council on Agricultural Science and Technology, the Government Accounting Office, and leading economists all say that there is one big loser in this agreement, and that is Florida winter-produced fruits and vegetables and our citrus. It is a matter of latitude. So early on, we began asking for some very specific basic inclusions in the agreement.

We think that the food that we produce, the fruits and vegetables that are so essential to our health, are too precious a food resource to trade away. In this day of debate on health care, when we are trying to strive for preventative health care, we think it very critical that our country continue to produce fruits and vegetables that our own National Academy of Sciences has indicated is so essential to our prevention of chronic disease and cancer.

Recent reports have indicated that our school children are getting less than one serving of fruits and vegetables per day on average. We certainly don't want the production we have in Florida to be traded away.

We have a $6 billion agricultural industry with over a $40 billion impact upon our economy. Leading economists in our State first indicated we would be losing 54,000 jobs in Florida agriculture alone. I know Secretary Espy spoke of the creation of 54,000 jobs, an automatic tradeoff from a loss in fruit and vegetable production to maybe a gain in another commodity. Very recently, Dr. Polopolous, a world-renowned economist, now estimates over 100,000 jobs lost in Florida agriculture alone, and we are also facing a potential loss of $2 billion in our production.

Now, what we asked for is very basic. We asked for a price-based safeguard in addition to the volume base that is presently within the agreement, because of the perishability of the commodities that we deal with. We also ask, as do many others, that there be a clear enforcement and there be equalization of requirements in the labor, environmental, food safety, pesticides, sanitary and phytosanitary areas.

It is very critical to us as a subtropical and very vulnerable State that we retain clear standards. I was very pleased to hear Secretary Espy and Ambassador Kantor indicate that we would. However, we are very concerned with some other documents that indicate our country may be moving away from that area.

There is a recent document in which APHIS of USDA is looking towards the vision for the year 2000. They are indicating that their inspections for phytosanitary standards will be much less frequent. And they have specifically stated in the Vision 2000 that they are looking at the reality in the near future of not being able to protect our Nation from imported plant pests and diseases.

If this is what we are looking toward, Florida will face much additional loss. In the last 15 years, we have spent $180 million just to fight pests that have been imported into our State.

How do we explain to our Nation and to our citizens in Florida that our farmers are not allowed to use a whole host of chemicals that can be used by their neighboring farmers to the south? I know this particular committee has dealt with the proposal before, particularly on the export of pesticides and on the use of pesticides that may have been judged by our Government to be too toxic for either our farm workers to be exposed or for residues later on food. We think that equalization of standards is necessary.

We would also offer and explain to the farmer in Dade County who is facing the decision on replanting tropical fruit trees. He is facing a capital investment of 5 to 6 years before production after the losses he sustained in Hurricane Andrew. Should they replant, or should they just throw in the towel now if there are to be no changes in the current agreement before us?

In summing up, I would just say to you that I represent and I speak for all of the citrus and winter-produced fruits and vegetables in Florida. We produce 50 percent of the fruits and vegetables in the winter months. During the winter months, we are the sole domestic producers of those essential foods so critical to your diet.

We regret that we as yet have had no indication by Secretary Espy, the administration, or Ambassador Kantor, that any of our concerns on the redefinition of sugar to include high fructose corn syrup or strict enforcement of the country of origin or a price-based mechanism—those have not been addressed. Since they have not been addressed, we have no position other than to be in total opposition.

We are for free trade. We are just not for this particular agreement. I would like to offer into the record some additional information which our Farm Bureau, our citrus industry, and our vegetable industry presented yesterday as part of a full campaign, hoping to defeat this agreement.

Thank you.

Senator CONRAD. Without objection, that will be entered into the record.

Senator CONRAD. By the way, in addition to your statements, any other information that you wish to enter into the record will be accepted as well.

Mr. Kleckner, welcome.

STATEMENT OF DEAN R. KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, D.C.

Mr. KLECKNER. Thank you, Mr. Chairman. I am president of American Farm Bureau and a corn, soybean, hog farmer from northern Iowa, and I represent the Nation's largest farm and ranch organization and am here in support of NAFTA.

NAFTA will be good for American farmers and workers. It will expand exports and bring about higher net farm income and a net increase in U.S. jobs. Rejection of NAFTA could cause job losses and actually reduce U.S. exports.

I think the only great sucking sound heard across this country if NAFTA fails will be the sound of exports going down the drain.

With NAFTA, we have the means to improve the environment and reduce illegal immigration. Without it, these problems will only persist and worsen.

Mexico is our third largest market, as we have heard today, following Japan and Canada, and certain to become a better one under NAFTA. Mexico's agriculture with limited resources is not now keeping up with their domestic demand for food, and that is why we have now a $1.5 billion agricultural trade surplus with Mexico.

With its rapidly growing population and a strong desire for improved diets—and I have been down there, and I think, Mr. Chairman, you probably have, and they do want better diets—they are going to continue to require substantial and growing levels of imports.

NAFTA will assure that these imports will come from the United States by American farmers and ranchers. If we reject NAFTA, however, other countries will no doubt take advantage of the growing Mexican market at our expense.

I am a pork producer. Mexico doesn't need to buy pork from the United States. It can get it from Canada or Denmark. It doesn't need to buy wheat from the United States. It can get it from Canada, France, Argentina, Australia. Mexico does not need to buy soybeans or nonfat dried milk, or dry edible beans or corn or sorghum or rice or beef or poultry or apples or pears or timber, and a whole host of other products from U.S. producers. It can get them elsewhere because they are produced elsewhere in the world, and it probably will if we reject NAFTA.

Virtually all impartial studies—and I heard President Clinton say a week ago today that 18 of 19 that he had seen—I think that is what he said in the White House—have shown NAFTA to be a net job creator for our Nation and good for our overall economy. More than 280 noted U.S. economists, including all 12 living Nobel Laureates—and that is from Tobin on the left and Friedman on the right, and everybody in between—have told President Clinton that they all agree that NAFTA will, in varying degrees, be a net positive for the United States in both job creation and economic growth. All living former Presidents concur. As far as I know, all living ex–Secretaries of Agriculture concur in this.

NAFTA is not perfect. We heard it earlier. No trade agreement can be. I thought Mickey Kantor said it perfectly. We would have preferred, we in the Farm Bureau, longer transitions for some sensitive commodities, and shorter ones for some of our key exports.

But overall this agreement is a positive and necessary step for our agriculture and trade interests. It is a solution to, not the cause of, many of the problems raised by opponents about the agreement.

For example, if there is a problem for U.S. companies moving to Mexico, NAFTA is not the reason. We don't have a NAFTA. In fact, NAFTA can help address the problem. It opens the Mexican market to our exports, thus allowing companies to stay home and still supply products to Mexico. It eliminates the maquiladora program and would help raise wage rates in Mexico.

If there is a problem with illegal immigration from Mexico, NAFTA is not the reason. But NAFTA can help solve it by creating more jobs throughout Mexico, not the maquiladora region just there on the border.

If there are problems in our trade with Canada, NAFTA is not the reason. The cure that some propose—to reject NAFTA—would be worse than the ailment. We could turn over even more of our ag markets to Canada by killing NAFTA.

Some say Mexico's pesticide rules are too lax, that Mexico still allows DDT to be used. The GAO report that is often cited should be read before you swallow this argument. GAO found the U.S. and Mexican pesticide laws and violation rates to be close to equivalent, and GAO found that Mexico's use of DDT was confined to government applications in jungle areas to control mosquitoes that carry malaria. Unfortunately, people are being convinced that NAFTA should be rejected for that reason.

The list of unfounded grievances about NAFTA goes on and on, and I have addressed a number of other ones in my prepared text. I expect to hear before you vote that it is also the cause of bunions and bad breath. Everything that is wrong is caused by NAFTA, apparently, or the perception that NAFTA will cause it.

NAFTA, however, is probably the most thoroughly studied and analyzed trade agreement ever written and almost all studies show it will be a net plus for both countries.

The Farm Bureau studied the impact it will have on U.S. agriculture and concluded it will be an overall plus. We recognize that not every sector will be helped, and some will face increased competition. But we believe that the transition periods under the agreement will enable most producers to adjust.

As I conclude, I will say the supplemental agreement on import surges negotiated by President Clinton will also give us a little extra warning of potential problems from imports. Currently, Mexico has relatively free and easy access to our market for commodities that they produce—we have heard that earlier today from a number of witnesses—while we face more restrictive barriers when we try to sell our products down there. NAFTA will level this playing field to our favor, and we anticipate further growth in our trade surplus with Mexico if NAFTA is approved.

Thank you, Mr. Chairman, for allowing me to appear today, and I will just conclude by saying that Ben Franklin said—I don't think it was the cause of his death when he said, "No nation was ever ruined by trade."

Thank you.

Senator CONRAD. Thank you.

I am going to try to be very brief in the questioning given the lateness of the hour, and I really greatly appreciate the patience of this panel. You have been very gracious with the Senate Agriculture Committee. I hope you understand the unusual circumstances we were under today.

Mr. Kleckner, I would guess you are familiar with the situation we face on the northern tier with respect to the influx of Canadian Durum and Canadian Spring wheat, as well as the barley problem we are facing that Senator Craig of Idaho talked about and others of us have talked about as well.

I assume that you would support steps that were taken to address that question; for example, Section 22 on Canada, end-use certificates, other things that have been discussed today. Or what is your position with respect to those problems?

Mr. KLECKNER. Mr. Chairman, thank you. I am certainly aware of it. I have heard about it from the North Dakota Farm Bureau and certainly from the other State farm bureaus at some length.

I don't think there is any question that the U.S.-Canada Trade Agreement could be better and should be better. But I remember that there were things left out of the U.S.-Canada Trade Agreement on purpose regarding agriculture because they were such contentious issues, and really the agreement to not agree back then really said let's wait and let the Uruguay Round of the GATT fix these things because it probably will or I believe it will, the thought being back then that the Uruguay Round would be over.

Seven years ago today, Mr. Chairman, I was in Punta del Este when those talks were going on. Seven years ago. I have become a grandfather five times since that time. I will be a great-grandfather by the time it concludes if it continues at the present rate.

So we do need to fix in some manner the U.S.-Canada Trade Agreement regarding those issues. But also, it seems to me that it is probably not right to assume that the problems with Canada immediately translate over to problems with the U.S.-Mexico agreement, because we learned from the U.S.-Canada agreement. I think the U.S.-Mexico agreement is infinitely better than the U.S.-Canada agreement.

Senator CONRAD. Can I just follow up and say to you—can you see that some of us are trying to use our position with respect to NAFTA's leverage to try to get these problems with Canada fixed? Because we see this is kind of our last best hope for getting some of those fixed. We have had a bitter experience, I might say to you. There were a whole series of things that are right in the Canadian Free Trade Agreement and the implementing language that were supposed to be addressed but never have been, and our suspicion is never will be unless we use our leverage now.

You may have a comment or observation on that.

Mr. KLECKNER. Real quickly, again, Mr. Chairman, I understand your position, being from North Dakota, and you know, I have been there and I have talked to the Durum growers, and certainly you have a lot of sugar beets in your State, two contentious issues.

I guess I feel that probably the best way to fix this, though, is in the GATT, and that is coming down the pike. I think both NAFTA and the GATT will be accomplished by the end of this year or neither one will be accomplished. That is my feeling right now.

I hope that the U.S.-Canada agreement will not be the cause of the NAFTA failing.

Senator CONRAD. All right.

Mr. Swenson, maybe I would turn to you on this same question. I go back to the Canadian Free Trade Agreement, and a whole series of representations were made to us at that time. But I can remember very, very well being in hearings in which we were told we would not face these problems with Durum that have subsequently surfaced. I remember very clearly being told Spring wheat is certainly not going to be a problem. And the result truly has been a bitter one.

We have seen an absolute flood tide of Canadian grain coming across our border, and we can't send anything north. We have had people actually prevented from—we had a situation in our State. A North Dakota farmer was going up to visit a family member and had a bushel of wheat, a bushel of North Dakota wheat in the back of his car, going to take it up and deliver it to a family member, and that was prevented from going in.

Yet day after day, the trucks roll. Day after day after day. This has led to a high level of anger and frustration, as I think Mr. Kleckner indicated.

Do you share my recollection on what we were told with respect to the Canadian Free Trade Agreement, and what is your observation?

Mr. SWENSON. Senator, I would agree that your recollection of the discussion and debate is accurate, that we were promised enforcement, which did not result, and the mistrust is now deeply embedded in those that have been impacted by the results of the manner in which the Canadian Free Trade Agreement has been implemented. That distrust, I think, does not allow us to accept just verbiage and political rhetoric that, well, this won't happen now under the North American Free Trade Agreement, because, again, we haven't seen the real teeth, if you want to call it that, the manner in which the language will be enforced. And we see the loss of Section 22. What is the recourse? And so we have real concerns.

Also, we strongly support the implementation of end-use certificates, with Canadian trade, with Mexican trade. We think it is a necessity.

Senator CONRAD. I am just being advised that we are anticipating a vote soon, but I will try to end the questioning before we get to that vote.

Dr. Roberts, with respect to sanitary and phytosanitary standards, we heard Secretary Espy indicate that we will be able to enforce our standards, and I think we all understand that. The question is, as a practical matter, whether or not border inspections can give you enforcement of those standards that is effective. And I would guess that the Florida fruit and vegetable producers have a perspective on that, and perhaps you could share it with us.

Ms. ROBERTS. I would be happy to, and I think I would also go back to the previous question, because I think what you learned is that the history of the past shows us we must have specificity in the language in the agreement, or it is merely rhetoric and promises. If the individual was there that gave you that interpretation is no longer there, all you have is the language that is in the agreement. And there is no specificity in the agreement, nor in the side agreements on labor and environment, nor the two-page document that supposedly is supposed to address import surges.

As a microbiologist and an agriculturalist in food science, you just cannot rely on border inspections to prevent problems in food safety, phytosanitary issues, and sanitary standards. Right now Customs——

Senator CONRAD. And why not? Why not?

Ms. ROBERTS. To give you some statistics with current resources, FDA, USDA, Customs indicate to us that less than 2 percent of the shipments coming through are inspected. The inspections that they do are oftentimes not very thorough because the trucks are backed up waiting to come in. It is very——

Senator CONRAD. So they just wave them through. As a practical matter, they check two loads out of a hundred.

Ms. ROBERTS. Oh, they are very wonderful people with a lot of professional expertise. They just cannot do what they have been assigned to do.

It will require some strong enforcement by all our trading partners involved in the agreement. Mexico will have to have their own governmental enforcement provisions.

We in the States are going to have to pick up a greater share of attempting to be partners with the Federal Government in this. The Federal Government cannot do this. Both USDA and FDA have indicated in various documents that the number of inspections will actually be decreasing per the volume being imported.

Senator CONRAD. Given the fact there will be more volume, same number of inspectors, the actual rate of inspection will decline.

Ms. ROBERTS. Actual rate. And we can't push aside, even though we have had assurances, we can't push aside the food safety question. We have up to 81 million people ill each year from foodborne disease. It is a real statistic now with the foods we consume. We must do a better job of protecting the safety of the foods we consume and the standards that apply to those, whether imported or domestic.

Senator CONRAD. Thank you very much.

Mr. Stuber, Roger, you know the sensitivity in the State of North Dakota on the wheat and barley questions. I assume that you would not object and probably would support attempts to get these problems addressed with respect to Canada. Am I correct on that?

Mr. STUBER. I want to agree, but if I can give you the cattlemen's perspective on it, what we want is market access and to get rid of export subsidies. They often send the wrong signals or create some signals that cause price disparity. I think we have too much going with this agreement. And I raise wheat. I have two or three bins of Durum sitting there I would like to sell. So I understand the issue.

I personally have no opposition to that. As a member of our group, we just don't get into those things, Senator.

Senator CONRAD. I understand.

Well, let me again thank this panel. We have been advised there is a vote about to be called, so I am going to excuse this panel.

Again, I thank you for your contribution here today as well as your patience.

This hearing is closed.

[Whereupon, at 6:21 p.m., the committee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows.]

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APPENDIX

PREPARED STATEMENTS

SENATOR LUGAR

Mr. Chairman, NAFTA deserves our support because it will be good for American exports and American jobs. It will give U.S. goods and services preferential access to Mexico's dynamic developing economy. It will preserve our ability to make our own decisions on critical consumer issues like food safety, highway standards and professional certification—and back up those decisions with action.

Many different U.S. industries will benefit from NAFTA. For example, the Department of Commerce says U.S. automotive exports could rise by $1 billion in the first year of the agreement. But agriculture is a particularly clear case of NAFTA's benefits.

The anticipated increase in exports from just six commodity sectors—corn and corn products, soybeans and soybean products, wheat, pork, beef and dairy products—would increase Indiana farm income by $100 million a year once NAFTA is fully implemented.

And the increase in exports will not benefit just bulk commodities. Processed food sales to that market have grown dramatically since the late 1980s. So it is not surprising that support for this agreement in my State includes not only farm groups like the Indiana Farm Bureau, the Indiana Pork Producers and the Indiana Soybean Growers, but also agribusiness firms like Agricor, American Maize Products, Central Soya, Dean Foods, and Pioneer Seed.

Under NAFTA, access to the Mexican corn market will no longer be subject to the whims of the Mexican Government, but guaranteed for an initial 2.5 million tons—an amount that will grow each year until all barriers are dropped. Sudden, arbitrary tariff increases on U.S. livestock products will also be avoided.

But as important as such "rules-based" gains will be, they are likely to pale beside "growth-based" gains. In other words, growth in Mexican incomes from increased trade will translate into a higher quality diet, creating rich opportunities for U.S. farmers and food companies.

Mexico is already our fourth-largest agricultural market, after Japan, the EC, and Canada. With NAFTA, its rank as a market will almost certainly increase, and so will the incomes of American farmers.

SENATOR CONRAD

Earlier this year I wrote Ambassador Kantor to express my concern that the NAFTA negotiated by the Bush administration was so badly flawed that it ought to be renegotiated. The administration had already decided, though, that the agreement would not be renegotiated but rather that it would be supplemented by side agreements. Consequently, I urged USTR to use these side agreements and the implementing legislation to fix the flaws that I perceived in the agreement.

These flaws included problems affecting the sugar and wheat industries, concerns regarding enforcement of the rules of origin and sanitary/phytosanitary chapters of the agreement, the widely different levels of wages and environmental and labor standards in Mexico and the United States, flaws in the dispute settlement process, and a lack of protection against exchange rate manipulation.

Last week, President Clinton signed the side agreements on labor, the environment and import surges. While the agreements on labor and the environment represent unprecedented attention to these issues in a trade agreement, I am not convinced that they go far enough in addressing these important issues.

In addition, and most importantly from the perspective of my State, they do not even address many of the issues I raised in my February 24 letter to Ambassador Kantor. I hope that these issues will still be addressed before the NAFTA comes to a vote, because I recognize that our economy is becoming increasingly integrated with the Mexican economy. In my view, we ought to manage this integration in a way that benefits farmers and workers and small businesses on both sides of the border.

But, frankly, I am skeptical that the NAFTA and its implementing legislation will be modified sufficiently. If these issues—and others that have come to my attention as I have studied the agreement and Mexico more closely—are not addressed, the NAFTA will be bad for North Dakota. And I believe it will be bad for the country as well.

There are several reasons why I cannot support the agreement in its current form. These range from specific concerns regarding agriculture to more general concerns regarding the low wages and incomes in the Mexican economy, Mexican enforcement of environmental standards, access to and the impartiality of the Mexican legal system, and the state of human rights and democracy in Mexico. I expect that there will be many opportunities over the next several months to debate these issues. Today, I want to focus on the impact of the NAFTA on North Dakota agriculture.

North Dakota producers of Durum, Hard Red Spring wheat, and barley know first hand what a few loopholes in a trade agreement can do to their incomes. Ever since the United States-Canada Free Trade Agreement was implemented, North Dakota grain growers have suffered from a flood of unfairly subsidized Canadian imports. Canada has used huge transportation subsidies and the secretive, anticompetitive pricing practices of the Canadian Wheat Board to undercut U.S. prices. Imports of Canadian Durum have climbed from 0 before 1985–86 to an average of 15 million bushels in the past 2 years. Imports of Hard Red Spring wheat reached a record 35.4 million bushels last year—or more than seven times the average during the 5 years preceding implementation of the CFTA. As a result, North Dakota producers have lost hundreds of millions of dollars in income, and USDA supply management and export programs have been undermined.

The NAFTA, as negotiated by the Bush administration, follows in the same path. It does nothing to correct the problems created by the CFTA, even though the President was required by the CFTA implementing legislation to enter into consultations to resolve these issues. In fact, the NAFTA will make things worse by allowing Canada to use westbound transportation subsidies to ship wheat into Mexico.

I am encouraged that Ambassador Kantor and Secretary Espy have been much more sympathetic to the concerns of wheat growers than their predecessors. Their efforts to approve the use of EEP to counter aggressive Canadian subsidies in the Mexican market is a clear step in the right direction. Yet the basic problems of the CFTA have not been resolved; much more must be done.

I have urged USDA to recommend that the President invoke Section 22 of the Agricultural Adjustment Act of 1933 to limit Canadian imports. And I have aggressively championed end-use certificates to prevent the illegal commingling of Canadian grains into U.S. export programs. It is my hope that these steps will eventually lead to a negotiated agreement that closes the loopholes in the CFTA and levels the playing field in the North American grain trade.

The NAFTA also creates significant problems for sugar producers. Sugar is a $1.5 billion industry in the Red River Valley of North Dakota and Minnesota, but it could be wiped out by a loophole in the NAFTA. In its present form, the agreement could allow Mexico, which is currently a net importer of sugar, to export unlimited amounts of sugar to the United States starting in year seven of the agreement if Mexico becomes a "net surplus producer" of sugar. If Mexico had to increase its production by diverting resources from other types of agriculture and dramatically increasing the efficiency of its processors, this would seem reasonable. But Mexico doesn't have to do this. Instead, because of an ambiguity in the text, Mexico may be able to achieve a net production surplus simply by converting its beverage industry from sugar to high fructose corn sweetener. This provision must be clarified in order to ensure that the sensitive U.S. sugar industry—an industry that is highly competitive in the world market and supplies sugar to the American consumer at the lowest price in the developed world—receives the full benefit of a 15-year transition period.

NAFTA also treats potato and edible bean producers unfairly. Because U.S. negotiators did not accurately measure U.S. edible bean exports to Mexico, the tariff rate quota established by the NAFTA will cut U.S. exports to Mexico in half. While USTR argues that the quota is a minimum amount and may be increased if the Mexican domestic supply is inadequate, there is no guarantee that U.S. producers and Mexican purchasers will receive adequate notice of any temporary increase in the quota nor that other countries will not gain advantageous access to the Mexican market in this situation. It is my hope that this ambiguity could be cleared up through an exchange of letters with Mexico.

While potatoes did not fare quite as badly as edible beans, potato producers appear to be worse off under NAFTA than they would have been without it. Over the past several years, potato exports to Mexico have doubled each year as Mexican processing plants sprouted in northern Mexico. The NAFTA stops this growth in its tracks.

To be completely fair, NAFTA will likely increase U.S. exports of a number of commodities produced in North Dakota. Exports of corn, oilseeds, pork and beef are projected to increase as a result of the NAFTA. However, unless something is done to address the problems I identified above, the overall impact on North Dakota producers will be negative.

Beyond the impact of the NAFTA on individual commodities, I have serious concerns about the application of the rules of origin and sanitary and phytosanitary portions of the agreement. On paper, the rules of origin are strong and detailed. But the provisions enforcing these rules are weak. In practice, because agricultural commodities are fungible, there will be little more to rely on than the good faith of Mexican producers and the Mexican Government. Unfortunately, self-certification is insufficient to prevent non-Mexican goods from receiving the preferential treatment granted to Mexican products in the NAFTA—especially as Mexico concludes trade agreements and expands its trade with other Latin American and Caribbean nations. Yet the cumbersome notification requirements in the verification procedures virtually guarantee that there will be little effective oversight beyond self-certification of Mexican exporters. Unless the verification procedures are considerably strengthened, I fear that the NAFTA could lead to significant transshipment of agricultural goods through Mexico into the United States.

Similarly, the agreement contains strong sanitary and phytosanitary standards on paper. However, there is no question that food safety and consumer protection standards in Mexico are significantly lower than in the United States. While the agreement allows the United States to maintain its current standards and apply them to Mexican imports, I have two concerns. The first is that—given the realities of USDA border inspections—some Mexican imports will not be adequately tested. The second is that there will be strong pressure for the United States to accept Mexican standards as equivalent to our own when—because they are not effectively enforced—they are, in fact, weaker. We should not allow the NAFTA to threaten the safety of our food supply nor undercut our lengthy and expensive disease control and pest eradication efforts. Not only would a less safe food supply risk the health of U.S. consumers—and even their lives, as the *E. coli* attack this spring demonstrated—it could lead to significantly lower domestic consumption and negate any projected benefits to U.S. producers from expanded exports to Mexico.

Finally, I am concerned about how the availability of low-cost labor and lower standards might affect the location of food processing facilities. While I recognize that many factors other than just labor go into facility location decisions, labor costs are often one of the most significant factors within the control of management. Value-added processing and other light manufacturing ventures have been touted as the key to economic development in rural communities. Rural America cannot afford to lose the diversification and incomes provided by these enterprises. This is clearly a risk: as I mentioned earlier, Mexico is investing in potato processing facilities, and Green Giant moved a major processing plant from Watsonville, California to Mexico in 1983. As the Green Giant example suggests, some of this will happen without the NAFTA, but NAFTA will undoubtedly accelerate the process. Unless Mexican wages rise to levels commensurate with the productivity of Mexican workers using modern U.S. equipment, I fear that NAFTA could lead more value-added processing to move south of the border.

While I have many concerns about elements of this particular agreement, I believe strongly in expanding trade. I am convinced that U.S. agriculture can compete successfully with anyone on a level playing field. As I said at the beginning of my statement, I hope that the administration will move expeditiously to repair the flaws in the agreement so that it truly benefits farmers, businesses and workers in my State and across the country.

SENATOR FEINGOLD

I want to thank Chairman Leahy for calling this hearing today on this very important issue and I want to thank those who have taken time out their schedules to testify before this committee.

I can think of no issue that is as complex for policymakers as the one before us today. When the issue of the North American Free Trade Agreement comes up at one of my listening sessions or town meetings in Wisconsin, as it invariably does, it generates diverse reactions and emotions ranging from anger and apprehension to enthusiasm and anticipation. I expect nothing less from this hearing today. NAFTA, as it relates to agriculture, provides us with a unique challenge. We are faced with reconciling the goals of NAFTA with the goals of our domestic agricultural policies. Obviously this is not an easy task.

One of the most significant concessions the United States would make under NAFTA is the immediate elimination of our Section 22 import quotas with Mexico. Section 22 has been central in our efforts to stabilize domestic prices and supplies for commodities such as dairy, cotton, sugar and peanuts. Under NAFTA, of course, those quotas are converted to tariff-rate quotas eventually allowing unlimited imports. The magnitude of this concession cannot be ignored. This change could render our domestic support programs ineffectual. Our price support program for dairy would be rendered useless if we are flooded with imports of surplus commodities. I am concerned that this provision will be carried through to any GATT agreement we may have for agriculture. This major concession on market access will likely make it difficult to maintain our Article 25 waiver for Section 22 in GATT creating a flood of imports from the EC.

Now, I've been told by many farmers in Wisconsin that the key to a successful NAFTA or GATT agreement is market access. In NAFTA, Canada has been excluded from the agreement on dairy. Clearly, U.S. producers have not gained access to that lucrative market. We have surrendered Section 22 while allowing Canada to continue to protect their domestic industry. The question then, at least for dairy, is what level of market access do we achieve with Mexico. The answer to that question is not clear.

While Mexico converts their import licenses for dairy products to tariff rate quotas (TRQ's) and the United States converts our Section 22 quotas into TRQ's, the tariffs for nonfat dry milk imports above the duty-free quantity are much higher for U.S. imports into Mexico than for Mexican imports into the United States. In fact, the tariff is so high that it is unlikely that the United States would export beyond the duty-free amount. Similarly, the Mexicans are given 15 years to phase out their tariffs on nonfat dry milk, while the United States allows unlimited access to our market after just 10 years.

For cheese the agreement raises similar questions. It seems unlikely that the dairy sector will benefit from the deal made for cheese. The United States would allow 5500 tons of cheese duty free while no U.S. exports to Mexico would be allowed in duty free. Tariffs on cheese, currently subject to import licensing, would be set at 20 percent for hard cheese and 40 percent for fresh cheeses which is, I'm told, the preferred cheese type in Mexico. A report from Texas A&M indicated that hard cheeses are typically consumed only by the middle and upper classes due to the high cost. The cost of U.S. cheeses would be even higher due to the tariffs, making increased demand unlikely.

It appears that the U.S. dairy industry has given up a great deal for limited market gain. I am concerned that the side agreement on import surges is inadequate to protect our domestic producers from substantial harm from this agreement. The Working Group on Emergency Action, created by the agreement, appears to provide little more than a mechanism for slowing down action by a country to protect itself from import surges.

I am concerned that at best this agreement provides little benefit to agricultural producers in this country, and at worst will cost farmers their markets, incomes and ultimately their livelihoods. Particularly in agriculture there appear to be some clear losers. The citrus, tomato, sugar, wheat and peanut industries certainly feel as though they have a lot to lose under this agreement.

Some observers say these adverse results will not occur. In fact there are a large number of agribusiness and commodity trade associations that have endorsed this agreement. The group "Ag for NAFTA," consisting of 101 agricultural organizations, believes that U.S. agriculture will be clear beneficiaries of this agreement. The Department of Agriculture released a report earlier this year outlining sector-by-sector gains for agriculture. The study overwhelmingly concluded that farmers would benefit from greater cash receipts and higher levels of exports generated by trade with Mexico.

However, there are a large number of agricultural associations which are not supporting the agreement and believe the NAFTA will be devastating to their industries. They question the assumptions of the supporters of the agreement and they question the ability of the United States to enforce provisions within the NAFTA.

Some comprehensive economic analyses have not been strong in their endorsement of the agreement for agriculture. Both the Congressional Budget Office and the International Trade Commission estimated that any overall effect on agriculture would be minimal with some slight gains and losses in certain sectors. After looking at those reports, I had to ask myself if perhaps the potential modest gains to agriculture have been overestimated and the substantial risks underestimated.

Assumptions have been made that the dairy industry in Mexico cannot be competitive with the U.S. industry. This assumption is based on Mexico's reliance on small, inefficient dual purpose dairies and lack of adequate infrastructure. This assumption ignores the growth of large high-tech dairies in the Northern States of Mexico that resemble U.S. dairies in the Southwest. These dairies, located near the U.S. border, represent only 18 percent of the milking herd but account for 55 percent of the milk produced in Mexico. With the ongoing liberalization of Mexico's land-use policies and greater access to high quality feed and other inputs, this type of dairy operation in Mexico will expand and will likely be competitive with the U.S. industry. The constraints these dairies face for expansion will have be removed under NAFTA and the advantages of little environmental regulation and low-cost labor will remain intact.

The other questionable assumption is that the increased income and demand in Mexico generated by Mexico will benefit the U.S. agricultural sectors. In the case of dairy, there is little to guarantee that increased demand in dairy products will be filled by U.S. products. Currently the United States faces stiff competition from highly subsidized exports from the European Community and other countries and with the unsubsidized exports from New Zealand. There is nothing in NAFTA to protect us from this competition and there is little to guarantee increased demand for U.S. dairy products.

Obviously, the assumption of greatest concern to me and to many in production agriculture is the enforcement of the Rules of Origin provision. There are strong market incentives for Mexican processors and European exporters to circumvent the rules-of-origin provisions for dairy products. The EC will easily find the back door to our markets for dairy and other producers wide open if the rules of origin cannot be enforced. This concern goes well beyond the dairy industry. I have heard nearly every sector discuss the importance of the enforcement of this provision. I will look forward to hearing how these provisions will be enforced.

We cannot forget from whom Mexico imports dairy products—the EC, New Zealand, and Canada. Until we can address the subsidies provided by Canada and the EC, I suspect the U.S. dairy industry will not realize substantial benefit from NAFTA.

Perhaps, above all else, I am concerned that the NAFTA will prevent the dairy industry from ever effecting any change on their current price support program. Clearly NAFTA would negate any advantages provided by a supply management program promoted by many dairy farmers. We can hardly support prices by controlling supply if we have no authority to control our imports. I believe that even the market-oriented "self-help" plan promoted by dairy cooperatives could be rendered ineffective due to the Export Subsidies provision in NAFTA. Since the self-help plan would rely heavily on an export subsidy program much like the Dairy Export Incentive Program it is unclear the extent to which it would be allowed under NAFTA. It seems clear to me that we could do little to provide greater dairy producer support once this agreement is in place.

While I have these concerns, I'm here to listen and learn from our very knowledgeable witnesses and I appreciate having this opportunity to do so.

SENATOR GRASSLEY

Thank you Mr. Chairman. I'd like to thank Ambassador Kantor and Secretary Espy for joining us; it is always a pleasure to have each of you before the committee. And I welcome the witnesses as well.

Though I have some concerns about NAFTA, my support of its agricultural provisions is whole and unqualified. NAFTA devotes an entire chapter to trade in agriculture—demonstrating the significance of agriculture markets in the United States, Mexico, and Canada that trade that connects them.

The rhetoric on both sides of the issue has been heated—and the cold facts and hard truths have been obscured by passion, prejudice and preconceived notions. One side argues doom-and-gloom if NAFTA is passed; the other side predicts the same if it fails. Many don't know what to believe.

In my view, however, two truths remain certain.

First, 95 percent of the world lives outside our borders. In light of a static domestic demand and limited industrial uses, we must continue to find more markets outside our borders for our agricultural products. This is particularly true of States like Iowa where agriculture is so important. Iowa is second only to California as an exporter of agricultural products in the United States. Thirty-eight percent of Iowa's corn and 41 percent of our soybeans finds its way into overseas markets. Moreover, Mexico is our third largest market, behind Canada and Japan. Dale Cochran, Iowa's Secretary of Agriculture, today informed me that he, along with 47 other State secretaries of agriculture have signed on in support of NAFTA. Iowa's trade has expanded annually since Mexico opened their markets in 1987 despite their relatively high tariffs. A reduction of barriers under NAFTA would clearly be a boon to Iowa's agricultural sector. With the Asian and European Countries closing ranks—and 21 other regional trading areas established—do we turn inward and regress toward the protectionist policies of earlier this decade—or do we rise to meet the challenges of the future?

Second, for the first time we have in President Carlos Salinas a reform-minded President of a country which has previously shunned foreign capital, which has subsidized its industry and protected them with high tariffs; a country known for its bloated state enterprises and an agricultural sector that has been perpetually weak and poverty stricken. President Salinas' bold moves to reform the country is, at the very least, an endorsement of the free market economics which we as a country have labored to instill in nations around the world. Rejecting NAFTA would cut Mexico off at the knees economically—and would imperil the reforms of which we have been so supportive.

Though my primary interest under NAFTA, first and foremost, is to expand markets and create jobs, I do not believe we can ignore the benefits it may bestow on an important neighbor.

In closing—a divided House leadership; a litmus-test issue for labor and business; and a Texas businessman bombarding the public with info-mercials and ghost-written books will ensure that NAFTA will be political drama of the first order.

Last year, Bill Clinton ran his campaign on the mantra of "jobs and the economy." Many congressional candidates echoed the same sentiment. Yet, I find it ironic that those who last November predicted the end of gridlock—and preach the sermon of "jobs and the economy"—are now those opposing President Clinton on a watershed issue of his presidency. When a Republican opposes the President it is "gridlock"; when a Democrat does so, it is "leadership."

I look forward to today's testimony, and thank our distinguished guests for joining us.

Senator Pryor

Mr. Chairman, I want to thank you for scheduling this hearing on the North American Free Trade Agreement. Our witnesses, Secretary Espy and Ambassador Kantor, do not need to be told that agriculture has too often gotten the short end of past trade agreements. One of our goals in this committee should be to ensure that it does not occur again.

A number of my agriculture constituents in Arkansas have taken a stand for or against NAFTA, but many others believe they do not yet completely understand its impact. They need and deserve straight information.

To help them and to address my own concerns, I intend to get answers to specific questions about the impact of NAFTA in Arkansas, such as the effect it will have on Arkansas farmers and related agriculture industries.

Mr. Chairman, Americans are being whipsawed by contradictory and confusing information on what NAFTA will mean. The TV airwaves are beginning to fill with flashy advertising on both sides of the debate.

I believe that it should be the primary goal of these hearings to set the record straight and give the public honest, understandable, and straightforward information on the impact of NAFTA on U.S. jobs, the environment, business and certainly agriculture.

Today's testimony, I believe, gets us going down that road. There are tough questions to be asked and I know our excellent witnesses will have helpful answers.

Finally, I want to commend the chairman's staff for pulling together a thorough report that summarizes the comments of scores of agriculture groups regarding NAFTA.[5]

SENATOR COCHRAN

Mr. Chairman, thank you for convening this hearing to discuss the North American Free Trade Agreement. I join you in welcoming Secretary Espy, Ambassador Kantor and the other witnesses who will testify.

I'm convinced NAFTA will break down trade barriers, create more jobs, and improve living standards in Mexico, Canada, and the United States. It will create the world's largest market with over 370 million people and $6.5 trillion of production, and an estimated 200,000 jobs in the first 2 years of its implementation.

Opponents of NAFTA claim that only Mexico will benefit from this agreement. But Mexico already enjoys one-way free trade with the United States because of its high tariffs, which range between 10 and 20 percent. Incidentally, they now have the legal right to raise tariffs to 50 percent. To make matters worse, Mexico applies a restrictive import licensing system for many of our agriculture commodities. That would all be phased out under NAFTA.

In contrast, the United States applies much lower tariff duties on Mexican goods—averaging less than 4 percent—and over half of agriculture imports from Mexico already enter duty free or subject to a minimal tariff.

NAFTA will force Mexico to make deeper cuts on its tariffs than we will on ours. There are also prohibitions in this agreement to prevent Mexico from raising tariffs on U.S. products in the future.

To illustrate the importance of NAFTA to U.S. agriculture interests, we can cite the case of U.S. frozen beef patties. Earlier this year, the Mexican Government imposed a 25-percent tariff on American frozen beef products.

NAFTA would phase out this tariff and others that are imposed on American food products. It will bring down trade barriers and eliminate special license requirements for American exporters of agriculture products.

NAFTA is good for U.S. agriculture. Mexico already buys $1.5 billion more farm products from us than we do from them. NAFTA would create 26,000 jobs in America's farming industry for every $1 billion in exports. By the end of NAFTA's 15-year phase-out period, U.S. agriculture exports will be $1.5 to $2 billion higher than they would be without NAFTA. The U.S. Department of Agriculture estimates that farm income would rise by 2 to 3 percent as a result of this agreement.

If NAFTA is rejected, farmers of commodities such as cotton, corn, wheat, rice, soybeans, dairy, beef, poultry and many others will lose access to over $2 billion in new markets, and our competitors in Europe will gain an advantage over American producers in Mexico. It will also be difficult for the United States to gain Mexico's cooperation on other important issues that affect our two countries such as illegal immigration.

It is clear that NAFTA holds great importance for North America's economic future. I applaud the administration's commitment to work hard to pass this agreement and remain convinced that free trade and open competition will stimulate our economy and create jobs for American workers in the farming industry.

SENATOR DOLE

Mr. Chairman, American agriculture is the most productive and competitive in the world. With NAFTA, we will capitalize on this competitive advantage.

The U.S. Department of Agriculture projects that by the end of the transition period, annual U.S. agricultural exports will be $2 billion to $2.5 billion higher than they would be without NAFTA. This will create an additional 50,000 agricultural jobs in the United States, in addition to the 81,000 agricultural jobs that currently depend on agriculture exports to Mexico.

NAFTA is good for Kansas, too. Overall, since 1987 Kansas' exports to Mexico have increased at an average annual rate of 126 percent. Further market opening under NAFTA will accelerate and strengthen the benefits of Kansas' trade with Mexico.

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[5] See page 153.

Kansas agriculture will especially benefit from this agreement. U.S. corn and sorghum sales are expected to increase by about $400 million to $450 million due to NAFTA. At the end of the transition period, U.S. exports of corn to Mexico are expected to be about 6 million metric tons, which is 50 percent more than would have been expected without NAFTA. U.S. exports of sorghum are expected to increase to about 6 million metric tons by the year 2000, which is about 15 percent more than would be expected without NAFTA.

NAFTA is also expected to increase U.S.-Mexico trade in live cattle and beef. U.S. exports of cattle to Mexico could grow to over 1 million head per year, according to the Department of Agriculture.

NAFTA will also add approximately $30 million to wheat industry revenues by the end of the transition period. U.S. wheat exports to Mexico should grow by 40 percent, according to the Department.

Kansas companies that manufacture food and commodity processing equipment should also benefit from NAFTA, as well as farm equipment, agricultural chemical and fertilizer manufacturers who find opportunity to supply the growing Mexican market.

So Mr. Chairman, I look forward to the testimony of our distinguished witnesses on this trade agreement which will benefit not only my State of Kansas, but the country, and our entire hemisphere.

SENATOR HARKIN

Mr. Chairman, I commend you for convening this hearing today to examine the ramifications of the North American Free Trade Agreement for agriculture and rural America. I am looking forward to the opportunity to try to get accurate information on the table about the agreement and its effects.

For someone like me, who is undecided on the agreement, getting more information is critical to making a responsible judgment and deciding how to vote. The NAFTA is a very important matter, and I intend to make a decision based on the facts—not on some preconceived ideological position. Far too many have rushed to embrace or condemn the agreement based on abstractions and rhetoric without considering the facts involved.

Mr. Chairman, the rhetoric has mushroomed on both sides of this issue, and it is now time for some rational discourse. Many of the proponents of NAFTA have overstated its benefits and the necessity of this particular agreement. The prospect of new markets in Mexico is very encouraging. But remember, the Mexican economy is only about one-twentieth the size of the U.S. economy and Mexican wages and benefits average only about $2.35 an hour, versus $16.17 an hour in the U.S. With disparities of that kind, it is just not realistic to think that NAFTA is going to unleash a huge buying binge by Mexican consumers.

But I also believe that the rhetoric of at least some of the opponents of the agreement has become far wilder than that of its supporters. Plainly, this is exactly the kind of issue where it is much harder to persuade the public and Congress to support something than it is to tear it down.

I'm ready to cut through the rhetoric and make my decision based on whether the agreement is in the best interests of my State of Iowa and the Nation. And I will say that Iowans and Americans are coming down on both sides in good conscience. A third or more do not know enough yet to have an opinion. I have serious questions about the range of impacts on agriculture and on the U.S. manufacturing sector. I will have questions about whether the environmental and labor provisions in the side agreements are really enforceable and effective. So Mr. Chairman, I look forward to today's hearing.

SECRETARY ESPY

Mr. Chairman, members of the committee, I appreciate this opportunity to discuss the North American Free Trade Agreement as it relates to U.S. agriculture. I am delighted to be joined by my colleague, Ambassador Mickey Kantor, who did a fantastic job in negotiating supplemental accords that greatly improve NAFTA and make it a good deal for the United States and a good deal for the American worker.

With NAFTA, the facts are sometimes shrouded in misconception. There are, I am quite sure, many in this room with questions about NAFTA and what it means for America. So let me present the facts about NAFTA, to the extent that I can, and try to set the record straight on why we believe that the NAFTA package, and it is a package, is good for America, and is good for America's farmers and ranchers.

Last Tuesday, President Clinton was joined by three former Presidents, representing both major political parties, to announce their bipartisan support for NAFTA. Forty-one State Governors have also announced their support for NAFTA. And members of the National Association of State Departments of Agriculture voted overwhelmingly in support of NAFTA as their organization became a member of the "Ag for NAFTA" coalition. Why? Because all of these leaders from across the country, and from across party lines, recognize that NAFTA offers real hope for America to take a giant step toward improving our global competitiveness.

WHY THE UNITED STATES NEEDS A NAFTA

We all have heard the President and Ambassador Kantor tell us that NAFTA will create a net gain of 200,000 higher paying U.S. jobs in the next 2 years alone. While many people across America have heard the President, some vocal opponents just do not believe that this is true. I suppose in part this is because they just do not believe that Mexican citizens can afford our goods and many Americans do not see Mexico as a legitimate market opportunity.

Well, the fact is, the average Mexican citizen—even though wages are lower in Mexico—is spending more per person in absolute terms, not just in percentages, to buy American goods than the average Japanese, or the average German.

Earlier this month, I had the opportunity to travel to Mexico City and to take part in the "U.S. Food Festival '93," a trade show managed by my Department's Foreign Agricultural Service. I was amazed by the presentations of the more than 200 U.S. exhibitors who took part—all with high expectations of future sales. But I was even more amazed when I walked through a grocery store in Mexico City and saw the shelves lined with American food products. I can personally tell you, *Mexico is a major market for U.S. agricultural products.*

In fact, Mexico is already the third largest foreign market for U.S. agricultural products and the second largest market for U.S. manufactured goods. U.S. merchandise exports to Mexico were nearly $41 billion last year, up more that 200 percent since 1986. U.S. agricultural exports to Mexico will reach about $4 billion this year, more than double the 1988 level.

And the fact is, these exports to Mexico already support an estimated 700,000 U.S. jobs in agriculture, manufacturing, transportation, services, and other industries—400,000 of those jobs were created just since 1986 when Mexico began opening up its economy.

Mexico's *potential* as a market for U.S. goods is even greater. Mexico has about 90 million people—90 million *consumers,* including Mexico's large and growing middle class. Even though Mexico's tariffs have dropped significantly over the past few years, their tariffs are still 2½ times higher than ours. The average U.S. tariff on goods from Mexico is only 4 percent, while the average tariff on goods from the United States to Mexico is 10 percent. Under NAFTA, Mexico must eliminate these high tariffs—completely. For the first time, our trading relationship with Mexico will develop in a controlled way and not by accident, and for the first time, we will be dealing on a level and fair playing field.

Too much attention in this whole debate has focused upon "winners" and "losers" in the NAFTA negotiating process. Those who look at these negotiations as a game to be won or lost are missing the point—NAFTA is not about who won and who lost during the negotiating process—the fact is, the United States, Mexico, and Canada are each winners in this negotiation—*NAFTA is good for each of our countries.* NAFTA will create the world's largest market—with 370 million people and a $6.5 trillion annual economic output.

There will be winners and losers, however, when the NAFTA debate is brought to a conclusion. If NAFTA supporters carry the debate and NAFTA is approved by the Senate and by the House, as I am hopeful it will be, the winners will be the American workers. Jobs will be created in the United States because U.S. products will be given preferential access to the Mexican market—that is, U.S. goods will enter Mexico without being subject to the tariffs and nontariff barriers that goods from other countries will continue to face.

If NAFTA is defeated, there will be winners as well. But the winners will be the European Community, and countries of the Pacific Rim, who recognized years ago the advantages of having, and the necessity to have, a special trading relationship with those countries nearest to their borders. They are aggressively creating new preferential markets for their goods while we choose to rely upon old markets for ours. Those who oppose the Uruguay round will consider themselves winners as well if NAFTA is defeated because, let me assure you, our GATT negotiating position would not be nearly as strong without NAFTA as it would be with it.

But the President has told you what NAFTA will mean to our economy as a whole. Ambassador Kantor, who has testified here today, Secretary Bentsen, and others, have already testified before the Senate about NAFTA's benefits for our Nation as a whole. So, Mr. Chairman, let me tell you and the members of the committee today what I believe NAFTA will mean to American agriculture.

WHAT NAFTA MEANS FOR U.S. AGRICULTURE

Let me begin by saying that NAFTA is an important, and indeed, an integral part of this administration's domestic economic agenda. The future for jobs in this country is unmistakably tied to exports. And the fact is, the future of farm income is tied to agricultural exports.

American farmers and ranchers have much to gain from NAFTA. Trade accounts for up to a quarter of our agricultural production. Clearly, we cannot retreat from the global economy, either in agriculture or in other areas. Quite the contrary; we must embrace the opportunities that NAFTA offers.

NAFTA will create new, long-term growth opportunities for agriculture within our own hemisphere. In fact, we believe that U.S. agricultural exports will be between $2 billion and $2.5 billion higher annually when NAFTA is fully implemented. U.S. grains and meats would account for more than half the expanded trade value, although many U.S. products would benefit. We also see new opportunities in the areas of biotechnology trade, agricultural investment, and the transportation of farm and food products. The increased import demand from Mexico will have a positive impact on U.S. prices and cash receipts, boosting U.S. farm cash receipts a projected 2 to 3 percent.

What does this mean to the American farmer? It means increased farm income, and increased farm income means more jobs and more job security. We believe 54,000 additional jobs on the farm and in the food industries will be created because of NAFTA. The gains to be realized by U.S. agriculture will benefit all of rural America.

We expect many of our exports to Mexico to increase immediately, but even more gains will be realized over time as the Mexican standard of living grows and as the Mexican market grows even further. Without NAFTA, we do not expect our exports to Mexico to grow nearly as much. Those 54,000 agricultural jobs will never have the chance to be created. But what is perhaps more important, without NAFTA, there is nothing to prevent Mexico from once again closing its borders by erecting new and onerous barriers to imports. This could easily result in the loss of a major market for American goods. This would put in jeopardy those 700,000 U.S. jobs that now exist because of our exports to Mexico.

We believe that increased trade within our own hemisphere will position U.S. farmers as even stronger competitors in the international arena by capitalizing on U.S. advantages in farm productivity and permitting fuller and more efficient use of our productive capacity.

The NAFTA agricultural agreement will provide these opportunities, along with strong protections for consumers and strong rules of origin—as well as long transition periods and special safeguards for the import-sensitive sectors of our Nation.

OVERVIEW OF THE AGREEMENT

Before I address the committee's specific questions, I would first like to list, in very broad terms, a few of the agreement's major provisions involving agriculture:

- If ratified, NAFTA will ultimately result in the elimination of all tariffs, quotas, and licenses that act as barriers to agricultural trade between the United States and Mexico.
- NAFTA will give the United States, and with some exceptions Canada, preferential access to the Mexican market. This means that by the end of the tariff elimination period, U.S. products will enter Mexico duty free, while products of other countries will continue to face high tariffs and significant nontariff barriers to trade.
- NAFTA will establish strong rules of origin to ensure that North American producers are the ones to reap the primary benefits from NAFTA trade preferences.
- NAFTA will provide stronger protections for agricultural inventions, patents, trademarks, and technologies.

Given the deluge of *misinformation* that I have heard concerning NAFTA, let me point out just a few commonly misunderstood points about what NAFTA does not do.

• NAFTA *does not* affect U.S. quotas imposed under Section 22 of the Agricultural Adjustment Act of 1933 for any country except Mexico, nor does it affect U.S. tariffs or other import protections for non-NAFTA countries;

• NAFTA *does not* require any changes in stringent U.S. standards for food safety, animal or plant health, or environmental protection, nor does it prevent the adoption, maintenance, and enforcement of even tougher scientifically based standards, including those more stringent than international standards;

• NAFTA *does not* exempt our NAFTA partners from meeting U.S. quality and grade standards for fruits, vegetables, and other products; and

• NAFTA *does not* prevent us from using our Market Promotion Program, nor does it stop us from using our Export Enhancement Program as well as other measures to counter the unfair trading practices of our competitors.

On this last point, NAFTA does include very general provisions relating to export subsidies and domestic support. The three countries agreed to work toward the elimination of agricultural export subsidies in North America, to provide each other with notice of any intent to introduce a subsidy on agricultural exports going to another NAFTA country, and to consult with each other about ways to avoid such subsidies. These provisions do not prevent the United States from subsidizing exports to Mexico to counter subsidies from the European Community or from Canada.

With that in the way of general background, let me address the committee's questions that were outlined in your letter of invitation.

Mr. Chairman, you had asked what effect NAFTA will have on U.S. farm income, the operation of U.S. farm programs, and the U.S.-Mexican agricultural balance of trade. I have already discussed the positive effect NAFTA will have on farm income and the U.S.-Mexican agricultural balance of trade, but to summarize, USDA projections show the increased import demand from Mexico resulting from NAFTA will boost U.S. farm cash receipts a projected 2 to 3 percent. Increased U.S. exports to Mexico will generate more than 50,000 new jobs on the farm and in the food industries because of NAFTA. No changes in our domestic farm programs will be required because of NAFTA.

On the question of the safety of imports of agricultural products, NAFTA specifically recognizes the right of each country to establish its own levels of protection for human, animal, and plant health, and the obligations of each country to use science-based standards. NAFTA also allows States and local governments to enact their own tough standards without restriction, so long as the methods used to determine if imports meet those standards are scientifically defensible. Imports that do not meet U.S. health and safety standards will not be permitted into the United States. The Environmental Protection Agency will continue to set pesticide residue levels at the level of protection it deems appropriate to protect health, safety, and the environment in the United States, and USDA and the Food and Drug Administration will continue to enforce legal limits on pesticide residues and refuse entry to any products that do not meet these limits. The bottom line is, the United States will maintain its high standards for public health and food safety. There will be no compromise in these areas.

Some critics of NAFTA argue that the agreement somehow lessens the protection of our consumers by requiring that measures be scientifically based. Those critics just simply do not understand the history of agricultural trade. The fact is, by requiring that health and safety standards be scientifically based, NAFTA permits, to the maximum extent, each country to protect its citizens from legitimate risks. At the same time, NAFTA provisions prevent countries from adopting, in the name of health and safety, unnecessary measures as barriers to trade, after other barriers have been negotiated away.

Similar rights and conditions apply to U.S. protections for animal and plant health. If Mexico declares one of its agricultural areas to be free of a disease or pest that would threaten U.S. agriculture, it must provide evidence supporting the claim and allow U.S. officials access for inspection and testing before products from that area are allowed into the country.

Mr. Chairman, you also asked about the rules of origin under NAFTA. NAFTA includes strong country-of-origin rules so that the incentives for trade within North America do not open the floodgate to free access for the products of countries outside this continent.

Commodities from non-NAFTA countries must be transformed or processed significantly before they can receive NAFTA preferential treatment. NAFTA gives U.S. customs auditors the ability to visit business facilities in Canada and Mexico to ensure that tariff preferences go only to qualifying goods.

I should point out that in general, NAFTA rules of origin for the U.S.-Mexico agreement are stronger than those in the United States-Canada Free Trade Agreement. This administration will take whatever steps are necessary to assure that U.S. workers are not injured because of illegal activity by those who would try to import non-NAFTA goods to the United States, passing them off as the product of a NAFTA country.

Finally, let me address your question regarding how we will protect U.S. producers who are injured by increased imports from Mexico. I would first remind you that NAFTA is a package. This package includes supplemental accords on environmental issues, labor issues, and import surges. I won't discuss these accords in great detail—I will defer to Ambassador Kantor to address the specifics of these agreements. But each of these plays a key role in protecting American jobs and protecting the American worker.

Under the environment and labor accords, each Party has the obligation to ensure that its laws and regulations provide a high level of protection for the environment, and high labor standards. Together with the NAFTA, the side agreement on environment requires Mexico to enforce its environmental standards and discourages Mexico from lowering its standards to attract jobs and investment to its country. High-level commissions will be created to evaluate and settle disputes, and this process will be open to the public to fully expose violations. The United States can ultimately impose trade sanctions against Mexico if it fails to enforce its own domestic environmental and labor laws.

The import surges accord supplements the many safeguards already included in the NAFTA text to protect U.S. industries, sectors of agriculture, and workers against damaging import surges. This accord sets up a system to help us identify potential surges in imports. It provides each country the opportunity to use NAFTA safeguard measures in a timely fashion to protect workers from being injured by increased imports and provides the other NAFTA countries with "early warning" of the need to take such measures.

But as I said, this is a package, and these agreements are only a part of this package. I should note that the administration will be working with Congress to fulfill its promise to U.S. citizens to develop and fund a strong worker adjustment program. This, too, is part of the NAFTA package. The President has pledged that the benefits of trade in terms of jobs and growth should not be used as an excuse to forget the potential impact on those who, already, are increasingly vulnerable to global competition.

Secretary Reich, who is a strong supporter of NAFTA, will lead this administration's efforts to make it possible for those workers who are affected by NAFTA, and there will be some, to find a new, better paying job. But I assure you that I will be beside Secretary Reich in this campaign, not behind him, working to provide rural America with a *reemployment system,* not just an unemployment system.

CONCLUSION

Mr. Chairman, let me close with a few general comments.

The greatest challenge we face in the world today is one of economic competition and growth. To expand and prosper, U.S. agriculture needs growing export markets. NAFTA will put U.S. farmers in the middle of the world's largest and richest free trade area, with more people, more income, and more potential for future growth in food demand than the 12-nation European Community. It will secure future growth opportunities for U.S. agriculture within our own hemisphere.

The latest USDA forecasts indicate that our two closest neighbors together will purchase a record $9.0 billion in U.S. farm and food products this fiscal year. That is over 20 percent of our total agricultural exports—more than either Japan or the EC is expected to buy. North America has become our largest agricultural export market, and NAFTA will lay the foundation for continued export growth far into the next century.

Mexico, in particular, represents an agricultural market of great growth potential. Income growth and the emerging demand for better, more diverse diets already present substantial opportunities not present in the relatively mature U.S. and Canadian markets, and Mexico's population is growing at a much faster rate. In fact, over the next 20 years, Mexico is expected to add more people to North America's total population than the United States and Canada combined.

NAFTA will protect and expand U.S. access to this market, while bolstering Mexican economic growth and the demand that results from higher incomes. The ratification of this agreement will demonstrate to the world what can be achieved when nations recognize the benefits of fair and free trade and are committed to realizing those benefits for their farmers and ranchers, their citizens, and their economies.

Mr. Chairman, that concludes my statement. I will be glad to answer your questions and those of the committee.

Ambassador Kantor

Mr. Chairman, members of the committee, I am pleased to appear before you today, along with Secretary Espy, to set forth the Clinton administration's case for the North American Free Trade Agreement (NAFTA), with the recently negotiated supplemental agreements. As some of you know, last Wednesday, I presented testimony to the Senate Finance Committee on this issue with Secretary of State Warren Christopher and Secretary of the Treasury Lloyd Bentsen. A week ago today, I appeared before the House Committee on Ways and Means with the Secretary of Labor Robert Reich and EPA Administrator Carol Browner.

Over the next few weeks, I and my cabinet colleagues will be participating in other hearings focusing on the NAFTA in both the House and the Senate. We appreciate these opportunities to present the administration's case on why the approval of NAFTA is strongly in the national interest.

NAFTA and the administration's economic strategy

Against a background of intense debate, a mountain of misinformation, and considerable hyperbole, it is important to remember NAFTA really does a very simple thing. It eliminates over time tariffs and nontariff barriers among the United States, Mexico and Canada, creating the world's largest market: 370 million people and $6.5 trillion of production.

NAFTA will reinforce and enhance the free trade agreement negotiated between the United States and Canada and will help equalize the terms of trade between the United States and Mexico. Current rules clearly are in Mexico's favor. Mexico's trade-weighted tariffs average 10 percent, compared with 4 percent for the United States. Mexico is also a major beneficiary of the Generalized System of Preferences (GSP). This means that a significant portion of its exports to the United States enter duty free under this GATT-sanctioned tariff preference program for developing countries. The GSP program is a one-way tariff preference program.

In the agricultural sector, Mexico maintains an extensive system of licenses issued at the government's discretion which control imports of a broad range of farm goods. In most cases, Mexico's agricultural import licensing requirements were established specifically to protect against the threat of unrestricted imports from the United States. While the United States also maintains nontariff barriers on certain agricultural products (Section 22 quotas on dairy products, peanuts, certain types of cotton, and sugar-containing products, as well as potential restrictions on beef and other meats under the U.S. Meat Import Law), Mexico is not a major exporter of any of these products. In our bilateral relationship, the maintenance of these nontariff barriers helps Mexico much more than than it helps us. Conversely, the elimination of these barriers will be more beneficial to the United States than to Mexico.

The vast new market created by NAFTA also makes us more competitive against Europe and Japan and will result in the creation of new jobs. And it is a vital element of the President's overall economic strategy.

President Clinton and this administration are committed to building the strongest, most productive, most competitive economy in the world. By doing so, we will expand high wage and high skill job opportunities for United States workers and for their children who will be entering the work force.

We are finally facing the fact that our economy, as well as the global economy, is changing.

As all of you are all too aware, over the last 20 years, real wages and job opportunities for unskilled workers in manufacturing have declined. But at the same time, technological advances have made American workers more productive. Technology has revolutionized the world, as well. Our economy is no longer self-contained. We compete in a global economy, where capital and technology are mobile. These trends are here to stay. The question is not whether we adapt to them, but how.

Our economic strategy started with the President's economic package: putting our economic house in order by attacking the budget deficit, increasing public and private investment, and undoing some of the unfairness in the tax code by making upper income taxpayers pay their fair share of the burden. We are beginning to see the benefits of Congress's approval of the package last month: Interest rates at a 30-year low, job creation, and a growing economy.

Our drive for health care reform is fundamentally motivated by the desire to secure for every American access to the health care that they and their families need. But the soaring cost of health care also makes our strongest corporations uncompetitive and threatens the existence of many small businesses. Similarly, our initiative to reinvent government is intended to make government more effective and accessible, but it will also reduce the size and cost of government, freeing up resources that can be used for productive investment.

These initiatives—along with welfare reform, changes in education, worker training, investing in technology—all work in pursuit of the same objective: to build a more productive and competitive economy.

Our trade policy, including NAFTA, is an essential part of that strategy. Since we are producing more with fewer workers, opening up new markets is the key to new job creation and economic growth. Closing ourselves off from the world does nothing to improve our competitiveness and only deprives us of new economic opportunities. As President Clinton has said, we must compete, not retreat behind our borders.

This is, of course, precisely what our competitors are doing. The European Community is expanding trade with Eastern Europe and the countries of the former Soviet Union. Japan is searching out new opportunities in China, Malaysia, Indonesia and the rest of Asia.

In this intensely competitive global economy, NAFTA presents an opportunity to compete freely in a vast new market: 90 million people in Mexico, in a fast growing area, hungry for U.S. goods. It is also a step to an even larger market—400 million people throughout Central and South America and the Caribbean.

The United States seeks to open markets everywhere and trade and compete worldwide. We have nearly $200 billion each year in two-way trade with the EC; through APEC, we seek expanded trade with the rapidly growing nations of Asia. Japan is a major market for U.S. products, despite the major and persistent barriers that we are committed to breaking down. Completing the Uruguay round—taking down tariff and nontariff barriers worldwide, and writing new rules for the international trading system—remains a top priority for us.

But it is no accident that Canada is our number one trading partner, despite having a population of only 27 million, and Mexico has become our third leading trading partner, despite its historic policy of maintaining a closed economy. Shared borders and geographical proximity do matter, even in this globalized economy.

And we have a natural advantage, and a great opportunity, to expand trade and investment with Mexico, and then with the rest of Central and Latin America and the Caribbean. Many of those countries have chosen, in recent years, to cast off the controls on their economies and the shackles on their political systems. They took these steps at the urging of the United States.

Tariffs have fallen and nontariff barriers have been reduced. Since 1989, U.S. exports to Latin America and the Caribbean increased over 50 percent and are growing at over twice the rate of U.S. exports to the rest of the world, making this region our second fastest growing market. They have become a growing market for U.S. products; 43 percent of Latin American imports come from the United States.

Chile, Venezuela, Argentina, and many other nations are intently following the NAFTA debate. The possibility of NAFTA accession provides an incentive for further trade and investment liberalization in the region. The decision to reject NAFTA would have profoundly negative economic and political consequences throughout the hemisphere.

The companies, farmers and workers of the United States are world-class competitors. We lead the world in everything from airplanes and computers, to wheat and soybeans. Without fanfare, and with much pain from adjustment, we have returned to being a world-class manufacturer of automobiles and steel. We have regained our position as the world's leading exporter. But expanding our access to markets and assuring that the markets of other nations are as open to our goods and services as ours are to theirs is absolutely critical to our success at creating economic growth and jobs.

Japanese firms have long benefited from having a lock on the emerging markets of Asia. NAFTA will give U.S. firms a definite advantage in the Mexican market. The NAFTA gives the United States the potential to compete more effectively with Japanese economic strategies. Japanese companies have invested heavily in the emerging economies of the Far East and set up assembly plants to assemble Japanese components into finished products for export. This creates a trade surplus for Japan with these countries and increases Japan's production and exports. The NAFTA can be an instrument for helping the United States and Mexico cooperate in meeting Japanese competition and producing more globally competitive products.

In the new global economy, there are challenges and risks, as well as great opportunities. I am confident that American workers are up to that challenge—and will reap the benefits. One reason I am so confident is that we are not going into NAFTA blindly. We do not have to speculate about the results from this change; we have gone through a 7-year trial run.

JOB GROWTH AND TRADE WITH MEXICO

Starting in 1986, Mexico, recognizing that its economic policies had been disastrous, began to lower trade and investment barriers. The results have been dramatic for the United States:

- From 1987 to 1992, we transformed a $5.7 billion trade deficit with Mexico into a $5.4 billion trade surplus.
- U.S. exports to Mexico increased from $12.4 billion in 1986 to $40.6 billion in 1992, with increases coming across the board from computers to services to agriculture.
- Mexico has become our third leading export market, and our second leading market for manufactured exports ($34.5 billion) and our third largest market for agricultural products ($3.7 billion).
- Eighty-four percent of this growth in exports has been exports for Mexican consumption.
- Four hundred thousand U.S. jobs related to exports to Mexico were created.

The success of the past 7 years has occurred even though Mexican trade barriers—tariff and nontariff—remain far higher than ours. Bringing down the remaining barriers, which is what NAFTA does, will ensure continued growth of U.S. exports to Mexico, which have been such a bright spot in our economic picture for the past 7 years.

Virtually every responsible study—and there have been over two dozen—concludes that NAFTA will produce a net gain in jobs or an increase in real wages in the United States. The consensus is that with NAFTA, an additional 200,000 jobs related to exports will be created in the United States by 1995. While the studies acknowledge that there will be some jobs lost in certain sectors, they agree that the jobs lost will be a relatively small number compared to the jobs that are lost in the United States overall, because of defense conversion, corporate downsizing, and technological change. This is true because Mexico's economy is only one-twentieth the size of ours and our tariff and nontariff barriers are already low.

Despite the overwhelming evidence, some have argued that 5.9 million U.S. jobs are at risk if NAFTA is adopted. They got that number simply by calculating the number of U.S. jobs in industries where wages account for more than 20 percent of the value of output. It includes high wage, high skill sectors such as sonar equipment, aerospace, medical equipment and telecommunications where credible studies agree that there will be a future job gain due to NAFTA. It also includes nontraded sectors, such as bakers, which do not compete with Mexico at all.

We believe the critics are looking at the future through a rearview mirror. To the extent that there has been job loss to Mexico, it is precisely because of trade distortions in the current trade relationship with Mexico, which we seek to change through NAFTA.

NAFTA AND THE STATUS QUO

The status quo in our trade relationship with Mexico is, quite simply, unacceptable. NAFTA will level the playing field for U.S. workers. It makes the rules fair and ends an unbalanced trading relationship that has existed between the United States and Mexico that has worked to disadvantage U.S. companies and workers producing in the United States.

Historically, Mexico has been a closed, state-controlled economy. To shield its industry and agriculture from competition, it relied on tariffs as high as 100 percent and a full range of nontariff barriers, including domestic content requirements, restrictions on investment, performance requirements to keep out exports, and import licensing requirements. The result was that Mexico was largely closed to imports. Its economy was characterized by inefficient, protected producers, which contributed to widespread poverty and did not serve the interests of Mexico's people.

Perhaps the closed Mexican economy reflected the historical Mexican mistrust of, and antagonism toward, the United States. For whatever reason, Mexico remained largely closed to U.S. business until U.S. and Mexican law combined to produce the maquiladora program. But this program hardly resulted in an open Mexican market.

The maquiladora program resulted in trade preferences and incentives for companies to locate assembly plants in Mexico to produce for the U.S. market. It gave products assembled in Mexico these preferences while at the same time maintaining all of Mexico's trade and investment barriers. In fact, these maquiladora plants were not allowed to sell in the Mexican market. The program thus created an artificial "export platform" in Mexico, with products assembled in maquiladora plants being required to be exported to the United States. By 1992, there were over 2,000 maquiladora factories operating in Mexico, the overwhelming number of which were established by U.S. and Mexican corporations, employing more than 400,000 Mexican workers.

In addition, Mexican import protection and rules requiring firms selling in the Mexican market to locate in Mexico made it difficult if not impossible for firms producing in the United States to sell into Mexico. Nontariff barriers—licensing, citizenship requirements, and a host of other regulations—were especially hard on small businesses in the United States, which do not have the resources to navigate through the bureaucratic maze in Mexico.

The result of the maquiladora program and Mexican protection has been to distort U.S.-Mexican trade, limiting exports from the United States to Mexico and exaggerating exports from Mexico to the U.S. NAFTA transforms the situation by opening Mexico's market and eliminating the distortions created by the maquiladora program. Under NAFTA, Mexico eliminates its import protection and the maquiladora program is also effectively eliminated, permitting firms to sell in the Mexican market without restriction.

Much of the opposition to NAFTA reflects justifiable concern about the policies of the past that have disadvantaged U.S. workers. Despite Mexican progress in voluntarily opening markets, Mexican tariffs remain, on the average, 2.5 times higher than ours. By contrast, over 50 percent of our imports from Mexico already enter duty free. Our average tariff on imports is only 4 percent.

Mexico currently has no obligation to continue recent market-opening moves on which thousands of U.S. jobs already depend. NAFTA will not only lock in current access but expand that access.

NAFTA will require relatively little change on our part—while requiring Mexico to sweep away decades of protectionism and overregulation. NAFTA will eliminate especially burdensome tariffs and nontariff barriers in a number of key sectors where the United States is competitive vis-a-vis Mexico, such as autos and agriculture.

NAFTA lets U.S. workers compete on a level playing field with fair rules. And we are confident, in those circumstances, U.S. workers will succeed.

NAFTA will give U.S. exporters a significant preference in the rapidly expanding Mexican market over Japanese, European, and other foreign suppliers. As I have already noted, Mexico's tariffs average 10 percent. Countries other than the United States (and Canada) will continue to face Mexican duties. In addition, Mexico's current import licensing requirements on agricultural imports would disappear for the United States (and Canada, for most products) when the NAFTA goes into effect. However, a license would be required to bring in covered products from all other countries.

U.S. exporters of most agricultural products will share unrestricted access to the Mexican market with their Canadian counterparts. For dairy, poultry, and egg products, however, U.S. shippers will have exclusive access to Mexico's market: Canada and Mexico agreed to exempt these items from their agreement. It should be noted that Mexico is the world's largest import market for powdered milk, and demand is expanding for all dairy, poultry and egg products. With the access provided by NAFTA, our proximity to the market, and our potential to produce large supplies of competitively priced dairy, poultry and egg products, NAFTA will provide an excellent opportunity for boosting export sales of these products.

MAJOR FEATURES OF NAFTA

Reduction of Mexican Tariffs. Under NAFTA, half of all U.S. exports to Mexico become eligible for zero Mexican tariffs when NAFTA takes effect on January 1, 1994. Those exports which will be tariff free include some of our most competitive products, such as semiconductors and computers, machine tools, aerospace equipment, telecommunications equipment, electronic equipment, and medical devices. Within the first 5 years after NAFTA's implementation, two-thirds of U.S. industrial exports will enter Mexico duty free. That makes U.S. products more competitive.

Removing Mexican nontariff barriers. NAFTA reduces or eliminates numerous Mexican nontariff barriers which today require U.S. companies to invest in Mexico or manufacture in Mexico in order to supply the Mexican market. For example, NAFTA will eliminate the requirements that force U.S. companies to purchase Mexican goods instead of U.S.-made equipment and components. Moreover, NAFTA abolishes the requirements that force our companies to export their production, usually to the United States, instead of selling directly into the Mexican market. Requirements that make U.S. companies produce in Mexico in order to sell there will also be phased out.

MAJOR BENEFITS OF NAFTA

Opening up Trade in Agriculture. I am sure that Secretary Espy will elaborate in more detail on the benefits NAFTA includes for American agriculture. But let me touch on some of these.

As this committee knows, exports are the life blood of American agriculture. As much as one-quarter of our total agricultural production is exported and for some key commodities, the share shipped overseas is even higher. The economic well-being of our agricultural sector is directly linked to our ability to sell our products in international commerce. To ensure growth in our agricultural economy and prosperity in our rural communities, we must secure and expand our agricultural export markets. NAFTA does that.

After Japan, Canada and Mexico are the second and third largest markets for U.S. agricultural exports. Since 1987, shipments of American farm products to Mexico have nearly tripled, climbing from $1.2 billion to $3.8 billion in 1992 and establishing Mexico as our fastest growing market for farm-produced goods. In fact, our two neighbors accounted for more than 20 percent ($8 billion) of U.S. agricultural exports in 1992. NAFTA secures our access to these markets and establishes a sound basis for further growth.

NAFTA contains separate bilateral undertakings on cross-border trade in agricultural products, one between Canada and Mexico, and the other between Mexico and the United States. As a general matter, the rules of the U.S.-Canada Free Trade Agreement on tariff and nontariff barriers will continue to apply to agricultural trade between Canada and the United States.

The U.S.-Mexico agreement on market access for agricultural goods represents a significant change from the status quo and is one of the highlights of NAFTA. Upon implementation of NAFTA, tariffs and tariff-rate quotas will replace current non-tariff barriers in U.S.-Mexican agricultural trade. Roughly one-half of U.S.-Mexican trade will be duty free when the agreement goes into effect. Nine years later, all agricultural tariffs between the United States and Mexico will be eliminated except duties on certain highly sensitive products.

Barriers on U.S. imports of sugar, peanuts, orange juice and a few fruits and vegetables will not be eliminated until the 14th year after the agreement takes effect. Also at the beginning of the 14th year, Mexico will fully eliminate its barriers on corn, dry beans, powdered milk, sugar, and orange juice.

Mexican import licensing requirements for covered U.S. agricultural products will be eliminated as soon as the NAFTA takes effect. This will secure access to the Mexican market for U.S. producers of products such as corn, dried beans, nonfat dry milk, poultry, barley/malt, animal fats, potatoes, eggs, tobacco, grapes, and other products. While we have shipped significant quantities of many of these commodities to Mexico, the cessation of licenses has been a constant threat. Exporters who have been regularly supplying the market suddenly find that their Mexican importer cannot obtain a license. Under present circumstances, there is little or no recourse.

Another threat to our access has been the fact that most of Mexico's tariffs are bound in the GATT at 50 percent. However, Mexico typically applies a lower rate—usually from zero to 20 percent. Without a NAFTA, we have no basis for challenging an increase in Mexican tariffs, unless the GATT-bound rate of 50 percent is exceeded.

A decision by the Mexican Government to increase duties on live cattle and beef last fall is instructive in considering the value of NAFTA. Although bound at 50 percent, Mexico had been applying no duty on cattle and beef. However, last November tariffs were increased up to 15 to 25 percent on live cattle and various categories of beef. Since we had no NAFTA rights and could not exercise our GATT rights because the increase did not exceed the GATT-bound rate, we could not effectively respond.

The NAFTA requires that Mexico eliminate all duties on U.S. and Canadian live cattle and beef. It may maintain the higher duties on all other countries.

Mexican demand for food is likely to grow significantly over the next few decades. The NAFTA, our proximity to the market, and our unparalleled ability to produce large quantities of competitively priced farm products ideally positions U.S. farmers to satisfy much of that expected growth. As evidence of the potential for growth in Mexican demand for food:

- Mexico's population is about 90 million. With a median age of 19, compared with 33 years of age for the United States and Canada, Mexico's population growth rate is, and will continue to be, significantly higher that ours.

• Mexican demand for food is expected to strengthen, perhaps by 5 to 6 percent annually, throughout this decade as the population grows, the economy picks up steam, and incomes rise.

• Mexico's, limited natural resource base (arable land and water supplies) will require increased imports of food and feedstuffs to keep pace with an expanding demand. Mexico has about 0.7 acres of arable land per person, compared with 1.9 for the United States. (With Mexico's population rising at a faster rate, the U.S. advantage will widen.)

The bottom line is that the NAFTA will give U.S. agricultural producers significant opportunity in our hottest market. We expect particular benefits for our exports of beef, pork, poultry, eggs, dairy products, fresh fruit, grains and oilseeds.

Increased import demand from Mexico will have a positive impact on U.S. farm prices and cash receipts, boosting U.S. farm cash receipts a projected 2 to 3 percent. USDA also projects that U.S. agricultural exports to Mexico will be $2.6 billion higher annually when NAFTA is fully implemented than they would be without a NAFTA. This means about 56,000 additional jobs.

NAFTA includes important benefits for other key U.S. sectors:

Opening up Trade in Services. NAFTA will open new markets for the delivery of U.S. services to Mexico and Canada, where service companies are already large and growing. NAFTA will allow U.S. service firms to provide their services directly from the United States on a nondiscriminatory basis, with any exceptions clearly spelled out. Furthermore, U.S. service companies will benefit from the right to establish, if they so choose, in Mexico or Canada. NAFTA opens the Mexican market to U.S. bus and trucking firms, financial service providers, and insurance and enhanced telecommunications companies, among others.

Protecting U.S. Copyrights, Patents, and Trademarks. NAFTA will ensure a high level of protection under Mexican law for U.S. owners of patents, copyrights, trademarks, trade secrets, and integrated circuits, including strong safeguards for computer programs, pharmaceutical inventions, and sound recordings. NAFTA obligates both Mexico and Canada to enforce intellectual property rights against infringement, both internally and at the border. By protecting intellectual property rights, NAFTA will increase trade and diminish losses from counterfeiting and piracy.

U.S. motion pictures, music and sound recordings, software, book publishing, and other creative industries lead the world, and are crucial to the high-wage economy that we intend to build. The copyright industries are one of the largest and fastest growing segments of the U.S. economy, employing 5 percent of the U.S. work force, and exporting, by a conservative estimate, $34 billion in 1990.

The Benefit to Small Business. I have noted the statements of several sectors citing the benefits which will result from NAFTA; that sentiment is widely held in the business community, by businesses large and small. Indeed, small businesses stand to be among the major beneficiaries of NAFTA. Small businesses are not well-equipped to employ attorneys and other professionals to wrestle with the tariff and licensing requirements which presently block the way to the Mexican market. With tariffs reduced or eliminated, and nontariff barriers coming down, U.S. small business, which makes up a growing share of U.S. exports, will be able to sell into the Mexican market.

THE SUPPLEMENTAL AGREEMENTS ON LABOR AND THE ENVIRONMENT

President Clinton endorsed NAFTA last October during the campaign in a speech at North Carolina State University, but he also set out a series of principles which he wanted to see incorporated into supplemental agreements and related initiatives.

He made a promise to the American people which he has today kept: that he would make sure economic growth with Mexico did not come at the expense of the environment or workers' rights, and that we would be protected from the possibility of import surges.

Last Tuesday, President Clinton, Prime Minister Campbell, and President Salinas signed historic agreements on environmental and labor cooperation. In addition, Mexican Trade Secretary Jaime Serra, Canadian Minister of International Trade Tom Hockin and I have concluded the negotiation of an understanding on import surges.

These agreements break new ground. The fundamental objectives of the labor and environment agreements are to work cooperatively to improve conditions for labor and the environment throughout North America and to improve national enforcement of national laws relating to labor and the environment. They commit all three nations to fair, open and equitable administrative and judicial processes for the enforcement of environmental and labor laws.

Each establishes a Commission, headed by a cabinet-level representative of each government, which will make sure that the concerns of labor and of the environment have no less attention than that accorded in NAFTA to trade issues.

The Commissions will provide the first trinational forum for addressing environmental and labor problems facing this continent. For example, the environmental commissions can look at the spectrum of environmental issues from migratory and endangered species to transboundary pollution, to advising the NAFTA Commission on disputes on health restrictions. The labor commission will work on matters from worker safety, to worker rights, to improved protection against child labor abuses and improving competitiveness and productivity.

The Cabinet officials will carry out their new responsibilities with the support of a secretariat, and the Commissions will be able to draw on private expertise as well. The environmental secretariat will be centrally located; the labor secretariat will consist of national sections in each country.

To encourage improved enforcement, each of the agreements provides a means by which there can be an independent, objective evaluation and report on the effectiveness of national enforcement of national laws in the environmental and labor areas—by the secretariat (in the case of the environmental agreement)—and by an Evaluation Committee of Experts (in the labor agreement).

The agreements also provide for dispute settlement in the event of a persistent pattern of failure to effectively enforce national laws. Where consultations fail to resolve such disputes, a neutral panel of independent experts would be established by a two-thirds vote of the parties. Ultimately, if a panel found that there was such a persistent pattern, and if a party failed to remedy the matter, then there could be fines and trade sanctions. Canada has agreed, in lieu of trade sanctions, to make assessments and other panel-ordered remedies fully enforceable by the Commission in Canadian courts.

The Import Surge Agreement will complement the NAFTA by improving the effectiveness of safeguard provisions that allow action against imports that might cause or threaten serious injury to a domestic industry including the workers of that industry.

These supplemental agreements strengthen NAFTA, and represent an unprecedented commitment to cooperate on these issues in connection with a trade agreement.

FUNDING REQUIREMENTS FOR NAFTA

The administration recognizes that implementing NAFTA will have costs for the Federal Government. The reduced tariff revenue, as required under the Budget Enforcement Act, must be offset. Under the administration's proposal to create a Border Environmental Administration (BEA), one of its financing mechanisms (the Border Environmental Financing Facility) will also require contributions from the United States, although it will rely primarily on private sector funding. Funding will also be required to assure benefits to workers who lose their jobs as a result of economic changes such as NAFTA. The labor and environment commissions will require modest funding for staffing and operations.

The administration believes that the implementation of NAFTA will expand the U.S. economy (i.e., increase income) over time, bringing in additional revenues through existing taxes. Using current economic studies of NAFTA's effect on the U.S. economy, additional Federal revenues in the near term could average $6 billion. Under the Budget Enforcement Act, however, only the direct effects of legislation (i.e., the loss of revenues through reduction in tariffs) on the Federal budget are considered. The reduction in revenues will be, on average, $500 million a year. As part of the cooperative process of developing the legislation to implement NAFTA, the administration will consult with the Congress over the next few weeks to develop appropriate measures for ensuring that this minimal loss of revenue will not increase the U.S. budget deficit.

FOREIGN POLICY IMPLICATIONS

The NAFTA deserves to be approved on its economic merits. However, especially in the light of U.S. agriculture's heavy dependence on international markets, foreign policy implications of this issue should not be minimized. Echoing comments made by my friend and colleague, Secretary of State Warren Christopher, last week: "Rejection of NAFTA would seriously damage our relations with Mexico and erode our credibility with the other nations of the hemisphere and around the world. For the United States, failure to approve NAFTA would be a self-inflicted setback of historic proportions."

In my view a Congressional rejection of NAFTA would be a "shot heard around the world." It would be read across the globe as a seachange, marking a U.S. retreat from our traditionally strong advocacy for open markets and expanded trade.

As the Secretary of State pointed out, a U.S. failure to approve NAFTA would undermine Mexico's capacity to cooperate with us on vital cross-border issues that affect millions of Americans.

Second, it would send a chilling signal about our willingness to engage in Latin America at a time when so many of our neighbors are genuinely receptive to cooperation with the United States.

Third, it would hand our major economic competitors in Europe and East Asia a clear opportunity to gain an advantage in what should be natural and growing markets for us.

Fourth, it would undermine our position as a negotiating partner on global trade agreements, like the Uruguay round, which are vital to the economic renewal of the United States.

NAFTA is good economic policy and good foreign policy.

RESPONDING TO THE OPPOSITION

NAFTA was negotiated by a Republican President and endorsed, and strengthened, by his Democratic successor. More than 40 of the Nation's Governors—Republican and Democratic—support NAFTA, and they are the government officials with the most direct responsibility for economic development. Virtually everyone involved in business, large and small, across the board, supports NAFTA. Yet it is no secret that NAFTA is bitterly controversial; that the opponents are well organized and strongly committed; and that their arguments have been resonating with people across the country.

NAFTA comes along at a time of great economic insecurity in this country. Bill Clinton became President because he had a plan to address weaknesses in our economy, reflecting 20 years in which we followed misguided economic policies and neglected the foundation of our economic strength. Jobs have been lost; our manufacturing base did go through a period of serious erosion; the fact that many companies did move offshore lends a touch of vivid reality to the frightening arguments of the opponents. But many of the opponents have been playing fast and loose with the facts, dealing with a complex issue through a combination of inaccuracies, misleading statements, and outright falsehoods. It is time to puncture the myths that opponents of NAFTA are trafficking in. Statements made by President Clinton, myself, and other administration officials last week, this week, and in ensuing weeks are designed to provide factual information on this critical issue.

CONCLUSION

All Americans agree that we cannot respond to the challenge of a changing world by drifting, content to accept the result of other nations' trade and economic strategies. We need our own strategy, which builds on our strengths, faces our weaknesses, and responds to the challenges and realities around us.

We would ask the opponents of NAFTA: does walking away from NAFTA seem like good trade and economic strategy? Can you envision Japan or the EC—if they were in our position—rejecting a deal like this? Would either of them kick sand in the face of their third biggest, and fastest growing, trading partner? Would they opt for the status quo, the unbalanced relationship, where Mexico keeps the tariff and nontariff barriers it chooses to keep? Would they ever be willing, in one unthinking lurch, to throw away the friendship and progress that have characterized the past 7 years, dramatically reversing the historic pattern of mistrust and antagonism? Would they conclude, as the NAFTA opponents apparently have, that it would be easier, somehow, to cooperate with Mexico on the environment, controlling drug traffic, or illegal immigration, if NAFTA were defeated?

This administration did not negotiate the NAFTA. Moreover, Bill Clinton as a presidential candidate was sharply critical of the economic and trade policy of his predecessors. When confronted with the need to make a decision on NAFTA, he approached it very skeptically. There were powerful political reasons for opposing it.

But when he studied it, he found that NAFTA—particularly if strengthened by supplemental agreements—would be strongly in the economic interest of the United States. It was not a favor that we were doing for Mexico. It would benefit both countries, and Canada as well. It would not solve all our Nation's economic problems, but it would be an important piece of the economic strategy that we were putting in place to build the world's most productive and competitive economy.

The administration has the responsibility of convincing Congress and the country that NAFTA is in the national economic interest, and we intend to do so. I am confident that by the time Congress votes on NAFTA later this year, the country will recognize that NAFTA is a vital part of the solution to the economic challenges that face us.

ROBERT L. FOSTER

Mr. Chairman, members of the Committee On Agriculture, Nutrition and Forestry, I appreciate the opportunity to testify today. I am Robert Foster, Vice Chairman of Agri-Mark, Inc., a value-added milk marketing cooperative. I live and farm in Middlebury, Vermont.

My task today, as a dairyman and a producer of livestock, is to share with you my perspective on the North American Free Trade Agreement.

I also will be expressing the position taken by the Council of Northeast Farmer Cooperatives at its meeting yesterday, September 20, 1993. CNFC represents 5500 dairymen in 4 cooperatives: Agri-Mark, Eastern, St. Albans, and Upstate. These cooperatives service the Northeast fluid markets, package and market the full range of manufactured products, as well as provide ingredients to service the dairy industry. Products range from whole and skim milk powder to Cabot sharp cheddar cheese, from condensed milk to ice cream and yogurt mix for Ben & Jerry's Ice Cream. Agri-Mark has exported product to six continents.

We live in a global economy. As such, every effort must be made to develop and negotiate agreements which level the playing field so that more trade—not less—can develop and prosper. Agreements provide the rules that guide this activity and which transcend the political governments that seem, at times, to change rapidly.

I believe that in considering this subject, one must take into account the long-term as well as the short-range consequences of that action. One must consider the perceptions and implications of the actions taken. In other words, what kind of signal does the acceptance or rejection of NAFTA send to the rest of our trading partners. Do we want to trade or not? The signal is just that simple!

We live in a world of finite resources. One nation cannot isolate itself from the rest. Consider, if you would for a moment, that my State, Vermont, decided to close its borders and produce only what we need ourselves. Our agriculture (particularly dairy), our industry, our educational institutions, our tourism industry, our forest products industry—and I could go on and on—all produce for and market to many, many others outside our borders. Vermont's economy would literally dry up and wither away; 85–90 percent of our dairy output is marketed out-of-State.

With that in mind, what will NAFTA do? It will create one of the largest markets in the world—some 370 million consumers—more than $6.5 trillion in production. NAFTA provides mechanisms for the elimination of tariffs imposed on a number of U.S. products. Some are immediate, others may be phased out over 15 years.

Specifically, Vermont's dairy and livestock prices are determined for the most part by national supply and demand mechanisms and markets. Sure, there are niche markets; and Vermonters are good at finding these. Agriculture and its productive capacity, assisted by technology, has allowed fewer and fewer producers to produce significantly more. In dairy, for example, the national herd average is around 15,000 lb/cow/yr. Many herds produce well over 20,000 lb/cow. However, both U.S. dairy and beef face a domestic market that is mature—that is, a market of consumers that have a standard of living that has plateaued, with little chance to move much more product in either category. The same is true in Canada. Mexico, on the other hand, is a developing market and is a rapidly developing country.

In dairy we face a double challenge. Tight prices have forced the accelerated adoption of current technology and management. Remember, I mentioned that national herd average is 15,000 lb/cow/yr. Many in this State produce over 20,000 lb/cow with some over 24,000 lb/cow; if more than half are below 15,000, if current technology allows for over 20,000, and if adoption of this technology is occurring at a rapid rate, then we could see as much as a 20 percent increase in production over the next several years. The domestic market is only growing at 1 to 2 percent per year. Dairy must become, to use Senator Leahy's words, "a reliable and dependable exporter" of a significant amount of production, or our productive capacity must be downsized substantially.

In beef a similar situation exists. In 1995, we are expected to produce from 106 million head the same tonnage of beef as we did in the early 1970's from 132 million head. Like dairy, the domestic market for beef can only absorb about a 2-percent growth per year. Cattle exports grew by 15 percent in 1992, with Japan and Mexico as the principal markets. Exports now account for 5 percent of annual U.S. production and 10 percent of value, adding $70 per head to fed cattle sold in the U.S. Cattle numbers are now increasing rapidly and may reach over 120 million head by 1995.

In both cases, without NAFTA, and thus without expanded markets, we are headed for a wreck resulting in a painful downsizing in numbers of cattle ranchers and dairy producers. Remember that a 1- to 2-percent increase or decrease in the domestic supply needs causes a dramatic (20- to 40-percent) increase or decrease in price. Increasing prices are quickly captured at the retail level. Decreasing prices collapse prices received by producers, but only inch down to consumers. Beef and dairy prices, because of the commodity nature of the business, are based on the national market.

Thus, unless product is moved out of the domestic market, prices to producers will have to be reduced dramatically. Without new and expanded markets for beef and dairy, as provided by NAFTA, the U.S. and Vermont producers face a very tenuous future.

NAFTA is an agreement which provides rules of play. To cite an example, it adopts the strict U.S. animal health standards which continue the efforts by all three countries to control and eliminate animal diseases. NAFTA protects the U.S. consumer by not changing the rules of entry pertaining to pesticide use and residues. The United States retained the right to exclude goods that do not meet the U.S. domestic standards. NAFTA would eliminate artificial health and safety barriers that in November were used to exclude beef exports to Mexico by adopting measures based on recognized scientific international standards.

NAFTA provides for all three nations a mechanism to enhance their environmental consciousness and awareness. Under President Salinas' leadership, Mexico has adopted strong environmental regulations. The problem is one of enforcement. Mexico has boosted its enforcement budget from $6.6 million to $77 million, with an increase from 50 to 200 environmental inspectors. It maintains the U.S. environmental health and safety standards. NAFTA opens Mexican markets to U.S. environmental technology and products. Also, NAFTA provides for the establishment of a North American Trade Commission to handle disputes and provide for their resolution.

One of the major concerns of the dairy industry is the dumping of subsidized product, primarily from the EC, in Mexico, which would then flow freely into the United States. This concern has been addressed. Any product that does not meet the specific rules of origin provision is excluded from the agreement. By definition, products must be either produced in a NAFTA country or use ingredients that originate in a NAFTA country.

In my opinion, dairy and beef will gain significantly under the provisions of NAFTA:

> According to USDA, beef exports to Mexico are projected to increase to more than 200,000 metric tons after a 10-year transition period; in 1991, the United States exported 64,000 tons. By the end of the transition period, U.S. cattle prices are projected to increase by 50 cents to $1 per hundredweight, which would mean a $200–400 million gain for U.S. industry. Recent Mexican tariffs of 15 percent on live cattle, 20 percent on fresh beef and 25 percent on frozen beef will be eliminated immediately under NAFTA. Currently, trade is two-way: the United States imports about 1 million feeder calves from Mexico and exports 140,000 head of slaughter cattle to Mexico. NAFTA is expected to increase such trade in both directions."[6]

Many of the major benefits will be indirect. As Mexico's economy grows, there will be growing demand for U.S. meat due to increased consumer purchasing power, and a demand for U.S. middle meat cuts due to changes in Mexican domestic controls and other livestock policies.

Concern has been expressed that U.S. businesses will simply move to Mexico because of the cheap labor. Several companies have already tried it and have found that the reduced labor cost has been more than offset by reduced productivity. I call your attention to the Wall Street Journal, September 15, 1993, front page article by Bob Davis titled, "Some U.S. Companies Find Mexican Workers Not So Cheap After All." One study by the International Trade Commission concluded that Mexico's dairy industry is at a competitive disadvantage to the United States. Mexico lacks the infrastructure for handling and transporting milk, as well as state-of-the-art processing. A similar study by the Department of Agricultural Economics at Ohio State predicts strong marketing opportunities for the U.S. dairy industry in

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[6] "NAFTA Will Expand Exports of Many U.S. Commodities," *AG for NAFTA.*

Mexico. The study stated that U.S. milk production is unlikely to move south in order to take advantage of the cheap labor once the border is open because Mexico doesn't have a large enough supply of water to support modern facilities. With a cost of capital at 20 percent or more, poor infrastructure, and expensive inputs, there isn't much incentive to move south. For similar reasons the beef industry is not expected to shift south to Mexico. U.S. feedlots do not use much labor, and are located near abundant feed supplies. Mexico just does not have the natural resources necessary to support grain-fed beef.

After a 15-year transition period, U.S. exports of all dairy products are projected to total $250–300 million, about 15 percent higher than without NAFTA. Exports of U.S. milk powder are projected to increase 50 percent, resulting in a gain of about $36 million. Mexican import licenses are now the most significant trade barrier; NAFTA will eliminate them immediately. The effect on U.S. producer prices can be significant as powder is the residual or last resort use of milk. It, along with cheese, sets the floor price for U.S. milk and milk products.

So what does this mean to Vermont? Less pressure to downsize agriculture than there would be without NAFTA; more U.S. jobs; more income in Mexico to spend on U.S. value-added products of agriculture. NAFTA allows for easier flow of value-added products into Mexico, which has a sizable middle class already established. Mexico has enjoyed very favorable access to the U.S. market. One-fourth to one-third of Mexicans have relatively high incomes creating a market nearly the size of Canada for U.S. goods. Mexicans already purchase more per capita from the United States than the Japanese or Europeans.

Many U.S. products currently carry heavy tariffs. Even so, the United States has a trade *surplus* with Mexico of $5.4 billion in 1991 and $11.46 billion in 1992 compared with a trade *deficit* of over $75 billion with Asia for 1991—so much for less jobs because of NAFTA.

In 1991, the Mexican economy measured in terms of real domestic product (GDP) grew 3.6 percent, while it fell in both the United States and Canada. During 1992, in the midst of a worldwide recession the gain in real GDP slowed to 2.8-percent real GDP. It is expected to grow by 3.2 percent and 4.2 percent in each of years 1993, and 1994.[7]

NAFTA makes trade a two-way street. If we turn down NAFTA, we are relinquishing a $3.8 billion (1992) market for U.S. agricultural products to other providers, such as the EC. In addition, there is the potential for Mexico's shifting its current trade with the United States to another partner as well. Currently, Canada and Mexico are the second and third largest U.S. markets for agricultural exports.

Remember in considering NAFTA and free trade in general—Vermont is an exporter of products, goods, and services, whether it be to other States, or in the international arena. Cabot, Ben and Jerry's, IBM, Vermont Granite and Marble, forest products, tourism, all would substantially decrease in business activity if operating in an isolated mode. According to "The Economist" July 3 business section, Vermont exports grew from $1 billion in 1988 to over $4 billion this year. I don't think we want to change that trend. Americans can compete if the field is level, and if there are established rules of play. Ten to fifteen years does allow time for adjustment. Vermont industries have become quite flexible and noted for being innovative and forward thinking.

One final point, agriculture has a 4.5- to 7-percent multiplier effect on the economy of Vermont. Most agricultural products bring dollars into the State, and then those producer dollars are spent several times over right here in the State. This is true for beef and milk nationally as well.

Value-added products will continue to be the success stories. U.S. grain will be converted in the United States to these products creating jobs at home. According to several dairy economists, NAFTA could put as much as $1 billion more income into dairy farmers' pockets, and generate as many as 10,000 new jobs throughout the dairy industry in this country.

Allen Parker, of Ben & Jerry's Ice Cream, succinctly put the debate over the NAFTA issue in perspective when he stated that, "NAFTA has become the lightening rod for a number of social issues."

I trust that you will base your decision on the facts and what is good for the long-term interest of this country. NAFTA means U.S. jobs. NAFTA means a stronger American agriculture. NAFTA will help maintain and revitalize rural America. NAFTA is a win/win situation for every American, Canadian, or Mexican, whether they be a laborer, a farmer, a consumer, or an environmentalist.

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[7] Consensus Economics, *Consensus Forecasts*, (London: Consensus Economics, March 17, 1993), p. 362.

LELAND SWENSON

Thank you for the opportunity to present the position of the 250,000 farm ranch and rural families of the NFU on the proposed NAFTA. Last week approximately 250 of our members traveled to Washington DC, at their own expense, to discuss their concerns on NAFTA with all the members of Congress. Our farm delegates were surprised when some Members of Congress stated that they were unaware of farm opposition to NAFTA.

Today, I wish to emphasize our message—NOT THIS NAFTA!

A question often asked is whether organizations who oppose the current agreement could support any trade agreement. The answer is yes. National Farmers Union is a strong advocate of trade. We support the establishment of international rules and regulations which enable the fair trade of goods and services in a manner that provides a fair return to the producer and promotes environmentally sound production methods.

However, we believe it is neither necessary nor beneficial to accept an agreement which trashes the social, economic and environmental gains we have achieved, all in the name of free trade.

In previous testimony, we have gone on record in support of the resolutions passed by Congress which set forth certain guiding principles that must be met by U.S. trade agreements. Last fall, NAFTA was announced and many, including Majority Leader Gephardt, pointed out that it did not meet the standards, and must be renegotiated. Others, including President Clinton, took the position that there were problems, but that points of concern could be addressed with the addition of side agreements.

Now we have read the side agreements and our earlier concerns remain valid. Our analysis of the proposed agreement shows that NAFTA will be a giant step backward, not only for our friends with labor and environmental concerns, but specifically for North American farmers. Today I intend to point out the inequities and lack of safeguards for agriculture in the proposed NAFTA.

Our concerns fall under four general categories, which will affect our members not only as family farmers, but as consumers and taxpayers as well.

1. *Food safety*—including inadequate inspection, the use of banned chemicals, meat inspection problems under the CFTA, and animal disease.
2. *Displacement of our markets for commodities*—caused by transshipment concerns, the accession clause, and inadequate country of origin provisions.
3. *Loss of means for redress against trade violations*—including the loss of Section 22.
4. *Loss of farm income*—including the loss of off-farm employment opportunities.

Failure to add safeguards to address these areas will result in a loss of farmers, not only in our country, but in Mexico and Canada as well. The lack of safeguards carries over into the concern of environmental abuse in Mexico as livestock feedlot expansion occurs, dairy factories increase in number, large fruit and vegetable producers move south of the border. In addition, the NAFTA lacks safeguards to protect children and other workers from exploitation.

I. FOOD SAFETY

Many take it for granted that all we have to do is go to the grocery store, where we choose from the freshest fruit, a large selection of attractively packaged meat and all types of dairy products. Will this change with NAFTA? We believe it will. Suppose USDA and EPA suddenly decided that chemicals which had previously been banned on food for human consumption were now okay for use—not because the danger had lessened, but because they were convenient to use. Suppose they further decided that dairy farmers should be able to stretch their production by adding water and vegetable oil to milk? Suppose they decided to forego inspection of meat plants, or to change current regulations which prohibit the sale of meat contaminated with feces and urine?

No one would agree to these changes, and yet it has been documented that these problems currently exist with imports and will be exacerbated if we step up trade without addressing them. When confronted with these problems, free-traders often respond that a trade agreement is not the proper forum. This ignores the reality that behavior is tied to profit. There is clearly a financial incentive not to comply with restrictions. If at the same time, there is no reason to comply with standards, i.e., no trade sanctions, then laws on food safety, as well as worker safety and environmental protection will be ignored.

An important safeguard that is missing is the assurance of both the quality and quantity of border inspections for commodities traded.

The Government Accountability Project (GAP) has documented the problem with meat inspection under the U.S./Canada Free Trade Agreement. Under the CFTA, meat inspection has turned into paperwork inspection.

GAP has also documented the problem of transshipment. Under the CFTA, Australian beef is shipped into Canada and then comes into the United States as Canadian beef. Because it is not produced in Canada or sold for Canadian consumption, it is not inspected in Canada. At the same time, because it comes over the U.S. border as Canadian beef, it is not inspected as Australian beef, nor does it apply toward the import quotas and tariffs normally applied to Australian beef.

What then, are the implications for the U.S./Mexican border?

If current inspection under the Canadian/U.S. agreement is any indication, and we believe it is, then the process would better be labeled a paper certification inspection. We clearly have stronger inspections between States and within our marketing structure and processing system than exist at either our Canadian or the Mexican borders. In the absence of strong corrective measures, we believe the problem will become even worse as trade is increased.

Safeguards are also needed to protect against the spread of animal disease, which could have disastrous consequences. GAP reports that since 1982, the number of steers imported annually from Mexico has quadrupled, and so has the incidence of TB in cattle. In 1992, 83 percent of the cases of bovine TB were found in Mexican cattle. Bovine tuberculosis is more than a disaster for cattle producers—it can also cause TB in humans. Yet, a USDA veterinarian has testified that he was ordered to release for human consumption a beef carcass with laboratory-confirmed evidence of TB lesions.

Food safety and human health will also be jeopardized if imports produced with banned or restricted pesticides are allowed to come up across the border. GAO found 58 pesticides which could not be used in the United States, but which are allowed in Mexico. Clearly, pesticides not safe for use within the United States are also not safe if they are introduced into the food supply via imports.

II. LOSS OF U.S. MARKET ACCESS

The NAFTA is supposed to increase our market access. Yet in some instances, it actually decreases market access, by adding new tariffs and restricting many existing markets. Corn, barley, wheat, beans, milk, and cheese products have either less access or higher tariffs, or both for the immediate future. Yet the agreement allows Canada to maintain significant commodity protection and transportation assistance.

The Mexican tariff schedule shows that, in the case of dry edible beans, between 1989 and 1991, the U.S. average annual export volume of beans to Mexico pursuant to CONASUPO license, was 90,276 metric tons with no tariff. NAFTA cuts our tariff-free access from over 90,000 metric tons to 50,000 metric tons. Sales over that amount have a tariff of 139 percent, but not less than $480 a ton.

This new tariff will come down slowly over 15 years and the quota will increase by 3 percent a year over 15 years.

The situation we believe gives China the advantage to export more beans to Mexico as they continue to operate under the old CONASUPO licensing system with no tariffs!

On wheat, Mexico has imposed a new 5-percent addition to the existing 10-percent tariff on Durum wheat, and imposed a new 15-percent tariff on all other wheat, in exchange for the free CONASUPO license.

Canada, meanwhile, will maintain its transportation assistance in marketing its wheat to Mexico, as well as the United States. The attached chart shows the increase in Durum, all wheat, and barley to the United States from Canada since the implementation of the Canadian Free Trade Agreement.[8]

Import levels from Canada have increased since the implementation of the Canadian Free Trade Agreement in peanut products, sugar products, beef and beef products, pork, wheat, and barley, and there is a clear need to correct these inequities. There is no reason to believe that such activities will not occur under the Mexican/U.S. agreement at an even greater level and quantity base.

This year the United States made a significant investment in using the Export Enhancement Program (EEP) to allow us to compete favorably with Canada on wheat sales to Mexico. Yet, because there are inadequate rules of origin, the is no way to ensure that the United States is not expending EEP dollars to export Canadian produced wheat! If we further open our borders without correcting this problem, what other countries will send us commodities to be exported with our EEP funding?

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[8] See page 153.

We are also concerned that NAFTA may jeopardize our ability to continue use of the Dairy Export Incentive Program (DEIP) on sales of milk to Mexico.

III. LOSS OF ABILITY TO ADDRESS TRADE INEQUITIES

The U.S. eliminates restrictions on access to its market immediately, as well as removes the only tool of recourse if trade abuse occurs, in giving up Section 22 in our agreement with Mexico. Section 22 of the Agriculture Adjustment Act of 1933 allows the Secretary of Agriculture and the President to take immediate action if they believe a condition exists requiring emergency treatment.

In analyzing what has taken place with certain commodities under the Canadian/ U.S. Free Trade Agreement, the Clinton administration has now seen the need to take and consider Section 22 action. The accompanying chart A–3 reports the increase in peanut butter and peanut paste at 567 percent from 1989 to 1992 and an increase of 3021 percent in sugar products from 1989 to 1992.

Chart A–2, referred to previously, clearly shows the import surge of Durum, barley, and all wheat that has occurred from Canada since the implementation of the Canadian Free Trade Agreement. The only tool available to the administration to respond to the detrimental trade action is Section 22.

The only other option for producers of a particular commodity is to file a complaint through a binational panel, at a cost per case of several hundred thousand dollars.

Within the Mexico/U.S. agreement, there is no enforceable way for the U.S. Government to intercede on behalf of producers if flagrant transshipment of commodities occur, nor to intercede if import surges occur.

IV. LOSS OF FARM INCOME

Some may characterize NAFTA as a method of redistributing the wealth. We believe farmers in both the United States and Mexico will be the donors.

Free trade proponents like to cite a recent study claiming that corn prices may increase by 5.06 per bushel under NAFTA. It is worth noting that this study does not make any claims of gains for any other U.S. agriculture commodities. We also point out that the 5.06 for our farmers comes at the expense of an estimated 3 million Mexican corn farmers who will lose their farms, jobs, and homes when their prices are cut by one half.

One of the biggest threats to U.S. farm income under the NAFTA is the loss of Section 22, which allows us the ability to stabilize our domestic food supply. Currently used for dairy, sugar, peanuts, and cotton, Section 22 is available and has been used for many other commodities, including wheat, barley, rye, oats, and others. NAFTA eliminates our import controls in favor of tariffs, which are then phased out, over periods of 5, 10, and 15 years.

The loss of import controls, coupled with the problems caused by inadequate rules of origin and transshipment, combine to produce a serious threat to producer income and will also negatively impact U.S. taxpayers.

The problem becomes even worse when one considers that NAFTA provides an incentive for farms to be moved south of the border, due to cheaper labor and land, and lack of enforcement regarding environmental restrictions. Family farmers do not have the incentive to move. However, agribusiness does.

A Texas dairy farmer compared his costs of production to those of a Mexican counterpart. The Texan paid his workers $40 a day, along with social security and workmen's compensation. His land costs were higher, his fuel costs were higher, and his environmental restrictions more severe. His Mexican friend paid his workers $3.00 a day, with no benefits, and paid less for the chemicals and pesticides he used on his farm. The result was no surprise. The Mexican farmer had a much higher profit margin.

The projected loss of jobs is often cited by labor unions. This loss is also serious for farm families, since off-farm income is often the source of cash flow that provides day to day living expenses for our members. When off-farm income is separated out from farm income, USDA figures reveal that the average annual farm net income is less than $4,000 per year!

CONCLUSION

Some tell us that the decline of the American farm family is inevitable. If the United States continues to accept agreements such as the NAFTA, we will seal this fate.

THE NORTH AMERICAN FREE TRADE AGREEMENT

Will We Learn From Our Mistakes?

An analysis of the Canada-U.S. Free Trade Agreement's impact on American family farmers

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INTRODUCTION:

On the following pages, you'll be provided with information that may surprise you about the effects of the five-year-old U.S./Canada Free Trade Agreement on American family farmers.

In fact, I hope it shocks you with the realization that despite much rhetoric to the contrary, free trade agreements are not a panacea for rural America.

It's not that the National Farmers Union is against trade. Trade is vital in maintaining standards of living and cultural exchange and development. But bad trade agreements work contrary to those objectives, creating uncertainty and difficulties for effected people.

Now that the North American Free Trade Agreement is being debated, we have a rare opportunity to learn from our mistakes. The family farmers of America cannot tolerate a continuation of the trends begun under the U.S./Canada accord.

If problems like those amplified on the following pages have been created because of a trade agreement between two nations that are perhaps as similar economically and culturally as any two countries on the globe, then what will happen if we enter an even weaker agreement with a nation such as Mexico – a neighboring nation, yet one a world apart economically and socially?

I hope you'll find this document useful and I hope you'll consider very seriously the consequences of NAFTA in the months ahead.

Sincerely,

Leland Swenson

Leland Swenson, President
National Farmers Union

Summary

- American imports of Canada's six major grains and oilseeds increased 38% from 1990 to 1991.

- From 1991 to 1992 the rate of growth of Canadian exports to the U.S grew faster than any of the other top ten U.S. trading partners.

- U.S. imports of Canadian wheat increased by 76% after the implementation of the Canadian Free Trade Agreement.

- U.S. barley imports increased by 213%.

- Durum imports increased 130%.

- The equivalent of about 90% of all the sugar grown in Canada is exported to the U.S. in the form of "select sugar containing products."

- Canada grows no peanuts, yet exports 40 million pounds of peanut butter and peanut paste to the U.S., an increase of 567% in three years.

- Imports of Canadian feeder cattle cut into Mexican market share and contribute to lower prices paid to American producers.

- American pork producers are at risk due to subsidized Canadian pork and Canadian challenges to U.S. counter-vailing duties.

- U.S. farmers received 4% less of the American family food dollar in 1992 than in 1988.

- The number of American farms continues to decline at the rate of 2% per year.

THE CANADIAN FREE TRADE AGREEMENT AND AMERICAN AGRICULTURE

A Blow to Agricultural Producers

Many of the National Farmers Union's 250,000 family farm members have been victimized by the Canadian Free Trade Agreement (CFTA). In fact, many sectors of American production agriculture have been adversely affected. Facts and figures contained in this report highlight and detail the unfair practices which have caused NFU and its members grave concerns since the inception of the CFTA. NFU has aired these concerns on numerous occasions as Canadians have manipulated the CFTA to their advantage on a regular basis. It is precisely these unfair practices which regularly occur under the existing CFTA that cause NFU to adamantly oppose the North American Free Trade Agreement (NAFTA) in its current form, and to oppose the direction which the talks on the General Agreement on Tariffs and Trade (GATT) are headed.

The U.S. continues to lose farmers at the rate of 2 percent per year, after having lost a quarter of a million farmers in the last decade. Furthermore, farm incomes have eroded to the degree that the average farm family earned a mere $5,742 in on-farm income in 1990. Canada has also experienced lower commodity prices, as well as a loss of farmers along with the decline in the economic health of rural communities, which naturally follows.

The CFTA is often used as a model for the development of agreements such as NAFTA and GATT. In reality, the CFTA should be used as an example of what to avoid in new agreements. NFU contends that the good points of the CFTA have been or will be weakened in NAFTA and GATT, while the errors contained in the CFTA will be even more detrimental to American family farmers.

Studies by NFU of readily available data relating to current trade practices with Canada under the CFTA, clearly show that NFU has not been "crying wolf." In fact, NFU believes the information contained in this report is shocking enough that it warrants a congressional hearing.

Benefits of Canadian Free Trade Agreement Proving to be One-Sided

"The Manitoba (Canada) Co-operator," reported on September 9, 1992, that, "The United States was Canada's fourth largest grain customer last year, importing 1.8 million metric tons of Canada's six major grains and oilseeds." The article went on to say that "imports of Canadian grain were up 38 percent from the 1.3 million metric tons purchased by the U.S. the previous crop year." Canadian Grains Minister Charlie Mayer was quoted as saying, "I think this is evidence that the Free Trade Agreement with the United States has worked and worked quite well. Our agricultural exports to the U.S. in the last three years are up about 30 percent."

Mayer's next quote is far more telling: "WHEN YOU THINK ABOUT IT, THAT'S PRETTY GOOD. THE AMERICANS ARE THE LARGEST EXPORTERS OF GRAIN IN THE WORLD. WE BUY VIRTUALLY NOTHING (no grain) FROM THEM. OUR BORDERS ARE VIRTUALLY OPEN (with barley the only exception)."

Farmers Union would have to agree with Mayer's Canadian perspective of the CFTA. The CFTA has worked quite well for Canada. When one considers that the article went on to say, "Wheat (excluding durum) was the single largest grain imported by the U.S. from Canada last crop year...a 100 percent increase over the previous year," one should be able to understand why NFU's producer members do not share Mayer's satisfaction. The figures Mayer used in the article do not constitute a "bump in the road"--they are a trend.

Canadian Imports Grow 22 Percent in 1992

According to the 1992 Fiscal Year Supplement on Foreign Agriculture Trade of the United States (FATUS), the total Canadian agriculture trade surplus with the U.S. in 1990 was $376 million. In 1991, that total dropped to $231 million, largely due to much lower prices for commodities. Although the value of Canadian agricultural exports to the United States declined by 15 percent from 1990 to 1991--dropping from $11.9 billion to $10.1 billion--the volume of exports to the U.S. exceeded the previous year. Wheat prices were down 30 percent and rice was down 10 percent. The average price of wheat on the farm in the U.S. was $3.72 per bushel in 1990 as compared with $2.61 per bushel in 1991.

Major agricultural imports from Canada increased from $3.096 billion in 1990 to $3.215 billion in 1991 and jumped 22 percent from FY 1991 to 1992, reaching a total of $3.93 billion. These commodities include cattle, beef, pork, grains, feed grains, oilseeds and other products (the oilseeds imports would be primarily canola, which is enjoying increased consumption in the U.S., but is not being widely produced in the U.S.).

Canada was the source for about 18 percent of all U.S. agricultural imports in 1992. The rate of growth of Canadian agricultural exports, up 22 percent from 1991 to 1992, was greater than the growth rate of any other U.S. trading partner among the top 10 (USDA's 1992 "Foreign Agricultural Trade of the United States").

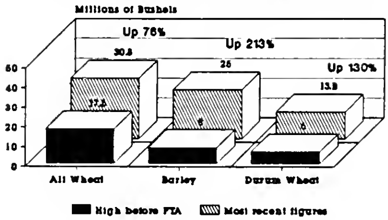
WHEAT AND DURUM-- THE FIRST BLOW

Canadian Wheat Imports Climb, U.S. Prices Fall

Figures from the Canadian Grain Commission, obtained with the cooperation of the North Dakota Department of Agriculture, show that Canada's total wheat shipments, including durum, enjoyed a generally steady rate of growth from 1983 to 1988, with a range of 2.3 million bushels to 17.5 million bushels. Durum exports alone climbed from zero to 6 million bushels during that time.

Since 1989, shipments of Canadian wheat and durum to the U.S. have exploded. According to the Canadian Trade Commission, in 1991-92, all wheat shipments reached 30.8 million bushels, including 13.8 million bushels of durum. Figures available through February 1993 indicate that all wheat exports were already a record at 36.2 million bushels, and durum exports were at a record-setting pace. The figures for durum at

Canadian Grain Imports Climb
Following Free Trade Agreement



Sources: USDA-FATUS 1992, North Dakota Barley Council 1993

the end of February were at 13.3 million bushels, with a strong potential for exceeding 14 million bushels for the first time in history.

The primary durum-growing area in the U.S. is in the upper Midwest, with the greatest concentration in North Dakota. The primary durum area in Canada is directly across the border from North Dakota. Most of the durum grown in North Dakota is shipped to terminals on the Great Lakes. Many of the durum shipments from Canada to the U.S. end up in the same terminals as North Dakota durum. This has a significant price-dampening effect on the U.S. market.

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Durum is often thought of as something of a specialty crop which has historically enjoyed a substantial price premium over other wheat. Since the CFTA went into effect, that premium has largely vanished, driving U.S. durum prices below the price of hard red spring wheat. In fact, for considerable periods of time, durum prices at the farm level were lower than prices for hard red winter wheat, a situation which has rarely, if ever, occurred before.

U.S. Subsidizing Canadian Wheat Exports

There has also been sufficient concern that Canadian durum and other wheat may actually be exported with the benefit of the U.S. Export Enhancement Program (EEP). This concern was strong enough to prompt U.S. Senator Kent Conrad (D-ND) to work for the passage of a law requiring end use certificates for commodities imported from Canada.

NAFTA will exacerbate the problems associated with higher levels of Canadian wheat imports:

- *High levels of imports of wheat and durum would lower prices received by American farmers.*

- *Lower grain prices to American farmers could mean higher costs to American taxpayers due to increased farm program costs.*

- *Any Canadian grain exported under EEP is a direct cost to American taxpayers.*

- *The importation of large amounts of Canadian grain would glut the American market and necessitate the use of EEP in situations where it might not otherwise be needed.*

BARLEY - A FLOOD IS FORECAST

U.S. Barley Producers Soon to be on Endangered-Species List

If the recommendations contained in a report by Colin A. Carter, Professor of Agricultural Economics, University of California, Davis, entitled; "An Economic Analysis of a Single North American Barley Market" are implemented, America's barley growers could encounter the same difficulty as durum producers, and since a large part of the barley produced in the U.S. is grown by the same farmers who produce durum, the result would place these people in double jeopardy.

In essence, the Carter study suggests that the creation of a single North American barley market would benefit growers on both sides of the border.

Beyond the Carter study looms the efforts of the Canadian agriculture minister, Charlie Mayer, who is attempting to remove barley from the control of the Canadian Wheat Board (CWB). Mr. Mayer's proposed change is slated to take effect August 1, 1993. If barley is removed from the control of the CWB, massive shipments of Canadian feed barley will simply be trucked across the border to local delivery points in the U.S.

Keep in mind that the U.S. is not the world leader in barley production. Canada grows 25 percent more barley annually than the U.S. As alluded to earlier, the vast majority of the U.S. barley production area is in the states of Washington, Montana, North Dakota, and Minnesota--an area directly across the border from the primary barley production area in Canada. Facilities in the U.S. which are accustomed to handling barley are conveniently located for accepting the influx of Canadian barley.

Since Canada's population numbers roughly one-tenth the population of the U.S., and the

Canadians produce more barley, it would seem to follow that the flow of barley into the U.S. would be at least ten times as great as the U.S. shipments into Canada.

The release of barley from CWB control would affect the same region and many of the same people who are still reeling from the CFTA effects on the durum market. It could well be the final straw for a large number of U.S. producers in an area of the country where family farmers are already experiencing severe hardship. Plummeting prices for another of their major products could cause another round of farm failures.

American Tax Payers to Subsidize Canadian Barley Exports

Wilfred Harder, chairman of the Advisory Committee for the Canadian Wheat Board, in a press release dated June 10, 1993, made the following comments in part: "The prospect of a mass southward movement of barley will definitely lower prices and not...increase returns to barley producers."

Mr. Harder aired an even more interesting concern, stating that "CANADIAN BARLEY COULD VERY WELL FIND ITSELF COMPETING WITH BARLEY TRANS-SHIPPED VIA THE U.S. INTO OFFSHORE MARKETS. THERE ARE NO SAFEGUARDS TO PREVENT CANADIAN BARLEY FROM BEING RE-EXPORTED FROM THE U.S., POSSIBLY EVEN UNDER THE EXPORT ENHANCEMENT PROGRAM."

Harder's comments give added credence to the importance of Senator Conrad's efforts toward end use certificate legislation. The United States would be in the ridiculous position of using American tax dollars to subsidize the sale of Canadian barley in competition with Canadian barley being sold with the assistance of the CWB.

Cheaper Barley Would Drive Down Prices of Other Feed Grains

While the U.S. accounts for 60 percent of the world trade in total feed grains, including corn, barley, oats, and a number of other lesser crops, one must look domestically at the competition among these crops to realize the effect of potentially huge inflows of Canadian barley. The fact is that a flood of Canadian barley would reduce barley prices nationwide, making it much more competitive with corn, thus lowering the price of U.S. corn nationwide.

The result would be increased costs to USDA through greater use of Commodity Credit Corporation (CCC) loans and a higher number of forfeitures of both crops due to prices below the loan rates. Government reaction to this scenario, as indicated from past performances, would be to reduce farm program benefits and put U.S. farmers at greater risk rather than moving to correct the root problem, which is the lopsided trade practices allowed by the CFTA.

Northern U.S. farmers, who were left as orphans on the doorstep during the CFTA negotiations, would see another of their regional markets destroyed. Farmers across the country would also be victimized as they struggle to compete against Northern U.S. and Canadian barley which would hit the market at fire sale prices.

It is not as though the Canadians have not been enjoying access to the American barley market already. Prior to the CFTA, the U.S. imported between 5 and 8 million bushels of Canadian barley annually. Since the CFTA, those numbers have risen to as high as 25 million bushels in 1991-92. The projections for 1992-93 are at 15 million bushels, due primarily to poor malting barley quality in the current available Canadian stocks. This drop in Canadian exports is a strong incentive for the Canadian agriculture Minister to pursue his goal of opening the barley trade system completely.

These figures were obtained from a report entitled, "United States Barley Statistics" which was prepared by the North Dakota Barley Council.

SUGAR - WHO LET THIS OUT OF THE BAG?

American Sugar Producers Soon to be Relics of the Past

Information supplied by the United States Beet Sugar Association, The American Sugarbeet Growers Association, the USDA/ASCS Sweetener Analysis Division and others, indicates that those involved in all areas of U.S. sugar production are about to suffer the same impacts as northern U.S. wheat and feed grain producers.

Sugar production and consumption in Canada have not shown any major change in the period 1989-90 to the present, but Canada's level of sugar imports from other countries and its level of exports to the U.S. of products that are 60 to 99 percent sugar have risen substantially. Products with less than 60 percent sugar have undoubtedly risen, as well.

The Facts:

- *According to the U.S. Sugarbeet Growers Association, Canada only produces about 9 percent of its domestic sugar needs. Imports meet the remaining needs.*

- *In 1989-90, Canadian sugar production was 121,000 metric tons. In 1992-93, production totaled 140,000 metric tons, which seems to be a record high.*

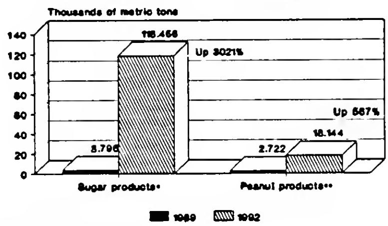
- *Canadian sugar imports doubled during the last four years. Domestic consumption, while growing, accounted for only a small part of the increase in imports. Beginning/ending stocks have also remained relatively stable throughout this period.*

Canadian 1989-90 imports which were 524,000 metric tons, have increased to the current annual rate of 1.065 million metric tons. Since Canada's total sugar exports hovered between 29,000 and 40,000 metric tons during the same period, part of the rise in its imports can be explained by two factors: 1) an increase in Canadian population from about 26.5 million people in 1989 to 27.4 million people in 1993; and 2) an increase in the consumption of sugar from 29.9 kilograms to 40.2 kilograms per person during the same time period.

The remainder of Canadian sugar supply is largely exported to the U.S., mainly in the form of "select sugar-containing products." To make a long story short, Canada's exports to the U.S. of products which are 60 percent to 99 percent sugar have increased from 3,796 metric tons in 1989, to a current level of 118,456 metric tons. In other words, in 1992, Canada shipped the equivalent of nearly 90 percent of all the sugar it produced domestically to the U.S. in the form of flavored sugar, iced tea mixes, gelatins and other items!

At the same time, shipments of similar items to the U.S. from other countries saw a corresponding decline in three of the four sugar-containing categories. In 1992, Canada accounted for all but 6,554 metric tons of sugar-containing products which entered the U.S.

Canadian Processed Foods Imports Explode
Following Free Trade Agreement



* Products containing 60-99% sugar
** Peanut butter & peanut paste
Note: Canada has no peanut production

Burning Our Bridges Behind Us?

- If the American market is so attractive for a country which must import most of its sugar, countries which rely on sugar exports as their major agricultural income will be even more aggressive in their approach to the market.

- Currently, the U.S. sugar program is net zero cost. However, if substantial amounts of sugar from U.S. farmers enter the CCC loan program and are forfeited, U.S. taxpayers will have to foot the bill.

- If the U.S. continues to import massive amounts of sugar, the federal government will likely discontinue the price support program, following the trend of cut-backs on other American farm programs such as wheat and feed grains in recent years.

- If the U.S. sugar industry goes by the wayside and U.S. consumers must rely on sugar supplies from parts of the world which have long histories of civil unrest and instability, we are in for extreme price fluctuations.

WE'RE NOT TALKING PEANUTS HERE

Canadian Manufacturers Benefit at U.S. Expense

It is not as though the U.S. trade problem with Canada is related to only the crops grown on the northern tier of states, or that the effects of the CFTA are felt only by those areas which grow durum, hard red spring wheat, sugar beets, and barley. The problem now affects crops grown in the Southern U.S. and involves crops which Canada does not produce at all. The most glaring example is that Canadian exports of peanut butter and peanut paste to the United States have risen from 6 million in 1989 to 40 million pounds in 1992. That is a six-fold increase in a mere three years.

According to an April 6, 1993, article by the Georgia Peanut Commission entitled, "The Effect of Peanut Paste Imports on The U.S. Peanut Industry and the Price Support Program," these products can be brought in to the U.S. at a cost 25-cents-per-pound lower than the price of domestically grown and processed peanuts.

This means that much of the U.S. domestic peanut production must be purchased by USDA at a price that is higher than the cost of Canadian peanut imports. For 1993, these purchases could cost the federal government $17 million to $18 million.

If the trend should continue to a point where 25 percent of the U.S. production is forfeited to USDA, the cost to American taxpayers could exceed $100 million per year well before the turn of the century.

An End to U.S. Peanut Production?

As with sugar, the result of these burgeoning costs would likely be a massive overhaul of the U.S. peanut program which could simply translate into a program phase-out. In the case of the exploding peanut butter and peanut paste import problem, the United States finds itself sabotaging not only its peanut growers but its peanut processing industry. The U.S. will continue to encourage the construction of state-of-the-art plants in other countries by willingly accepting their products.

Finally, the plants which are constructed abroad for the purpose of taking advantage of U.S. markets will have a life span of several decades and will affect the competitiveness of American producers for as long.

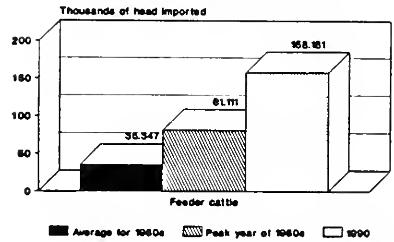
FEEDER CALVES COME SOUTH

Even the Mexicans Are Losing

U. S. livestock interests are being affected by the CFTA as well. Information contained in a recent report by Ernest Davis, C. Parr Rosson, III, Amy Angel, and Oral Capps, Jr., of Texas A&M entitled, "U.S. Price Impacts of Feeder Cattle Imports From Mexico," documents the effects of the importation of both Canadian and Mexican feeder cattle on the domestic market.

While Canada ranks a distant second to Mexico in this area, Canadian gains in the sale of feeder cattle to the U. S. were substantial after the CFTA was implemented, showing a 249 percent increase from 1989 to 1990. During that time, Mexican exports increased 44 percent.

Canadian Feeder Cattle Imports Swell
Following Free Trade Agreement



Source: Texas A&M [illegible]

Mexico, currently the major power in this market, held an eight-to-one margin over Canada in 1990, the last year for which figures are available. Although that sounds like a commanding lead, it seems to be shrinking rapidly. At one point in the 1980's, the ratio was 130 to one in favor of Mexico.

U.S. Producers Lose $40 Per Head on Feeder Cattle

Canada's total exports of feeders to the U.S. in the decade of the 1980's was 353,475 head. In 1990 ALONE, the total was 158,181 feeder calves. The highest level of annual exports for the decade of the 1980's was 81,111 head in 1982. The report goes on to say that the decrease in market prices paid for feeders in the U. S. is .555 percent for every 100,000 head of feeder cattle imported.

The average 500 lb. feeder calf brought a price of $102.30 per cwt. at Amarillo in 1990. Using the Texas A&M figures, the same animal would have brought producers in excess of $110.00 per cwt., or an increase in the value of each animal of nearly $40. $40 x 1.42 million imported feeders from Mexico and Canada means that American producers lost $56.8 million dollars to lower prices caused by the importation of feeder cattle.

AND THIS CANADIAN PIGGY WENT TO MARKET

Countervailing Duties Keep Canadian Pigs From Flooding U.S. Market

The National Pork Producers Council (NPPC), working with pork and hog interests in the U. S. has, until a very recent victory, been fighting what can best be described as a strategic retreat from the continuous onslaught of Canadian hogs, pork and pork products, as the Canadians manipulate the CFTA to their advantage.

Canada subsidizes pork production to the tune of about $18. per hog. Currently that subsidy is offset by countervailing duties which prevent these highly subsidized hogs from flooding U. S. markets. If it were not for these duties

Canadian producers, who have production costs which are 20 percent higher than U. S. producers, would be flooding U. S. markets with subsidized hogs.

U.S. Has No Compensation for Canadian Subsidized Pork Imports

In reality that is what is happening right now with pork that has been slaughtered and processed in Canada.

The waning hours of the CFTA negotiations saw the creation of binational panels for the purpose of settling disputes. These panels have regularly assumed the authority to interpret and all but rewrite the laws governing the U.S. Department of Commerce and the International Trade Commission. One of those recent binational panel decisions removed the countervailing duties from pork and pork products.

This decision allows subsidized Canadian pork to compete with unsubsidized U. S. producers and processors. The result is lower prices paid to U. S. producers, more jobs for Canadian meat packers and more unemployment in similar industries here.

It's Worth Pondering--Can bi-national panels be truly unbiased?

1) Each time the American pork interests have registered a challenge the panel was made up of two U. S. representatives and three from Canada. The decisions were always three to two favoring the Canadian position, except for the latest decision which allowed the current practice of countervailing duties on live hogs to remain in place.

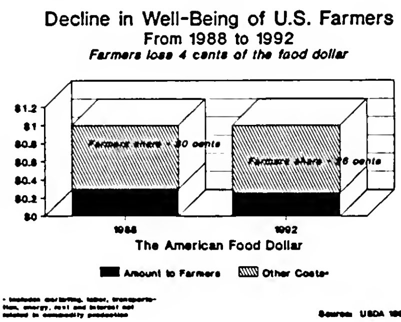
2) Even though the binational panel dispute mechanism has shown its flaws in well publicized cases and as recently as 1992, the NAFTA contains a very similar provision.

WHY NOT LEARN FROM OUR MISTAKES?

Making a Bad Deal Even Worse

The only safety net in the CFTA is Section 22 (B) of the Agricultural Adjustment Act, which states that "Where the Secretary determines...that a condition exists requiring emergency treatment, the President may take immediate action under this section without awaiting the recommendation of the tariff commission."

Unfortunately, previous administrations which negotiated both of these pacts have possessed a "free trade at all costs" attitude which prevented them from invoking Section 22 (B), because to do so would have been an admission that the CFTA was flawed.



Similarly, the people who serve on the binational panels would be admitting that the CFTA has problems if they found in favor of U. S. interests. Often those who sit on these panels have interests in dumping laws and have past and possibly future interests on the Canadian side of the border.

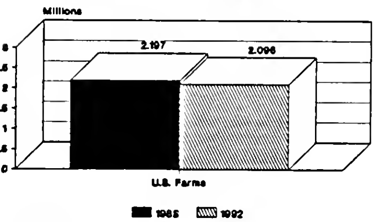
While the CFTA has flaws which make it a very one-sided agreement, the NAFTA contains an even worse flaw in that section 22 (B) was traded away and will no longer exist. This was done while allowing Canada to keep Article 11 of its trade law, which is its equivalent of Section 22 (B).

Let's Even the Playing Field

The National Farmers Union is not against trade. NFU is opposed to unfair trade practices which have long gone unchecked. NFU is opposed to practices that victimize American family farmers, jeopardize the jobs of American workers in the food industry, and increase the cost to taxpayers, while at the same time lowering the safety standards of the food we consume.

NFU believes that in order to negotiate effective agreements for the future, the negotiators must not repeat the mistakes of the past. In the NAFTA, the negotiators have done just that. The problems of the CFTA been ignored by those who negotiated the NAFTA. In fact, American farmers may well find themselves burdened with a trade agreement which is weaker and even more riddled with mistakes than the CFTA.

Decrease in Number of U.S. Farms
From 1988 to 1992
Number of U.S. Farms Decline 5%



Source: USDA 1993

Side Agreements Are Not Our Salvation

Finally, NFU believes that the much-discussed side agreements are at best, limited in power and at worst, meaningless and misleading.

- *Side agreements cannot change anything already agreed to in NAFTA. They can only add supplemental language for clarification.*

- *The side agreements cannot interfere with the sovereignty of any country which has signed the agreement.*

- *No country will ever sign a side agreement which would weaken the position it has agreed to in the original treaty. We see the talk of side agreements as a way of telling members of Congress that their concerns will be taken care of. At the same time, our trading partners are told that nothing will change the agreement they have signed. In short, the side agreements are destined to be meaningless, because no country would sign them if they were otherwise.*

We Can Do Better

Remember the American farmer as the orphan left on the doorstep of CFTA negotiations? Well in the NAFTA he was left on the doorstep without the benefit of his blanket and basket -- Section 22 (B).

Keep in mind that if all these well documented problems occur under the CFTA, an agreement with the one country which has been our closest neighbor and ally, a country which has greater similarity to the U.S. than any other in ways ranging from language to living standards, what happens when you apply a much weaker document to a country which has none of those commonalities and possesses a well known reputation for corruption in most levels of government?

NFU does not want to find out. In fact, American family farmers and many others simply cannot afford to find out. American producers and consumers have been adversely effected by CFTA, yet the damage suffered is only the tip of the iceberg if NAFTA or GATT are ratified as they now stand. America can do better. American farmers cannot afford to do any worse.

IN CONCLUSION:

- In the area of wheat and barley, Canada has dramatically increased exports of agricultural commodities to the U.S. to the point where it could be considered dumping.

- Canada has used the binational panel to its advantage wherever possible..

- Canada is using the agreer nt to export commodities which it does not produce (peanuts) to the U.S.

- High levels of Canadian imports cut into the market share of other U.S. trading partners.

- The importation of large amounts of agricultural commodities is detrimental to U.S. farm prices and to the well-being of U.S. farmers.

- The harmful effects of the CFTA should not be repeated in subsequent agreements.

*Note: Full-size copies of the graphs from this document, along with data used in these charts, follows.**

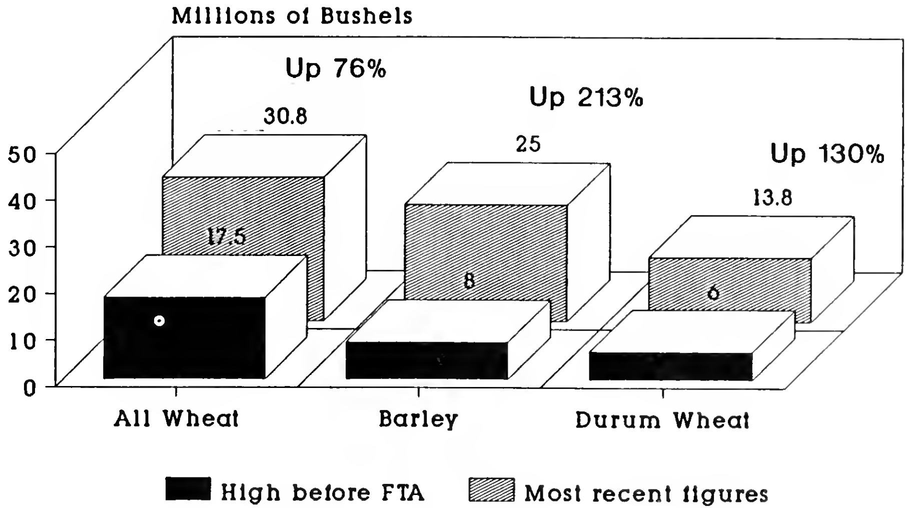
Appendices

U.S. IMPORTS OF CANADIAN AGRICULTURE PRODUCTS BY COMMODITY	*Highest year before CFTA**	*Highest year after CFTA**	*Percent Increase*
All wheat (millions of bushels)	17.5	30.8	**76%**
Durum (millions of bushels)	6.0	13.8	**130%**
Barley (millions of bushels)	8.0	25.0	**213%**
Selected sugar containing products (metric tons)	3,796	118,456	**3021%**
Peanut butter and peanut paste (millions of pounds)	6.0	40.0	**567%**
Canadian feeder calf imports	81,111	158,181	**95%**

* Canadian Free Trade Agreement

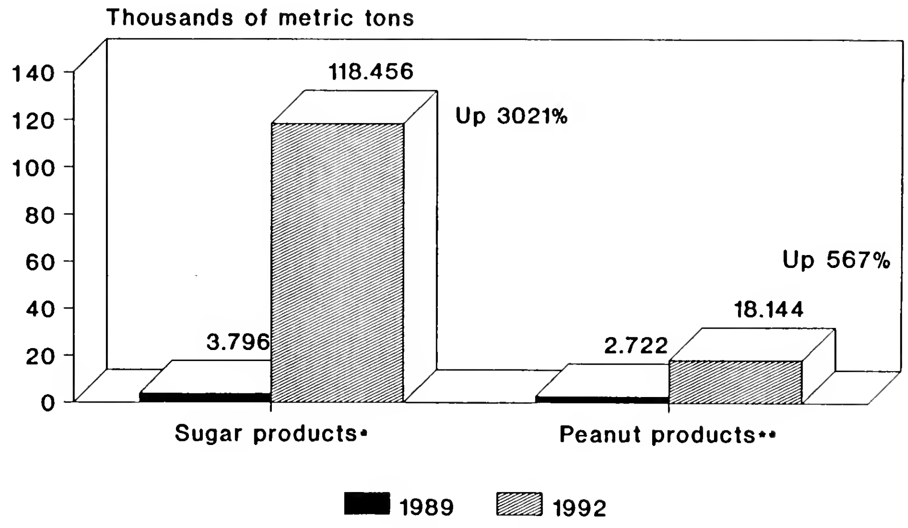
Decline in Well-Being of American Family Farmers	*1988*	*1992*	*Percent Decline*
American farmers share of the food dollar (grocery retail price)	30 cents	26 cents	**13%**
Number of farms in the U.S. (in millions)	2.197	2.096	**5%**

Canadian Grain Imports Climb
Following Free Trade Agreement



Sources: USDA-FATUS 1992, North Dakota Barley Council 1993

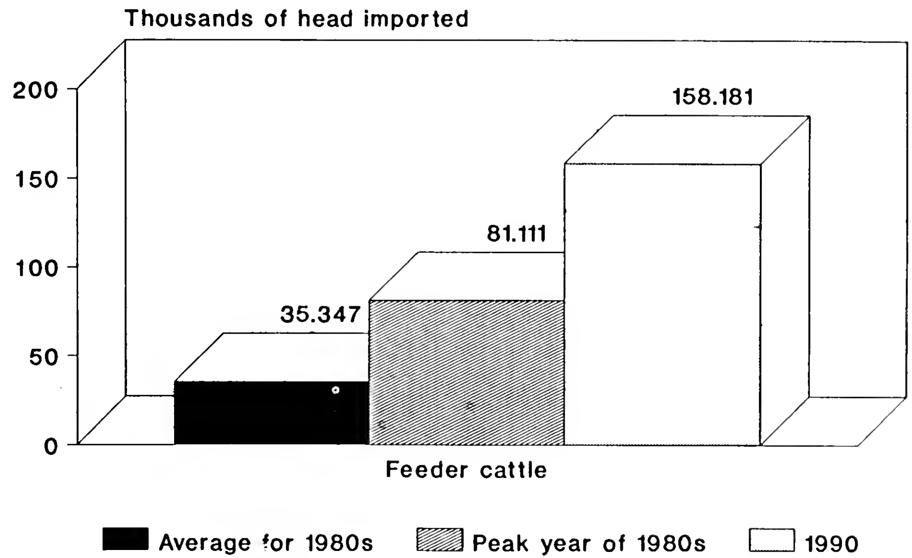
Canadian Processed Foods Imports Explode
Following Free Trade Agreement



* Products containing 60-99% sugar
** Peanut butter & peanut paste
Note: Canada has no peanut production

Sources: U.S. Sugarbeet Growers Assoc. 1993
Georgia Peanut Council 1993

Canadian Feeder Cattle Imports Swell
Following Free Trade Agreement

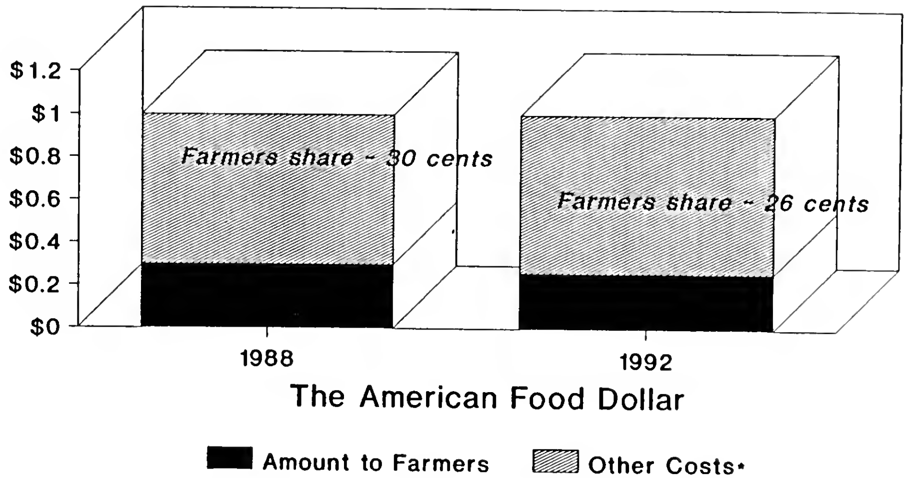


Source: Texas A&M 1993

Decline in Well-Being of U.S. Farmers

From 1988 to 1992

Farmers lose 4 cents of the food dollar



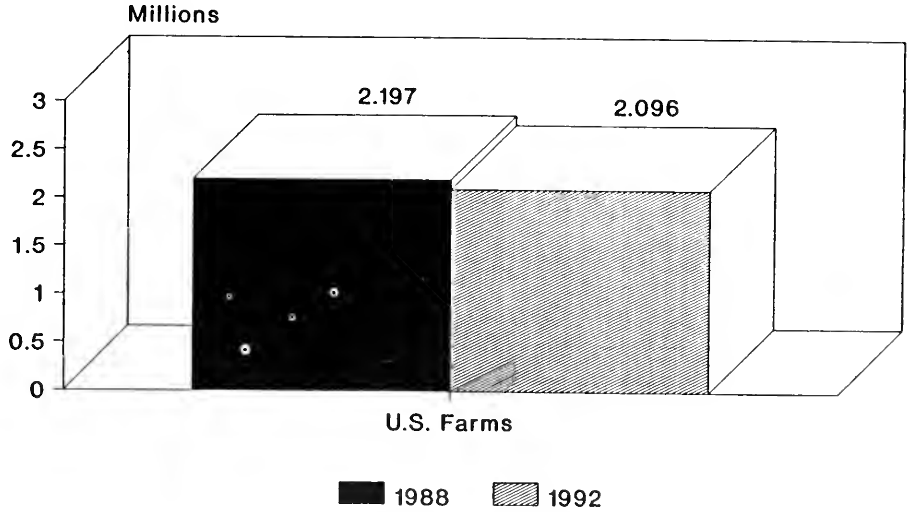
* Includes marketing, labor, transportation, energy, rent and interest not related to commodity production

Source: USDA 1993

Decrease in Number of U.S. Farms

From 1988 to 1992

Number of U.S. Farms Decline 5%



Source: USDA 1993

MICHAEL BAUERLE

On behalf of the 8 other corn farmers who make up the Nebraska Corn Board and the over 32,000 corn producers in Nebraska we represent, I would like to thank you for allowing us to present this testimony on the North American Free Trade Agreement.

The Nebraska Corn Board is a producer-funded check-off organization. Created in 1978, the Nebraska Corn Board conducts programs of market development, research, promotion, and education to increase the demand for corn and improve the profitability of our producers.

As we prepare to harvest another corn crop in Nebraska, the third leading corn producing State in the Nation, we have survived a summer filled with some of the worst weather calamities in our State's history: 100-year floods, 100 mile-per-hour winds that devastated some of the best looking corn in some of our best corn producing counties, and just last week, record-low, corn-killing temperatures not seen this early in Nebraska in 100 years.

After 20 years of farming, I have grudgingly learned to accept the fact that there's not much I can do about the weather. During that same 20 years, I have also learned that I can have an influence on the demand for the corn I produce. The North American Free Trade Agreement, or NAFTA, is one area that would increase the demand for the corn I produce.

Unlike many other leading corn producing States in the United States, Nebraska corn growers are heavily dependent on the export market. Approximately one out of every three acres of corn grown in Nebraska is exported. Two years ago and long before the current debate over NAFTA began, as part of its strategic planning process, the Nebraska Corn Board identified Mexico as a potential key market for Nebraska corn exports.

Members of our staff and board have already made several trips to Mexico to identify potential buyers for our corn. This has been a joint project between the Nebraska Corn Board and the Nebraska Department of Agriculture, with partial funding through the USDA's Federal-State Marketing Improvement Program.

During the past year, as the NAFTA debate intensified, many members of the Nebraska Corn Board were frustrated by the fact that there wasn't enough accurate information available about NAFTA and its effects on the producers we represent. It seemed like we were faced with a daily barrage of conflicting reports and studies about the effects of NAFTA on our farming operations.

In order to determine exactly which of these claims were reliable, accurate and factual, we decided to take matters into our own hands. We commissioned the Agricultural Economics Department at the University of Nebraska-Lincoln—one of the premier land-grant research institutions in the United States—to do a critical, in-depth analysis and review of studies completed so far on NAFTA and its impact on Nebraska corn producers.

It's important to point out that this request was for information, with no predetermined guidelines or conditions. Ten agricultural economists participated in this critical review of over 80 published studies, articles and books on NAFTA. We received the results of this analysis, titled "The Economic Effects of the North American Free Trade Agreement on the Nebraska Corn Industry," last week. After reviewing it, all nine members of the Nebraska Corn Board expressed their unanimous support for NAFTA as it pertains to corn.

While it's impossible to predict precisely what the effects of NAFTA will be, our analysis indicated if NAFTA is ratified, it will produce a small but positive, static gain for the U.S. economy. Projections indicated that U.S. gross domestic product could be .02 to 1.34 percent greater with NAFTA than without NAFTA. The economic gains were even greater in the analyses when the dynamic effects of free trade (increased competition, economies of scale, enhanced investment, etc.) were incorporated.

Most of the studies reviewed also reported that U.S. agricultural output, exports, and employment would expand with NAFTA. Sectors that would benefit from NAFTA include dairy and dairy products, coarse grains, wheat, oilseeds, and meat and livestock products. Several studies estimate the grain and oilseed sectors would experience the biggest export gains.

It appears certain U.S. corn exports to Mexico would expand under NAFTA. Projections indicated U.S. corn exports to Mexico could be anywhere from 44 to 244 percent greater with NAFTA than without NAFTA. The magnitude of the increase will depend on several factors: the level of government assistance for Mexico's corn producers, the government's restriction on the quality of corn that can be fed to livestock, and the substitutability of yellow corn for white corn in Mexico.

Using a Nebraska-specific econometric model and several simulations, the analysis concluded that, if yellow and white corn are perfect substitutes in Mexico, the corn price would be approximately 9 cents per bushel higher in Nebraska with NAFTA than without NAFTA. In 1 year of Nebraska corn production, this translates into an economic gain of well over $200 million to the State's economy from corn alone. Even under less optimistic scenarios, the effects of NAFTA would still be positive on the price of corn in Nebraska.

A concern we have heard frequently by opponents of NAFTA is that it will result in substantial job losses due to "cheap" labor in Mexico. According to studies reviewed in our analyses, this fear is unfounded as NAFTA would induce slight increases in total U.S. employment and total labor demand.

Let's focus for a moment on the jobs back in Nebraska: The number of farmers who will keep producing corn on their farm due to the increased exports of corn to Mexico; the jobs of the people that will transport, store and sell the corn once it leaves the farm and the jobs of the people in the rural communities who will sell the farmers the tractors, the fertilizer and the seed so they can plant next year's corn crop.

There are over 32,000 corn growers back in Nebraska. Each one of these farmers and their families harvest an average of 175 acres of corn, which yields 135 bushels per acre, for a total production of over a billion bushels. That is a lot of corn. But it isn't worth a plug nickel unless you find a customer to buy it. The good news is that there are over 90 million people south of the Rio Grande who want to buy our corn.

As corn farmers, we can see specific benefits for our product under NAFTA. Currently, we face a quota, tariffs and import licensing system, which means wide swings in Mexico's imports. Imports totaled only 51 million bushels of corn in 1991. NAFTA would immediately establish a 100 million bushel duty-free level for U.S. corn exports entering Mexico. Over the 15-year transition period for corn, this level would increase 3 percent per year while tariffs on levels above this amount would decrease. A fully implemented NAFTA could quadruple corn exports.

Nebraska corn farmers also stand to benefit from U.S. beef exports to Mexico, which are projected to increase to more than 200,000 metric tons after a 10-year transition period. By the end of the transition period, U.S. cattle prices are projected to increase by 50 cents to $1 per hundredweight. Livestock, especially beef, is the largest consumer of corn. Every pound of red meat exported from the United States represents a significant amount of corn as well.

Up until now, NAFTA opponents have been the most vocal and visible in this free trade debate. It's time to separate the facts from the fiction. In summary, our research indicates the ratification of NAFTA would benefit the United States and the corn producers of Nebraska. Most certainly, the tales of economic doom told by opponents of NAFTA will not happen as evidenced by the results of studies reviewed in our analysis.

If you should have any questions or require additional copies of the report, please feel free to contact the Nebraska Corn Board or the UNL Agricultural Economics Department.

ROGER STUBER

Good afternoon. My name is Roger Stuber. I am a cattleman from Bowman, ND, and president of the National Cattlemen's Association, representing more than 230,000 cattle producers nationwide.

Mr. Chairman, the National Cattlemen's Association strongly supports the North American Free Trade Agreement because it is a good business opportunity. During the last decade we have worked aggressively to develop, access, and expand foreign markets because we recognize that future economic growth in our industry relies on growth in our export markets. Today, the U.S. beef industry exports more than 10 percent of the value of its production. It is in this spirit of new markets for meat that harbors the strong support for NAFTA by the Meat Industry Trade Policy Council (MITPC). MITPC members include the American Meat Institute, the National Pork Producers Council, the American Sheep Industry Association, the American Farm Bureau Federation and the U.S. Meat Export Federation.

As the U.S. population ages and slows in growth, continued market growth of U.S. beef will increasingly depend on our ability to reach younger, faster growing markets elsewhere in the world. The dynamics of the Mexican market are exciting, 50 percent of the population being 20 years of age or younger and 80 percent under the age of 40. The average Mexican family spends about 30 percent of its disposable income on food, compared to less than 10 percent in the United States.

Mexico, is a growing economy of 90 million consumers who like to eat beef, it is a natural market for the United States. Mexico currently has a high demand for inexpensive variety meats—meat for which there is little demand in the United States. As the Mexican standard of living improves, there will be a greater demand for more protein and more beef. The United States already dominates this market for high quality, grain-fed beef. In addition, increased business activity in Mexico will mean an increase in the hotel and restaurant trade. Mexico is already our third largest export market for beef.

We exported about $260 million worth of beef and variety meats to Mexico last year. That market has grown by $50 million a year since 1989. NCA economists predict that exports to Mexico will more than triple by the year 2000, reaching $1 billion. That's equal to today's U.S. beef exports to Japan.

The market is there, and growing—but it is bumpy. The NAFTA is needed to smooth out that market. Last fall Mexico imposed stiff tariffs on imports of live cattle and beef. Those tariffs already have slowed the growth of our market there. They are: A 15-percent tariff on live slaughter cattle, a 20-percent tariff on chilled beef, and a 25-percent tariff on frozen beef. The tariffs would be lifted for our industry immediately under the NAFTA. The NAFTA also would phase out a 20-percent tariff on beef variety meats over 10 years. It is unfortunate that critics of the North American Free Trade Agreement have based their arguments on fear—fear that the United States will not be able to compete with Mexico. Mr. Chairman, the U.S. beef industry is not afraid to compete with any country on a level playing field. We are the most efficient producer of high quality beef in the world.

I have heard claims that the NAFTA will shift the U.S. beef industry to south of the border. That is not going to happen. Right now there is nothing keeping U.S. business from moving to Mexico. The real issue is productivity. Mexico does not have the efficient production practices nor the feed supplies to steal the U.S. beef industry.

NAFTA will not encourage feeder cattle imports from Mexico to flood the U.S. market. Right now, we import feeder cattle from Mexico on a market driven basis. This will not change under the NAFTA. In fact, imports have slowed in 1991 and 1992 from previous years due to a stronger domestic cattle market in Mexico.

NAFTA will not weaken U.S. animal disease control and eradication efforts. With or without a NAFTA, Mexican cattle producers must pass strict U.S. animal health standards before they are allowed into the United States. NCA is confident the NAFTA will encourage Mexican cattle producers and their government to strengthen their animal disease control programs if they are to be competitive in the U.S. market. Currently, this joint committee is developing the guidelines for a bovine tuberculosis and brucellosis eradication program in Mexico to protect our respective domestic herds from these diseases.

We already have an established relationship in this area During the last 2 years NCA members have been working directly with Mexican cattle producers to establish a bovine tuberculosis eradication program in Mexico. The Animal and Plant Health Inspection Service and the Mexican Government are also participants in the discussions. I am pleased to announce that a joint group of U.S. cattle producers and APHIS officials and Mexican cattle producers and government officials met for the first time during the NCA midyear meeting this August.

Some critics of NAFTA have argued that countries desiring access to the U.S. market with their beef may use Mexico as a platform to enter the U.S. market. We believe the agreement answers these critics by including strong rules of origin. All fresh, chilled and frozen beef is considered of one character, regardless of processed state. A character change is required to meet a Mexican origin standard. Without a transformation, the product is considered not of Mexican origin and is subject to the Meat Import Law.

We agree with President Clinton's strong statement last week at the White House when he said, "Every single, solitary thing you hear people (critics) talk about, that they are worried about, can happen whether this trade agreement passes or not, and most will be worse if it fails."

Jobs have been an important part of the debates on the NAFTA. We know that increased exports, particularly exports of high-value or value-added products such as beef mean more jobs in rural America. The NAFTA means increased exports. Some U.S. companies were forced to move to Mexico in order to compete in that market because of current trade barriers. Those barriers will be eliminated with the NAFTA. So those companies can remain in the United States to provide more jobs to U.S. citizens.

A good trade agreement is a win-win situation for all countries involved. We are excited about the opportunities presented by the NAFTA. The NAFTA will improve the economic picture in Mexico, the United States and Canada. This in turn will increase consumption of goods and services and the total number of jobs needed in all three countries to meet the demand.

We strongly urge the Congress of the United States to pass this Trade Agreement. If it fails, you are telling the American people that the U.S. Government does not care to create jobs, improve the economy and regain our position in the world as a major player in world trade.

Thank you for this opportunity to testify on this important free trade measure.

MARTHA R. ROBERTS

Mr. Chairman, thank you for the opportunity to appear before you today to express our deep concern, our deep disappointment, and our opposition to the North American Free Trade Agreement and the side agreements that are being placed before you for your acceptance.

Mr. Chairman, the united position of Commissioner of Agriculture Bob Crawford and of all segments of Florida's vast agriculture is: "This NAFTA is the wrong NAFTA."

We support free trade; we do not support this agreement. I have really struggled for appropriate words to express our position to you in any different way than expressed so many times before. From the initial announcement of the intention to negotiate an agreement for the three countries, we have vocally and in written testimony expressed the needs of Florida agriculture to the International Trade Commission, the U.S. Trade Representative and to various congressional committees and leaders. Florida agriculture united in their concerns and issued a position in November of 1990. I have attached for you our latest reaffirmation of our United Position, dated September 22, 1992. Our concerns have still not been addressed.

Our message has been consistent. The food we produce is too precious a national resource to sacrifice. In these days of health care reform, our National Academy of Sciences recommends a diet that would require doubling and tripling the usual consumption of fruits and vegetables by most Americans to prevent chronic disease and cancer that robs our citizens of their life and health. Florida produces 50 percent of our Nation's fresh fruit and vegetables. This does not need to be sacrificed.

To retain the diversity and strength of fruit, vegetable and citrus agriculture, we must have fair trade. NAFTA doesn't provide it.

In any situation, there are big winners and big losers. Chairman Don Newquist of the International Trade Commission in an eloquent speech delivered to our Southern Commissioners of Agriculture in San Antonio in late June stressed his support of NAFTA but openly recognized that the big loser would be Florida agriculture—the strength of citrus and winter-produced fruits and vegetables in our Nation.

Time after time, we in Florida stressed the need for:

—Equalization of labor, environmental, food safety, phytosanitary and sanitary requirements
—A price-based safeguard mechanism for perishable commodities which are extremely import sensitive
—A strong enforcement mechanism to prevent substitution and transshipment of commodities
—Adequate statistics on Mexico's agricultural sector on which to base decisions and safeguards
—Fair definitions of sugars that include corn sweeteners and reflect a true world usage
—The maximum phase-out possible for our import-sensitive, winter-produced fruit, vegetables and citrus until equalization of requirements can be accomplished
—Strong enforcement of labor, environmental, food safety pesticide, and phytosanitary requirements

We were told repeatedly that these concerns were legitimate and that they would be addressed. But the language of the final agreement did not do this. The administration in their announcement of side agreements on labor, environment and safeguard mechanisms indicated that all had been fixed. As far as we can see from review of the language, nothing was fixed. An attempt was made to strengthen enforcement of labor and environmental laws, but why do we have to wait for the future for enforcement? Our chances are gone. Legislation through Congress cannot now fix what requires a three-party agreement to change.

Mr. Chairman, and esteemed members of the Agriculture Committee, why do our questions and concerns remain unaddressed?

How do we explain to our Nation's citizens and to our Florida farmers that a nation with whom we are proposing free trade can use chemicals to grow crops that have been judged either too toxic for us to use or too hazardous to farm workers?

How do we explain to the farmer in Dade County devastated by Hurricane Andrew and trying to decide whether to replant a grove of tropical fruit with no commercial harvest for 5 years, that his counterpart in Mexico will not have to follow the same environmental, labor and sanitary requirements he has to follow?

How do we explain to our over 500,000 agricultural workers that Dr. Polopolous, renowned agricultural economist, is forecasting that 100,000 will lose their jobs? Many try to say for every job lost in agriculture, five will be created. I ask where? It is sad indeed that the first jobs to be lost in agriculture after this agreement may be focused on women and minorities. How do we explain to them?

I am incensed at the accusation that we in agriculture are reactionaries and doomsdayers. I am appalled that certain trade experts have suggested that our farmers merely move to Mexico or rush to joint ventures and abandon their Florida farms to those new, highly paid technical jobs that will be created for the ones we lose in agriculture. Just for instance, average wages in the citrus industry are approximately $9.50 not including higher paid management. But even if we are talking about great losses in minimum wage jobs, to what professions will they be retrained? And where will we find the $30–40 billion Congressman Gephardt estimates we need to implement NAFTA?

We cannot become a totally service oriented society. We clearly understand our vulnerability as a nation with dependence upon a foreign oil supply and we must not become vulnerable by total dependency upon any foreign nation for food essential to our health and well-being.

Florida's agriculture is a diverse $6 billion cash receipts industry with $48 billion economic impact producing over 240 individual commodities that is the strength of our State and provides wholesome affordable foods for consumers in the United States and around the world. During the winter months we provide the only domestically grown major fruits and vegetables.

As a microbiologist and food scientist, I cannot stress enough the need for assurance of the safety of the foods we eat. With up to an estimated 81,000,000 cases of foodborne illness each year and with an estimated $4 to 10 billion dollar impact in lost productivity and medical costs, we must assure our citizens that those who produce foods for import into our Nation do so under sanitary conditions.

As a matter of geography and latitude, Florida and Mexico will be in direct competition in fruit and vegetable production. In addition, Florida as a subtropical State is extremely vulnerable to imported plant pests and diseases. Our agency has spent over $180 million in the last 15 years combating imported plant pests and diseases such as Medfly, citrus canker, Thrips palmi, and a host of others. Phytosanitary and animal health issues are critical to all of agriculture. Yet, we see even our own Nation's defense diminishing: USDA's Animal and Plant Health and Inspection Service has proposed in their Visioning 2000 that inspections on imports will decrease and indicate that "the reality that preventing plant pests from entering the United States will eventually be an unrealistic goal." Competition is not the problem. We can compete, and compete well—just not in an unfair system. Farmers are used to change, to competition and to commitment. But, we should be fair in what we demand of our farmers compared to our neighboring farmers to the south.

To many sectors of the American economy, the agreement may be viewed as beneficial. But we in Florida face possible loss of $2 billion in agricultural production in addition to the estimated 54,000 to 100,000 job loss. This price is too high, too unfair to our State and our Nation.

Since the agreement before you contains an accession clause through which other South American nations may be added, it becomes critical that the language of the base agreement is fair, equitable and sufficient for the future.

Florida agriculture fosters and supports increased international trade. We support fair trade agreements, and recognize the need for a trade agreement with our good neighbors to the south.

THIS NAFTA IS NOT THAT AGREEMENT

NAFTA as now written and the side agreements as proposed are fundamentally flawed. Commissioner Crawford and Florida agriculture urge defeat of the unfair Mexican pact. Resolutions of Florida's Governor and Cabinet and the Florida Senate stress their agreement of the negative impact on our agriculture.

Why must we accept an agreement so unfair in its treatment of fruits, vegetables, citrus, labor, environmental, food safety, pesticide, and sanitary issues?

Unified Position
on the
North American
Free Trade Agreement

September 22, 1992

BOB CRAWFORD
COMMISSIONER OF AGRICULTURE

FLORIDA DEPARTMENT OF AGRICULTURE
AND
CONSUMER SERVICES

and the

Florida Cattlemen's Association

Florida Citrus Mutual

Florida Citrus Packers

Florida Citrus Processors Association

Florida Department of Citrus

Florida Farm Bureau Federation

Florida Foliage Association

Florida Fruit and Vegetable Association

Florida International Agricultural Trade Council

Florida Lime and Avocado Administrative Committees

Florida Nurserymen and Growers Association

Florida Ornamental Growers Association

Florida Peanut Producers Association

Florida Tropical Fruit Growers Association

Florida Strawberry Growers Association

Florida Sugar Cane League Incorporated

Florida Tomato Committee

Gulf Citrus Growers Association

Indian River Citrus League

Sugar Cane Growers Cooperative of Florida

FLORIDA AGRICULTURE

and the

NORTH AMERICAN FREE TRADE AGREEMENT

Background

Florida agriculture is a $6 billion industry that provides wholesome, affordable food for consumers in the United States and around the world. More than 240 different crops are produced on Florida's 40,000 farms, ranches and groves. During the winter months, Florida growers provide more than half of the nation's fruit, vegetables, citrus and cane sugar. The industry provides jobs for more than 250,000 people during peak production periods, and contributes strongly to the state's economy.

The negotiation of a North American Free Trade Agreement (NAFTA) has been of great concern to Florida agriculture. The International Trade Commission in February, 1991, found that producers and processors of winter fruit, vegetables, and citrus were expected to experience losses in production and employment as a result of the agreement.

In April, 1991, Florida agriculture requested an exemption of import-sensitive, winter-produced fruit, vegetables, citrus and their products from the NAFTA until such time as several concerns of the industry were meaningfully satisfied. The industry also asked that existing patterns of trade in raw and refined sugar needed to be preserved.

Florida Agriculture's Position

The North American Free Trade Agreement, as written, fails to satisfy many of Florida agriculture's concerns. The industry believes the document must be modified to meaningfully address these important issues. Florida agriculture's viability as a producer of our nation's food, as an employer of hundreds of thousands of people, and as a strong contributor to Florida's economy is at stake. Should the agreement not be satisfactorily modified, Florida agriculture strongly recommends that the United States Congress vote to disapprove the agreement.

The agreement must be modified in the following areas:

1. Tariff phase-out categories: Throughout the negotiations, winter fruits, vegetables, citrus and sugar were recognized as being the most sensitive to tariff reductions. However, only 4 percent of Florida's winter fresh fruits and vegetables are contained in the longest phase-out period. **The agreement must be modified to provide sensitive commodities with a transition period that will afford producers the maximum time for adjustment (see attached commodity recommendations).**

2. Safeguards: Florida agriculture had strongly requested a price and volume-based safeguard mechanism to protect the industry during the transition period from downward price pressure caused by import surges. The agreement contains a volume-based, tariff rate quota (TRQ) mechanism that will artificially alter planting patterns during the quota periods. The end result will likely be depressed prices early in each tariff window. **The agreement must be modified to include a price-based special safeguard mechanism for perishable commodities. In addition, the tariff windows for the TRQ should be no longer than 30 days. The general safeguard mechanism in the agreement should also be strengthened and have no restrictions on its use.**

3. **Standards:** From a competitive standpoint, Florida agriculture is greatly concerned about the differences in environmental, food safety, and labor regulations between the United States and Mexico. The cost of compliance with these laws and regulations are a major factor in the cost of production for Florida agriculture. The industry had requested harmonization of applicable laws and regulations in order to balance the competitive playing field between the two nations. Although the agreement encourages the adoption of international standards, it allows each party to establish its own rules. **The agreement must be modified to require harmonization of standards-related measures within 10 years of the implementation date. In addition, the agreement must be modified to require equitable enforcement of each nation's laws and regulations regarding the production of goods and services.**

4. **Sanitary and Phytosanitary Regulations:** The NAFTA confirms the right of each nation to adopt and maintain sanitary and phytosanitary measures necessary to protect human, animal or plant life. **The agreement must ensure that U.S. agriculture continues to be protected from the introduction of harmful pests and diseases that could threaten human, plant or animal health.**

5. **Transshipment and Substitution:** The industry expressed concern that non-participating countries in the NAFTA would ship products through Mexico or Canada into the United States and receive the benefits of the agreement. The NAFTA contains rules of origin designed to prevent such abuses. **It is essential that the agreement contain strong enforcement mechanisms.** The agreement does not prevent the substitution of non-participant products from being used in a member's country so that the member country's production can be shipped to another member. **The agreement must ensure the practice of substitution is not utilized by a member country to the detriment of another member country.**

6. **Data Collection:** The industry is concerned with the lack of adequate, reliable information on Mexican agricultural production. **The agreement must be modified to include a requirement that Mexico develop complete statistical information on its agricultural sector in areas such as acreage, yield, consumption, trade, etc.**

Addendum 1: Fruit and Vegetables

The North American Free Trade Agreement must be modified to place Florida-produced fruit and vegetables into the most sensitive tariff phase-out period. The following commodities should be given the maximum phase-out period provided for in the agreement, plus have access to a special safeguard mechanism, from the period October 1 to July 14, each year:

potatoes, fresh
tomatoes
cherry tomatoes
cauliflower
cabbage
head lettuce
other lettuce
carrots
radishes
cucumbers
beans, all
eggplant
celery
bell peppers
squash
sweet corn
parsley
other vegetables
cantaloupes
watermelons
strawberries

The following commodities should be given the maximum phase-out period provided for in the agreement, plus access to a special safeguard mechanism, throughout the year.

atemoya
avocados
carambola
guavas
leechee nut
mamey
mangoes
papayas
other tropical fruit

Addendum 2: Citrus

The Florida Citrus industry reaffirmed its current position that fresh and processed citrus products should be excluded from the North American Free Trade Agreement and went on record in non-support of this Agreement; and strongly recommends that our government enforce phytosanitary production of citrus to prevent the possibility of the conduit of citrus products from other countries entering the U.S. duty-free; and all labor and environmental issues should be harmonized and enforced with U.S. standards to make certain those standards are met in order to ensure that wholesome citrus products arrive in the U.S. Without an exception, a two billion dollar adverse economic impact will accrue to the Florida Citrus industry over 20 years.

In the final stages of congressional review of NAFTA, the Florida Citrus industry would not support the agreement if it does not meet its stated objectives. If there is no possibility of an exclusion for citrus, then the Florida Citrus industry strongly supports at least a 20-year drop-dead period with no reduction in the citrus tariff schedule during the 20-year period.

Addendum 3: Sugar

1. Sugar Recommendations: The following changes must be made:

a. Net Exporter Determination. Mexico will be given increased access to the U.S. market any year it is projected to achieve sugar "surplus producer" status. This "surplus producer" determination must be changed in two ways:

(1) It must be calculated not just on the basis of sugar, but expanded to include corn sweeteners. Otherwise, Mexico will have tremendous incentive to achieve sugar surplus status simply by replacing the 1.5 million tons of sugar consumed by its beverage industry with corn sweeteners, and shipping its surplus sugar to the United States.

If this change is not made, the pain of adjustment for the Mexican sugar industry would be shifted to the U.S. sugar industry. Our industry has already borne the pain of the transition from sugar to corn sweeteners in beverages, at an enormous cost - 53 closings of cane sugar mills, beet sugar factories, and cane refineries, plus the loss of thousands of U.S. jobs.

(2) It must be calculated on the basis of verifiable history and not just on uncertain projections, as currently provided. In addition, sound verification methods must be established and enforced.

b. Access Limitation. Mexico's access to the U.S. market would be expanded to 150,000 tons in year 7, and increased 10% per year during years 8-15 of the agreement. By year 15, this would amount to imports of 322,000 tons, 44 times Mexico's current access.

But if Mexico achieves surplus producer status any two consecutive years, including years 1-6, it is permitted to send its entire exportable surplus to the United States. This provision must be struck - Mexico should not have virtually unlimited access to the U.S. market, particularly after a mere 6 years.

When U.S. domestic marketing allocations are in place, imports from Mexico, or any other country, above the 1.25-million-short-ton minimum, must be subject to the common external tariff. To prevent substitution during or after the transition period, Mexico must apply the common external tariff to all non-NAFTA sugar imports after it achieves net exporter status.

2. Sugar-Containing Product Recommendation. U.S. Section-22 protections for refined sugar and sugar-containing products will be phased out over 10 years. This transition period should be 15 years, not 10 years, consistent with the transition period for raw sugar.

Addendum 4: Section 22 Commodities

Florida's Section 22 commodities should not be tariffied. The U.S. has a Section 22 waiver, and inasmuch as Canada's dairy and poultry regimes will not be tariffied, in either a trilateral or bilateral, tariffication of our Section 22 is not desirable.

Tariffication of Section 22 in the NAFTA could also set an undesirable precedent for future bilateral or plurilateral free trade negotiations with other Latin American and Caribbean countries under the proposed Enterprise for the Americas Initiative.

Tariffication of Section 22 could also undermine and complicate our position in the Uruguay Round of the General Agreement on Tariffs and Trade since the proposed market access levels in the Uruguay Round will most likely be more conservative than those in the proposed NAFTA.

This is not an issue of competitiveness. For example there is no question that our Section 22 crops are more competitive than Mexico's, but the root of the matter is that Section 22 is subject to a multilateral waiver that the U.S. was granted in 1955 for the GATT, and therefore, it should only be dealt with in the multilateral context of the Uruguay Round.

State Of Florida

R E S O L U T I O N

WHEREAS, the nutritional content and safety of our food supply remain of critical importance to the citizens of Florida and the Nation; and

WHEREAS, Florida produces the majority of the Nation's supply of winter fruits, vegetables, citrus and citrus products and is the sole domestic supplier of many of these commodities for several months each year; and

WHEREAS, eating fresh fruits and vegetables each day provides good nutrition and can reduce the risk of heart disease and cancer; and

WHEREAS, agriculture is Florida's premier industry, generating more than $6.2 billion in sales and providing jobs for more than 100,000 Floridians; and

WHEREAS, the North American Free Trade Agreement between the United States, Canada and Mexico threatens Florida agriculture by scheduling the elimination of tariffs which may shift control of the production of our food supply to a foreign nation; and

WHEREAS, Mexico does not possess equivalent regulatory programs to ensure that pesticide use, food safety, phytosanitary and animal health practices are strictly monitored and properly enforced; and

WHEREAS, differences in environmental protection, labor requirements, farm worker safety, sanitation laws and workers compensation give Mexican growers an advantage to the detriment of Florida growers in what should be a fair trade agreement.

NOW, THEREFORE, BE IT RESOLVED that the Governor and Cabinet of the State of Florida do hereby urge the Administration and Congress to exempt Florida's winter produced fruits, vegetables, citrus and citrus products, sugar, tropical crops and ornamental horticulture products from the North American Free Trade Agreement tariff reductions until such time that Mexico complies with labor, environmental, pesticide, phytosanitary and sanitary requirements.

BE IT FURTHER RESOLVED that the Governor and Cabinet urge the Administration and Congress to insist on compliance in equivalent environmental, labor, pesticide, phytosanitary and sanitary regulations and to require such in implementing legislation before the agreement is implemented.

BE IT FURTHER RESOLVED that the Governor and Cabinet urge the Administration and Congress to emphasize the role of our fruit and vegetable industry in our nation's security by preserving domestic production of essential food.

IN TESTIMONY WHEREOF, the Governor and Cabinet of the State of Florida have hereunto subscribed their names and have caused the Official Seal of the State of Florida to be hereunto affixed in the City of Tallahassee on this 23rd day of February, 1993.

LAWTON CHILES
GOVERNOR

JIM SMITH
SECRETARY OF STATE

BOB BUTTERWORTH
ATTORNEY GENERAL

GERALD LEWIS
COMPTROLLER

TOM GALLAGHER
TREASURER

BOB CRAWFORD
COMMISSIONER OF AGRICULTURE

BETTY CASTOR
COMMISSIONER OF EDUCATION

Florida Senate Resolution

By Senators Foley, McKay, Sullivan,
Bozzar, Williams and Casas.

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A resolution to exclude certain Florida agricultural products from the proposed North American Free Trade Agreement.

WHEREAS, the health of our nation's people depends upon the availability of a safe and economical food supply as recognized in the 1990 Farm Bill, and

WHEREAS, Florida, because of its geographical location and climate, produces more than 50 percent of our nation's supply of winter fruits and vegetables, and

WHEREAS, over 500,000 acres of winter fruits and vegetables, 700,000 acres of citrus, 400,000 acres of sugar cane, and 35,000 acres of ornamental horticultural plants are grown in Florida, and

WHEREAS, Florida is the sole domestic producer of many fruits and vegetables in the nation's marketplace during the winter months, and

WHEREAS, it is essential to our nation's security that we not become dependent on a foreign supply of essential foods in the American diet, and

WHEREAS, Florida's public policy with respect to agricultural production, as found in section 604.001, Florida Statutes, states "It is important to the health and welfare of the people of this state and to the economy of the state that additional problems are not created for growers and ranchers engaged in the Florida agricultural industry by laws and regulations that cause, or tend to cause, agricultural production to become inefficient or unprofitable," and

WHEREAS, this state recognizes the increasing importance of fostering international trade as a means for economic development and maintaining global competitiveness, and the significant role that agricultural trade plays, and

WHEREAS, proposed expansion of free trade agreements to include other southern hemispheric countries including Chile, Venezuela, Brazil, Colombia, and Argentina necessitates appropriate trade agreement formulation as a standard for these future negotiations as well as for current negotiations with Mexico and Canada, and

WHEREAS, many foreign countries do not have regulatory or enforcement capabilities to ensure food safety and compliance with phytosanitary and environmental regulations, and

WHEREAS, differences in wage requirements, farm worker safety, environmental regulation, workers' compensation, and governmental land subsidies give foreign growers an advantage over Florida growers, NOW, THEREFORE,

Be It Resolved by the Senate of the State of Florida:

That the Florida Senate urges the President of the United States and Congress to ensure an equitable Free Trade Agreement in which the Government of Mexico agrees to enact laws and regulations and to enforce these regulatory requirements so that the public health and safety of U.S. citizens who consume the agricultural products of Mexico are assured, and so that a healthy, competitive domestic regional and world market for each nation's agricultural products is guaranteed. In the absence of such treaty provisions, U.S. negotiators should be directed to take steps to assure the physical safety of its citizens and the financial safety of U.S. agriculture.

BE IT FURTHER RESOLVED that the Florida Senate urges the President of the United States and Congress to exclude Florida's winter fruits and vegetables, citrus and citrus juice products, tropical crops, and ornamental horticultural products from the North American Free Trade Agreement until Mexico complies with labor, environmental, pesticide, phytosanitary, and sanitary requirements.

BE IT FURTHER RESOLVED that a copy of this resolution, with the Seal of the Senate affixed, be dispatched to the President of the United States, to the Office of the United States Trade Representative, and to the President of the United States Senate, the Speaker of the United States House of Representatives, and to each member of the Florida Delegation to the United States Congress.

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This is a true and correct copy of Senate Resolution No. 2036, adopted by the Florida Senate on February 23, 1993.

Ander Crenshaw
President of the Senate

ATTEST:

Joe Brown
Secretary of the Senate

D.U.M.P. NAFTA
Defeat Unfair Mexican Pact

Statement by Florida Agriculture Commissioner Bob Crawford
Dump NAFTA press conference

Tallahassee, Florida
September 20, 1993

Good morning. For two years, Florida's agriculture industry has been sending Washington a single, clear, consistent message about the North American Free Trade Agreement:

It's flawed. It will devastate Florida farmers. It will cost Florida jobs. It will threaten the security and safety of this nation's food supply.

Two years later, our message is the same. Only now the agreement is final. Congress will be asked to vote on it soon. Florida jobs are on the line. The nation's food supply is at stake.

I am here today with agricultural leaders from around the state, representing virtually every commodity group, to announce the formation of a group to defeat NAFTA.

Up until now, our goal has been to change NAFTA. We believed it was possible to negotiate a trade agreement with Mexico that benefited this country and preserved our agriculture industry. But those changes have not been made.

This week, Florida agriculture will begin a statewide television campaign to help the public see NAFTA for what it is -- a threat to our food security. The spot, which we'll play for you in a minute, will begin airing on t.v. stations around the state later this week.

This is a matter of life and death for Florida's agriculture industry. But, more than that, it should be a concern of every American.

D.U.M.P. NAFTA
Defeat Unfair Mexican Pact

GULF CITRUS GROWERS ASSOCIATION, INC.
NAFTA Statement

September 20, 1993

Since the debate on fast track authorization through the present, Gulf Citrus has maintained that the United States should pursue negotiation of the North American Free Trade Agreement (NAFTA) in an effort to advance the national interest. The agreement should promote the well being of the country, encourage expansion and investment and create jobs. At the very least, it should not destroy investment, jobs and vibrant existing economic activity. However, the agreement as currently proposed does just that to the Florida citrus industry, especially in the Gulf Citrus Growers' region. As presently negotiating, NAFTA does not permit the critically impacted Florida citrus industry to make adequate adjustments and prevent wholesale loss of investment.

The Gulf Citrus growing region consists of 5 southwest Florida counties and is the newest and fastest expanding citrus growing region in Florida. Following several devastating freezes during the 1980's, the Florida citrus industry shifted southward to what is now the newest of Florida's three official growing regions. These plantings are primarily oranges for processing into juice. Planting in this region has been steady over the past 5 years in an effort to maintain -- and expand -- this critical Florida agri-industry. Since 1987, citrus acreage in the Gulf Citrus region has increased from 65,000 to almost 160,000 acres. This represents a $1.5 billion investment. Planted acreage has increased 26% since 1990 and tree numbers have increased by 32% for the same period, making Gulf Citrus the fastest growing citrus production area in the state.

This growth in southwest Florida is greatly enhancing the economic outlook and projections for this area. For example, in Hendry County, now the state's second largest citrus producing county, nearly one-half of the country's average monthly employment is related to citrus. As production increases, new jobs will increase dramatically. In addition, citrus production contributes significantly to the area tax base. Within five years, as young trees come into production, there will be a property value assessment increase of over $125 million across the five county area. These additional dollars are critical to infrastructure and local government services.

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Presently, over 50% of plantings in the Gulf Citrus region is immature and non-bearing. Therefore, much of Gulf Citrus growers' significant upfront investment will not begin generating income for 5 to 7 years; indeed, this investment represents negative cash flow until that time. Furthermore, growers are unable to modify land use once the grove is planted without losing the value of the investment. Gulf Citrus' growers estimate that 14 to 21 years is currently required to recoup overall initial investment and realize a modest return.

With a tariff in place, a grove planted without financing in southwest Florida would require 14 to 15 years to recover investment. If a grower borrowed to finance planting, which is typically the case, another 2 to 3 years would be required to recover initial investment. If a 10% return on investment is to be realized, 3 to 4 additional years is required. The outer range of these estimates is more likely since this model does not include the potential cost of freeze, hurricane, disease or other pest damage, or factor in the cost of such past disasters.

The 15 year tariff elimination contained in NAFTA does not provide adequate opportunity for the southwest Florida grower to effectively recoup initial investment. Proposed tariff elimination, and the accompanying depressed effect on prices, will effectively eliminate the margin of difference our growers need to recover costs, make a profit and continue generating economic activity.

The negative effect of the agreement's provisions will be felt immediately because NAFTA will increase Mexico's ability to export. The Florida Department of Citrus estimates that NAFTA's reduced import tariff on orange juice products could result in perhaps as much as a doubling of Mexican orange juice exports to the U.S.

Mexico, like Florida, has a significant amount of non-bearing trees. Much of this production is becoming available, which will make NAFTA's negative impact felt upon implementation. Any benefit U.S. negotiators thought might be obtained by staging tariff reduction over 15 years is eliminated by permitting immediate access of 40 million gallons (SSE) of frozen concentrate orange juice at 50% of the MFN rate. This represents an approximate $7 million available now to Mexican citrus producers to plow back into grove expansion and improvements, greatly enhancing Mexico's ability to take advantage of the tariff reductions over the 15 year transition period.

Mexico is already a major citrus producer of citrus juice products. In 1991, the value of Mexico's citrus product exports to the U.S. totaled $71.6 million, increasing fourfold since 1978 WITH A TARIFF IN PLACE. Mexico's ability to export citrus products is growing in the absence of tariff reductions. Growth in citrus production continues to be assisted by cheap labor, subsidized inputs and less stringent (or unenforced) environmental and labor regulations. In addition, given Mexico's substantial commitment to liberalize its grain sector, Mexico will be seeking transition to more profitable export production, particularly citrus. Mexico already exports over 80% of its expanding juice production to the U.S. Also, Mexico's recent historic land tenure and agricultural investment reform and substantial efforts to strengthen

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transportation infrastructure will serve to bring about rapid expansion in production over the period covered by the agreement.

This expansion should not, and need not, be achieved at the long-term expense of Florida citrus growers. We urged negotiators to maintain U.S. tariffs for a period of 20 years followed by an immediate elimination is an appropriate and effective way to address NAFTA's negative effect on the investment made by Gulf Citrus growers. This would give growers adequate time to recoup their substantial recent investments. Existing plans for large scale expansion are seriously being reconsidered; these growers now seek to prevent losing existing investment and to phase down operations, if necessary, in an orderly fashion. Eliminating tariffs after 20 years would have also provided for a more level playing field for citrus exports once tariffs are eliminated. It would provide the U.S. and Mexico a realistic amount of time to harmonize pesticide and environmental regulations and standards and for Mexico to better enforce them.

However, NAFTA as currently written does not to take the economic realities of citrus production into account. Gulf Citrus Growers view the following elements as necessary to an acceptable NAFTA:

1) Safeguard mechanism which provides for a tariff rate snapback to MFN rates when Mexican import prices fall below specified levels.

2) Harmonization of all Mexican labor and environmental standards; no tariff reduction until harmonization is accomplished.

3) Strict enforcement of all phytosanitary standards.

4) Accurate and timely mechanism for gathering information on Mexican citrus production, processing and packing shipping to prevent transshipment to third countries.

Without the inclusion of these elements, Gulf Citrus is not able to urge its representatives in Congress to support the present agreement.

D.U.M.P. NAFTA
Defeat Unfair Mexican Pact

FLORIDA SUGAR CANE LEAGUE
NAFTA Statement

September 20, 1993

One of the most important things to remember about NAFTA, the North American Free Trade Agreement, is that "Free Trade" is not necessarily "Fair Trade."

The way NAFTA is now structured it will create an unfair competitive situation that will destroy the U.S. domestic sugar industry, eliminate needed jobs, and leave this nation's consumers susceptible to the vagaries and whims of foreign suppliers.

Under NAFTA, within six years a flood of Mexican sugar will depress U.S. sugar prices and severely damage U.S. producers, as well as producers from the 39 traditional sugar supplying countries.

Although NAFTA ties increases in Mexico's sugar exports to the U.S. to its ability to achieve the status of a net exporter (when its domestic production exceeds its own domestic consumption), it can easily achieve this status simply by substituting less expensive corn sweeteners, or lower cost imported sugar, for use at home, while shipping its own sugar production to the U.S. at a higher price.

This is one example of how the volume based "safeguards" in the agreement fail to address the realities of the market, the price sensitivity of commodities such as sugar, and the cost advantages that are inherent in the economy of a third-world country like Mexico.

For instance, because Mexican sugar growers do not have to comply with the same stringent environmental and labor laws that U.S. sugar growers must, they have lower production costs. In essence, this difference constitutes a subsidy for the Mexican grower. Traditionally such subsidies have been offset by tariffs. But NAFTA will reduce and eliminate existing tariffs, without eliminating the unfair Mexican subsidy.

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We support "Fair" trade. And for NAFTA to similarly embrace "Fair" trade it should recognize that:

* Sweeteners are sweeteners, and Mexico's sugar net exporter status should be determined by including corn sweeteners. Otherwise the cost of Mexico shifting to this sweetener will be borne by the U.S. sugar industry, which already paid for such a transition when U.S. beverage companies switched from sugar to corn sweeteners. And to prevent substitution of imported sugar, Mexico should be required to apply the common external tariff to all non-NAFTA sugar imports when it does achieve net exporter status.
* Mexico's access to the U.S. market should not be unlimited. It should not be allowed to send its entire exportable surplus to the United States, at the expense of a vital U.S. industry, and traditional sugar exporting nations.
* Different environmental quality, food safety and labor regulation standards create a production cost differential that is inherently unfair. First the agreement must be modified to include a price-based safeguard mechanism that will help offset this advantage and that will cushion the domestic industry from the impact of a surge of imports. Similarly, the agreement should be modified to "harmonize" the environmental quality, food safety and labor standards among NAFTA nations.

D.U.M.P. NAFTA
Defeat Unfair Mexican Pact

FLORIDA FRUIT & VEGETABLE ASSOCIATION
NAFTA Statement

September 20, 1993

Florida Fruit & Vegetable Association (FFVA) -- an organization that represents Florida's vegetable, citrus, tropical fruit and sugar cane growers -- believes the North American Free Trade Agreement (NAFTA) as presently written will harm the winter fruit and vegetable industry.

Numerous governmental and private organization studies have examined the potential impact of the proposed agreement on the U.S. economy. The U.S. International Trade Commission (ITC) in February, 1991, reported that the winter fruit and vegetable industry in the United States would suffer losses in employment and production as a result of a free trade arrangement with Mexico. Subsequent studies have confirmed these findings, including a recently-released report by the Council for Agricultural Science and Technology (CAST).

In an effort to prevent potential damage to the industry, FFVA and other agricultural groups representing the fruit and vegetable industry in the United States worked cooperatively with the Bush Administration, and subsequently the Clinton Administration, to develop provisions within the agreement that would provide Florida producers the opportunity to compete on an equitable basis. To date -- despite good faith efforts -- neither the agreement itself, nor the recently-concluded side agreements, contain the kind of substantive measures needed to prevent harm from occurring to the industry.

FFVA's position on the agreement has remained constant throughout the negotiation process. Specific measures designed to mitigate harm to the industry must be included in the NAFTA or FFVA recommends that Congress reject the agreement. The specific measures are:

1. **Tariff phase-out:** Sensitive winter fruit, vegetable and citrus commodities must be provided a transition period that affords producers of these commodities with the maximum time for adjustment.

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2. **Safeguards:** A price-based special safeguard mechanism for perishable commodities must be included. Markets for these commodities are too sensitive and react with too much speed to be adequately addressed with the volume-based mechanism currently found in the agreement.

3. **Labor and Environmental Standards:** Mexico's occupational safety and health, pesticide and environmental standards must be harmonized with the United States prior to the implementation of the agreement. No tariff reductions or other provisions of the agreement should be implemented until equivalent regulatory and enforcement practices are achieved.

4. **Data Collection:** A database must be developed and maintained on the U.S. and Mexican agricultural sectors for the purpose of assessing the agreement's impact on the industry.

D.U.M.P. NAFTA
Defeat Unfair Mexican Pact

INDIAN RIVER CITRUS LEAGUE
NAFTA Statement

September 20, 1993

The Indian River Citrus League, a trade association representing 1600 citrus growers in a six-county area on Florida's east coast, strongly opposes the North American Free Trade Agreement and its side agreements as written.

In our opinion, the agreement will cause long-term injury to Florida's citrus industry, and we urge all Floridians to join with us in opposing this flawed agreement.

D.U.M.P. NAFTA
Defeat Unfair Mexican Pact

FLORIDA FARM BUREAU FEDERATION
NAFTA Statement

September 20, 1993

We oppose the North American Free Trade Agreement (NAFTA) in its current form.

The North American Free Trade Agreement has yet to be resolved despite the recent announcement by the Clinton Administration of the long-awaited side agreements. The International Trade Commission says the side agreements address the concerns voiced by Florida agriculture; however, the ITC has yet to cite specific provisions that will benefit our state.

Farm Bureau remains adamantly opposed to NAFTA regardless of the side agreements, however, the Administration is moving full speed ahead with it despite a Federal Court ruling requiring an environmental impact statement.

Senate leaders are urging the President to withhold the Administration's health care reform until the Senate acts on NAFTA. The strategy advocated by NAFTA supporters would be to first, have NAFTA pass the Senate, where it stands the best chance of passing, hoping the momentum thus gained will then carry it through the House.

Public sentiment against NAFTA seems to be growing in Florida. It appears members of Congress, smarting from criticism of the Budget Reconciliation measure, will be hesitant to buck public sentiment regarding NAFTA.

D.U.M.P. NAFTA
Defeat Unfair Mexican Pact

FLORIDA CITRUS MUTUAL
NAFTA Statement

September 20, 1993

* The NAFTA will result in the reduction of tariffs on frozen concentrated orange juice (FCOJ) and fresh citrus imported from Mexico, over a 10-15 year period.
* The FCOJ tariff will decline by 50% in the first year for the quota level of juice. Reductions in the over-quota tariff will eventually intersect with the in-quota tariff, and decline to zero by year fifteen.
* The NAFTA tariff elimination will have a serious adverse effect on the 144,000 employees and $7 billion dollar capital investment in Florida citrus.
* The ITC predicts at least a 17% increase in imports from Mexico. Mexican bearing and non-bearing orange acreage have expanded by approximately one-third over a three year period, with virtually no domestic market. Acreage is already equal to that of Florida.
* The ITC also predicts job losses and grove reductions, all in Florida, as a result of NAFTA. Citrus trees are not productive until the fourth year after planting, and have a twenty year productive life.
* Mexican imports will not simply replace other imports. FCOJ is priced as a commodity; all suppliers will be drawn to the lowest common denominator. Brazil, which accounts for 72% of world output, will match the price to maintain its market in the U.S.
* Because of the severity of the pricing impact and the influence of world supplies, a safeguard mechanism tied solely to volume surges from Mexico is inadequate. There must be a safeguard mechanism which provides a tariff snapback in the event that import prices fall below the minimum breakeven price for twenty consecutive days.
* Mexico does not incur may of the environmental and health safety regulatory costs incurred by Florida growers. These costs account for 20-30% of Florida grower costs, while Mexican costs are 49% of Florida's costs. There must be a side agreement which provides for a tariff snapback in the event Mexican environmental standards, including agricultural chemical regulations, are not harmonized with U.S. standards.

D.U.M.P. NAFTA
Defeat Unfair Mexican Pact

FLORIDA CITRUS PACKERS
NAFTA Statement

September 20, 1993

We're still waiting for someone to explain how NAFTA and the eleventh hour side agreements are fair to Florida citrus. No one can. When you have the potential to lose everything, what would you do?

DEAN KLECKNER

My name is Dean Kleckner and I am president of the American Farm Bureau Federation. I also raise corn, soybeans and hogs on my farm in Rudd, Iowa.

The American Farm Bureau Federation, the Nation's largest organization of farmers and ranchers, appreciates this opportunity to present its views in support of the North American Free Trade Agreement (NAFTA).

NAFTA will be good for American farmers and workers. It will expand exports and bring about higher farm income and a net increase in U.S. jobs. Rejection of NAFTA could actually reduce U.S. exports and cause job losses.

With NAFTA, we also have the means to improve the environment and reduce illegal immigration. Without it, these problems will only persist and worsen.

Mexico is the third largest single country market for U.S. farm products and is certain to become better under NAFTA. Mexico's agriculture, with its limited resources, is not now keeping pace with domestic demand for food. That is why we have a $1.5 billion farm trade surplus. With its rapidly growing population and a strong desire for improved diets, Mexico will continue to require substantial and growing levels of imports. NAFTA will ensure that these imports are produced in the United States by American farmers and ranchers.

If we reject NAFTA, however, other countries will no doubt take advantage of the growing Mexican market at our expense. Mexico does not need to buy pork from the United States; it can get it from Canada or Denmark. Mexico does not need to buy wheat from the United States; it can get it from Canada, France, Argentina or Australia. Mexico does not need to buy soybeans, nonfat dry milk, dry edible beans, corn, sorghum, rice, beef, poultry, apples, pears, and a whole host of other products from U.S. producers; it can get them elsewhere—and probably will—if we reject NAFTA.

American agriculture must continue to open foreign markets. Our domestic market is basically limited to our population growth, which is almost flat, and to new uses for farm commodities. But 95 percent of the world's population is outside our borders. We must tear down the trade barriers to these people. They will be some of our best customers in the future. Increased sales into foreign markets help us avoid domestic surpluses that drive down farm prices, raise farm program costs and force farmers off their farms. This is what happened in the early '80s when our agricultural exports fell from $44 billion to $26 billion. Our Nation cannot afford to see this reoccur.

Our failure to approve NAFTA would have to be viewed with a mixture of surprise and gratification by our foreign competitors. Who would be the big winners in agriculture if NAFTA is rejected? Probably the biggest winners would be Canadian farmers followed in short order by farmers in Europe and elsewhere. The biggest losers would be our farmers.

Virtually all impartial studies have shown NAFTA to be a net job creator for our Nation and good for our overall economy. More than 280 noted U.S. economists, including all 12 living Nobel Laureates, have told President Clinton that they all agree that NAFTA will, in varying degrees, be a net positive for the United States in both job creation and economic growth.

Without defensible counter-arguments, some opponents have resorted to emotion and exaggeration to convince Americans it is a bad deal. As a result, NAFTA is being blamed for many things: for failing to do enough, or for doing too much, sometimes both on the very same issue.

NAFTA is not perfect. No trade agreement can be. We would have preferred longer transitions for some sensitive commodities and shorter ones for some of our key exports. But overall this agreement is a positive and necessary step for U.S. foreign policy and trade interests. It is a solution to, not the cause of, many of the problems raised by opponents about the agreement.

For example, if there is a problem of U.S. companies moving to Mexico, NAFTA is not the reason. In fact, NAFTA can help address the problem. It opens the Mexican market to U.S. exports, thus allowing companies to stay home and still supply products to Mexico; it eliminates the maquiladora program; and it will help raise wage rates in Mexico.

If there is a problem with illegal immigration from Mexico, NAFTA is not the reason. But NAFTA can help solve it by creating more jobs throughout Mexico.

If there are problems in our trade with Canada, NAFTA is not the reason. The cure some propose—to reject NAFTA—would be worse than the ailment. We could turn over even more agricultural markets to Canada by killing NAFTA.

Some say Mexicans are too poor to buy our products. The fact is, they already buy a lot from us, and one of NAFTA's principal objectives is to increase income levels and expand the middle class in Mexico. If we ignore markets around the world because the people there are "too poor," we will relinquish to other countries nearly all of the demand growth for food and fiber in the years to come.

Some opponents argue that agricultural products will be transshipped from other countries through Mexico. NAFTA's rules against this are tighter than any other trade agreement we have ever entered into. But, in any case, Mexico's import barriers on products from other countries are generally very restrictive, so, in most cases, it would make little sense for products to be shipped through Mexico and face tariffs that are on average 2.5 times higher than U.S. tariffs.

Some say Mexico's pesticide rules are too lax and that Mexico still allows DDT to be used. The oft-cited GAO report should be read before this argument is swallowed. GAO found the U.S. and Mexican pesticide laws and violation rates to be close to equivalent, and GAO found that Mexico's use of DDT was confined to government applications in jungle areas to control mosquitoes that carry malaria. Unfortunately, people are being convinced that NAFTA should be rejected for that reason.

There are those who express concern for the Mexican farmer under NAFTA. Mexico is in the process of reforming its agricultural sector and will do so regardless of whether NAFTA is adopted. The Mexican Government recognizes that its socialist land ownership policy of the past has failed and is moving toward full private ownership of farm holdings. As a result of this domestic policy change, many Mexican farmers will be looking for jobs in industry. With NAFTA, there is greater likelihood that they will find them in Mexico. Without NAFTA, many may be encouraged to come to the United States for work. As Mexico reforms its agricultural system, it will continue to require imports to feed its growing population. Mexico's clear preference is that those imports come from the United States and Canada. That could change if the United States rejects NAFTA.

Opponents also complain that U.S. courts could not be used to petition against unfair imports, even though U.S. courts are not used now. Others claim the U.S. livestock industry would shift to Mexico, although there is no study that suggests this, and every major meat industry group rejects the notion.

The list of unfounded grievances about NAFTA goes on and on. However, NAFTA is probably the most thoroughly studied and analyzed trade agreement ever written, and almost all studies show it will be a net plus for both Mexico and the United States.

Farm Bureau has studied the impact it will have on U.S. agriculture and has concluded that it will be an overall plus. We recognize that not every sector will be helped and some will face increased competition. However, we believe that the transition periods under the agreement will enable most producers to adjust. The supplemental agreement on import surges negotiated by President Clinton will also give us a little extra warning of potential problems from imports.

Currently, Mexico has relatively free and easy access to our market for agricultural commodities it produces, while we face more restrictive barriers when we try to sell our products in Mexico. NAFTA will level this playing field to our favor, and we anticipate further growth in our trade surplus with Mexico if NAFTA is approved.

I appreciate the opportunity to appear before you today. I congratulate you for holding this hearing and look forward to working with you in the coming weeks on the development of the implementing legislation.

ANDREA DURBIN

Mr. Chairman and members of the subcommittee: Good morning. I am Andrea Durbin, Policy Analyst with Friends of the Earth. Friends of the Earth is a national, nonprofit environmental organization with 50,000 members and supporters. We have affiliated organizations in 51 countries and work on a wide range of national and international environmental issues.

We appreciate this opportunity to share our views on the North American Free Trade Agreement (NAFTA). After long and careful review of the text of the NAFTA, as well as the text of the Side Agreement on Environment, we have concluded that the NAFTA, *as currently written,* is not in the environmental interest of the three countries that are parties to the agreement.

We believe that it is possible to structure a trade agreement that will directly link economic growth and the improved social and environmental conditions of the three countries, but this agreement does not achieve these ends. We urge the members of the subcommittee to vote against this agreement and put your full energies behind its renegotiation.

Since we last spoke before the full committee, the administration has concluded a side agreement on the environment. We want to acknowledge the administration's efforts in this undertaking and recognize the advancements of environmental issues in the trade arena over the last few years. Trade and the environment will be intricately linked from now on. However, the environmental side agreement does little to address the fundamental environmental questions raised by NAFTA.

Friends of the Earth believes that NAFTA's potential to create environmental problems and its lack of regard to existing problems is serious enough that it should be rejected, in spite of what was negotiated in the side agreement. We agree with the Federal District Court which ruled that "NAFTA, by its very terms, sets forth criteria that may form a basis for challenging various domestic health and environmental laws" * * * and that "a state law that conflicts with the NAFTA is preempted."

We believe that rejection of this agreement, and commitments to negotiate another, is better than approving this agreement in its flawed form, particularly since the NAFTA will serve as a model for future integration with the rest of Latin America.

We do not subscribe to the idea that increasing economic growth will automatically lead to improved environmental protection. We believe that economic growth enables a country to better protect the environment, but it will not necessarily follow without some guarantees and explicit commitments within the agreement.

In our testimony today we will:

1. Summarize some of the issues that have not been addressed in the environmental side agreement.
2. Analyze the contents of the side agreement.
3. Explore how the side agreement would address existing situations.

I. ANALYSIS OF THE ENVIRONMENTAL SIDE AGREEMENT

Many crucial environmental issues are not addressed at all in the side agreement. For example, the agreement:

1. Does not ensure that NAFTA will not be used by our trading partners to weaken Federal or State environmental, health and safety laws that may impact trade.
2. Does not make the basic dispute resolution process of NAFTA more open or democratic by allowing for public participation or requiring a more representative process.
3. Does not create a comprehensive border cleanup plan, based on the "polluter pays" principle.
4. Does not deter companies from relocating to countries with weaker or nonenforced environmental standards.
5. Does not address the serious impacts of NAFTA on the conservation of natural resources—mining, timber and agricultural impacts.
6. Does not safeguard laws which protect us against products produced in an environmentally destructive manner.
7. Does nothing to solve the ongoing problem of U.S.-owned companies failing to return toxic wastes to the United States for proper treatment.

A Tri-National Commission: A Lot of Talk But No Real Teeth

The side agreement is limited and weak, consisting only of (*i*) the establishment a tri-national Commission for Environmental Cooperation (CEC), (*ii*) an exhaustive mechanism to bring disputes between countries regarding lax enforcement of domestic environmental laws and (*iii*) an announcement that the United States and Mexico will continue discussion about a proposed border institution to leverage bonds that would build infrastructure along the border region.

Because of the limited authority of this commission, we have to conclude that this new institution will have little power to protect the environment from the impacts of NAFTA. In fact, it could be negative for the environment because it will redirect resources that could otherwise be used for border cleanup and building community infrastructure.

A major function of the Commission is to gather information in response to complaints. However, the Commission cannot conduct its own investigations, but must rely on information provided by the governments, not companies. It cannot investigate a workplace or company directly. If a government finds an information request excessive or unduly burdensome, the government may deny the request for information.

The Commission can draw attention to environmental problems and it can make recommendations. Beyond that it can go no further. In short it is little more than a forum for discussion.

A Long and Exhaustive Process for Enforcement

The centerpiece of the Commission is its ability to review whether or not each Party is enforcing its own domestic environmental laws. Unfortunately, this power is so circumscribed that it is effectively meaningless.

First, the definition of environmental law in the agreement is narrow and explicitly excludes laws regulating the exploitation of natural resources from the enforcement provisions. The Commission can only consider laws related to the prevention or control of pollutants, hazardous substances, and the protection of wild flora and fauna, including endangered species. By narrowly defining environmental laws in this way, laws such as food safety regulations or public health measures are excluded.

In addition, only the repeated failure to enforce an existing law is reviewable by the Commission. Environmental problems that are caused because of a lack of regulation are not subject to review because there is no law to review. This kind of backward criteria leads to a downward pressure against establishing an environmental regulatory structure.

For those narrow laws that are covered by the agreement, there are other criteria that must be met to determine whether or not a government can be penalized for not enforcing its environmental laws. The agreement allows for a Party to not enforce its environmental laws if it "reflects a reasonable exercise of the agency's or the official's discretion" or if it "results from a bona fide decision to allocate enforcement resources to violations determined to have higher priorities" (annex II), creating a gigantic loophole for governments to argue their way out of a complaint.

Finally, in order to be reviewable, there must be a "persistent pattern of nonenforcement," which is defined as "a sustained or recurring course of action or inaction" (annex IV). This definition is extremely vague as to the length of time such a behavior must be sustained before a complaint can be brought. Without a more specific definition, the determination of persistent pattern of nonenforcement is left subjective and undetermined: it could be 1 year or 5 years of nonenforcement.

Enforcement: Punishing Governments, Not Polluters

The administration has argued that the real "teeth" in this agreement is the ability to penalize a government for nonenforcement through sanctions. The compromise struck between the three countries would allow sanctions to be levied against the United States and Mexico, and fines against Canada, enforced through the Canadian courts.

Much of the debate has focused on Mexico's record of enforcing environmental laws, rather than on the behavior of industries and whether or not they are complying with the law. We continue to believe that the industries themselves must be held responsible and accountable for their own behavior. But this agreement punishes governments for not enforcing, not industries for not complying.

If, after a long and exhaustive process, the Commission decides that sanctions or fines can be levied, the agreement limits the amount of the penalty to no more than $20 million the first year, and .007 percent of the three-way trade between countries thereafter (which is roughly $20 million this year). Although $20 million appears to be a significant amount, when it is a fine against governments, it is relatively insignificant. Despite what the administration has argued, it is unlikely that the government will pass on that cost to the offending industry. Structuring the agreement this way puts the burden on governments, rather than encouraging companies to comply with the law.

Resolving Disputes in the Commission

Like the NAFTA itself, the side agreement establishes a dispute resolution process to allow Parties to bring complaints about nonenforcement. Only nonenforcement cases will be resolved by this mechanism. All other environmental cases will be heard in NAFTA's dispute resolution mechanism, which still remains closed to the public, and unrepresentative of environmental interests.

To see the disparity between the side agreement and the NAFTA, one only needs to look at the dispute resolution process. In order for a Party to establish a panel in the Commission, it must gain the support of two-thirds of the Parties. Compare that requirement to the NAFTA dispute resolution which requires that only one Party needs to approve in order to form a panel. The criteria in the environmental side agreement are consistently more difficult to meet than in the NAFTA

Only governments, not citizens, can request a panel. Although citizens can bring a complaint to the Commission, citizen complaints do not lead to the formation of a panel. If a citizen meets the regimented criteria that the Commission requires to be a legitimate consideration, the most the Commission can do in response to that complaint is issue a report, which requires the approval of two-thirds of the Parties.

Still the governments can refuse to answer a citizen's request, or scale back the request.

The negotiators have made progress in the dispute process of the Commission, when compared to NAFTA's dispute resolution. It will set up a roster of panelists that include panelists that have environmental expertise. However, this does not extend to NAFTA's dispute panel where environmental experts are not mentioned or required. This difference is crucial because any challenges to U.S. environmental, health or safety laws will be resolved in the NAFTA dispute process.

II. CARBON II: A HYPOTHETICAL CASE

In recent weeks there have been a number of press reports about the Carbon II coal-fired power plant facility under construction in Mexico near the U.S. border town of Eagle Pass, Texas, 140 miles southeast of Big Bend National Park. The coal-fired plants may be exporting energy to the United States.

Carbon II will lack scrubbers and pollution control devices for sulfur dioxide that would be standard equipment on a newly constructed power plant in the U.S. Environmentalists are concerned that its emissions will cause air pollution problems on the U.S. side of the border and impact Big Bend National Park. We would like to imagine how this situation would be addressed by the environmental side agreement.

First, let's assume that a citizen's group like Friends of the Earth wishes to take action to try to stop transboundary pollution. It could lodge a complaint with the Commission, which can be denied. If it is accepted, the Commission could undertake a report. It could not conduct its own independent analyses of air quality or subpoena plant managers or directors. It could only ask the Mexican and U.S. governments to provide existing information. The governments can then simply refuse, saying the demand is burdensome. If the governments provide information, the Commission can write a report and make recommendations. If two of the three countries agree, the report can be made public, otherwise it remains confidential.

It would be impossible for an individual or an organization like Friends of the Earth to initiate the process which might eventually lead to formal sanctions. Such actions can only come at the request of governments, and with the support of two-third's of the parties.

If the U.S. Government decided to bring a formal complaint about Carbon II it would have to prove that the pollution is being caused by Mexico's lax enforcement of an existing law, not for the failure to set regulatory standards. According to the Wall Street Journal, the Mexican embassy has already said that the plant "meets or exceeds all applicable national and international pollution standards." If that is true, the Commission can do nothing. Second, the United States would have to prove that the violation is part of a "persistent pattern" of nonenforcement. While the meaning of this term is unclear and will likely be resolved through precedent, the United States will have to wait until the plant is operating and will have to show that the violations of environmental laws have been persistent. It may also need to prove not just that this plant is in violation but that the whole Mexican power sector is in violation.

If these difficult points were proven, Mexico could then simply claim that enforcing pollution control on coal-fired plants is not a priority and the lack of attention "results from a bona fide decision to allocate enforcement resources to violations determined to have higher priorities" such as air pollution in Mexico City.

If the United States were able to surmount these difficulties and succeed in levying sanctions, the most it could collect is $20 million dollars. According to the U.S. EPA the costs of installing scrubbers to meet U.S. air emission standards would be around $300 million simply to control sulfur dioxide, not to mention nitrogen oxide. Given such costs, at the end of the day, paying the fine would be a bargain for Mexico.

III. CASE STUDY OF REEXPORTING HAZARDOUS WASTES

Annex III of the 1983 La Paz Agreement and the 1988 Mexican Law of General Equilibrium require maquiladora industries to export their hazardous waste to the country of origin for treatment and disposal. The thinking behind this agreement is that Mexico lacks facilities to treat these wastes in a manner equivalent to the treatment they would receive in the United States.

The U.S.-owned maquiladoras widely flaunt this law. The Environmental Protection Agency estimates that only about one-third of the hazardous waste generated in the maquiladoras is returned to the United States, leaving somewhere around 20,000 tons in Mexico.

This situation is not in the interest of Mexico or the United States. The improperly dumped toxic wastes can lead to public health problems and huge long-term cleanup costs for Mexico. Industries may relocate to Mexico to take advantage of the situation and avoid the costs of proper disposal in the United States. The problem is not isolated to Mexico, since the toxics can cross back into the United States through the air, water, or ground water.

This whole topic is not addressed in the NAFTA, despite being one of the clearest trade and environment problems between the United States and Mexico. We had hoped that the side agreements would address the problem, but, as with Carbon II, we see them doing little more than providing an opportunity to discuss the issue. In fact the agreement could provide political cover to allow this problem to persist into the next century.

If this issue were brought before the Commission, the politics would be somewhat different from Carbon II, since in the case of the failure to reexport hazardous wastes both the U.S. and Mexican Governments are failing to meet treaty obligations. Since the approval of two NAFTA country governments is required to initiate a formal enforcement proceedings, it is unlikely this situation would ever be considered. Furthermore, if the issue were considered, the United States and Mexico could quickly announce that they had reached an agreement on the issue—whether or not any real action would ultimately take place.

We therefore believe that the side agreements will deflect action on this crucial area for the immediate future. Furthermore, since NAFTA gradually phases out the maquiladora program as it phases out tariffs, the effect is to provide cover for these corporate violations until the NAFTA itself steps in and makes the dumping of hazardous wastes legal. In short, desperately needed control and prevention of industrial toxics will not take place.

IV. CONCLUSION

The environmental side agreement did not serve to resolve some key conflicts between increased trade and environmental protection. Instead, it creates yet another international institution that, given its weak powers, will be ineffective, and given the requirements for sanctions to be invoked, it is unlikely that they will be applied.

We still believe that a framework for integration is necessary within North America, but that framework needs to be dramatically recast to incorporate the goals of sustainable development, democratic participation and responsible corporate behavior.

BRENT BLACKWELDER

Mr. Chairman and members of the committee: My name is Brent Blackwelder. I am Vice President for Policy at Friends of the Earth. Friends of the Earth is a national, nonprofit environmental organization with affiliated organizations in 51 countries. We work on a wide range of national and international environmental issues. With me is Andrea Durbin, our Trade Policy Analyst. She recently returned from a trip to Mexico, where she had the opportunity to view some of PEMEX's facilities first hand.

We are pleased to have the opportunity to present our views on the energy implications of the North American Free Trade Agreement. Friends of the Earth is opposed to the NAFTA for a wide range of reasons and would urge the members of the subcommittee to vote against the agreement. At the same time we would urge the administration to begin negotiations on a new pact that would bring a more sensible order to trade relations among the countries of North America—a NAFTA II.

From the outset we should make it clear that our views concerning the proper energy policy for the United States differ rather markedly from those espoused by the administration that negotiated the North American Free Trade Agreement. We believe U.S. energy policy should feature the following two goals:

1. To dramatically increase the efficiency of the entire energy system from production through end use;
2. To shift, as rapidly a possible, to renewable energy sources.

We are confident that the subcommittee has heard many times and at great length about the benefits of applying these guiding principles and we will not elaborate on them here, except to point out that energy efficiency is a crucial component of global trade competitiveness. Efficient economies need to import less energy (or can export more) and, since energy is a smaller part of production costs, these economies find more of their products are competitive on the export markets.

Unfortunately, the NAFTA does not promote the goals of efficiency and renewables, but rather emphasizes business-as-usual.

I. INCENTIVES EXEMPTED

Quite simply the NAFTA and its side agreements do nothing to promote the efficient use of energy in any of the member countries.

One of our main objections to the nature of current trade agreements is that in their quest to root out so-called "nontariff" barriers, they infringe on areas that have long been the province of local, State, and National Governments. We have seen this process most dramatically in the General Agreement on Tariffs and Trade (GATT). There the European Community has announced that it plans to eliminate a wide range of U.S. practices, from minority set-asides to subsidized western water for farmers as unfair trade practices. The EC has initiated formal GATT actions against two U.S. energy conservation laws—Corporate Average Fuel Economy (CAFE) standards and the Gas Guzzler tax—as unfair trade practices.

We bring up the GATT because the provisions of the NAFTA largely follow those of the GATT. Like GATT, the NAFTA seeks to weed out subsidies and exemptions granted to particular industries, since these allegedly skew the functioning of the free markets.

While in principle we believe that many of these decisions are social matters that should be resolved through democratic means, rather than through trade agreements, we would have at least expected that the agreement would have obligated all aspects of the energy sector to the same rules. Unfortunately that is not the case. In article 608.2 a broad exemption is granted to the oil and gas industry: "The parties agree to allow existing or future incentives for oil and gas exploration, development and related activities in order to maintain the reserve base for these energy sources."

The U.S. oil and gas industry already receives a wide range of "incentives" at taxpayer and environmental expense. Many of these exemptions are documented in "Crude Awakening," a recent Friends of the Earth report on waste and inefficiency in the oil and gas industry. We append a chart from that report which points out how RCRA, Clean Water Act, Superfund, and other laws all contain broad exemptions for the oil and gas industry. This report also documents the incredible energy waste of the U.S. oil and gas industry, estimating that from wellhead to gas tank, the oil industry currently loses about 236 million barrels of oil per year—roughly the equivalent of 1,000 *Exxon Valdez* spills. NAFTA, by exempting incentives will simply allow this waste to continue unabated in the United States.

Perversely, the effect of the exemption for oil and gas incentives may pave the way for future challenges to incentives for either efficiency or renewable energy that governments at various level may be offering now or in the future. We can imagine that if an incentive for a renewable energy source began to be so effective as to eat into oil and gas profits, a NAFTA case could be launched in which the incentive was challenged as an unfair trade practice.

II. IMPROVING THE SITUATION IN MEXICO?

It is no secret that PEMEX, the Mexican Government's oil and gas monopoly, is an inefficient and highly polluting energy producer. Our staff's recent sight visit to the State of Tabasco certainly confirmed this situation.

Our colleagues in the energy industry will no doubt argue that U.S. investment in Mexico's energy sector, to the extent that it is allowed under NAFTA, would benefit the environment. To a limited extent, we agree with this analysis—the potential is there for investments to improve the efficiency of the Mexican fossil fuels sector.

That said, we are not convinced that the NAFTA does anything to actually make that efficiency come about. The poor environmental record of PEMEX argues that the Mexican Government will do little to regulate the oil and gas industry. NAFTA, in essence, relies on the goodwill of the foreign investors to bring about efficiency improvements and pollution reductions. As mentioned above, the U.S. oil and gas industry, already feeding off numerous exemptions, has an extremely spotty record here. Furthermore, reports we receive from our affiliates around the world indicate that, once abroad, many of the U.S. oil companies comfortably satisfy themselves with meeting the lowest environmental standards they can get away with in the host country.

As a subcommittee, you must ask yourselves if you believe that the oil industry's promises of heightened efficiency and cleanup in Mexico actually square with their successful efforts to exempt themselves from domestic U.S. environmental laws, or from the disciplines of the international free trade agreement. We believe that in the absence of some mechanism to compel exemplary behavior, the U.S. oil and gas industry will do little for Mexico's pollution problem.

III. TRANSPORTATION EFFECTS IGNORED

In November 1989, the European Commission published a study of the environmental effects of the implementation of the Common Internal Market in 1992. While the Europeans are undertaking a more ambitious project than the proposed comprehensive North American Trade Agreement, their preliminary analysis is a sobering confirmation of the environmental dangers of trade agreements.

The task force explored a wide range of effects, the most significant of which was the increase in transportation that would result from greater trade. The task force concluded that the Common Internal Market would increase interstate truck transport in the EC between 30 and 50 percent. According to the task force, "the growth impact of the Internal Market is likely to cause atmospheric emissions of SO_2 and NO_x to increase respectively by 8–9 percent and 12–14 percent by 2010."

While geographic differences between North America and Europe mean that these results cannot be translated directly, a dramatic expansion of truck traffic along the U.S.-Mexican border seems inevitable. An EPA report, "Review of U.S.-Mexico Environmental Issues," points to a quadrupling of truck traffic between the United States and Mexico by the year 2000, even without NAFTA. With NAFTA the total will go higher; the report suggests that up to 12 million trucks may be crossing the border each way each year by the turn of the century—up from slightly under 2 million in 1990.[7] The resulting pollution could be significant.

With the inclusion of Canada, one can reasonably expect growing transport across the United States to Canadian markets as well, although we do not have estimates of this effect.

The overall increase in transport would not only have effects on SO_2 and NO_x emissions, but would also increase emissions of CO_2, the principal greenhouse gas. The task force goes on to conclude that in the European case:

> Without proper incentives, energy demand (and corresponding pollution) appears to be positively correlated with additional economic growth. The main policy lesson of the energy shortages of 1974 and 1979 may be that a proper incentive, such as higher energy prices, is critically important in breaking the link between economic growth and energy consumption. Only if the scarcity of natural resources is properly reflected in the use of price incentives and/or regulations, will economic growth associated with the completion of the Internal Market lead to overall economic efficiency.

We concur with the conclusion of the task force and note that the NAFTA completely lacks these sorts of compensatory measures.

CONCLUSION

In short, NAFTA holds the prospect for increased energy use, particularly fossil fuel use, in the United States, Mexico and Canada, especially in the transportation sector. Current exemptions from environmental laws and subsidies to the petrochemical industry will continue, while inducements to the alternative energy industry may be vulnerable to challenge as nontariff barriers. As the case of Carbon II illustrates, we will be powerless to stop transborder pollution from power-generating facilities. Furthermore, these facilities may gain a competitive advantage in the electricity market because they need not abide by as strict a set of pollution control laws.

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[7] "Review of U.S.-Mexico Environmental Issues," February, 1992, pp. 177–178.

BIG OIL'S BIG EXEMPTIONS

RCRA - The Resource Conservation & Recovery Act

Purpose: To foster safe management and disposal of waste; defines hazardous wastes and chemicals to be regulated as hazardous; prohibits disposal of hazardous waste, except in permitted facilities.

Exemption: Drilling fluids, produced waters, and wastes associated with oil and gas exploration, development, or production.

Other: Petroleum pipelines exempt from RCRA; weaker underground storage tank regulations; cleanups of leaking underground storage tanks exempt from toxicity characteristic; above ground crude oil storage tanks exempt from RCRA; used motor oil considered "non-hazardous."

SUPERFUND - Comprehensive Response, Compensation & Liability Act

Purpose: To foster the prompt cleanup of hazardous substances released into the environment, mostly in toxic waste dumps.

Exemption: Petroleum, natural gas, and synthetic gas exempted from this law's definition of hazardous substances.

The Clean Water Act

Purpose: To eliminate pollution discharges into the nation's waterways through the National Pollution Discharge Elimination System (NPDES). NPDES permits required for surface water discharge.

Exemption: Stripper wells (less than 10 bbls/day) exempt from zero discharge requirement for produced water & associated wastes;

Exemption: West of 98th meridian, produced water from any well may be discharged into navigable waters or used for wildlife or irrigation under "beneficial use" provisos.

Clean Water Act and Rivers & Harbors Act

Special Provision: Under the Army Corps of Engineers regulation of dredging and construction activities in the coastal and offshore areas of the United States under Section 404 of the Clean Water Act and Section 10 of the Rivers and Harbors Act there is a special provision allowing for "nationwide permits," called no. 8 permits, which is type of blanket permit that does not require the same level of detail and environmental review that specific permits due. Oil and gas structures, in other words, do not have to go through the same level of review that a port authority might have to in building or expanding its facilities.

THE POLITICS OF EXEMPTION

The Safe Drinking Water Act

Purpose: To prevent contamination of drinking water sources, including groundwater; regulates contaminants in drinking water, and also regulates deep-well injection of wastes.

General Provision: House Report notes law's intent "not to authorize needless interference with oil and gas production." Oil and gas production, in other words, is accorded preferential treatment over protecting drinking water.

Exemption: Oil & gas wastes — exempt from RCRA "hazardous" definition — allowed to be injected in less regulated, less structurally sound Class II underground waste wells. Some 170,000 Class II wells in 31 states are used for waste disposal and for enhanced oil recovery. Class II wells are also subject to less strict regulatory provisions.

Exemption: Existing owners and operators — estimated at 70% of all Class II wells — exempt from abandoned well "area of review" requirement to search for and remedy improperly plugged/leaking wells in nearby area.

Other: Maximum allowable daily fines for past or current violations by oil and gas operators are half the level specified for others under EPA Administrative Orders.

Hazardous Liquid Pipeline Safety Act

Purpose: Regulation of Hazardous Liquid Pipelines and establishment of minimum federal safety standards.

Exemption: Low-pressure, crude oil gathering lines of a diameter of six inches or less, and located in rural areas, are exempt from regulation under section 209.

Clean Air Act of 1990

Purpose: To improve public health by controlling and reducing air pollution.

Exemption: Oil & gas platforms in federal offshore waters of Texas, Louisiana, Mississippi & Alabama are exempt from air pollution regulations required of onshore rigs.

Other: Rule to regulate volatile organic compounds (VOCs) at marine-loading terminals has not been issued, and EPA officials say that one of the largest sources of such emissions — the Valdez, AK terminal with 43,000 tons annually — may be exempted if it is determined there is no significant health risk.

THE POLITICS OF EXEMPTION

Emergency Planning & Community Right-To-Know Act

Purpose: To publicly disclose information about toxic chemicals and potential chemical hazards under the Toxic Release Inventory (TRI) as required by the 1986 Superfund Amendments; also to encourage emergency response to chemical accidents.

Exemption: The following oil- and gas-related industrial segments as classified by the Standard Industrial Classification (SIC) system, are excluded from the TRI: Oil and Gas Extraction, Petroleum Pipelines, Marine Cargo Handling Facilities, Gas Production and Distribution, Petroleum and Petroleum Product Wholesalers, Underground Injection Wells, Gasoline Service Stations, and Fuel Oil Dealers.

Oil Pollution Act of 1990

Purpose: To reduce the risk and frequency of, and where possible prevent, oil spills in U.S. waters; establishes double hull tanker requirement and other provisions for spill liability, compensation and spill clean-up response.

Exemption: Barges exempt for double hull requirement; must meet other "secondary containment" requirement by year 2015.

NATIONAL GRANGE

I am Robert E. Barrow, the duly-elected Master of the National Grange, which has offices at 1616 H St., NW, Washington, DC. The National Grange represents approximately 300,000 farmers and other residents of rural America in over 4,000 local communities across the United States.

The central problem for every free market economy is to keep supply and demand in balance. Agriculture has been struggling with supply and demand, in spite of production control programs, for over 60 years, and no end is in sight unless we have a structural increase in demand.

Agriculture needs new customers and new markets in order to grow and prosper. Where can we find them? For starters, we can look south to Mexico; then beyond to Central and South America.

The National Grange has followed the development of the North American Free Trade Agreement (NAFTA) since its inception more than 2 years ago. As a member of the Agricultural Policy Advisory Committee on Trade, I have personally been involved in the events that led up to the three Heads of State initiating the Agreement in the late summer of 1992.

The voting delegates to the National Grange's 126th Annual Convention strongly supported the NAFTA. In 1991, in the early stages of the negotiations between the United States, Canada, and Mexico, the Grange adopted the following resolution:

> The National Grange supports the efforts of the United States, Mexico, and Canada to reach a North American Free Trade Agreement. To provide protection to the producers of import-sensitive commodities, we recommend the following:
>
> 1. The U.S.-Canadian agreement phases out tariffs over a 10-year period, but many of the U.S. domestically produced and processed products will vigorously compete in the U.S. market with products that are produced and processed in Mexico. The United States tariff phase-out period should be for a longer period of time than 10 years, and the commodity coverage under the General System of Preference should be terminated.
> 2. The NAFTA should also provide for a temporary "snap back" restoration of tariffs during the peak harvesting season or during times of import surges of agricultural commodities that are above the trend line for that commodity.
> 3. In addition to these two general provisions that would apply to all commodities, there are some products that may need to have special arrangements made to help their industries adjust over a longer period of time to a free trading environment.
> 4. We recommend: a) establishment of minimum technical standards regarding pesticide use, quality control, and disease control; b) protection of intellectual property rights, including plant variety trademarks and brand names; c) strong so-called country-of-origin protection that would protect U.S. producers and processors from competition from transshipment of Third Country products into the United States via Mexico's NAFTA provisions; and d) elimination of Mexico's import licenses that greatly reduce the amount of goods that are available for export and the product registration rules that make it time consuming and costly to gain access to Mexico's consumer markets. We have determined that the agreed-to NAFTA meets the National Grange's primary recommendation; therefore, we firmly support its approval by the U.S. Congress.

Following the negotiations in August of 1992, the National Grange met in November, 1992 in Denver, Colorado for its 126th Annual Convention. At that time, the voting delegates reaffirmed the above policy and adopted the following:

> The Grange must continue to support expanding trade on a mutually beneficial basis. The success of the North American Free Trade Agreement (NAFTA) will be instrumental in accomplishing some of these objectives and the Grange should give it strong support. The Grange believes that the NAFTA, on the whole, will be beneficial to the economic growth of the United States, Canada, and Mexico. The greater economic activity will be between the United States and Mexico because the majority of the NAFTA's provisions have already been implemented under the U.S.-Canada Free Trade Agreement. This is particularly true for agriculture because Canada chose not to enter into most of the agricultural negotiations in the NAFTA, so U.S. farmers will benefit most from increased farm trade.

As the International Trade Commission's report pointed out, the NAFTA's impact on the United States will vary by region and product. The report "Potential Impact on the U.S. Economy and Selected Industries of the North American Free Trade Agreement," which was written by the Commission, stated the case as it is currently understood—that there would be short-term and long-term effects by the trade agreement. The report said, in part, that the NAFTA is expected to expand U.S.-Mexican trade substantially. The estimated gains in U.S. exports to Mexico range from 5.2 to 27.1 percent. The projected increases in U.S. imports from Mexico range from 3.4 to 15.4 percent.

The projected long-term gains in aggregate employment are less than 1 percent for the United States and Canada, but are up to almost 7 percent for Mexico. The expected increases in the average real wages are 0.3 percent or less for the United States, 0.5 percent or less for Canada, and 0.7 to 16.2 percent for Mexico. Although the evidence on the direction of real wage effects for low- and high-skilled U.S. workers is mixed, the preponderance of evidence indicates an indiscernible effect on the United States wage rates for both low- and high-skilled workers.

According to the report, Mexico's improved access to advanced technology could lead to a long-term increase in Mexico's rate of economic growth. As longstanding participants in a global open trading regime, the United States and Canada may not realize substantial dynamic gains from the NAFTA, but will benefit from the market opportunities that are created by the economic growth in Mexico.

The NAFTA will raise the standard of living in Mexico, creating new markets for U.S. products, including those from our farms. At the same time, the economic activity in Mexico, as a result of freer trade between 360 million consumers, will result in increased employment in Mexico, alleviating part of the human misery that drives Mexican citizens across the Rio Grande to seek illegal employment in the United States. It will also provide the economic steam engine to help Mexico improve its labor and environmental standards. Without the NAFTA, there is no assurance that these things will ever happen. Which is the better hemisphere to live in—pre-NAFTA or post-NAFTA?

The NAFTA will create new, long-term growth opportunities for U.S. farm exports in the Western Hemisphere far into the next century. The USDA's Office of Economics' most recent appraisal of the Agreement's impact on agricultural trade contains the following:

> In the year 2008, when the Agreement is fully implemented, U.S. farm exports are estimated to be $2 to $2.5 billion higher than without the Agreement. Most of that will be gains in U.S. farm exports to Mexico. Farm exports to Mexico have been on an upswing due primarily to Mexico's lowered barriers to U.S. agricultural imports at the same time its economy boomed.

The further lowering and eventual removal of Mexico's tariff and nontariff barriers to trade will result in further increases in U.S. farm exports. This will be true for a large number of U.S. agricultural commodities.

The NAFTA's provisions are well known to you and the members of your committee. We believe that there are sufficient safeguards and other measures to protect the import-sensitive commodities. Designated quantities of these safeguarded products may enter at a low tariff, with imports larger than those quantities paying a higher tariff. The United States can apply such safeguards to a wide range of impacted commodities, including fresh tomatoes, eggplants, chili peppers, squash, watermelons, and onions.

There are other safeguards built into the NAFTA. The products that receive favorable tariff treatment must originate (or be substantially transformed, such as through a manufacturing process) in Mexico, Canada, or the United States. Under the Rules of Origin, a country cannot import farm goods and ship them to a NAFTA partner under the Agreement's more favorable tariff treatment. Mexico's tariffs with other countries will not be changed by the NAFTA.

Opponents of the NAFTA argue that the Agreement will result in unsafe food entering the United States because of another country's lower standards. Under the NAFTA, it will be possible for us to maintain our stringent standards for health, safety, and the environment, and prohibit imports that do not meet U.S. standards. State and local governments can enact their own import standards if they are based on scientific grounds. Each country in the Agreement can maintain the grade standards to fit its marketing rules. The local content requirements of Mexico's manufacturing rules will be eliminated under the Agreement, opening up new markets for U.S. goods.

Some of the highlights on increased U.S. farm exports to Mexico under the NAFTA are: 20-percent increase in wheat, 2.5 million ton duty-free quota for corn that will increase 3 percent each year, 10- to 20-percent increase in rice, $400 to

$500 million increase for soybeans, 8-percent rise in peanut exports, pom fruits (peaches, apples, and pears) may nearly double, 20,000-ton increase in milk powder, and increased exports of pork and hogs.

We live in a global economy, and no sector of the U.S. economy can escape that fact. The fastest growing sector of our economy is our exports, and Mexico is an important part of that growth. The NAFTA will lock in the gains in exports we have made with Mexico and open new opportunities for growth.

New trade agreements will be more important to the restructured U.S. agricultural sector and rural America than any new farm bill. U.S. agriculture heavily depends on exports. About one-third of our production is sold to foreign customers. If we are to just maintain the present agricultural productivity, let alone bring back the millions of acres that are now being held out of production, help preserve family farms, and enhance rural America, we have no choice but to expand agricultural exports. Otherwise, we must take resources out of agriculture in order to maintain a balance between supply and demand at reasonable prices. That means even fewer farms and fewer farmers.

Mexico is just the beginning. Three-quarters of mankind lives in squalor. Our economic future lies in using our Nation's productive capacity to relieve the awful suffering of the great bulk of the world's people. No amount of foreign aid can accomplish this task. Only foreign trade holds the key to world prosperity.

We strongly support the NAFTA, and urge its approval by the U.S. Congress. To conclude that the United States stands to lose by eliminating trade barriers with Mexico, a small economically depressed nation, takes some mighty creative reasoning. In the short run, we may have to restructure parts of our economy so that poorer nations can more robustly consume our farm and industrial goods and services in the long run. The world had to restructure demand to bring about an end to the Great Depression. World War II was the primary reason behind that restructuring. Now we have a chance to accomplish it through peaceful means—trade expansion through regional and international trade agreements.

We respectfully urge approval of NAFTA by this committee and Congress. To do otherwise will not only be detrimental to all of our economic sectors but would set back our political and economic relations with our Latin American neighbors to the point of nonrecovery. We urge you to vote "yes."

Thank you for allowing the Grange to present its position on this matter. We would like to request that this statement be made part of the hearing record on the NAFTA.

THE NATIONAL FAMILY FARM COALITION

The National Family Farm Coalition (NFFC) and other family farm groups were repeatedly told that the side agreements to the North American Free Trade Agreement (NAFTA) would address our concerns about its negative impact on family farmers. The side agreements released on August 13th do not even mention agriculture and fall far short on environmental and labor concerns. It is imperative that the NAFTA be renegotiated.

NAFTA has nothing to do with trade, free or otherwise, between the people of Canada, Mexico and the United States. Rather, it is a supra-legal device by well-positioned transnational corporations in various economic sectors to drive the citizens of these countries into senseless, self-destructive competition with each other for the lowest farm prices, lowest wages, lowest standards of living, and the lowest levels of food, environmental and consumer safety.

The volume of the movement of goods and services between these three nations is already nearly the greatest in the world and growing annually. The only "freedom" in NAFTA is that which is given to the transnational corporations and their major investors to conduct their business free from any requirements of fair pricing and wages for farmers and workers, of adherence to sound environmental and consumer safety standards, and of respect for the rights of communities throughout the proposed trade region to exercise their responsibilities of local self-government.

In reality, NAFTA is not about free trade but rather about who controls capital investments, labor and the supply of food. And opposition to NAFTA cannot be called protectionist but rather represents the need for expanded economic opportunity and reward for all North American people, not just the giant corporations and their major investors.

NAFTA as it now stands must be rejected by Congress. The side agreements have revealed nothing to fix an inadequate agreement. President Clinton must initiate new negotiations for a truly fair, democratic, and workable trade agreement for the entire hemisphere.

THE AGRIBUSINESS COUNCIL

This statement supporting the North American Free Trade Agreement (NAFTA) is made on behalf of the Agribusiness Council, an organization representing agricultural producers from the grower to the processor and agricultural manufacturer, including all aspects of marketing agricultural products, from all U.S. regions

The Council has actively supported NAFTA because we expect that the agreement will substantially expand export trade to Mexico in agricultural products as well as exports of agricultural-related products, such as farm equipment and chemicals. We also anticipate signficant growth in agricultural employment of 50,000 to 60,000 and more in ag-related industries as the result of NAFTA over the full 15 years of transition periods provided in the agreement.

Positive effects of NAFTA, including growth of production, exports, and employment will benefit the entire range of agribusiness sectors: seeds, farm equipment and tractors, agro-chemicals, fertilizers, commodities and livestock (including fisheries), farm management, forestry, commodity handling and storage, food processing, equipment and machinery for food processing and packaging, transportation, refrigeration, retailing, finance and insurance, consulting, accounting, environmental and renewable-energy equipment (including controlled environmental agriculture).

The Agribusiness Council has supported expanded international trade for agribusiness as evidenced by the Council's sponsorship of a conference in October 1992, entitled "Globalization in Agribusiness: Competitive Challenges in the 1990s and Beyond." A principal focus of the conference was the relationship between NAFTA and economic reform and trade liberalization in Mexico. At that time the Council surveyed agribusiness executives throughout the United States on international business issues and responses indicated widespread interest in the completion of an acceptable NAFTA agreement.

It is widely believed in the agribusiness community that U.S. agriculture will benefit from Mexico's need to feed an expanding population, and that economic growth in Mexico will produce increasing demand for greater protein consumption, high-quality fruit and vegetables, and more processed foods.

Mexico is a mountainous country with a limited amount of arable soil. Much of the land there is arid or semi-arid. These limitations coupled with the population growth of Mexico's 92 million people, estimated at 2 percent per year, will result in increased demand for U.S. agriculture to supply food. Also, the limitation on available farmland in Mexico will cause Mexicans to turn to U.S. farm equipment manufacturers and suppliers of agricultural technology to furnish the means to farm the existing land intensively and efficiently.

Within the first 5 years of the agreement, and for some products immediately, 65 percent of U.S. agricultural products will be allowed to enter Mexico duty free. Approximately half of the agricultural products exported to Mexico will receive duty-free treatment from the date the agreement enters into effect. This dramatic improvement in market access to the Mexican market will benefit U.S. agriculture and agro-industries. Particularly important to agriculture will be the elimination of non-tariff barriers, especially import licenses, which have previously been used to restrict U.S. export trade into Mexico.

Meanwhile, the tariff rate quota provided by NAFTA acts as a safeguard against Mexican imports of agricultural goods and allows sufficient transition periods: 5, 10, or 15 years in different product categories, depending on the import sensitivity of the product. Special safeguards are provided for highly import-sensitive seasonal products, such as tomatoes and other winter vegetables.

Now that acceptable supplemental agreements on labor and environmental standards and import surge protection have been reached, the Council finds that the side agreements do not change its support for the overall NAFTA agreement. In sum, the Agribusiness Council anticipates substantial gains in exports and income from agriculture and related industries from the NAFTA agreement.

I. SAFEGUARDS

The Agribusiness Council has not opposed efforts to establish enforcement of labor and environmental standards on both sides of the U.S.-Mexico border so that a "level playing field" will prevail in trade relations between these countries. Although we have not favored trade sanctions, we accept the sanctions provided for in the supplemental agreements on labor and environmental standards in the context of dispute resolution procedures focusing on conciliatory and consultative methods.

The Council also accepts the import surge protection features provided in the supplemental agreement, entitled "Understanding on Emergency Action." The agreement builds upon safeguards against import surges already contained in Chapter 8 of NAFTA while adding a Working Group on Emergency Action to consult on matters of increased imports causing or threatening to cause serious injury and related economic issues.

The Council has commented more fully on the supplemental agreements in a separate document filed with the committee on September 17, 1993.

II. SANITARY AND PHYTOSANITARY STANDARDS

The Agribusiness community appears unanimous in agreement that the strong sanitary conditions adhered to by U.S. agriculture should not be compromised by entering into NAFTA, and national standards and enforcement of all three countries should be equivalent. The Council continues to be vigilant against the arbitrary use of standards to interfere with the free flow of imports, and are satisfied with NAFTA's treatment of this point. (Article 712(3) and (4)).

The Agribusiness Council advocates rigorous enforcement of sanitary and phytosanitary standards in Mexico so that agricultural products exported to the United States will be safe for consumption in this country. Moreover, we oppose Mexican agricultural producers receiving a competitive advantage over U.S. producers by virtue of having weakly enforced sanitary standards and a low cost of compliance.

III. TREATMENT OF CERTAIN COMMODITIES UNDER NAFTA

Some commodities, such as peanuts, milk, and sugar, which have been protected under Section 22 of the Agricultural Adjustment Acts, will face more competitive market conditions under NAFTA. Also facing increased competition from Mexican products under NAFTA will be citrus fruit and winter vegetables.

The Agribusiness Council has discussed the impact of NAFTA on these commodities in detail in its comments filed with the committee on May 25, 1993. In summary, our view, enhanced by conclusion of the Understanding on Emergency Action, is that the existing safeguards, including the tariff rate quotas, and special safeguards, provided for certain commodities, coupled with long transition periods, up to 15 years, and additional antisurge protection, should be sufficient to protect these import-sensitive commodities under NAFTA.

Nevertheless, we do not oppose the effort underway by U.S. Trade Representative Mickey Kantor to negotiate more favorable terms with Mexico for sugar and fruits and vegetables. ("Inside U.S. Trade," August 6, 1993, at 1).

IV. CONCLUSION

The Agribusiness Council reaffirms its strong support of the North American Free Trade Agreement as a pact that will provide increased export opportunities and income growth for a broad spectrum of agricultural and agro-allied industries.

We urge this committee to recommend Senate approval of the NAFTA agreement, subject to the supplemental agreements concluded on August 13, 1993, on environmental and labor standards and import surges.

NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

Good morning. Thank you, Mr. Chairman, and members of the committee. I am Robert L. Walker, Secretary of the Maryland Department of Agriculture. It is a pleasure to appear before this committee today on behalf of the National Association of State Departments of Agriculture (NASDA) as Chairman of its World Trade Committee to discuss the North American Free Trade Agreement (NAFTA). NASDA is the nonprofit association of public officials representing the Commissioners, Secretaries and Directors of Agriculture in the fifty States and the territories of American Samoa, Guam, Puerto Rico, and the Virgin Islands. As the chief State agriculture officials, NASDA's members are keenly aware of the importance agriculture plays in their State's and the Nation's economy.

NASDA supports all efforts to expand foreign trade, including the adoption of NAFTA. NASDA believes the NAFTA will have a positive impact on the agricultural industry of the United States. State Commissioners, Secretaries and Directors of Agriculture reaffirmed their support for the NAFTA at NASDA's recent annual meeting in Waterville Valley, New Hampshire. The public officials called on Congress to pass implementing legislation to enact the trade agreement.

AGRICULTURAL TRADE BOOSTS U.S. ECONOMY

Expanding foreign trade has long been a priority for the U.S. agricultural industry. Overseas exports directly help the American farmer by providing additional marketing options and improved income. U.S. agricultural exports generate employment, income and purchasing power in both the farm and nonfarm sectors. Each dollar received from agricultural exports in 1991 stimulated another $1.40—a total of $54.7 billion overall—in supporting activities to produce U.S. exports. Agricultural exports generated an estimated 8,000 full-time civilian jobs, including 545,000 jobs in the nonfarm sector. Farmers' purchases of fuel, fertilizer, and other inputs to produce commodities for export spurred economic activity in the manufacturing, trade and transportation sectors.

The United States exported $39.2 billion of agricultural products in 1991 including 39 percent of its wheat, 45 percent of its rice, 30 percent of its soybeans, 22 percent of its corn, and 50 percent of its cotton. Exported raw products totaled $15.8 billion, while processed commodities totaled $14.3 billion and transportation and trade services for raw and processed products totaled $9.1 billion. The nearly $55 billion in supporting activity included $10.3 billion from the farm sector, $4.9 billion from the food processing sector, $15 billion from other manutacturing sectors, $6.9 billion from trade and transportation, and $17.6 billion from other services. Nonfarm sectors of the economy received about 81 percent of the additional economic activity.

Of the 860,000 full-time civilian jobs related to agricultural exports, more than 314,000 U.S. workers, 10 percent of the farm labor force, worked in the production of export commodities. In addition, 545,000 jobs in the nonfarm sector were directly or indirectly related to the assembling, processing, and distributing of agricultural products for export. About 67,000 of these jobs were in food processing, 228,000 in trade and transportation, 91,000 in other manufacturing sectors, and 159,000 in other services. USDA estimates that full implementation of NAFTA will create an additional 56,000 jobs for U.S. workers.

Agriculture has long contributed to the U.S. trade balance. Net agricultural exports of $16.5 billion in 1991 partially offset a $99 billion deficit in nonfarm trade, leaving the U.S. trade balance in deficit by $82 billion. U.S. agricultural trade surpluses have consistently offset the overall U.S. trade deficit. Agriculture remains this country's leading export earner. In fiscal year 1992, U.S. farm sales abroad totaled $42.4 billion. The resulting positive agricultural trade balance for fiscal 1992 swelled to $18 billion.

NAFTA REGION TRADE

According to recent Foreign Agricultural Service (FAS) analysis, U.S. agricultural exports to Mexico and Canada may reach a combined $8.3 billion in 1992. If realized, this would make Canada and Mexico the United States' largest export market for the first time—surpassing Japan's $8.1 billion and the European Community's $7.1 billion. At a level of $8.3 billion, U.S. exports to these two NAFTA countries would account for 20 percent of all U.S. overseas sales—up from only 10 percent just 5 years ago.

Mexico is a net importer of food and agricultural products. Almost 70 percent of their imports in 1990 were from the United States, making Mexico our third largest single market. U.S. agricultural exports to Mexico in 1992 are anticipated to reach a record $3.5 billion, up 20 percent from the 1991 record and almost triple the 1987 level of $1.2 billion. Primarily a bulk commodity market prior to 1987, Mexico is now one of the United States' largest and fastest growing high-valued markets with 1992 exports expected to reach an all-time high of $2.4 billion—up 40 percent from 1991 and almost four times higher than 5 years ago. As a result, high-value products now account for almost 70 percent of all U.S. agricultural sales to Mexico versus 40 percent in 1987. Much of this growth is due to Mexico's trade liberalization efforts that began in 1987 as well as the economic revitalization that has occurred as a result of President Salinas' structural reforms. Unfortunately, bulk commodity trade has not been liberalized. Therefore, exports of bulk commodities have shown little growth over the past few years—a situation that NAFTA will change, allowing more liberalized trade for bulk commodities.

NASDA POSITION ON NAFTA

Passage of NAFTA is of utmost importance to the agricultural economy. NASDA supports all positive efforts to expand foreign trade, including the adoption of NAFTA. We believe not only that the treaty will have a positive impact on the agricultural industry of the United States, we strongly believe that the defeat of NAFTA would cause irreparable damage impacting our ability to continue to sell products to Mexico and the entire world.

We, at the State level, fully appreciate the importance of trade and exports in maintaining and creating jobs in the food sector. Clearly, Mexico will be an even greater export market for U.S. food products and commodities if the trade pact is ratified by Congress. The U.S. economy can ill afford the long term impact if the agreement is defeated by Congress—America could put in jeopardy our third largest export market.

Let me share a few of the comments made by my colleagues on NAFTA:

> Mexico is a growing economy with ever-increasing demand for 'value-added' agricultural products. New York supports NAFTA. It will both increase markets for our agricultural products as well as increase jobs both in production and in processing operations.—*Richard T. McGuire, New York Commissioner of Agriculture and Markets*

> Illinois agriculture will benefit even beyond increased sales of our basic commodities. As the Mexican economy grows, we see growth in our processed food exports to Mexico. This growth not only adds value to our basic commodities, but adds quality jobs to the Illinois economy and enlarges our tax base.—*Becky Doyle, Director of the Illinois Department of Agriculture*

> I support passage of this international trade agreement. I am convinced it will help not only farmers and processors, but all U.S. business and industry.—*James A. Graham, North Carolina Commissioner of Agriculture*

> NAFTA will be good for California agriculture by opening new markets for many of the commodities that we produce. It will level the playing field by eliminating tariff and nontariff barriers that now hinder trade with Mexico.—*Henry J. Voss, Director of the California Department of Food and Agriculture*

> American agriculture can no longer be defined by a fence row or a turn row or for that matter a State line or a national boundary in today's global economy. The jobs and economic growth that NAFTA creates gives us opportunities to increase our profits and expand our markets. I'm proud that NASDA has the foresight to join AG for NAFTA and to support the economic future of our farmers and ranchers.—*Rick Perry, Texas Commissioner of Agriculture*

Forty-two lead State agricultural officials have endorsed NAFTA and called on Congress to pass the implementing legislation. They include:

John W. Cramer, Director, Division of Agriculture, Alaska Department of Natural Resources
Keith Kelly, Director, Arizona Department of Agriculture
Gerald King, Director, Arkansas State Plant Board
Henry J. Voss Director, California Department of Food and Agriculture
Steven W. Horn, Commissioner, Colorado Department of Agriculture
John R.H. Blum, Commissioner, Connecticut Department of Agriculture
John F. Tarburton, Secretary, Delaware Department of Agriculture
Tommy Irvin, Commissioner, Georgia Department of Agriculture
Yukio Kitagawa, Chairperson, Board of Agriculture
Becky Doyle, Director, Illinois Department of Agriculture
James R. Moseley, Director, Indiana Agricultural Services and Regulations
Dale M. Cochran, Secretary, Iowa Department of Agriculture and Land Stewardship
Ed Logsdon, Commissioner, Kentucky Department of Agriculture
Bob Odom, Commissioner, Louisiana Department of Agriculture and Forestry
Bernard W. Shaw, Commissioner, Maine Department of Agriculture, Food and Rural Resources
Robert L. Walker, Secretary, Maryland Department of Agriculture
Jonathan L. Healy, Commissioner, Massachusetts Department of Food and Agriculture
Bill Schuette, Director, Michigan Department of Agriculture
Elton Redalen, Commissioner, Minnesota Department of Agriculture
Jim Buck Ross, Commissioner, Mississippi Department of Agriculture and Commerce
John L. Saunders, Director, Missouri Department of Agriculture
Leo A. Giacometto, Director, Montana Department of Agriculture
Larry E. Sitzman, Director, Nebraska Department of Agriculture
Thomas W. Ballow, Executive Director, Nevada Department of Agriculture
Stephen H. Taylor, Commissioner, New Hampshire Department of Agriculture
Arthur R. Brown, Jr., Secretary, New Jersey Department of Agriculture
Frank A. DuBois, Director/Secretary, New Mexico Department of Agriculture
Richard T. McGuire, Commissioner, New York Department of Agriculture and Markets

James A. Graham, Commissioner, North Carolina Department of Agriculture
Fred L. Dailey, Director, Ohio Department of Agriculture
Bruce Andrews, Director, Oregon Department of Agriculture
Neftali Soto-Santiago, Secretary, Puerto Rico Department of Agriculture
John M. Lawrence, III, Commissioner, Rhode Island Division of Agriculture, Department of Environmental Management
D. Leslie Tindal, Commissioner, South Carolina Department of Agriculture
Jay C. Swisher, Secretary, South Dakota Department of Agriculture
L.H. "Cotton" Ivy, Commissioner, Tennessee Department of Agriculture
Rick Perry, Commissioner, Texas Department of Agriculture
Cary C. Peterson, Commissioner, Utah Department of Agriculture
George M. Dunsmore, Commissioner, Vermont Department of Agriculture, Food and Markets
Gus R. Douglass, Commissioner, West Virginia Department of Agriculture
Alan T. Tracy, Secretary, Wisconsin Department of Agriculture, Trade and Consumer Protection
Don Rolston, Director, Wyoming Department of Agriculture

KEY PROVISIONS OF NAFTA

NAFTA includes separate bilateral agreements in agricultural trade between the United States and Mexico and between Canada and Mexico. In general, the rules of the U.S.-Canada Free Trade Agreement, implemented in 1989, will continue to apply to agricultural trade between the United States and Canada. Key provisions of NAFTA for U.S.-Mexico trade include:

- *Elimination of nontariff barriers*—When NAFTA goes into effect, the United States and Mexico will immediately eliminate all nontariff barriers to agricultural trade, generally through their conversion to tariff rate quotas (TRQs) or ordinary tariffs.
- *Elimination of tariffs*—With the implementation of NAFTA, the United States and Mexico will immediately eliminate tariffs on a broad range of agricultural products, with most tariffs eliminated within 10 years. Duties on a few highly sensitive products will be phased out over 15 years.
- *Special safeguard provisions*—During the first 10 years that NAFTA is in effect, a special safeguard provision will apply to certain products. A designated quantity of imports will be allowed at a NAFTA preferential tariff rate. Once imports exceed the designated quantity, the importing country may apply the tariff rate in effect at the time NAFTA is implemented or the then-current most-favored-nation rate, whichever is lower. The United States can apply the special safeguard to seasonal imports of fresh tomatoes, eggplant, chili peppers, squash, watermelons, and onions.
- *Country-of-origin rules*—NAFTA increases incentives for buying within the NAFTA region and ensures that Mexico will not serve as a platform for exports from other countries to the United States. Under NAFTA, only North American producers can obtain the benefits of the tariff preferences. Non-Mexican origin commodities must be transformed or processed significantly in Mexico so that they become Mexican goods before they can receive the lower NAFTA duties for shipment to the United States.

NAFTA'S IMPACT ON AGRICULTURE

The most significant trade expansion from NAFTA will be with Mexico, already U.S. agriculture's third largest country market. With the elimination of all tariffs, quotas, and licenses that are barriers to agricultural trade, economic growth—especially in Mexico—will be expanded. Mexico's economic growth, projected to increase annually by at least 0.5 percent, will lead to increased demand for food and agricultural products. NAFTA provisions affecting agricultural trade between the United States and Mexico will result in net gains for both countries. NAFTA will:

- *Lock in recent gains*—U.S. agricultural exports to Mexico have grown significantly since the mid-1980s, rising from $1.4 billion in 1986 to $3.5 billion (preliminary) in 1992. The export growth is largely the result of unilateral liberalization in Mexico, the natural comparative advantages of the two countries, and relatively strong Mexican economic performance. NAFTA will assure that this growth in U.S. agricultural exports to Mexico will continue by providing improved market access and preventing a return by Mexico to policies that limit trade and economic growth.
- *Assures a larger market*—Mexico's population (about 92 million), which is growing at more than 2 percent a year and becoming increasingly urbanized, represents a significant market for U.S. agricultural products. Improved economic activity re-

sulting from the NAFTA agreement will boost income and stimulate demand for larger amounts and more diverse food and feed products. In addition, Mexico's comparative advantages suggest it will continue to be a net importer of food, feed, and fiber.

- *Expands high-value trade*—Primarily a bulk commodity market prior to 1987, Mexico is now one of the United States' largest and fastest growing high-value markets. High-value products now account for almost 70 percent of all U.S. agricultural sales to Mexico compared to 40 percent in 1987.
- *Increases production efficiency*—NAFTA will lead to efficiency gains in both Mexico and the United States as producers respond to market opportunities. U.S. agriculture will benefit from trade creation, higher agricultural export prices, and increases in economic efficiency and productivity.
- *Increases U.S. agricultural exports and farm cash receipts*—By the end of the 15-year transition period, annual U.S. agricultural exports will likely be $2.0 to $2.5 billion higher than without NAFTA. Over the same period, annual U.S. farm cash receipts are expected to increase by about 3 percent compared with projected receipts without NAFTA. More agricultural trade will also expand employment in related areas of processing and transportation and the economy as a whole. Because some of the largest U.S. export increases are expected for income supported commodities, NAFTA is also expected to reduce farm program spending.
- *Maintains the integrity of U.S. standards*—The U.S. will maintain its stringent standards regarding health, safety, and the environment and its right to prohibit imports that do not meet U.S. standards. NAFTA also allows States and local governments to enact standards without restriction, as long as these standards are scientifically defensible. The U.S. will take great care to make sure that chemicals legal in Mexico but illegal in the United States will not be present in imports. NAFTA allows each country to continue to develop grade standards to meet the marketing rules of its agricultural industry and ensure that consumers receive a product of acceptable quality.
- *Provides stronger protection for agricultural inventions, patents, and technologies*—The United States is a leader in the field of biotechnology, including the development of new varieties of plants. U.S. companies spend substantial amounts every year in the development of new plant varieties and processes that keep American agriculture efficient. Provisions in the NAFTA's intellectual property rights text will help these companies to recoup the costs of their investments and protect their interests.
- *Facilitates investments in agriculture*—NAFTA enables U.S. firms to establish new agricultural enterprises and to acquire existing businesses in both Mexico and Canada and to receive the same treatment, with limited exceptions, as domestic companies in either country. The agreement also gives U.S. investors in Mexico and Canada full rights to repatriate all profits and capital flows. NAFTA will further stimulate investment and opportunities of U.S. food processing affiliates in Mexico. NAFTA's elimination of Mexico's local content requirements for manufacturers will increase the demand for products from the United States.
- *Benefits agricultural transportation*—Under NAFTA, Mexico's market for international truck and rail transport will be opened and Canada's transportation market for U.S. firms, which is already open, will be locked in.

CONCLUSION

Basically NAFTA means a bigger and more lucrative market for U.S. farmers and ranchers. It means expanded access to 92 million consumers south of the border. As Mexico's economy grows, it should also lead to sales of greater amounts and a greater diversity of U.S. food and feed products.

USDA is projecting that by the end of the 15-year transition period for NAFTA, annual U.S. agricultural exports will likely be $2.0 billion to $2.5 billion higher than without the agreement. Over the same period, U.S. farm cash receipts will increase by 3 percent compared with projected receipts without NAFTA. More agricultural trade will also expand employment in related sectors—like processing and transportation—and the U.S. economy as a whole.

Thank you, Mr. Chairman, for the opportunity to stress the positive aspects of NAFTA with regard to American agriculture, and present NASDA's support for the treaty. I look forward to working with this committee on this and other important trade matters facing Congress. I will be happy to answer any questions you may have.

LETTERS

LUIS TELLEZ K.,
January 21, 1993.

Mr. CHARLES J. O'MARA,
Special Trade Negotiator, Office of the Under Secretary, International Affairs and Commodity Programs.

DEAR JOE: In your letter of November 5, you addess concerns relating to the administration of NAFTA tariff-rate quotas. Specifically, the concern is that "if the duty-free quota is filled, and Mexico requires additional imports, U.S. products will be assessed a large import tariff, while other countries will compete on a MFN basis."

My view on this matter is that if NAFTA quota is filled, and if Mexico would need additional imports, SECOFI would issue import permits on a MFN basis, in compliance with our obligations under GATT. In this case, Mexico will have to comply with the historical rights on Mexican imports, then the United States would be able to compete for these additional imports on an equal MFN basis with other non-NAFTA suppliers. In the case that Mexico decides not to grant any import permits, the United States and Canada would still have access to the Mexican market subject to the tariff equivalent negotiated in NAFTA.

It is worth recalling that Mexico has not accepted yet Dunkel's latest proposal on tariffication. One implication of such proposal is that Mexico would have to grant quotas to other countries in order to secure them their current access, as it is specified in the Draft Text. Under this scenario, Mexico would have to channel import quantities to third countries in fulfillment of these current access provisions.

I learned from the letter you attached (sent to Secretary Madigan by the U.S. Feed Grains Council) that the latter is also concerned with respect to the administration of in-quota imports. You certainly recall our last discussions in Washington in which we agreed upon the language in article 302, paragraph 4(a) of NAFTA.

Sincerely,

(Signed) LUIS TELLEZ K.,
Under Secretary for Planning.

NATIONAL ASSOCIATION OF WHEAT GROWERS,
Washington, DC, September 21, 1993.

Hon. PATRICK LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, DC 20510.

DEAR MR. CHAIRMAN: Thank you for the opportunity to provide the view of the National Association of Wheat Growers (NAWG) regarding the North American Free Trade Agreement (NAFTA).

In December 1993, at your request, we sent a detailed letter analyzing our position, which I have attached. Since that time, we have made a serious independent attempt to develop a constructive and enduring solution to our outstanding problems with regard to wheat trade in North America. As you know, we have one problem which overlaps two borders: namely, Canadian export activities. Increasing Canadian imports of all wheat (projected to total 2.0 million metric tons in 1993/94, up from 1.2 million metric tons in 1991/92—an increase of over 63 percent) have added to our annual carryover and threaten to undermine the integrity of our domestic support programs. Notably, Canadian wheat exports to the United States totaled a relatively nominal 418,000 metric tons in 1986/87, the crop year preceding enactment of the U.S.-Canada Free Trade Agreement (CFTA).

Moreover, with regard to the larger matter of North American wheat trade, the U.S. share of the Mexican wheat market has been consumed by Canada since enactment of the CFTA. In 1989/90, Canada sold no wheat into Mexico; in 1991/92 it controlled over 50 percent of the market. This is particularly remarkable when you consider that Canada's main wheat growing region is over 2,800 miles from Mexico City.

We believe that both these phenomena are a result of inequities contained in the CFTA which are broadened in the NAFTA. In particular, the U.S. wheat farmer is disadvantaged in the CFTA and in the NAFTA by the continuation of transportation subsidies, eastbound to the United States and westbound and eastbound into Mexico. In addition, neither the CFTA nor the NAFTA sufficiently address the pricing practices of the Canadian Wheat Board into either the United States or Mexico.

U.S. wheat producers are not looking for protection from fairly traded imports. Nor are we asking for an advantage over Canada in trading wheat with Mexico. Our goal is the elimination of these subsidies and to ensure that equitable conditions of competition exist in the North American wheat market. We strongly endorse the measures listed in the letter to Secretary of Agriculture Espy sent by Senator Baucus and others on September 9, 1993. This letter outlines the actions that should be taken to achieve our goal.

Thank you again Mr. Chairman, for the opportunity to present our views. We ask that this letter be made a part of the committee's September 21 hearing on NAFTA. We look forward to working with you on resolving these matters and finding ways to expand trade for U.S. wheat growers.

Sincerely,

(Signed) Jeff Lundberg,
President.

NATIONAL ASSOCIATION OF WHEAT GROWERS,
Washington, DC, December 18, 1992.

Hon. PATRICK LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, DC 20510.

DEAR MR. CHAIRMAN: Thank you for the opportunity to present our views about the North American Free Trade Agreement (NAFTA).

In the last year, we have provided a number of statements to the committee describing our concerns about the NAFTA. With your indulgence, we will summarize how the NAFTA meets our objectives for the negotiation.

Objective No. 1.—To eliminate the Mexican wheat import license requirement to ensure consistent U.S. access to the Mexican market.

In the NAFTA, the Mexican import license will be replaced by a 15-percent tariff on U.S. wheat to be phased out in equal installments over a 10-year period. Presently, U.S. wheat enters Mexico duty free, with the exception of a 10-percent tariff that is applied to Durum wheat. Therefore, it is difficult for us to see why a 15-percent tariff should be considered a boon to U.S. farmers wanting to export wheat to Mexico. At the earliest opportunity, we will seek to implement a provision in the agreement which allows for accelerated reductions in the new duty, contingent on the consent of the parties to the NAFTA.

Objective No. 2.—To maintain the current U.S. wheat ban on the import of karnal bunt-infected wheat or seeds.

The NAFTA recognizes each country's right to determine the level of protection necessary to ensure continued agricultural health. This will allow each country to set more stringent standards so long as they are scientifically verifiable. Further, it is our understanding that the United States will not have to modify its current border inspection procedures unless it believes it is appropriate and the trading partner in question has demonstrated that adequate inspection systems and certification and testing procedures are in place.

Nonetheless, we are still worried about the entry of karnal bunt-infected trucks and railcars into the United States as the surface transportation systems between the two countries become more integrated. Adequate inspection procedures will have to be implemented in order to guard against the inadvertent contamination of the U.S. wheat crop. The presence of karnal bunt in the United States would have a devastating effect on wheat exports to wheat-producing countries, particularly China and the former Soviet Union and could directly and adversely impact the farmers' ability to garner income from the market.

Objective No. 3—To achieve price transparency with the Canadian Wheat Board in Canadian export sales to the United States and Mexico.

The NAFTA is silent on the specific issue of price transparency. This important issue has been consistently ignored by trade negotiators. Unlike the open market U.S. trading system, sales prices are not revealed in exporting countries with monopolistic marketing regimes, such as the Canadian Wheat Board. The lack of price transparency makes it impossible to determine whether unfair trading practices are in use.

Article 506 of the text deals with the topic of export subsidies, but notably provides no definition of what constitutes an export subsidy. The 1990 farm bill directs the administration to consider the administered pricing practices of monopoly grain boards when considering using the EEP. We cannot accept an agreement which does nothing to address this matter.

As it is, the current state of the North American wheat trade defies geography. Canada's principal wheat producing region is centered around Regina, Saskatchewan—some 2,800 miles from Mexico City, yet Canada enjoys 76 percent of the Mexican wheat market! The reason for this abnormality is that the United States has been unwilling to match subsidized competition in the Mexican market. Technically, the NAFTA would allow the United States to use its export subsidy program, the export enhancement program (EEP), to compete against Canada and non-NAFTA countries in the Mexican wheat market. While this provision provides the United States with the opportunity to protect its interests in Mexico, there has been no indication that our Government will go head-to-head against Canadian export subsidies in the future if the NAFTA is implemented.

Objective No. 4.—To introduce disciplines on Canadian rail freight subsidies to westbound and eastbound destinations.

The U.S.-Canada Free Trade Agreement already acknowledges that the westbound Canadian rail freight subsidy is an export subsidy. We believe that the NAFTA should expand this acknowledgment to include eastbound rail freight subsidies. Furthermore, a NAFTA should provide that these subsidies cease for sales made into either the United States or Mexico.

Objective No. 5—To prevent the application of Canadian rail freight subsidies on cargos shipped through the United States to Mexican or other third country markets.

The NAFTA provides no assurance that the transshipment of Canadian grain to Mexico or other destinations will be disciplined or monitored. This is an oversight which must be corrected. The U.S. Government must not allow the United States to become a "land bridge" for Canadian sales to Mexico and other points in Central and Latin America.

Finally, we would like to discuss a related issue which we hope the Congress will incorporate into trade legislation. It too results from the unsatisfactory outcome of the U.S.-Canada Free Trade Agreement.

The 1990 Farm Act explicitly forbids the practice of commingling foreign grain with U.S. grain for export under U.S. taxpayer-assisted programs. More than 80 percent of U.S. wheat exports utilize these programs in one form or another; yet there is no means of assuring that foreign grain is not mixed into these shipments.

With the implementation of the U.S.-Canada Free Trade Agreement, all U.S. wheat and oats exported to Canada must be accompanied by an "end-use" certificate which details, among other things, where the grain is going. We believe it is imperative that the same method be used to protect the integrity of U.S. grain. The adoption of this procedure would not disturb the status quo, inasmuch as foreign grain could still be blended with U.S. grain for domestic utilization or for export without Government sponsorship.

We see no alternative to end-use certificates which would promote compliance with the 1990 Farm Act. Options such as transit billing or de minimis requirements would actually permit and expand the volume of foreign grain to be exported under these programs.

We are pleased to know that you intend to give this agreement close scrutiny. Our offices are available to help your staff in answering any questions you may have. We look forward to working with you on implementing legislation that will address our concerns.

Sincerely,

(Signed) CARL F. SCHWENSEN,
Executive Vice President, National Association of Wheat Growers.

(Signed) WINSTON WILSON,
President, U.S. Wheat Associates.

SUMMARY OF AGRICULTURE PRIVATE SECTOR COMMENTS ON NAFTA

The Agribusiness Council, Inc.

The NAFTA is a promising agreement that will result in increasing trade and economic growth throughout North America. The trade associations that It polled support the NAFTA, but many have specific concerns that relate directly to how the agreement will affect their business. Mexico's market potential is great because of its limited amount of arable land, and it needs to import American technology and equipment to maintain this land.

Alaska Seafood Marketing Institute

The Alaskan seafood industry sees great potential in the Mexican market. Despite competition from Canada, the Alaskan industry still believes that the agreement will expand its export business.

American Agriculture Movement, Inc.

Concerns with NAFTA that it would accelerate displacement of family farmers in all three countries; forfeit U.S. control over domestic farm policy; shift U.S. agriculture production to Mexico; move food processing facilities southward; overburden border food inspection; and replace farm experts with bureaucrats in trade dispute resolution. It recommends a GAO study on impact of NAFTA; farmer trade adjustment assistance; and farmer representation on NAFTA committees/working groups.

The American Beekeeping Federation, Inc.

Does not support the agreement. The U.S. industry cannot compete with imported honey from low-cost, developing nations. Implementing legislation must provide: 1) enforcement of rules of origin; 2) USDA should conduct studies on the impact honey imports will have on the domestic industry and the loan program, and the value of bee pollination to U.S. agriculture; 3) increase the U.S. honey import tariff to 20 percent; and 4) if tariff is not increased, the buyback rate of the honey loan program should be lowered or the support rate increased.

American Cotton Shippers Association

It recommends that the NAFTA be approved. Because of the high quality of American cotton, ACSA believes that domestic and Mexican mills will continue to use U.S. cotton. There is some fear that spinning and weaving mills may move, but since these operations require a highly skilled labor force, ACSA believes that they will stay in the United States. Its main concern is the fate of Section 22 import quotas.

AMCOT

The main concerns of AMCOT is that the agreement eliminates Section 22 import quotas and does not include a fiber forward rule of origin. Without a fiber forward provision, imports of raw cotton, particularly from the former Soviet Union and Pakistan, will be imported, and Canada and Mexico will export the finished products to the United States.

American Dairy Products Institute

The agreement will be a benefit to the U.S. dairy industry, but there are many issues of concern. Canadian exports of nonfat dry milk should not be allowed to compete with U.S. exports to Mexico, and present quality standards must be enforced. The industry is especially concerned about the elimination of Section 22. The tariff rate quota and rules of origin should sufficiently protect the market from disruptive levels of dairy imports. Its concern is that this concession will be connected to the GATT negotiations, and it could weaken our ability to maintain a waiver for Section 22.

American Farm Bureau Federation

Supports the agreement. It is particularly concerned about the agreement's impact on several commodities (especially fruits, vegetables, sugar and peanuts). Would support changes in NAFTA for transitional safeguards, if can be done without weakening the benefits to other sectors or requiring renegotiation of the entire agreement. If not in the agreement, will support implementing legislation to strengthen transitional safeguards, consistent with the terms of NAFTA.

American Farmland Trust

AFT believes that if NAFTA is to be beneficial to American agriculture it must include a commitment to preserve strategic agricultural resources in the United States. This is a condition it requires of any trade agreement, not only NAFTA. Providing the necessary funding for existing farmland protection policies, like the Farms for the Future Act, is essential.

American Feed Industry Association

AFIA sees the opening of world markets as the key to the feed industry's growth, and Mexico and other Latin American countries have the greatest potential for immediate gains. AFIA's members have voiced general support for the agreement, and they expect grain, oilseeds, dairy, meat and other agricultural trade with Mexico to increase by $1.5 to $2 billion a year. They believe the increase in demand will generate major poultry production growth in the Southern and Western States, and swine feed plants will locate in Mexico or the United States, depending on ingredient and distribution costs.

American Horticultural Marketing Council, Inc.

The council does not support the agreement. The impact on Florida's agricultural sector will be devastating unless significant changes are made in the text or provided for in the implementing legislation. Some of the changes it considers necessary are: More commodities must be given a tariff reduction period; price-based safeguard for perishable commodities; the harmonization of standards must be required; strong enforcement of rules of origin; Mexico must be required to develop complete statistical information on its agriculture sector; and Mexico must also be required to enforce plant patent protection laws that the United States and Canada already follow.

American Meat Institute

AMI is a longstanding supporter of the NAFTA and believes that it can only increase the amount and value of trade with Mexico. There are, however, several potential problems that should be addressed. The phase-out period for pork is longer than for other products, and the safeguard mechanism cannot be allowed to evolve into another trade barrier. The implementing legislation should include the same displacement provisions that were used in the CFTA. Even though Mexico is a net meat importer, the possible effects of displacement should not be ignored. Strict enforcement of the rules of origin standards are crucial. It also believes that the poultry industry has been asked to compromise more than any other U.S. industry, and it will have to keep its exports level and possibly reduce them in the first year.

American Oat Association

Supports the NAFTA. The agreement will give raw oats and oat products better access to the Mexican market. The association is concerned that transportation and construction subsidies in Canada create an unfair advantage for Canadian oats entering Mexico and the United States.

American Plywood Association

The agreement will provide increased market access in Mexico, and it is satisfied with the negotiated agreement.

American Sheep Industry Association

ASI has a positive view of the NAFTA. Trade in live animals and meat will improve as the 10-percent tariff is reduced over 10 years. It is important to protect herd health through import licensing, S&P standards, border inspection and strict enforcement of rules of origin. There are potential problems with wool and textile trade. Without a fiber forward provision, strict monitoring and enforcement of the yarn forward provision are necessary to protect the U.S. wool and woolen textile industry.

American Soybean Association and National Oilseed Processors Association

ASA and NOPA strongly support the agreement. U.S. oilseed producers, processors and exporters will benefit from unrestricted access to the Mexican market which has great potential for soybeans, protein meal and vegetable oil. The rules-of-origin standards will protect the U.S. market from non-NAFTA countries, and Mexican producers are not seen as a threat to the U.S. industry because Mexico should remain a net importer.

American Sugar Cane League, American Sugarbeet Growers Association, Florida Sugar Cane League, Hawaiian Sugar Planters Association, Rio Grande Valley Sugar Growers, Sugar Cane Growers Cooperative of Florida, U.S. Beet Sugar Association, and U.S. Cane Sugar Refiners Association

Will oppose the NAFTA unless the following concerns are met: strike the provision that gives Mexico unlimited access to the U.S. market after 6 years if it becomes a surplus producer in 2 consecutive years; expand the definition of surplus producer to include consumption of corn sweeteners; make determination of surplus producer on basis of verifiable history instead of projections; and expand the phase-out period for Section 22 protection from 10 to 15 years. Although Mexico is a net importer of sugar, NAFTA provides enormous incentive for Mexico to become a net exporter by increasing production through investment, decreasing domestic consumption by displacing sugar with corn sweeteners, and reporting imported sugar as Mexican origin (especially from Guatemala).

Arizona Department of Agriculture

Strongly supports the NAFTA. While most of Arizona agriculture will benefit from the agreement (the beef, cattle and dairy industries), the produce sector is concerned that Mexico will be given preferential treatment. The concern of the produce industry is that Mexican produce will not be adequately inspected when it enters the United States.

Arkansas Farm Bureau Federation

The AFBF considers the agreement to be a major step in removing trade barriers, but it has several concerns. Pesticide regulations should be standardized and health and sanitary regulations should not be compromised. A fiber-forward, not yarn-forward, provision should also be included for textile trade, and it should also recognize labor cost differentials and include provisions for a dispute settlement body.

Bayfield Farms, Inc. (various ag operations)

Supports the agreement. While the asparagus operations of Bayfield farms will be hurt, it is possible to make up for this through improving quality and service. Bayfield's grain and apple production will benefit greatly.

Bruce Foods Corporation

Supports the agreement. The only problem is that the dispute settlement provision relies too heavily on good faith.

California Avocado Commission

The quarantine on Mexican shipments should not be relaxed. The pests and diseases that Mexico has not been able to eradicate will cause significant harm to U.S. fruit and vegetable crops. NAFTA's S&P language appears to be adequate, but what is important is how strictly it is followed. The implementing legislation should set standards for compliance and enforcement of these standards. A longer phase-out period for tariffs would ease the industry's transition.

California Citrus Mutual, Citrus Grower Associates, Florida Citrus Mutual, Florida Citrus Packers, Florida Citrus Processors Association, Florida Department of Agriculture and Consumer Services, Florida Department of Citrus, Florida Farm Bureau Federation, Gulf Citrus Growers Association, and Indian River Citrus League

The U.S. citrus industry will suffer severe adverse economic consequences from a NAFTA as proposed. Inclusion of citrus and citrus products in the agreement will in the long term result in the virtual elimination of citrus and citrus industries of Florida. Their proposals include the exclusion of fresh and processed citrus products from NAFTA; maintain U.S. tariffs for 20 years, with elimination of tariffs only after that period; include a tariff safeguard mechanism for import surges based on specific, not ad valorem, rates. Also, enforce all U.S. phytosanitary standards, implement a statistics-gathering mechanism to track Mexican exports, production, processing, and packing of citrus. Harmonize Mexican labor and environmental standards to U.S. standards.

California Department of Food and Agriculture

The agreement appears to meet most of the State's goals. Its letter, however, is very circumspect in stating what provisions it agrees with. Instead it relies on saying that certain provisions "appear" to meet the Department's concerns. Basically, the outcome depends on the execution. One solid concern it mentions is that Canada will subsidize wheat and feed sales to Mexico.

California Pistachio Commission

Strongly supports the agreement. Mexico does not produce pistachios, and with the tariff on pistachios falling to zero immediately, California growers will see immediate benefits.

California Raisin Advisory Board

Supports the concept of free trade and immediate elimination of 20-percent tariff on raisins. Wants explicit commitment that Mexico will eliminate all licensing requirements on raisins. Amend NAFTA to provide for the seasonal flow of workers from Mexico, and do not impose stricter regulation on farm labor.

California Table Grape Commission

Will be difficult to support the agreement because of Mexico's refusal to end its GATT-illegal licensing requirements prior to 1994. The licensing requirement has been removed for all other fresh fruit grown in the United States, but remains for table grapes.

California Tomato Growers

The Growers believe that the industry will be decimated by the agreement, and Congress should reject it. Mexico does not need the benefit of lower tariffs because it is not "burdened by environmental regulations or worker safety and health laws to the same extent as are U.S. growers and producers."

California Tree Fruit Agreement

The goals of NAFTA are a good idea, but Mexico has reinstituted a licensing requirement which will raise tariffs when it is converted to a tariff barrier. Under

GATT, Mexico removed its import licenses on stone fruit. Mexican phytosanitary concerns leading to an import ban on stone fruit are invalid because Mexico offered to trade their action for U.S. changes on avocado phytosanitary restrictions.

Center for Rural Affairs

Biggest adjustments of NAFTA will be made by small Mexican farmers and rural laborers. Winners in Mexico will be fruit, vegetable and animal agro-export sectors able to form joint ventures with U.S. agribusiness who will be the biggest winners. Also concerns with effect of agreement on emigration and sustainable rural development. Recommends the phase out of CCC concessional sales of basic agricultural commodities in Mexico; create a North American Rural Development Commission to confront rural poverty and make public investments; and ensure that U.S. standards on pesticide use and registration do not become a competitive disadvantage.

Cherry Marketing Institute, Inc.

The Institute's main concern is not a surge of Mexican cherries (none produced), but the transshipment of cherries from the EC through Mexico. NAFTA must continue strong prohibitions against transshipment of dumped EC product. The institute is also concerned about the overall effect the agreement will have on the State of Michigan.

Cigar Association of America, Inc.

There are two flaws in the agreement. One is inadequate protection of intellectual property rights. A number of Mexican cigar companies have adopted the trademarks of U.S. cigars that no longer compete in the Mexican market. To resolve this problem the agreement should recognize the first trademark registered in North America. The second problem is the increased tariff that will be assessed to U.S. cigars (it jumps from 20 percent to 50 percent after import licenses are terminated) and the phaseout over 10 years. The tariff should be phased out over 5 years.

CoBank

Strongly supports the agreement and believes that it will be of significant importance to most agriculture sectors. It also worked closely with and supports the Agricultural Policy Advisory Committee's report on the NAFTA. Its main concern is the financial services section of the agreement. Currently CoBank can only finance the export and import activities of its customers in foreign countries. It wants to be able to expand its business into financing joint ventures and the export of value-added agricultural products, not just agricultural commodities.

ConAgra

Fully supports the agreement. The NAFTA will increase Mexican incomes, and the elimination of trade barriers will expand the Mexican market for U.S. products. ConAgra does not agree with the argument that low labor costs will draw U.S. jobs to Mexico. Instead, it sees Mexico's location, poor infrastructure, and unproductive labor force as reasons for keeping facilities in the United States.

Cottongrowers Warehouse Association

Endorses National Cotton Council statement. Summary of issues include that there must be a determination of how increased NAFTA quotas would be affected by a quota triggered under the farm bill; more provisions on accession of other countries to NAFTA; statement that U.S. farm law provisions for cotton do not violate the agreement's provisions on domestic and export subsidies; and others. If NAFTA is to be an economic plus for U.S. cotton, there must be growth within the apparel sector within the NAFTA; and the United States must be the primary supplier of raw materials.

Daulton Ranch

There are several issues that need to be addressed and monitored closely. Transshipment of cattle through Mexico already occurs and strict rules of origin must be established to prevent this from continuing. It must be assured that Mexico's regulations are transparent, and Mexico must be required to adopt a meat import law similar to that of Canada or the United States.

David Bateman

Many agriculture commodities that are the backbone of the American economy will be devastated by NAFTA and GATT. Enclosure statistics for several crops in North Carolina to show that there is little profitability in these sectors after land value is deducted.

DEE—Ag Consultant

In the long run the agreement will be beneficial. Some regulations must be tightened, especially those dealing with pesticides that are illegal in the United States but are still shipped to Mexico. Training should also be provided for workers who lose their jobs as a result of the agreement.

Eastern Milk Producers

Overall it approves of the NAFTA because Mexico does not produce enough dairy products to meet domestic demand. It is concerned with the elimination of Section 22 import protection and rules of origin. Eliminating Section 22 sets a precedent that will probably carry over into the GATT negotiations, and Eastern is concerned that the EC, New Zealand and Australia will not reciprocate. The rules of origin provisions must be strictly enforced to ensure that these countries do not ship dairy products through Mexico.

Farmland Industries, Inc.

Supports the agreement because it will expand U.S. exports to Mexico. Many issues, such as pesticide regulations, rules of origin, and dispute settlement have to be examined carefully to ensure that different sectors of agriculture are not ignored. Farmland also wants to study any side agreements that will involve agriculture.

Fine Hardwood Veneer Association

The members of the association agree that the NAFTA will benefit the industry as long as the Mexican tariff on veneer is reduced to zero immediately.

Florida Department of Agriculture and Consumer Services

Strongly opposed to the agreement in its current form. Unless substantial changes are made, it will recommend that the Congress vote against the agreement. The following changes must be made: 1) virtually all of Florida's commodities should be considered sensitive commodities and be given the maximum tariff phaseout period; 2) a price-based safeguard should be established for perishable commodities and the tariff windows for TRQs should be restricted to 30 days; 3) the harmonization of standards must be required within 10 years; 4) sanitary and phytosanitary regulations must be able to ensure the protection of U.S. agriculture; 5) strong enforcement of rules of origin to prevent transshipment and substitution; and 6) Mexico must be required to develop complete statistics on its agriculture sector.

The Florida citrus industry maintains that fresh and processed citrus products be excluded from the agreement. If this is not possible, there should be a 20-year "drop dead" period for citrus products. The definition of surplus producer must be changed to include corn sweeteners, and this calculation must be based on Mexico's history, not on estimates. The provision allowing Mexico unlimited market access if it becomes a surplus producer must be eliminated.

Section 22 protection should be continued for Florida's commodities. Section 22 can only be dealt with in the multilateral context of the Uruguay Round, and it cannot be terminated by the NAFTA.

Florida Farm Bureau Federation

The Florida Farm Bureau has a mixed reaction to the NAFTA. Some of its concerns are: 1) All processed citrus products should receive an extended phaseout; 2) lifting the import quotas on sugar will destroy domestic producers; 3) Mexico could convert its domestic citrus crop to processing purposes and then satisfy its demand for fresh produce with imports from Cuba, this would flood the United States market; 4) strict S&P measures must be maintained to prevent the introduction of pests and diseases; 5) there must be an effective dispute settlement procedure that growers can access; 6) reliable data on Mexican production is essential; and 7) the side agreements should ensure labor and environmental regulations are enforced.

Florida Fruit & Vegetable Association And National Watermelon Association

Does not support the NAFTA because it will have a devastating impact on Florida's agricultural sector. The Association's concerns are outlined by the Florida Department of Agriculture and Consumer Services Unified Position on the NAFTA.

Food Marketing Institute

Supports the NAFTA. Free markets will result in lower prices for consumers on a wider variety of products. It does not believe that the agreement will have a negative impact on U.S. environmental, safety and health standards. Imported foods will have to meet U.S. standards.

Georgia Agricultural Commodity Commission for Peanuts

The agreement is flawed because it gives Mexican peanuts a competitive price advantage in as little as 2 years. The Commission relies on a study by two professors at the University of Georgia which is included with its comments. Some of the report's findings are: Reduced price incentives to grow corn and soybeans in Mexico will increase peanut production; the loss of revenue to U.S. farmers will be $75–

$100 million; rural communities will lose $150–$200 million annually; the impact will be heavier in the Southwest; and U.S. exports to Mexico will not increase. Two major provisions should be included in the implementing legislation to protect peanuts. First, a provision that penalizes peanuts that are exported and then reenter the U.S. market to take advantage of higher prices. Second, imported peanuts must be required to meet the same quality and grade standards as domestic peanuts.

The Senate of the State of Hawaii

The Hawaiian State Senate opposes the NAFTA and passed a resolution that the State's congressional delegation oppose the agreement. The agreement should be opposed because it will damage the domestic sugar industry which is an integral part of Hawaii's economy and heritage. Mexico will be capable of exporting sugar within 15 years because its beverage industry will convert to corn sweeteners, it will be able to replace its domestic demand with imported sugar, and consumer demand will be weakened by increasing prices.

Henningsen Foods, Inc. (poultry and eggs)

Its concerns with the agreement mirror the concerns of the whole poultry and egg industry. Specifically, the company is concerned about the sanitary practices of Mexican operations. The proper safeguards must be established to ensure that imports meet U.S. standards. It is also concerned about the Canadian pricing system that limits access to its market and promotes export to the United States. Although disappointed that Canada is not included in the agreement, it does support the agreement because of the level of access to the Mexican market. It is, however, disappointed with the definitions used for egg, poultry and related products, and the tariff levels for the first 6 to 7 years for unprocessed eggs and poultry are too high.

Institute of Shortening and Edible Oils, Inc.

The ISEO fully supports the NAFTA. The agreement will increase the potential export of oilseeds and oilseed products, and overall its members will benefit. The rules of origin should be strong enough to prevent transshipment through Mexico.

International Apple Institute

The IAI strongly supports the NAFTA. The agreement will significantly increase apple exports to Mexico. The tariffs on fresh and processed apples will be phased out over 10 years. The agreement will also help provide a forum to address disagreements and disputes.

International Dairy Foods Association

The IDFA supports the NAFTA and GATT. The food industry will be served well by more liberal trade in North America. Mexico will be a important market for higher value products such as meats and dairy products. The agreement will strengthen Mexico's economy and generate new markets for U.S. products.

Iowa Farm Unity Coalition

It is very concerned about the impact the NAFTA will have on the livestock industry. Section 22 and the Meat Import Act should not be overridden by the agreement. Mexico's pork industry will modernize to meet health standards, and meat processors and packers will move to Mexico to take advantage of cheaper labor. The resulting loss of jobs will be significant, and rural America will be hit the hardest. It is also concerned that U.S. laws will be challenged, and the United States will be forced to lower its standards.

Land O'Lakes, Inc.

It has no formal position on the NAFTA, but the Chairman believes sanitary and phytosanitary standards allow equivalence and its rules of origin provisions are adequate. It is concerned about enforcement, and that the United States provide sufficient resources for monitoring and inspections.

Louisiana Rice Growers Association

Supports agreement. It would have liked to see tariffs reduced earlier than provided for, but it supports the agreement as long as rules of origin and food safety standards are upheld.

M–M Associates (fruit and vegetable trade)

Supports the Agricultural Technical Advisory Committee for Trade in Fruits and Vegetables position on the NAFTA. It must be guaranteed that S&P measures cannot be used against the United States as nontariff barriers and that rules of origin and intellectual property rights are strictly enforced.

M&M Mars (Peanuts)

Strongly supports the NAFTA despite the objections of the remainder of the peanut industry. The agreement will result in increased export of peanuts in confectionery products, and the 15-year phaseout should be sufficient for the industry to adapt.

M&M Mars (on behalf of the ATAC on Sweeteners)

Supports NAFTA. Sees increased demand through exports of U.S. sugar, dairy and peanut containing products. The agreement also provides a sufficient transition period for Section 22 commodities. Reduction in duties will enable U.S. confectionery products to significantly expand the Mexican market.

Michigan Asparagus Advisory Board

Wants amendment to NAFTA to give processed asparagus a 15-year tariff transition period instead of 10 years. Also wants an automatic and effective snapback triggered on benchmark date and with daily or weekly monitoring on volume or value basis; require harmonization and enforcement of wage rates; and keep frozen and canned asparagus tariffs at 17.5 percent.

Michigan Bean Shippers Association

Does not believe that the agreement will benefit Michigan agriculture. The overall benefits to U.S. agriculture will be limited.

National-American Wholesale Grocers Association

Supports NAFTA. It will benefit U.S. producers and consumers by further opening our third largest export market. Agreement will encourage increased Mexican imports of meat, dairy, poultry and high value consumer food products. The agreement will also compensate for seasonal shortages in produce. It also provides adequate protection against import surges and harmonizes phytosanitary standards for agriculture products; however, Mexican enforcement needs to be improved.

National Association of Wheat Growers

Of its major concerns, two address trade with Mexico and three are continuing problems with Canada. It does not believe that there should be a 15-percent tariff phased out over 10 years when there is currently a 10-percent tariff. Adequate inspection procedures should also be provided for to guard against the contamination of U.S. wheat by karnal bunt-infected trucks or railcars.

The biggest problems for the Wheat Growers are with Canada. It cannot accept an agreement that does not achieve price transparency with the Canadian Wheat Board, and action must be taken to counter Canadian subsidies on west and eastbound freight. Subsidies on shipments through the United States to Mexico or another market must also be prevented.

This position was prior to the announcement by the binational panel on Canadian Durum subsidies. NAWG now opposes the Agreement.

National Association of State Departments of Agriculture/Maryland Department of Agriculture

Supports the agreement. It is in the long-term best interest of American agriculture as a whole, and the implementing legislation should be used to ensure this.

National Audubon Society

The Society has six main concerns about the adequacy of the NAFTA: 1) protecting local environmental and health standards; 2) the burden of proof should be on the party that attacks these standards; 3) the dispute settlement procedure; 4) the environmental impact it will have on the Mexican border; 5) how it will ensure environmental enforcement; and 6) how funds will be secured to develop environmental infrastructure.

The National Audubon Society now supports NAFTA and its side agreements. The environment will be much better off with the NAFTA than without it. This was a unique opportunity to introduce environmental conditions into a trade agreement. The agreement makes enforcement of environmental laws a major priority.

National Cattleman's Association

Support negotiations on the agreement, including the elimination of licensing requirements and tariffs that will contribute to a better trading environment. It is concerned about the enforcement of rules of origin and regulations on animal health, environment and food safety. The agreement must address ability of the United States to restrict trade from non-NAFTA countries indirectly shipped to the United States through Mexico.

National Cooperative Business Association

Supports the agreement, and special attention must be given to job dislocation and training and the protection of health and environmental standards.

National Corn Growers
Fully supports the agreement. It eliminates Mexico's restrictive import licensing and replaces it with a tariff rate quota at a level that is a substantial improvement over the recent trend. The agreement will also improve sales of value-added agricultural products to Mexico that will increase demand for corn. Through the increased demand for pork, the agreement will create opportunities for jobs in the livestock breeding, feed milling, veterinary services, and meat packing sectors. NAFTA will create wealth in Mexico that will lessen the incentive for Mexican citizens to leave their nation.

National Cotton Council of America and Cottongrowers Warehouse Association
No official position on the agreement at this time. Its preliminary report focuses primarily on raw cotton. The final agreement does not meet two of its most important goals: a fiber-forward rule and maintaining Section 22 cotton quotas. Without a fiber-forward rule, Mexican and Canadian producers will be able to purchase non-NAFTA raw cotton, primarily from Pakistan and the former Soviet Union, below world market prices. The Council's summary provides more detailed information on its other concerns.

National Cottonseed Products Association
Generally supports the agreement and its eventual elimination on cottonseed oil tariffs. The one criticism it has is that "PBSY" cottonseed oil is not considered a crude vegetable oil and will be subject to a tariff double that of other crude vegetable oils. This should be corrected by including PBSY cottonseed oil in the Mexican definition of crude cottonseed oil.

National Farmers Organization
Opposes the agreement. Mexican agriculture is not a threat to the United States, but the agreement will not result in any net gains. The agreement should be renegotiated and provide for adequate enforcement of rules of origin, S&P measures, and environmental standards. Section 22 and the Meat Import Act, environmental and S&P measures tied to the opening of our borders, and the establishment of an adequate infrastructure along the border should be part of a renegotiated agreement.

National Farmers Union
Opposes the agreement, it should be renegotiated. Any new agreement should maintain Section 22 and meat import law; count Mexican imports against meat import law triggers; protect livestock producers from the risk of disease; count imports of Mexican beef toward trigger levels in the meat import law; assess user fees to importers to enhance border inspection; require county of origin labels; prohibit additional countries from joining the NAFTA unless entire agreement is renegotiated; provide protection for Mexican family farmers; protect American producers form Canadian transportation and pricing structure; maintain tariffs on imports from companies that exploit workers, worker safety or environment; and solve Mexico's foreign debt problem.

National Forest Products Association
Supports the agreement because at the end of a 10-year transition period it will provide unrestricted access to the Mexican market. Achieved important nontariff objectives. While it would have liked to see tariffs eliminated over a shorter period, the U.S. industry will be better off with the agreement than without it. One concern it does have is the possible lack of enforcement for collecting duties from maquiladora companies.

National Grange
Supports the agreement. It should provide long-term growth for U.S. agriculture, and new trade agreements like the NAFTA are more important to agriculture and rural America than any farm bill. Implementing legislation should strengthen the rules of origin and further protect import sensitive crops.

National Grain and Feed Association
The Association strongly supports NAFTA. The agreement is of vital importance to the grain and feed industry, and the economy in general. Agricultural producers, processors, exporters, and consumers will benefit from free trade with Mexico. Approval of the agreement should not be linked to unresolved issues under the U.S.-Canada Free Trade Agreement.

National Hay Association, Inc.
Does not support the agreement because it does not address Canadian export subsidies for forage trade. It will continue to withhold support until Canada is prevented from undermining U.S. competitiveness in the Mexican market.

National Pasta Association

Generally supports the agreement. It is disappointed that Mexico is given immediate access to the U.S. market while U.S. producers have a 10-year phaseout for duties on uncooked pasta and a 3-year phaseout for all other pasta products. The implementing legislation should allow for consultations to accelerate the phaseout period.

National Peanut Growers Group

Wants two provisions of the 1990 farm bill included in the implementing legislation. The first is to prohibit the reentry of peanuts already exported by the United States. The second is to require imported peanuts to meet the same quality and grade standards that domestic peanuts are required to meet.

National Pork Producers Council

Supports the NAFTA with reservations. The Council believes that the S&P measures of the agreement are a significant improvement, and it will benefit pork trade. However, it is concerned that non-TRQ items will be scored against TRQ items and trigger the safeguard mechanism. It Is also concerned about the dispute settlement mechanism and the ongoing animal health restrictions, border inspection requirements, plant inspection and certification requirements.

National Potato Council

Concerns Include the 10-year phaseout period on fresh table potatoes; Canadian nontariff barriers; lack of reciprocity on processed potato tariffs; and that Mexico does not have the resources to police its phytosanitary and quality control programs. Applauds language to encourage science in phytosanitary regulations while maintaining U.S. standards.

National Renderers Association, Inc.

Supports the agreement. Mexican production is not likely to increase, and U.S. exports will continue to expand.

National Turkey Federation

The NTF has not adopted an official position on the NAFTA. Existing tariff and nontariff barriers do not pose a major problem to U.S. producers, but it does have some concerns with the quota and tariff system used for the first 10 years. This system will reduce raw turkey exports, limit future raw turkey exports, and give competing products an advantage.

NTF now supports the agreement and continues its support of free trade. It is disappointed that quotas are set for exports to Mexico that are lower than existing and projected levels. NTF requests that the U.S. Government request an expansion of raw turkey imports to help meet Mexican demand.

New England Grain and Feed Council

While its members may have specific concerns, the Council has no objections and endorses the agreement.

North American Blueberry Council

Fully supports the agreement. Free trade already exists for blueberries.

Northeastern Loggers Association, Inc.

Supports the agreement. While it would have liked to see tariffs eliminated over a shorter period, the U.S. wood products industry will be better off with the agreement than without it. Agreement achieves important nontariff barrier objectives. One concern it does have is the possible lack of enforcement for collecting duties from maquiladora companies serving the Mexican market.

NT Gargiulo

The agreement does not sufficiently address the problems that Florida agriculture will encounter. It does not recognize the disparity between worker environment conditions in Mexico and Florida, and it questions enforcement of the agreement in Mexico. The agreement should be changed to lengthen the phaseout periods and strengthen safeguards, or there should be stronger tie-ins and enforcement of environmental, food safety, S&P and working conditions.

Pandol Brothers, Inc.

It sees a gain for California and the United States if NAFTA is signed, but one problem is that Mexico has shut out U.S. grapes. Believes that the United States should pressure Mexico to lift restrictions on U.S. grapes.

Papaya Administrative Committee

The agreement will not have a damaging effect on the Hawaiian papaya industry.

Pioneer Hi-Bred International, Inc.
Supports the agreement. It will increase exports of corn, soybeans, sorghum, other coarse grains, and meat, which will increase demand for seed in the United States. The sale of seed and inoculant products to Mexico will also benefit. Concerned with potential for overregulation of inoculants by combining the regulations of all three countries. It would like to see a streamlined registration process for inoculants.

Prairie Fire
Adamantly opposed to the agreement. It will cause significant damage to the U.S. agriculture industry and ruin the rural job base by sending more manufacturing jobs to Mexico. It will also further damage the livestock industry by moving production to Mexico and depressing prices.

RiceLand
It believes that the agreement provides the United States with long-term export opportunities and is in the economic best interest of the United States. It is imperative that the agreement has effective monitoring and enforcement of rules of origin, S&P measures and environmental standards. It also believes that the dispute settlement procedures are adequate.

Rice Millers Association
The U.S. rice industry stands to benefit from the agreement. However, these benefits could be greater if tariffs were phased out quicker and the tariff differential between rough and milled rice was eliminated or phased out more quickly.

The Rice Millers Association strongly supports the agreement. NAFTA will increase market access to Mexico and create jobs through expanding trade. NAFTA will secure an expansion of Mexican demand for U.S. rice.

Rowe-Swanson International
In favor of the agreement. The long-term impact it will have on the U.S. economy far outweighs any negative side effects.

Rural Vermont
The agreement could pave the way for expansion of mega-dairies in Mexico to take advantage of cheap Mexican labor, lax environmental laws (such as use of bovine growth hormone) and duty-free feed imported from the United States. Feed lot dairies could ship dairy products to the U.S. market duty free and without Section 22 import quota protection. Mexico could ship its production to the United States, then import cheap New Zealand or subsidized EC milk for local consumption.

Savannah Foods & Industries, Inc.
Does not agree with the sugar provisions of the agreement, and the industry's recommendations should be included in the implementing legislation. The net exporter definition must be changed to include corn sweeteners and be calculated on a verifiable history. The market access provision should be struck, and the transition period for sugar-containing products should be 15 years, not 10.

St. Albans Cooperative Creamery, Inc.
No official position on the agreement, but is very cautious on its approach. NAFTA promises to benefit the dairy industry, but it must be ensured that it will benefit all Americans. The family dairy farmer should be compensated for the loss of quotas. Side agreements have to address environmental and labor standards and protect the United States from cheap imports. There should also be strong rules of origin, and Mexican dairy exports should have to meet the same requirements of U.S. dairy products.

Scottsbluff/Gering
Strongly opposed to the agreement. During negotiations, the input of many important economic sectors was not acknowledged, and the agreement will put U.S. agriculture at a competitive disadvantage in the world marketplace. Nebraska and eastern Wyoming will be hurt significantly by this agreement.

South Carolina Farm Bureau Federation
Supports the agreement and urges officials to work for a fair and equitable agreement that will protect the interests of U.S. agriculture and create a level playing field. The NAFTA may hurt some farmers, but on the whole it will be beneficial. The Federation also believes that the agreement will benefit soybean, corn, tobacco and cattle producers through increased exports, and U.S. cotton will still be in demand because Mexican cotton is of lower quality.

Southern Forest Products Association
Supports the agreement. While it would have liked to see tariffs eliminated over a shorter period, the U.S. wood products industry will be better off with the agree-

ment than without it. Agreement achieves important nontariff barrier objectives. One concern it does have is the possible lack of enforcement collecting duties from maquiladora companies serving the Mexican market.

Southeastern Peanut Association
Opposes the agreement. It will undermine the domestic industry, and it is impossible to guarantee that the quality of imported peanuts will meet the same standards as domestic peanuts. The U.S. industry will be further damaged by the erosion in consumer confidence of the quality of the peanut supply.

Southwest Peanut Growers
Has the same recommendations as the rest of the peanut industry. The implementing legislation must include two additional provisions for peanuts. First, it should prevent the reentry of peanuts previously exported by the United States, and provide a financial penalty if they do reenter. Second, the same quality and standard controls that U.S. peanuts have to adhere to should be required for imported peanuts.

Sun-Diamond Growers of California
Supports the agreement.

Sweeteners Users Association
Supports the agreement and its sweetener and sweetened-product provisions. It does not want to see the sugar provisions changed, and if Mexico does become a net exporter it will not be able to flood the U.S. sugar market during transition period. The Mexican market for sugar-containing products will continue to grow as the tariffs are reduced and Mexican demand rises. Sugar-containing product reexport program is maintained until Mexican tariffs reduced.

Texas A&I University System
The agreement will have mixed impacts on Texas agriculture, but the gains will far offset losses. Most changes will be small in magnitude, with largest impact on sectors that are economically sensitive to trade. Details on live cattle, horticultural crops, and sugar.

Texas Department of Agriculture
Strongly supports the agreement. Report of a select committee of Texas ag leaders and Commissioner Perry. The implementing legislation should include penalties for violations and noncompliance, convert tariff schedules to an ad valorem system, and enforce rules of origin. Included in the statement is a brief overview of how different agriculture groups in Texas view the agreement.

Texas Farm Bureau
It does not have a definite position, but trade with Mexico should be encouraged and promoted. Preliminary estimates indicate that the agreement will benefit the Texas economy. Any agreement should ensure that current standards are not relaxed and are enforced.

Tri Valley Growers
Supports agreement. Most tariff reductions are reciprocal, except on tomato catsup. Supports de minimis rule of origin provision. U.S. grades and standards will not be compromised. Wants shorter period for dispute settlement procedures. Some nontariff barriers are not reciprocal, like Canadian can size restrictions. The United States must also be allowed to continue to subsidize exports to counter non-NAFTA exports through EEP and MPP.

United Food & Commercial Workers
The agreement falls far short of its expectations. It will bring major hardship and job dislocation on the meat and livestock industries. The principal danger of the agreement is that several of its provision will encourage Mexico to shift from exporting live cattle to exporting meat and processed meat products. The new administration should include provisions that will ensure the safety of our food supply and permit the United States to implement more stringent rules in the future. A provision to take action against violations of labor, environmental and human rights standards should also be included.

United Fresh Fruit and Vegetable Association
Overall, the industry will benefit in the long run. However, some sectors will not benefit, and its comments address the deficiencies in the agreement that hurt these sectors. It is not satisfied with the safeguard mechanism because it would work much better if it was based on price and not volume. Mexican tariffs on many products are not being phased out as soon as the same U.S. tariffs, and sensitive and highly sensitive commodities should have received a longer transition period. A

more detailed list of its concerns and how these concerns were addressed in the agreement is attached to its letter.

USA Dry Pea & Lentil Council

The Council is upset that the agreement did not address Canadian transportation export subsidies. While these subsidies are prohibited under the U.S.-Canada FTA for products entering the United States, the NAFTA does not prohibit these subsidies for products going to Mexico. It is also concerned about article 56 vagueness in addressing export subsidies and failure to provide a solution.

USA Poultry & Egg Export Council

Supports the agreement overall. The long-term benefits for all the Council's commodities, especially value-added products, far outweigh any short-term limitations. It is concerned that the agreement may be delayed or dismantled by reopening negotiations. It is concerned about the 100-kilometer free trade zone in Mexico and if U.S. products entering this area will be exempt from quota levels. Another concern is that the agreement makes no distinction between table eggs and hatching eggs.

U.S. Beef Breeders Council

Reservations about agreement. It is concerned about the many unknown problems that will arise after the agreement is implemented. Elimination of tariffs will encourage increased U.S. breeding stock. Feeder calf reciprocal trade will increase. Increased competition might result in decreased prices for U.S. ranchers and feeder calf producers. It is also concerned about the rules of origin standards and the protection of U.S. animal and plant health.

U.S. Chamber of Commerce

The agreement meets all of the Chamber's requirements, and it will benefit all parties involved. It adequately addresses the issues of labor impact, the environment, food safety, rules of origin, administrative barriers, custom regulations and enforcement. Expanded regulatory systems will be necessary to ensure that health standards are upheld.

United States Hide, Skin & Leather Association

Supports the agreement. Mexico has traditionally been a strong market for U.S. hides and skins, and the agreement will encourage market growth by eliminating licensing requirements and quotas. It is concerned about the enforcement of the rules of origin, and that Mexico not attempt to impose artificial barriers to trade.

U.S. Meat Export Federation

Supports agreement. Barriers to trade with Mexico are already low, but MEF predicts that beef and pork exports to Mexico under agreement could double or triple by the end of the decade. The major benefit is agreement will stop Mexico's arbitrary implementation of trade barriers, such as increasing tariffs on beef and live cattle. The Federation also stressed the importance that programs like the MPP that have played in assisting its export programs.

U.S. Rice Producers Group

Supports the agreement. Disappointed that NAFTA did not reduce Mexican tariffs immediately or reduce duty on milled rice immediately to level of paddy rice tariff.

United States Egg Marketers and Wampler-Longacre Chicken, Inc.

Supports the agreement. While the rules of origin and tariffs for processed egg products are acceptable, the Mexican tariff levels for poultry are too high for the first 6–7 years and hatching eggs and table eggs should have separate tariff rate quotas. The agreement must preserve all health standards for products entering the United States. Safeguards should also be enacted to ensure that products entering the 100-kilometer zone or maquiladoras are not counted toward quota levels.

The State of Vermont Department of Agriculture, Food and Markets

NAFTA has great potential, but at the same time it poses many dangers. Specifically, firms will entice firms to move to Mexico. It is important that the agreement truly does maintain the rights of States to maintain higher standards without protracted dispute settlements. Rules of origin must be strictly enforced to prevent Canada from exporting dairy products through Mexico to the United States, prevent Mexico from meeting its domestic needs with New Zealand dairy products and exporting its supply to the United States, and prevent the reexport of non-NAFTA dairy products. Vermont is also concerned about the loss of Section 22 and the precedent it will set for the GATT.

Vienna Beef

Supports the agreement. Over time, the U.S. food industry will win out because of its ability to produce high quality products efficiently. Mexican labor costs and phytosanitary standards will eventually rise to the U.S. level as Mexico is increasingly required to meet U.S. standards for quality.

Washington Apple Commission

Fully supports the agreement. Mexico is already its largest export market, and the agreement will further open its market.

Western Dairy Co-op, Inc.

Supports the agreement for the dairy industry. The rules of origin, health, pesticide and environmental standards are all acceptable. The Co-op is concerned about the future impact on U.S. agriculture. If Mexico allows foreign investors to own farmland, large-scale dairies could be established and, with low wage scale, make it difficult for American farmers to compete.

Western Growers Association

NAFTA falls far short of its expectations, and concerns must be addressed if fruit, vegetable and nut growers are to benefit. The areas that need to be looked at further are: Environmental, labor and pesticide regulations; longer phaseout for sensitive crops (20 years); price-based safeguard rather than a volume-based snapback; action to retaliate if Mexico uses phytosanitary measures as a means to limit U.S. product; immediate elimination of Mexican import licenses on table grapes and potatoes; establish a Mexican PACA; commercial dispute settlement; protection of intellectual property; and Mexican funding in U.S. promotion programs of mutual benefit.

Wine Institute

The NAFTA is inadequate because Mexico does not provide the same access for U.S. table wines that Mexican wines entering the United States enjoy. Chile receives better market access to Mexico than the United States. The U.S. industry only has about 10 percent of this market, and this is not expected to increase after the NAFTA is implemented because the market access provisions place the United States at a competitive disadvantage.

Women Involved in Farm Economics

WIFE has several concerns with the agreement. Rules of origin have to be strengthened and enforced, and end-use certificates should be required; U.S. companies operating in Mexico should be required to adhere to U.S. environmental laws; challenges to U.S. pesticide laws is allowed under the agreement; and Mexican agriculture products containing banned pesticides could reach the U.S. market. WIFE is especially concerned about the impact the agreement will have on U.S. jobs and how this will lower the living standard in the United States.

QUESTIONS SUBMITTED FOR THE RECORD BY SENATOR BAUCUS AND RESPONSES THERETO

Secretary Espy

Question 1. I am supportive of efforts to use Section 22 with regard to Canadian wheat. Does the administration intend to pursue section 22 action and to require end-use certificates on imported grain?

Answer. As you are aware, President Clinton requested the International Trade Commission to undertake a Section 22 investigation on wheat, to commence on January 15, unless the administration had successfully resolved the issues connected with Canadian wheat imports. To date, despite negotiations both in Geneva and Canada, we have not yet reached an agreement with the Canadian Government on the various wheat issues. We continue to pursue a solution to this and other issues with the Canadian Government, but the Section 22 investigation will go forward.

In addition, the NAFTA implementing legislation contains a provision requiring the USDA to impose end-use certificates on wheat and barley imports from any country that also requires end-use certificates on U.S. grain imports. This requirement will go into effect 120 days after the implementing legislation is enacted, unless Canada agrees to remove its requirement.

Question 2. Is the administration prepared to exchange letters with the Mexican Government, committing to work towards the elimination of export subsidies on sales of grain to Mexico?

Answer. The NAFTA text calls for the three parties to work toward eliminating all export subsidies on agricultural trade in North America. We are prepared to work toward that goal, but could not agree to eliminate all export subsidies in the NAFTA because Mexico continues to import subsidized agricultural goods from non-NAFTA countries. Additionally, export subsidies were not defined in the NAFTA, leaving open the issue of unfair trading practices, such as Canadian Wheat Board pricing pratices.

Question 3. You have been very active in actions to improve food safety since you have taken office. How will you address the concerns with food safety and inspection which have been brought forward today? Will it be possible to make these changes after the NAFTA has been implemented?

Answer. We know where we need to improve the meat inspection system, for example, and we will continue to make progress in that direction. But the NAFTA will in no way affect our ability to improve the meat inspection system. The NAFTA specifically provides that countries can adopt measures to protect human, plant, and animal health, so our ability to maintain and improve upon any health or inspection measure will not be diminished. The NAFTA does not require that we make any changes to our current standards for health and inspection. The NAFTA also provides that a State can impose more stringent measures, as long as they are based on sound science and are not disguised trade barriers.

Question 4. I understand that the Mexicans have imposed a "slowdown" on sheep moving into Mexico that has created a tremendous backlog of animals in that region. It has been alleged that this slowdown is a protest against the tuberculosis regulations proposed for cattle. The market demand is being met by other nations. This could create lasting damage to the American sheep industry and threatens their support for the NAFTA. Is the Department involved in seeking a quick resolution to this situation and will the NAFTA prevent such occurrences in the future?

Answer. On September 7, 1993, the Government of Mexico announced that they would begin implementing requirements for U.S. slaughter sheep exported to Mexico to be individually inspected for extoparasites. Exporters expressed concern that Mexican inspection facilities were not adequate to handle the volume of sheep currently exported, about 4,000 head per day. The new requirement, which Mexico had required 2 years ago in a similar move, has not materially affected the movement of sheep into Mexico from Texas. Mexico is, of course, allowed to require health inspections on imported animals, as long as such requirements are also imposed on domestic animals and are scientifically defensible. The NAFTA will give us recourse to pursue any Mexican requirement we think does not meet the test of sound science.

AMBASSADOR KANTOR

Question 1. I am supportive of efforts to use Section 22 with regard to Canadian wheat. Does the administration intend to pursue Section 22 action?

Answer. I understand your concerns about wheat imports from Canada. One possible remedy is the imposition of an import fee or quota under Section 22 of the Agricultural Adjustment Act of 1933. Under current law, the Secretary of Agriculture advises the President when the Secretary has reason to believe that imports of any article are entering the United States in such quantities "as to render or tend to render ineffective, materially interfere with" any USDA price support or other agricultural program, or "reduce substantially the amount of any product processed in the United States from any agricultural commodity or product thereof" covered by a USDA agricultural program.

If the President agrees, he must order an investigation by the U.S. International Trade Commission (ITC). Based on the ITC report, the President must determine whether the conditions specified in the statue exist. If the President make an affirmative determination, he is required to impose, by proclamation, either import fees or import quotas sufficient to prevent imports from harming or interfering with the relevant agricultural program. Any import fee imposed, however, may not exceed 50 percent ad valorem. Any import quota may not exceed 50 percent of the quantity imported during a representative period.

If the Secretary of Agriculture determines and reports to the President that emergency action is needed, the President may take immediate interim action without awaiting a report from the ITC. Such interim action will continue in effect until the President acts on the ITC report.

At this time, we understand that this issue is under review within the Department of Agriculture, but we are unaware of any pending advice to the President from the Secretary of Agriculture. Should such advice be received, my office would usually be asked to coordinate interagency recommendations to the President. Within the interagency process, my office would support the idea of taking Section 22 action.

Question 2. Is the administration prepared to exchange letters with the Mexican Government, committing to work towards the elimination of export subsidies on sales of grain to Mexico?

Answer. During the negotiations, the United States expressed an interest in negotiating the elimination of export subsidies into the Mexican market. However, Mexico was not prepared to preclude the opportunity to benefit from the import of subsidized products. Therefore, the United States negotiated Article 705, which preserves our right to use export subsidies in the Mexican market when Mexico is importing subsidized products from other countries, including Canada.

Question 3. You told the Finance Committee that you support the use of end-use certificates against Canadian grain. Can you assure us this provision will happen as part of a NAFTA implementing bill?

Answer. As I stated in the Finance Committee on September 15, this administration does not oppose legislation to require appropriately crafted end-use certificates on imported grain in order to ensure that foreign grain is not benefiting from U.S. export programs.

LELAND SWENSON

Question 1. Can the concerns you have mentioned be addressed independent of the NAFTA? For example, there are indications that the USTR may be ready to take action under Section 22 with regard to wheat. Would your organization be in a position to support this agreement if such actions were taken?

Answer. It is highly unlikely that the concerns of the national Farmers Union could be addressed satisfactorily by any North American Free Trade Agreement (NAFTA) side agreements. The flaws in the document run too deep. No country which has signed the current NAFTA would want to reopen the document only to retreat voluntarily from a position of advantage. A side agreement with language that strong would not be acceptable to the other countries.

Lesser agreements, such as those between members of Congress and the administration, which do not bind the other nations in NAFTA, have no teeth and are not acceptable to NFU. We have seen these agreements come and go in relation to the Canadian Free Trade Agreement. They have been meaningless.

NFU finds the proposed Section 22 action regarding wheat inadequate for several reasons.

First, our members grow many commodities, wheat being only one. Singling out one grain for Section 22 action is merely an attempt to divide and conquer. We have 250,000 farms in our organization. Not all of them grow wheat, but most of them grow commodities which will be affected by NAFTA.

Second, the proposed Section 22 action is merely an offer by the U.S. Trade Representative to look into an abuse which the previous administration has chosen to ignore for several years. NFU does not view an offer by the USTR to do its job on only one of many existing problems with the Canadian Free Trade Agreement as sufficient reason to support another flawed agreement.

This NAFTA is lacking in several areas. For instance, no requirement for end-use certificates is included, no country-of-origin labeling provisions exist in it, and the provisions for environmental protection and border inspections ar far too weak. NFU has other concerns as well, but these problems are of sufficient importance to generate strong opposition to this NAFTA among NFU members.

American family farmers have not seen sufficient commitment by the United States Government to protect them from bad trade agreements in the past. They see their only protection from bad agreements in the future is to keep the United States from signing them in the first place.

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